ZURICH FINANCIAL SERVICES AUSTRALIA LIMITED

A.B.N. 11 008 423 372

ANNUAL REPORT

For the year ended 31 December 2019

Contents	Page Number

The annual report covers the Consolidated entity consisting of Zurich Financial Services Australia Limited and its controlled entities.

Zurich Financial Services Australia 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 – 6.

The annual report was authorised for issue by the directors on 19 March 2020. The directors have the power to amend and reissue the report.

Directors' report

The directors present their report on the consolidated entity consisting of Zurich Financial Services Australia Limited ("the Company") and the entities it controlled (collectively "the Group") at the end of, or during, the year ended 31 December 2019.

Directors

The following persons were directors of the Company who held office during financial year 2019 and up to the date of this report:

Name	Role	Appointment date
Current Directors		
Paul John Bedbrook	Chairman	01 April 2013
John Inniss Howell	Director	31 October 2016
John Francis Mulcahy	Director	23 November 2017
Timothy Paul Plant	Director	31 October 2018
Justin Sean Delaney	Director	01 December 2019
Nicolette Lisbeth Rubinsztein	Director	01 January 2020
Former Directors		**Date ceased to hold office**
Timothy James Bailey	Director	01 December 2019
Marc Joseph de Cure	Director	31 December 2019

The following persons were officers of the Company who held office during financial year 2019:

Name	Role	Appointment date	Date ceased to hold office
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

During the year the principal activities of the consolidated entity consisted of:
- Underwriting various classes of General Insurance;
- Underwriting various classes of individual and group Life insurance;
- Funds management services; and
- Investment in an owner-occupied property.

There was no significant change in the nature of the Company's principal activities during the year.

Dividends

There were nil dividends (2018: nil) paid by the Company to the Immediate Controlling Company, Zurich Insurance Company (incorporated in Switzerland), during the financial year.

Directors' report *(continued)*

Review of results and operations

A summary of consolidated revenues and results is set out below:

Consolidated revenues and other income	**2019** $'000	**2018** $'000
Life insurance premiums and fees	1,625,060	671,923
General insurance premiums	1,506,717	1,243,028
Reinsurance and other recoveries	732,157	708,536
Investment income	517,001	98,290
Other revenue	22,841	20,869
Consolidated results	4,403,776	2,742,646
Profit attributable to the member of the consolidated entity	78,946	124,310

Significant changes in the state of affairs

The changes in the state of affairs of the consolidated entity during the financial year were as follows:

- On 31 May 2019, Zurich Financial Services Australia Ltd (ZFSA) acquired the OnePath insurance businesses from Australia and New Zealand Banking Group Ltd (ANZ), comprising OnePath Life Australia Holdings Pty Ltd (OPLAH), OnePath Life Ltd (OPL) and OnePath General Insurance Pty Ltd (OPGI); together "OnePath", for $2.1b, subject to purchase price adjustments. Refer to Note 41 for further details.
- On 25 February 2019, the Company and Zurich Australia Limited (ZAL) entered into a binding agreement with EQT Holdings Limited (a listed Australian Entity) to sell the Company's shareholding in Zurich Australian Superannuation Pty Limited (the Trustee of the Zurich Master Superannuation Trust), for a sales price of $6.2m. The transaction completed on 21 March 2019. As part of this transaction, the Company and ZAL agreed to provide certain indemnities to the Purchaser.

Matters subsequent to the end of the financial year

On 5 March 2020 the Company resolved to issue 11,500,000 ordinary shares in the Company to ZIC at an issue price of $2 per share.

On 2 December 2019, APRA announced a range of sustainability measures to address the poor performance of individual disability income insurance ("IDII") in the life industry. One of the measures is the introduction of a supervisory adjustment to the Prudential Capital Requirement (PCR) of life insurers with exposure to IDII. ZAL and OPL were informed on 2 December 2019 that a supervisory adjustment would be required to be held within the PCR taking effect on 31 March 2020.

On 28 February 2020, the law firm Slater & Gordon filed a class action relating to consumer credit insurance in the Federal Court against ANZ, QBE, OPL and OPGI. ANZ sold certain products, the subject of the claim, which were issued by OPL. The Group intends to defend the action. As this matter is currently at an extremely early stage, the ultimate outcome is unknown as it is subject to uncertain events that are not wholly within the control of OPL. As such, any possible obligation cannot be reliably estimated and no allowance has been made in these accounts for any contingent liability or costs.

The World Health Organisation 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.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected the Company's operations, results or state of affairs, or may do so in future years.

Directors' report *(continued)*

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.

Information on directors

The following information is current as at the date of this report.

Director	Qualifications	Experience	Special Responsibilities
Paul John BEDBROOK	BSc, F Fin, FAICD	Over 30 years' experience in Financial Services. Former Regional CEO, ING Asia Pacific and prior to this held other senior positions including CEO, ING Australia and President and CEO of ING Bank of Canada.	Non-executive director; Chairman of the board
Timothy Paul PLANT	BAgrSc, GradDipAgEc, MBA, GAICD	Chief Executive Officer, General Insurance with over 25 years' experience across insurance, reinsurance and financial services. Prior to Zurich, he was the Group Executive, Insurance for NSW at iCare, the largest public sector self-insurer in Australia. He held senior roles at QBE between 2009 and 2016, having joined through QBE's acquisition of Elders Insurance, as well as roles at SwissRe, QBE London and Australian Eagle Insurance.	Executive Director, Chief Executive Officer, General Insurance
Justin Sean DELANEY	B.A., GradDipAppFin, GradDipFinPlan, GradDipMgt	Chief Executive Officer, Life & Investments and Country Head Australia & New Zealand with over 20 years' experience in financial services. Former Chief Operating Officer, TAL Life. Prior to this held various senior management roles at Macquarie Group.	Executive Director, Chief Executive Officer, Life and Investments and Country Head, Australia & New Zealand
Nicolette Lisbeth RUBINSZTEIN	BBusSc, FIAA, (E)MBA, GAICD	Over 25 year' of financial services experience. Former President of Actuaries Institute, General Manager at Colonial First State, Vice President at BT Funds Management and ASFA board member.	Non-Executive Director, Chairman of the ZFSA Board Risk, Compliance and Audit Committee
John Inniss HOWELL	B.S (QE), MBA	Regional Chief Executive Officer, Asia Pacific with over 20 years' experience in financial services industry, spanning the Americas and Asia Pacific. Former Regional Officer for Asia - Assicurazioni Generali S.p.A and CEO, Prudential Life Assurance Indonesia - Prudential plc Group.	Non-executive director, regional Chief Executive Officer, Asia Pacific

Directors' report (continued)

Director	Qualifications	Experience	Special Responsibilities
John Francis MULCAHY	B.Eng (Hons), PhD.Eng, FAICD	Over 20 years' experience in Financial Services. Former CEO and Group Executive of major ASX listed Australian companies including Suncorp Metway, Commonwealth Bank and Lend Lease.	Non-Executive Director
Cathy Anne MANOLIOS	BA, LLM, FAICD	General Counsel for Zurich Financial Services Australia Limited. Formerly general manager legal & corporate services (Australian Financial Services) at the Colonial Group, special counsel at Ernst & Young Legal, general counsel at Legal & General Life of Australia Limited, senior associate at Mallesons Stephan Jacques. Areas of practice include corporate and commercial law.	Company secretary
David George HALLAHAN	B.Com, LLB	Senior legal counsel for Zurich Financial Services Australia Limited. Over 20 years of experience in commercial law, including 12 years in private practice with Ashurst.	Company secretary

Meetings of directors
The following table sets out the number of meetings of the Company's directors (including meetings of committees of directors) held during the year ended 31 December 2019, and the numbers of meetings attended by each director.

Meetings Attended

	Meetings for ZFSA board		Meetings of risk, compliance and audit committee		Meetings for board of remuneration committee	
Number of meetings held	12		6		9	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Number of meetings attended by:						
Timothy James Bailey	10	7	N/A	N/A	N/A	N/A
Paul John Bedbrook	12	12	6	6	9	9
John Inniss Howell	12	8	N/A	N/A	N/A	N/A
John Francis Mulcahy	12	9	6	6	9	8
Marc Joseph de Cure	12	11	6	6	9	9
Timothy Paul Plant	12	12	N/A	N/A	N/A	N/A
Justin Delaney	2	2	N/A	N/A	N/A	N/A

N/A = Not applicable, not a member of the risk, compliance and audit committee and/or the board of remuneration committee.

Insurance of officers
During the financial year, the 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.

Directors' report (continued)

Indemnity of officers

Agreements to Indemnify

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

The Company has also entered into various agreements with persons who are current and former officers of the Company and related companies. These agreements variably require the Company (and in some cases related companies) to indemnify those persons, to the extent permitted by law, against liabilities, some claims and legal costs, 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 these 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 Australian Securities Investments Commission (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 in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers Australia continues in office in accordance with section 327 of the Corporations Act 2001. A copy of the Auditors’ Independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 6.

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

P J Bedbrook	N L Rubinsztein
Chairman	Director

Sydney
19 March 2020

Auditor's Independence Declaration

As lead auditor for the audit of Zurich Financial Services Australia 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.

This declaration is in respect of Zurich Financial Services Australia Limited and the entities it controlled during the period.

RCooper

R Cooper
Partner
PricewaterhouseCoopers

Sydney
19 March 2020

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Consolidated Statement of comprehensive income
For the year ended 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue from operations	6(a)	3,881,019	2,639,897
Investment income	6(b)	517,001	98,290
Other income from operations	6(c)	5,756	4,459
Total revenue and other income		4,403,776	2,742,646
Life Insurance expenses		(2,537,855)	(828,451)
General Insurance expenses		(1,702,290)	(1,750,196)
Expense from operations	7(b)	(4,240,145)	(2,578,647)
Movement in external unitholders’ liabilities		(13,201)	805
Profit from operations before income tax	7(a)	150,430	164,804
Income tax expense	9(a)	(71,484)	(40,494)
Profit from continuing operations		**78,946**	**124,310**
Profit for the year		**78,946**	**124,310**
Other comprehensive income		1,702	(1,547)
Net expense recognised directly in equity		**1,702**	**(1,547)**
Other comprehensive income for the year, net of tax		**80,648**	**122,763**

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

ZURICH FINANCIAL SERVICES AUSTRALIA LIMITED
AND CONTROLLED ENTITIES

Consolidated balance sheet
As at 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Assets			
Cash and cash equivalents	10	736,991	372,132
Receivables	11	709,405	2,325,805
Equity and property securities	12	1,984,288	1,008,038
Debt securities and term deposits	12	6,009,282	2,283,027
Reinsurance and other recoveries	13	1,269,958	1,155,438
Deferred tax asset	14	436,643	35,481
Deferred acquisition costs	15	125,813	112,852
Deferred origination costs	16	1,690	1,882
Gross policy liabilities ceded under reinsurance	17	660,720	308,449
Other assets	18	184,997	160,504
Intangible assets	19	1,357,436	288,867
Property, plant and equipment	20	62,135	23,899
Total assets		**13,539,358**	**8,076,374**
Liabilities			
Lease liabilities	21	34,114	-
Payables	22	707,006	293,584
Provisions	23	260,928	29,080
Unearned premium liability	25	834,072	732,461
Deferred origination fees	27	1,686	1,874
Outstanding claims - General insurance	28	1,779,591	1,849,691
Unvested policyholder benefits	30(b)	63,200	23,686
Deferred tax liabilities	29	53,529	16,812
Gross policy liabilities - Life insurance	30(a)	5,439,628	1,323,275
Net assets attributable to unitholders	31	75,301	72,093
Total Liabilities		**9,249,055**	**4,342,556**
Net Assets		**4,290,303**	**3,733,818**
Equity			
Contributed equity	32	2,753,373	2,277,273
Reserves	32(c)	6,343	4,641
Retained profits	32(c)	1,530,587	1,451,904
Total equity		**4,290,303**	**3,733,818**

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

ZURICH FINANCIAL SERVICES AUSTRALIA LIMITED
AND CONTROLLED ENTITIES

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributable to owners of Zurich Financial Services Australia Limited			
	Contributed equity $'000	Foreign currency translation reserves $'000	Retained profits $'000	Total $'000
Balance at 1 January 2018	**1,427,273**	**6,188**	**1,327,594**	**2,761,055**
Total comprehensive income/(loss) for the year	-	(1,547)	124,310	122,763
Transactions with owners in their capacity as owners:				
Additional shares issued to immediate controlling company	850,000	-	-	850,000
Balance at 31 December 2018	**2,277,273**	**4,641**	**1,451,904**	**3,733,818**
Total comprehensive income/(loss) for the year	-	-	78,946	78,946
Opening adjustment on implementation of IFRS 16	-	-	(263)	(263)
Movement in foreign currency translation reserve	-	1,702	-	1,702
Transactions with owners in their capacity as owners:				
Additional shares issued to immediate controlling company	476,100	-	-	476,100
Balance as at 31 December 2019	**2,753,373**	**6,343**	**1,530,587**	**4,290,303**

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

ZURICH FINANCIAL SERVICES AUSTRALIA LIMITED
AND CONTROLLED ENTITIES

Consolidated cash flow statement
For the year ended 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Net cash flows from operating activities			
Net premiums and deposits received, net of reinsurance		2,257,874	1,637,296
Policy and withdrawal payments, net of reinsurance		(1,500,976)	(1,209,873)
Payments to suppliers and employees		(1,416,962)	(993,684)
Proceeds from sale of investment assets - Life insurance		1,509,802	1,261,595
Payments for investments - Life insurance		(1,682,133)	(1,264,105)
Interest received		181,363	101,219
Fees and commissions received		381,043	334,224
Fees and commissions paid		(256,025)	(131,098)
Tax related payments		5,943	(52,309)
Dividends received - Life insurance		96,774	122,669
Dividends received – General Insurance		9,476	6,086
Other income received - Life insurance		12,577	-
Net cash outflow from operating activities	34	**(401,244)**	**(187,980)**
Cash flows from investing activities			
Payment of loan to related party		-	(112,000)
Purchase of property, plant and equipment		(58,427)	(7,601)
Proceeds from sale of plant and equipment		11,372	-
Purchase of software development		(8,245)	(7,133)
Repayment of policy loans		129	131
Minority interest in net proceeds/redemptions of units		-	72
Payment for acquisition of insurance portfolio, net of cash acquired		(2,117,100)	-
Proceeds from sale of investment assets - General Insurance		373,187	248,220
Payments for investments		(388,976)	-
Further investment in Life insurance		(50,000)	-
Principal elements of lease (2018 - finance lease) payments		(6,531)	-
Net cash inflows from investing activities		**(2,244,591)**	**121,689**
Cash flows from financing activities			
Proceeds from issue of shares		477,600	-
Funds provided by group entities		261,000	-
Loans from related parties		1,903,892	-
Net cash outflow from financing activities		**2,642,492**	**-**
Net decrease in cash and cash equivalents		(3,343)	(66,291)
Cash and cash equivalents at the beginning of the financial year		372,132	438,334
Adjust for OnePath entities acquired cash and cash equivalents		368,113	-
Exchange rate effect on cash and cash equivalents		89	89
Cash and cash equivalents at the end of the financial year	10	**736,991**	**372,132**

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

1. Summary of significant accounting policies

The general purpose financial statements include the consolidated financial statements of Zurich Financial Services Australia Limited (the “Company” or “Parent Entity”) as at 31 December 2019 and all entities which it controlled during the year then ended. The Company and its controlled entities together are referred to in these financial statements as the consolidated entity. For details of the principles of consolidation refer to part (a) of this note.

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and interpretations issued by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the financial statements.

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 9 *Financial Instruments*, liabilities for long-tail outstanding claims which have been inflated and discounted as required by AASB 1023 *General Insurance Contracts*, and Life Insurance contract assets and liabilities which are measured as required by AASB 1038 Life Insurance Contracts and AASB 9 Financial Instruments.

All OPL and OPGI financial information within these financial statements is for the period 1 June 2019 to 31 December 2019.

Compliance with IFRSs

The consolidated financial statements 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 consolidated entity’s assessment of the impact of these new standards and interpretations is set out below.

New and amended standards adopted by the Group:

- The Company has applied AASB 16 *Leases* for its annual reporting period commencing 1 January 2019. The Company had to change its accounting policies as a result of adopting AASB 16. The Company elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 21 Leases.

New standards and interpretations not yet adopted:

- 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).

  As the Group’s operations are connected with Insurance, the Group 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.

  For non-insurance operations, the Company has assessed the impact of the requirements on its financial assets and financial liabilities and considers there to be a non-material impact.

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

- 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 a 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.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity'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 consolidation

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 31 December 2019 and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Controlled entities are those entities where the Company (investor) has:

- power of the entity (investee);
- exposure, or rights, to variable returns from its involvement with the entity (investee); and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statements of comprehensive income from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

The financial statements of the controlled Life Insurance entity, comprising policyholders' funds and shareholder's funds, are included in these consolidated financial statements on a line by line basis.

Other categories of assets and liabilities of the consolidated entity are an aggregation of the general and Life Insurance assets and liabilities. Other assets include General Insurance operating assets measured at historical cost and fair value (as applicable) and Life Insurance operating assets measured at fair value.

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

(a) Principles of consolidation *(continued)*

(ii) Associates

Associates are all entities over which the consolidated entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The consolidated entity's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(b) Principles of Life Insurance and Investment contracts and General Insurance contracts

The accounting treatment of certain transactions in these financial statements varies depending on the nature of the contract underlying the transactions. The three major contract classifications relevant to the consolidated entity are Life Insurance, Life Investment and General Insurance contracts.

Life Insurance and Investment contracts

The Life Insurance operations of the consolidated entity are conducted within separate statutory funds as required by the Life Insurance Act 1995 ("the Life Act") and are reported in aggregate with the shareholders' fund in the statement of comprehensive income, balance sheet, cash flow statement and statement of changes in equity of the consolidated entity. The Life Insurance operations of the consolidated entity comprise the selling and administration of Life Insurance and Life Investment contracts.

The accounting treatment of certain transactions in these financial statements varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the Company are life insurance contracts and life investment contracts.

Life Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). In addition, there are some policies that are similar to investment contracts (as defined below) but the timing and vesting of the profit attributable to the policyholders is at the discretion of ZAL and OPL. These policies are referred to as having discretionary participating features. When such contracts are issued by a registered Life Insurance entity, and administered through separate Life statutory funds in accordance with the requirements of the Life Act, the underlying contracts are treated as Life Insurance contracts.

Insurance contracts include those where the insured benefit is payable on the occurrence of a specified insured event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by ZAL and OPL, and the financial risks are substantially borne by ZAL and OPL.

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

(b) Principles of Life Insurance and Investment contracts and General Insurance contracts *(continued)*

Any products sold that do not meet the definition of a Life Insurance contract, and are still regulated under the Life Act, are classified as Life Investment contracts. Life Investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held in the particular investment-linked fund. While the underlying assets are registered in the name of ZAL or OPL and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the fund's investment performance. ZAL and OPL derive fee income from the administration of investment linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements where possible and reported accordingly. For policies where the investment and insurance elements cannot be separated due to the nature and terms and conditions of the product, the product classification will be considered on an individual basis.

General Insurance contracts

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

(c) Insurance premium and related revenue

General Insurance contracts

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

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

Life Insurance Contracts

Premium revenue is earned on Life Insurance contracts. Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as "receivables" in the balance sheet. Premiums due after but received before the end of the financial year are shown as "payables" in the balance sheets.

Life investment contracts

Ongoing fees for investment management services are recognised as revenue as the services are provided. Entry fees charged to the client on inception are deferred as Deferred Origination Fees (DOF) liability on the balance sheet and then earned over the period that the services are provided.

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

(d) Fee and other revenue

Fees are charged to customers in connection with investment and other financial services contracts. Revenue is recognised at the time services are provided. In some cases services are provided at the inception of the contract while other services are performed over the life of the contract.

(e) 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. However, the investment may need to be tested for impairment as a consequence, refer to Note 1(x).

(f) Insurance claims and related expenses

General Insurance contracts

Claims expense represents payment for claims (and claims related expenses) and the movement in outstanding claims liabilities. Accounting for outstanding claims liabilities is described in Note 1(bb).

Life Insurance contracts

Claims incurred relate to life insurance contracts (providing services and bearing risks including income protection business) and are treated as expenses. Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted to.

Life investment contracts

There are no claims expenses in respect of life investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted to.

(g) Outwards reinsurance expense

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

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

(h) Basis of expense apportionment – Life Insurance

Expenses in the consolidated entity are allocated to statutory fund, class, category of business, and between insurance contracts and investment contracts based on the fees incurred under a service agreement between ZAL and the Company, and between OPL and the Company.

The fees within the service agreements are based on the results of an activity based costing exercise which allocates expenses across product groups and functions. Expenses are allocated directly where possible, or are apportioned using business drivers and statistics such as policy counts, annual premiums, funds under management and claim payments. The expense apportionments are carried out in accordance with Division 2 of Part 6 of the Life Insurance Act.

Apportionment between policy acquisition, policy maintenance and investment management expenses has been made in line with principles set out in Australian Prudential Regulating Authority (APRA) Prudential Standard LPS 340 Valuation of Policy Liabilities.

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

(i) Borrowings and finance costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Finance costs are recognised as expenses in the period in which they are incurred. Borrowing costs comprise interest on bank overdrafts.

(j) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured at the amount expected to be paid when the liabilities are settled.

Long service leave

A liability for long service leave is recognised, and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Retirement benefit obligations

A liability or asset in respect of the defined benefit superannuation fund is recognised in the balance sheets, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by an independent actuary using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service, and mortality and morbidity rates.

Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income.

Contributions to the defined contribution fund are recognised as an expense as they become payable.

Share-based payments

Share-based compensation benefits are provided to certain executive employees of the Company via the Zurich Financial Services global long term performance share plan and the Zurich Financial Services global share option plan which are administered globally by a central share holding vehicle.

The Company purchases the right to shares from this holding vehicle on behalf of executives who participate in the plans for an amount approximating their fair value. This purchase by the Company is recorded as a prepayment asset which is amortised over the vesting period, typically a 3 year period, and reflects the cost to the Company of the share-based benefits. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants.

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

(k) Leases

As explained in section New accounting standards and interpretations above, the Company has adopted AASB 16 Leases retrospectively from 1 January 2019, which resulted in the Company changing its accounting policy for leases where the Company is the lessee. The Company has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new policy and the impact of the change is described in Note 21 Leases.

Until 31 December 2018, lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term.

The Company did not need to make any adjustments to the accounting for assets held as a lessor as a result of adopting the new leasing standard.

On adoption of AASB 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was a range between 2.1% and 2.75%.

On applying AASB 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

(l) Income tax

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

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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.

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

(l) Income tax *(continued)*

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity 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 Consolidated Entity is part of a tax consolidated group, of which the Company is the head entity, and which implemented the tax consolidation legislation on 1 October 2003.

The head tax entity, the Company and the entities in the tax consolidated group (including the consolidated entity) 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 continues to be a stand-alone taxpayer in its own right.

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

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

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

(m) Goods and Services Tax (GST)

Revenues, expenses and assets, 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 (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 sheets.

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.

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

(n) Emergency Services Levy 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.

(o) Foreign currency translation

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

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 gains are recognized as a separate component of equity.

(p) Cash and cash equivalents

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

(q) Financial assets

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

Financial assets at fair value through profit or loss

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm’s length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

In assets of the controlled General Insurance company have been determined as assets backing policy liabilities and are therefore valued at fair value through profit or loss.

The assets held within the statutory funds of the controlled Life Insurance company have been determined that all assets held within its statutory funds are assets backing policy liabilities and retained profits of the statutory funds, and all assets held within its shareholder fund are assets that do not back policy liabilities.

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

(q) Financial assets *(continued)*

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value.
- Shares, fixed interest securities, options and units listed on stock exchanges: fair value is taken as the bid price of the instrument.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Unlisted unit trusts are recorded at redemption price.
- Reinsurance recoveries receivables are measured as the present value of the expected future receipts, calculated on the same basis as the life insurance policy liabilities to which they relate.
- Investments in associates held within statutory funds are recorded at fair value based on the underlying net asset value of the associate entity.
- Loans are recorded at outstanding principal balance less any provision for impairment.
- Receivables are carried at cost which is the best estimate of fair value, as they are usually settled within twelve months less provision for impairment.

Loans and receivables

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

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 collectability of receivables and is reviewed on an ongoing basis. An impairment charge is recognised when there is objective evidence that that the Group will not be able to collect all amounts due according to the original terms of the contracts. The impairment charge is recognised in the Consolidated statement of comprehensive income.

(r) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on general and life insurance paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported and unexpired risk liabilities are recognised as revenue. General Insurance recoveries receivable are assessed in a manner similar to the assessment of general insurance outstanding claims. Recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, evaluated on the same basis as the liability for general insurance outstanding claims and life insurance policyholder liabilities to which they relate.

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

(s) Deferred acquisition costs

General Insurance contracts

The fixed and variable costs of acquiring new business, “the 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 the statement of comprehensive income in future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

Life Insurance contracts and investment contracts with discretionary participation features

The costs incurred in acquiring specific Life Insurance contracts include advisor fees, commission payments, underwriting costs, application processing costs, relevant advertising costs, and promotion of products and related activities.

Life insurance contract acquisition costs are deferred provided that these amounts are recoverable out of future product margins (including margins arising from the in force portfolio for the same related product group). Otherwise, losses arising on acquisition are recognised in the Statement of Comprehensive Income in the year in which they occur. The deferred amounts are recognised in the Balance Sheet as a reduction in the life insurance liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

(t) Deferred origination costs

Life Insurance contracts and Investment contracts with non-discretionary participation features

Life investment contracts issued result in commissions and payments to external service and advice providers. Acquisition costs arising in relation to investment contract business can only be deferred to the extent they are incremental and directly attributable to securing the contracts. Non-incremental costs are recognised and expensed as they occur.

The deferred portion of the expenses is recognised as a Deferred Origination Cost (DOC) asset. The DOC asset is recognised in the balance sheet as an intangible asset and is amortised on a straight line basis over seven years. A recoverability test on DOC asset is carried out on an annual basis.

(u) Property, plant and equipment

Owner-occupied land and buildings are shown at historical cost less depreciation. Land and buildings are initially recorded at cost, plus transaction costs. Buildings are subsequently depreciated on a straight line basis so as to write off the net cost of each building over the expected useful life. Land is not depreciated.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Plant and equipment is initially recorded at cost, plus transaction costs. It is subsequently depreciated on a straight line or reducing balance basis so as to write off the net cost of each item over its expected useful life to the consolidated entity. The written down amount will usually approximate fair value.

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

(u) Property, plant and equipment *(continued)*

Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(w)). The expected useful lives are as follows:

Buildings:	25 years
Plant and equipment:	3 – 20 years
Software:	3 – 5 years

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of comprehensive income.

(v) Intangible assets

Intangible assets with a finite useful life such as Software are typically amortised on a straight-line basis over 3 years.

Intangible assets with an indefinite useful life are subject to impairment review annually and whenever there is an indication that the asset may be impaired. These assets are not amortised.

Software and systems

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

Software development

Software development costs which are recognised as intangible assets include only those costs attributable to the development phase and are only recognised following completion of technical feasibility, where the consolidated entity has an intention and ability to complete and use the asset to generate probable future economic benefits, and where the expenditure attributable to the software can be reliably measured. Other development expenditure which does not satisfy these criteria is recognised as expenses when incurred.

Software development (continued)

The carrying value of intangible assets is assessed according to the accounting policy for impairment of assets as set out in accounting policy Note 1(x).

Value of business acquired

Value of business acquired is the intangible asset representing the present value future profits expected to emerge from life insurance contracts acquired in a business combination or portfolio transfer. The VOBA is calculated as the present value of accounting profits after tax, less an allowance for the cost of capital. Projected profits are net of eternal and internal reinsurance. The VOBA is amortised over the expected life of the acquired contracts. The carrying value of the value of business acquired intangible asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Goodwill

Goodwill is measured as the excess of consideration transferred over the fair value of the net tangible assets and any identifiable intangible assets acquired in a business combination.

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

(v) Intangible assets *(continued)*

Goodwill is classified as an intangible asset and is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of the business include the carrying amount of goodwill relating to the business sold.

For the purposes of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units (CGU's) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations

Brands

Brands have an indefinite life and are not amortised but are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Distribution agreement

Distribution agreements are amortised over a 20 year period. Distribution agreements are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

(w) Business combinations

The acquisition method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Acquisition-related costs are expenses as incurred.

The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent liabilities are required to be recognised at the acquisition date as assumed in a business combination where there is a present obligation that arises from past events and its fair value can be measured reliably. Contingent liabilities are required to be recognised in the consolidated entity financial statements of the acquiring company.

For further details of Business combinations refer to Note 41.

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

(x) 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. Investments in associates and other assets such as property, plant and equipment and intangibles are subject to impairment testing where at each balance date the consolidated entity assesses whether there is objective evidence that these assets are impaired.

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.

(y) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are represented as current liabilities unless payment is not due within 12 months after the reporting period.

(z) Provisions

Provisions are recognised when the consolidated entity 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(aa) 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.

(bb) Outstanding claims

General Insurance

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under General Insurance contracts issued by the controlled entities ZAIL and OPGI, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to outstanding claims, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and their associated allocated costs as well as anticipated claims handling costs.

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

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

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

(cc) Policy liabilities – Life Insurance

Policy liabilities consist of Life Insurance contract liabilities and Life Investment contract liabilities.

Life Insurance contract liabilities

The value of life insurance contract liabilities is calculated using the margin on services methodology. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group at each reporting date. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Further details of the actuarial assumptions used in these calculations are set out in Note 3b. In addition, life insurance contract liabilities also include incurred but not reported, reported but not admitted, and claims in course of payment reserves.

Life Investment contract liabilities

Life investment contracts liabilities are valued at fair value, which is based on the account balance of the investment contracts, subject to a minimum of the current surrender value.

(dd) Unexpired risk liabilities

General Insurance contracts

At each reporting date ZAIL and OPGI assess 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. ZAIL and OPGI apply 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 28.

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 sheets as an unexpired risk liability.

(ee) Rounding of amounts

The Company is of a kind referred to in Australian Securities Investments Commission (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 in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(ff) Comparative information

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

(gg) Parent Entity financial information

The financial information for the parent entity, ZFSA, disclosed in note 44 has been prepared on the same basis as the consolidated financial statements.

2. Critical accounting judgements and estimates

The consolidated entity 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 General Insurance contracts in ZAIL and OPGI.

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 ZAIL and OPGI.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. ZAIL and OPGI takes all reasonable steps to obtain appropriate information regarding its claims exposures. However, given the uncertainty in establishing the outstanding claims liability, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to ZAIL and OPGI, where information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. 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 and IBNER reserves. For the short-tailed classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of uncertainty.

In calculating the estimated cost of unpaid claims ZAIL and OPGI uses a variety of estimation techniques, generally based upon actuarial analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying data or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in ZAIL's and OPGI'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 cost of notified but not paid claims. In estimating the cost of these, ZAIL and OPGI 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.

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

(a) The ultimate liability arising from claims incurred under general insurance contracts in ZAIL and OPGI *(continued)*

Where possible ZAIL and OPGI adopt 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.

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

(b) Life Insurance contract liabilities in ZAL and OPL

Life Insurance contract liabilities are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of Life Insurance business written. Deferred acquisition costs are connected with the measurement basis of Life Insurance contract liabilities. Both of these are sensitive to the factors that are considered in the liability measurement. The deferred acquisition costs are included within the Life Insurance liabilities.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on Life Insurance products, including an estimate of the impact of any enhancements to policyholder benefits;
- discontinuance experience, which affects ZAL's and OPL's ability to recover the cost of acquiring new business over the duration of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, ZAL and OPL share experience on mortality, morbidity, persistency, expenses and investment results with its customers, this can offset the impact of these factors on profitability from those products.

Details of specific actuarial assumptions and methods are set out in Note 3.

(c) 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 consolidated entity may not receive amounts due to it and these amounts can be reliably measured.

(d) Recognition of deferred tax assets in ZAL and OPL

Deferred tax assets (DTA) for deductible temporary differences and tax losses carried forward are recognised where future income is expected to become available to absorb the deductible temporary differences and losses not previously used. For superannuation business, if policyholders redeem their policy before sufficient gains have occurred to offset past losses, the potential deferred tax asset on the related investments will not be recoverable.

(e) Value of business acquired

The value of business acquired intangible asset is measured using actual inforce policy data on acquisition date and assumptions underpinning the expected future profits applicable to the acquired portfolio. Value of business acquired uses a risk-adjusted discount rate derived from the weighted-average cost of capital method. Value of business acquired is amortised over its useful life.

3. Actuarial assumptions and methods

(a) General Insurance

ZAIL

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

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

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

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

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

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

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

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

OPGI

During the period, OPGI underwrote consumer credit insurance products (credit card, loan insurance and mortgage protection) and a small amount of direct insurance business. From 1 August 2015, the Company ceased to underwrite personal lines general insurance products, and all personal lines general insurance co-insured policies incepted prior to 1 August 2015 have been fully reinsured with QBE. However, the Company has retained risk on all losses occurring on personal lines general insurance co-insured policies prior to 1 August 2015.

In addition to the products listed above, from May 2016 OPGI commenced underwriting an add-on product covering family care benefits and involuntary unemployment attaching to OnePath Life Lump Sum and Income Protection.

3. Actuarial assumptions and methods *(continued)*

(a) General Insurance *(continued)*

For all classes of business, standard payment based actuarial techniques have been used. The Paid Bornhuetter-Ferguson ("PBF") is the primary valuation method used. The Expected Claim Ratio method is used for the most recent accident quarter.

Paid claim development patterns vary by product. Selected development patterns are typically based on the weighted average development over the last 4, 8 or 12 quarters (excluding the latest incomplete quarter), after assessing for reasonableness and materiality of change from the selected patterns from the previous valuation.

Initial expected loss ratios vary by valuation group and are in the range of 4% - 43% for consumer credit products and 55% - 73% for other general insurance products.

(i) Selected key variables – ZAIL and OPGI

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 - ZAIL	3.2 years	0.5 years	3.2 years	0.5 years
Average weighted term to settlement - OPGI	N/A	0.97 years	N/A	N/A
Discount rate – ZAIL	0.99%	0.89%	1.97%	1.92%
Discount rate - OPGI	N/A	0.94%	N/A	N/A
Wage inflation - ZAIL	3.75% for asbestos related reserves otherwise 3.00%	N/A	3.75% for asbestos related reserves otherwise 3.25%	N/A
Superimposed inflation – ZAIL	0 to 6.0%	N/A	0 to 9.0%	N/A
Superimposed inflation - OPGI	N/A	Implicit in method for both succeeding and subsequent periods	N/A	N/A

3. Actuarial assumptions and methods *(continued)*

(a) General Insurance *(continued)*

(ii) Sensitivity analysis – General Insurance contracts - ZAIL and OPGI

ZAIL and OPGI conduct 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 ZAIL and OPGI. The table below gives an analysis of the sensitivity of the profit/(loss) for 2019 and 2018.

Impact of changes in key variables – ZAIL and OPGI

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 – years – ZAIL	0.5	957	3,444
	-0.5	(787)	(2,867)
Discount rate - ZAIL	1%	12,175	11,487
	-1%	(13,155)	(12,396)
Discount rate – OPGI	1%	85	N/A
	-1%	(88)	N/A
Wage inflation and superimposed inflation rates – ZAIL	1%	(5,285)	(5,228)
	-1%	4,766	4,716
Paid claim development factors – OPGI	1%	(39)	N/A
	-1%	39	N/A
Initial expected loss ratios – OPGI	1%	(57)	N/A
	-1%	57	N/A
Claim handling expense rate - OPGI	1%	(4)	N/A
	-1%	4	N/A
Financial assets			
Shift in yield curve – ZAIL	1%	(23,837)	(20,248)
	-1%	24,073	20,284
Equity prices - ZAIL	20%	21,621	18,426
	-20%	(21,621)	(18,426)

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance

The effective date of the actuarial report on policy liabilities and capital adequacy requirement is 31 December 2019. The Appointed Actuaries, Edward Fabrizio (ZAL) and Ian Wong (OPL), are satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements, with the applicable accounting standards and with the requirements of the Life Insurance Act 1995.

Policy liabilities comprise Life Insurance contract liabilities and Life Investment contract liabilities.

The nature of the terms of the Life Insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows for the life insurance contracts are dependent.

Type of contract	**Detail of contract workings**	**Nature of compensation for claims**	**Key variables that affect the timing and uncertainty of future cash flows**
Non-participating Life insurance contracts with fixed terms (Term, Total and Permanent Disablement "TPD", trauma and disability income, non-participating endowment and whole of life)	Benefits paid on death or ill health that are fixed and not at the discretion of the issuer.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Interest rates Lapses Expenses
Life Insurance contracts with discretionary participating benefit (participating endowment and whole of Life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. Regular bonuses are also added annually at the discretion of ZAL and these are also payable on death or maturity where applicable. Once declared, bonuses cannot be removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality Morbidity Market earning rates Interest rates Lapses Expenses

(i) Policy liabilities

These amounts, together with future premiums and investment earnings, are required to:

a. meet the payment of future benefits and expenses; and
b. provide for future profits.

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(i) Policy liabilities *(continued)*

The life insurance contract liabilities have been calculated in accordance with the requirements of APRA Prudential Standard LPS 340 "Valuation of Policy Liabilities" under section 114 of the Life Insurance Act 1995. The Prudential Standard requires the life insurance contract liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders.

The life investment contract liabilities are the financial instrument element of the life investment contracts. These are valued using a fair value approach. The investment contracts give rise to a further liability, the deferred origination fees (DOF), and an asset, the deferred origination costs (DOC), which are explained in Note 1. These are considered to be separate assets and liabilities under the relevant accounting standards. Under the APRA Prudential Standard LPS 340 'Valuation of Policy Liabilities' the investment contract liability includes the DOC and DOF.

The methods and profit carriers for particular policy types are as follows:

Company	**ZAL**		**OPL**	
Business type	**Method**	**Profit carrier**	**Method**	**Profit carrier**
Individual – non participating				
Conventional	Projection	Premiums	Projection	Death claims
Lump sum risk	Projection (inforce business) Project and accumulation (new business)	Premiums	Projection	Stepped Premiums, Funeral Insurance – Death Claims
Consumer Credit Life Insurance	Projection	Single – Death Claims	Projection	Single – Death Claims Regular - Premiums
Income stream risk	Projection (inforce business) Project and accumulation (new business)	Premiums	Projection	Step equivalent premiums
Lifetime annuity	Projection	Annuity payments	Projection	Annuity payments
Variable Annuity with Longevity Risk	Projection	n/a	Projection	Protected income base
Group – non-participating				
Lump sum risk	Accumulation	n/a	Accumulation	n/a
Group salary continuance	Accumulation	n/a	Accumulation	n/a
Individual – participating				
Conventional	Participating Value Supporting Assets (VSA)	Cost of bonus	Participating Value Supporting Assets (VSA)	Cost of bonus
Participating Investment Account	n/a	n/a	Projection	Cost of bonus

3. Actuarial assumptions and methods *(continued)*

The methods for valuing insurance contract liabilities vary as follows:

- The projection method determines a best estimate value of the liabilities being the net present value of the expected future payments and receipts under the policy, based on obligations at the reporting date. Added to that is the best estimate value of the expected future profits to emerge under the policies to form the policy liability. Best estimate assumptions are neither deliberately overstated nor deliberately understated.

- Both the accumulation and projection methods are used to determine the value of liabilities for retail risk anew business and the accumulation method is used for group risk business

- The Value of Supporting Assets (VSA) method is a form of projection method that is used where the policies include benefits that provide a discretionary entitlement to share in the investment experience of assets backing them and other operating experiences.

Part (ii) below explains how the key assumptions used in the calculations were derived, any significant differences by type of business or class of business and any changes in the assumptions from those of the previous year. There were no significant changes in the methodology used to set the assumptions from last year.

(ii) Actuarial assumptions

a. Discount rates

ZAL:

The discount rates assumed for contracts in Statutory Fund 2 that are contractually linked to the performance of the assets held are derived from the expected long-term average rates of return for the relevant asset pools based on the benchmark asset mix in line with the documented investment policy for each pool.

For contracts which are not contractually linked to the performance of the assets held, a risk free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations has been used.

No shallow market allowance has been added to the Commonwealth bond rates in determining the risk free rates (2018: no shallow market allowance added).

Discount rates assumed (before tax), range from 0.89% p.a. to 3.71% p.a. (2018: 1.70% p.a. to 4.61% p.a.).

OPL:

Non-participating business is discounted at a risk free rate. The risk free rate is determined from a CGB curve. Annuity is discounted at risk free rate plus liquidity premium.

The risk free rate (before tax) varied by duration between 0.8% and 2.2%. The risk free rate plus liquidity premium (before tax) varied by duration between 1.0% and 2.4%

Participating business uses discount rates derived from the expected long-term average rates of investment earnings of the relevant asset pool, based on 10 year bond rates with assumed margins for equities and property. The rates assumed (before tax) is 2.6%.

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(ii) Actuarial assumptions *(continued)*

b. Bonus and interest crediting rates (ZAL)

Ordinary declared	Bonus	1.75% p.a. (2018: 1.75% p.a.)
	Par Interest	4.00 % p.a. (2018: 4.00% p.a.)
	Non Par Interest	2.10 % p.a. (2018: 2.10% p.a.)
Superannuation declared	Bonus	5.75 % p.a. (2018: 5.75% p.a.)
	Par Interest	5.00 % p.a. (2018: 5.00% p.a.)
	Non Par Interest	2.30 % p.a. (2018: 2.60% p.a.)

The declared bonus rates are for the year ending at the valuation date. Bonus rates applying to different whole of Life policies and endowment series will vary according to the respective bonus linkages applying to each series. The declared rate applying to different classes of investment account business will vary according to the respective policy conditions applying under each contract.

c. *Future expenses and indexation*

Future maintenance expense unit costs have been assumed primarily using the expected expenses in the business plan, which are based on the results of an activity based costing exercise which allocates expenses across product groups and functions. Maintenance expense assumptions are expected to be sufficient to cover the costs of servicing each policy in the year following the reporting date. Expenses are allocated directly where possible (such as using cost centre manager surveys), or are apportioned using business drivers and statistics such as policy counts, annual premiums, funds under management and claim payments. The expense apportionments are carried out in accordance with Division 2 of Part 6 of the Life Insurance Act 1995. A claims management expense unit cost is also derived based on an assessment of expected resources utilised in managing claims by product.

For ZAL, future investment expense assumptions at 31 December 2019 have been assumed to vary depending on the product type from between 0.13% to 0.36% (2018: 0.13% to 0.38%).

For OPL, investment management expenses are based on agreed rates with investment managers.

Benefits and/or premiums under most of the Life risk policies are automatically indexed. The indexation of sums insured for retail risk products is based on the inflation assumption. Assumed future take-up of these indexation options has been based on ZAL’s previous experience.

Allowance is made for benefit indexation on immediate annuities and disability income open claims at agreed levels. For Consumer Price Index (“CPI”) indexed annuity instalments and CPI indexed disability income open claims, the inflation rate is determined based upon an inflation curve derived from available market instruments.

d. Inflation

The inflation assumption is set taking into account a number of factors including market implied inflation rate, average weekly ordinary time earnings compared to inflation, RBA long-term inflation target and the impact of project expense amortisation. The assumption is set at a range between 1.5% p.a. and 2.5% p.a. (2018: 2.0% to 2.50% p.a).

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(ii) Actuarial assumptions *(continued)*

e. Future participating benefits

For participating business, ZAL's policy is to set bonus rates so that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at the maximum allowable rate of 20%. In applying the policyholders' share of distributions to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed investment returns, allowing for the shareholder's right to participate in distributions.

For ZAL, assumed future bonus and interest rates for the major classes of individual participating business are:

Ordinary	Bonus	0.55% p.a.	(2018: 0.65% p.a.)
	Par interest	2.39% p.a.	(2018: 3.17%p.a.)
Superannuation	Bonus	3.72% p.a.	(2018: 3.73%p.a.)
	Par interest	2.44% p.a.	(2018: 3.36%p.a.)

These future bonus and interest rates make no allowance for future distribution of unvested policyholder benefits.

For OPL, distribution is split between policy owners and the shareholders in the rations 90:10 or 80:20 dependent on bonus series.

Conventional	Ordinary	\$0.00 to \$37.63 per mille dependent on bonus series
	Superannuation	\$1.01 to \$75.04 per mille dependent on bonus series
Investment Account	Ordinary	5.19% p.a.
	Superannuation	4.25% p.a.

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For the year ended 31 December 2019

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(ii) Actuarial assumptions *(continued)*

f. Voluntary discontinuances and premium dormancy

ZAL:

Discontinuance assumptions were set having regard to analysis of recent experience within ZAL of voluntary discontinuances and premium dormancy.

Voluntary discontinuance assumptions, which vary by age, duration and product, are in the range of 3.0% p.a. to 61.0% p.a. (2018: 3% p.a. to 51.0% p.a.).

Dormancy assumptions for most business ranged from 4.0% p.a. to 13.0% p.a. (2018: 4.0% p.a. to 13.0% p.a.).

OPL:

Voluntary discontinuance rates are based on recent company analysis and vary by product and duration inforce. For the major classes of business the assumed rates of discontinuance are:

Conventional/ Participating Investment Account	2% to 10%
Lump sum risk/ Disability income	2% to 66%

Dormancy assumptions for OnePath and ANZ Heritage Capital Guaranteed and Capital Stable business ranged from 13.0% p.a. to 36.0% p.a.

g. Sum insured reductions

For ZAL, this assumption, which varies between lump sum and disability products and between advisor and direct business, is in the range of 1.0% to 6.0% p.a. (2018: 0.5% to 2.0%) reduction in sum insured.

For OPL, this assumption has been included as part of the voluntary discontinuance assumption.

h. Surrender values

Future surrender values have been calculated assuming that the approach used at the valuation date remains in place.

i. Unit prices

A fair value approach has been used to determine policy liabilities for unit-linked Life Investment contract business and no assumptions are needed about rates of growth of unit prices.

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(iii) Actuarial assumptions *(continued)*

j. Mortality

For ZAL, the mortality assumption is based on the FSC-KPMG 04-08 rates, after adjusting for the Company's business mix, and adjusted for Zurich's own experience. Note the FSC-KPMG 04-08 tables reflect Australian insured lives experience between 2004 and 2008. The assumption is set based on an internal analysis of recent mortality experience. Assumed rates vary by age, sex, smoker status, and product type.

For OPL, the assumed rates vary by product from 37% to 329% of FSC-IAA 2004-2008 insured lives mortality table, jointly published by the Financial Services Council and the Institute of Actuaries of Australia for Retail and Direct Sold products, disaggregated by smoker status and adjusted to allow for the effects of initial selection, company experience and other relevant factors.

k. Lifetime annuity products

For ZAL, the mortality assumption for lifetime annuities is 100% IM80 / IF80 adjusting for mortality improvements (2018: 100%).

For OPL lifetime annuities, mortality rates vary between 90% to 100% of IA90-92 insured lives mortality and ALT1990-02 Australian population mortality depending on the age of the annuitant, with an additional allowance for mortality improvements before and after the valuation date. Variable annuities use an adjusted ALT2000-2002 table, with further age-based adjustment.

l. Disability

ZAL:

Disability rates vary by gender, age, smoking status, occupation and other relevant factors. The morbidity assumptions are based on the FSC-KPMG ADI07-11 tables, adjusted for Zurich's own experience. The FSC-KPMG ADI07-11 tables reflect Australian insured lives experience between 2007 and 2011.

OPL:

Disability rates vary by gender, age, smoking status, occupation and other relevant factors. Rates of incidence and termination have been based on the Company's experience and are similar to, on average:

Incidence (Retail Only)	35% to 290% of ADI 07-11 table
Termination (Retail and GSC)	28% to 321% of ADI 07-11 table

For Direct Marketing TPD and Trauma series, incidence rates vary from 90% to 210% of FSC-IAA 2004-2008 TPD rates. For the open Direct Life Income Protection products, incidence rates vary from 90% to 125% of KPMG FSC Table 2007-2011. Termination rates are the same as Retail termination rates stated above.

3. Actuarial assumptions and methods *(continued)*

(c) Life Insurance *(continued)*

(iv) Actuarial assumptions *(continued)*

m. Trauma and TPD incidence

ZAL:

The underlying reference table for trauma and TPD incidence is based on the FSC-KPMG 04-08 rates. A percentage assumption is then applied to this table. The assumption is set having regard to an internal analysis of recent experience within ZAL.

OPL:

The assumed claim rates for lump sum TPD benefits vary by product from 46% to 727% of FSC-AI 2004-2008 Tables adjusted to allow for OnePath experience, effects of initial selection and other relevant factors.

The assumed claim rates for lump sum Trauma benefits vary by product from 87% to 152% of FSC-AI 2004-2008 Tables adjusted to allow for OnePath experience, effects of initial selection and other relevant factors.

n. Loss ratio

The future benefit of MasterTrust and Group business is modelled on a loss ratio basis. The loss ratios are pricing loss ratios, varying by fund from 76% to 174%.

o. Taxation and commission

The taxation basis and commission scale assumed are those applying to each class of business as at the valuation date. A tax rate of 15% for the Virtual Pooled Superannuation Trust (VPST), 0% for the Segregated Exempt Asset Pool (SEAP), and 30% for all other business has been assumed.

(iii) Effect of changes in actuarial assumptions - ZAL

Assumption category ZAL: 31 December 2018 to 31 December 2019	Effect of changes on profit margins $m increase / (decrease)	Effect of changes on policy liability $m increase / (decrease)
Mortality / morbidity	(418.6)	70.8
Discontinuance rates	(190.4)	0.0
Maintenance expenses	38.7	(4.5)
Other assumptions	(69.8)	0.0

There were no assumption changes for OPL in the period 1 June to 31 December 2019.

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(iv) Sensitivity analysis

ZAL and OPL conduct sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, equity prices, mortality, morbidity, discontinuance rates and inflation. The valuations included in the reported results and ZAL and OPL's best estimates of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of ZAL and OPL and as such represents a risk.

The table below illustrates how changes in the key assumptions and assumed experience would impact the profit and equity of the Company for the current year.

ZAL:

		Gross of reinsurance		**Net of reinsurance**	
Impact of change in variable	**Percentage change in variable**	**Profit/(loss) and equity $m**	**Life Insurance contract liability $m**	**Profit/(loss) and equity $m**	**Life Insurance contract liability $m**
December 2019 assumption					
Worsening of mortality	10%	(0.1)	0.2	(0.1)	0.2
Worsening of morbidity	10%	(118.9)	169.8	(37.6)	52.5
Increase of discontinuance rate	10%	(14.3)	20.4	(4.7)	6.7
Increase in interest rates	1%	21.3	(91.2)	(4.2)	(25.0)
Decrease in interest rates	(1%)	(37.6)	114.4	(1.4)	33.0
Increase in equity prices	10%	3.0	2.8	3.0	2.8
Decrease in equity prices	(10%)	(3.0)	(2.8)	(3.0)	(2.8)
December 2018 assumption					
Worsening of mortality	10%	(0.1)	0.2	(0.1)	0.1
Worsening of morbidity	10%	(65.0)	92.9	0.0	(0.0)
Increase of discontinuance rate	10%	0.0	(0.0)	(0.0)	0.0
Increase in interest rates	1%	(11.0)	(47.5)	(21.9)	(0.8)
Decrease in interest rates	(1%)	2.5	59.7	20.8	2.3
Increase in equity prices	10%	2.3	2.6	2.3	2.6
Decrease in equity prices	(10%)	(2.3)	(2.6)	(2.3)	(2.6)

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For the year ended 31 December 2019

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(iv) Sensitivity analysis *(continued)*

OPL:

		Gross of reinsurance		Net of reinsurance	
Impact of change in variable	**Percentage change in variable**	**Profit/(loss) and equity $m**	**Life insurance contract liability $m**	**Profit/(loss) and equity $m**	**Life insurance contract liability $m**
December 2019 assumption					
Worsening of mortality	10%	8	(13)	5	(7)
Worsening of morbidity	10%	500	(714)	245	(350
Increase of discontinuance rate	10%	14	(21)	10	(15)
Increase in interest rates	1%	147	(210)	101	(144)
Decrease in interest rates	(1%)	(175)	251	(118)	169

Policy liabilities include a component for profits that are expected to be earned over the life of the contract. These profits are released over the life of the contract according to an appropriate profit carrier. Policy liabilities are recalculated for changes in economic assumptions (with the exception of participating products). However, when the non-economic assumptions are changed and the expected future profit is recalculated, the impact is absorbed into future profit margins such that there is no change to the total level of policy liabilities. The only exception to this is where the business is expected to make future losses. In this case all future losses must be recognised immediately and hence there will be a change in the policy liability.

The impact on reported profit and shareholder equity of changes in interest rates and equity prices include impact on all financial assets (except those backing investment linked contracts) as well as impact on Life Insurance contracts liability. Changes in interest rates impact the discount rate used to calculate Life insurance contracts liability.

The sensitivities presented in the analysis show the impact of changes to assumptions on the year’s profit if the assumption change is made (and policy liabilities recalculated as described above). The Profit/(Loss) and equity column shows both the cashflow and liability impacts, whereas the life insurance contract liability column shows only the liability impact.

3. Actuarial assumptions and methods *(continued)*

(b) Life Insurance *(continued)*

(iv) Sensitivity analysis *(continued)*

For investment linked contracts, the policyholder bears the risks and rewards of the underlying financial assets. The impact of changes in interest rates and equity prices on these investment linked contracts affects policyholder returns and has no direct impact on ZAL and OPL's reported profit for the current year. This does not apply to policies that contain an investment return guarantee. For these, the value of the guarantee is impacted by changes in interest rates and equity prices and hence ZAL and OPL's reported profit.

(v) Capital adequacy requirements

These are amounts required to meet the prudential standards specified by the Life Act to provide protection against the impact of fluctuations and unexpected adverse circumstances on ZAL and OPL.

The methodology and bases for determining capital adequacy requirements as at 31 December 2019 are in accordance with APRA's Prudential Standard LPS 110 "Capital Adequacy" in accordance with subsection 230A(1) of the Life Act.

4. Management of risk

The consolidated entity'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: Sections b) reviews the insurance risk; section c) reviews the operational risks, including the specific controls in place to manage the risk of financial misstatement; and Note 5 separately details the financial risk management policies and procedures in place.

(a) Risk management framework

The consolidated entity'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 consolidated entity, in particular capital and solvency.

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

4. Management of risk (continued)

(a) Risk management framework (continued)

ZFSA has Internal Capital Adequacy Assessment Processes (ICAAPs) that address the potential impact of all risk to capital and solvency. The authority to take 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.

The broadest categorisation of 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 key risks within the business are considered by the internal audit department, resulting in an annual audit plan which is approved by the Risk, Compliance and Audit Committee (RCAC). The internal audit department is independent of the day to day operational management of the Company. The internal audit department executes a review of components of the internal control systems in accordance with the annual audit plan to assess the effectiveness of the internal controls, risk management within the consolidated entity 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 staffs are required to include in their personal performance objectives a requirement to demonstrate the Zurich commitment 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.

4. Management of risk (continued)

(b) Insurance risk

General Insurance

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

ZAIL and OPGI have 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 ZAIL and OPGI depending on the nature of each risk. ZFSA's general insurance risks are monitored by the Chief Risk Officer and communicated regularly to the boards via the quarterly risk reports. The Appointed Actuaries of ZAIL and OPGI also monitor the exposure and reports to the Boards in the annual Financial Condition Reports.

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 ZFSA have developed, implemented and maintained a Risk Management Strategy (RMS), and a Reinsurance Management Strategy (REMS).

The RMS and ZFSA REMS have been approved by the Board. Key aspects of the processes implemented to manage risks arising from insurance contracts include:

- A formal annual 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 management 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 ZAIL's own exposure and wider environmental data, which support decisions on limiting exposure;
- Reinsurance is used to limit exposure to large single claims and catastrophes. When selecting a reinsurer consideration is normally only given to 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 ZAIL 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, management 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 globally is used as an initial step on a significant portion of the reinsurance program to enable group-wide reinsurance purchasing efficiencies;

4. Management of risk (continued)

(b) Insurance risk *(continued)*

General Insurance *(continued*

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks *(continued)*

- The mix of assets in which management 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.

(ii) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by ZAIL and OPGI. 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

ZAIL's exposures to concentration of general insurance risk are mitigated by a portfolio of diversified individual risks. The main exposure is to natural catastrophe and arises from ZAIL's underwriting. 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.	ZAIL underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. ZAIL has modelled aggregated risk using catastrophe models. Based on the probable maximum loss of a 1 in 250 years event per the models, ZAIL purchases catastrophe reinsurance cover to limit exposure to any single event.

4. Management of risk (continued)

(b) Insurance risk *(continued)*

General Insurance *(continued*

(iii) Concentration of insurance risk *(continued)*

ZAIL and OPGI's exposures to concentration of general insurance risk are mitigated though diverse product lines. ZAIL's 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 general insurance obligations up until the time they are settled. The tables in Note 21 (d) show 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.

Life Insurance

(i) Life Insurance contracts - risk management objectives and policies

ZAL and OPL's objectives with regard to life insurance risk are to satisfactorily manage the risk in line with the RMS which is approved by the board. Various procedures are put in place to control and mitigate the risks faced by ZAL and OPL depending on the nature of each risk, and in particular the severity and probability of each risk.

ZAL and OPL's exposures to risks are monitored by the Chief Risk Officer and communicated regularly to the boards via the quarterly risk report. The Appointed Actuaries also monitor these exposures and report to the respective boards in the annual Financial Condition Report.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges, the ability to change premium rates for yearly renewable business and extensive reinsurance arrangements. Controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims. Insurance risks are monitored by internal management committees which report regularly to the board.

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

Life Insurance *(continued)*

(ii) Strategy for managing Life Insurance risk

Portfolio of risks
ZAL and OPL currently issue term Life, total and permanent disablement, trauma and disability income insurance contracts. In addition OPL issues master trust, group life and group salary continuance contracts. There is also exposure to savings, bonds, annuities, endowments and whole of life contracts each of which are no longer written. The performance of ZAL and OPL and their continuing ability to write profitable business depends on their ability to identify and control risks. ZAL and OPL have adopted the consolidated entity's RMS which has been approved by the board. It summarises the approach to risk and risk management.

Risk strategy
In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy shareholders risk and reward objectives whilst not adversely affecting the ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to reduce the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital requirements are measured using the various regulatory reporting requirements to which ZAL and OPL are subject.

Allocation of capital
Capital is allocated by ZAL and OPL to the portfolios of contracts or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

Solvency and capital adequacy requirements established by APRA are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders and to meet policyholders' reasonable expectations. The APRA compliance requirements must be met continuously throughout the year. These solvency and capital adequacy requirements also take into account specific risks faced by ZAL and OPL.

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

Life Insurance *(continued)*

(iii) Methods to monitor and assess Life Insurance risk exposures

Exposure to risk
In an effort to protect and enhance shareholder value, ZAL and OPL manage their exposure to risks so that they can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments.

(iv) Methods to limit or transfer Life Insurance risk exposures

Statutory capital adequacy requirements
ZAL and OPL's insurance operations are subject to APRA's regulatory capital requirements which prescribe the minimum amount of capital to be held depending on the risks associated with the products issued and the type, quality and concentration of investments held. The APRA requirements must be met continuously throughout the year. ZAL and OPL each aim to hold a target surplus above the prudential capital requirements.

Management reporting
ZAL and OPL report monthly financial and operational results to management.

Reinsurance
Reinsurance is used to limit exposure to large single claims and reduce the volatility of expected profits. New reinsurance treaties are assessed to indicate how they will impact the level and volatility of expected profits as well as the impact on ZAL and/or OPL's capital position to ensure the achievement of the appropriate choice of type of reinsurance and retention levels.

Underwriting procedures
Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the underwriting manuals of ZAL and OPL. Such procedures include limits to delegated authorities and signing powers. The underwriting process is regularly monitored by the internal auditors to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management
Strict claims management procedures ensure the timely and appropriate payment of claims in a consistent and effective manner in accordance with policy conditions.

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

Life Insurance *(continued)*

(v) Concentration of Life Insurance risk

Insurance risks associated with human life events
ZAL predominantly writes individual risk business through independent financial advisors. Following the closure to new business of ZAL's group risk portfolio in 2014, ZAL has been managing run-off book of business. With group risk business, protection against death or disablement is typically provided to employers of large work forces where concentration risks may emerge.

ZAL has established a catastrophe reinsurance treaty with its ultimate controlling entity to reduce the risk of high number of deaths caused by a single event; for example a natural disaster or a building collapse. The nature of ZAL's overall business mix results in a large spread of risks across the country and agree ranges, further mitigating concentration risk.

Through its group business, OPL has exposure to a number of corporates with large workforces in one location. This gives rise to a concentration of risk, and this is considered when determining capital requirements. OPL does not currently have either catastrophe or pandemic reinsurance.

(c) Operational risks

Operational risk is the risk of loss or the risk of not achieving business objectives resulting from inadequate or failed internal processes, people, systems or from external events such as catastrophes, legislation, external fraud, or losses related to outsourcing.

The consolidated entity has a comprehensive framework with a common approach to identify, assess, control, monitor and report operational risk.

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and controls to manage operational risk are in place. All functional business areas within the consolidated entity undertake a risk assessment to identify, assess, manage and monitor operational risk. Risk registers are developed and recorded in a central database for each functional business area, including identifying control owners and action plans for improvement of controls. These risk registers are regularly reviewed, updated and improved. Some functions are also subject to operational key controls which sets a minimum framework of operational controls. Risk management facilitates the review of the 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 also undergo a risk assessment.

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

The consolidated entity considers controls to be key instruments for monitoring and managing operational risk.

The consolidated entity 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. For those Life Insurance contracts and Life Investment contracts where the benefits paid are directly impacted by the value of the underlying assets, ZAL is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management.

(a) Market risk

Market risk is the risk of diminution in value of the consolidated entity'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 (a)(ii) and 3 (b)(iv) for an analysis of the impact of changes in key assumptions on reported profit and equity of the consolidated entity. 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 management of investments consists of analysis of market value and changes with respect of previous month and quarter; analysis of exposure and asset allocation; analysis of tail risk (to an expected shortfall of 99%); analysis of sensitivities (duration, convexity and volatility); stress testing (monetary impact on assets and liabilities of various interest rate, credit spread and equity index shocks); and analysis of credit exposures by rating, industry and seniority and portfolio concentration (all credit-sensitive assets are investment grade, above BB+).

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

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

Off-balance sheet
The Company has potential financial liabilities which may arise from certain contingencies disclosed in Note 37. No material losses are anticipated in respect of any of those contingencies, and the net fair value is assessed as an immaterial amount.

5. Financial risk management *(continued)*

a) Market risk *(continued)*

(b) Credit risk

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

i) The assumption of Credit risk through investment strategies relating to financial assets.
ii) Credit risk created through reinsurance, where a reinsurance asset represents an obligation of the reinsurer to the entity.
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 consolidated balance sheets represent the Consolidated Entity'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)
Kiwibank Ltd A1 (2018: A1)

The debt securities disclosed in Note 12 are analysed in the table below using Moody's and Standard and Poors (S&P) ratings. The disclosures below are not based on a "look-through" basis, however the disclosures as per the Equity and property securities line item and Debt securities line item in the Consolidated balance sheet, and as per Note 12, are based on a "look-through" basis.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Financial assets *(continued)*

	2019	2018
	$'000	$'000
General Insurance debt securities		
AAA	320,389	420,557
AA	574,671	579,281
A	221,415	144,773
BBB	222,483	113,793
Total debt securities	1,338,958	1,258,404
Current debt securities	443,910	250,840
Non-current debt securities	895,048	1,007,564
Total debt securities	1,338,958	1,258,404
Term deposits (AA rated)	38,000	0
Total term deposits	38,000	0
Life Insurance debt securities		
AAA	1,622,501	455,189
AA	390,869	282,314
A	233,261	54,127
BBB	60,252	48,794
Total debt securities	2,306,883	840,424
Current debt securities	567,252	323,610
Non-current debt securities	1,739,631	516,814
Total debt securities	2,306,883	840,424
Term deposits (AA rated)	1,254,750	-
Total term deposits	1,254,750	-

Reinsurance - ZAL
ZAL's international pooling arrangement, catastrophe reinsurance arrangement and 50% of reinsurance relating to new business since 1 January 2018 is reinsured by Zurich Insurance Company Limited, Switzerland (ZIC). The international pooling arrangement was originally reinsured by Zurich Life Insurance Company Limited, Switzerland (ZLIC), however the reinsurance was transferred from ZLIC to ZIC with effect from 1 January 2017 under a Novation Agreement. With the exception of ZIC, all of the ZAL's reinsurers are regulated by the industry regulator, APRA, and are governed by the same Prudential Standards as ZAL.

As at 31 December 2019 the S&P credit ratings for all of ZAL's reinsurers are A or better (2018: A or better).

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

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Financial assets *(continued)*

At balance date:

- 32.0% (2018: 29.9%) of the reinsurance policy liabilities and reinsurance claims recoverable in Note 13 and Note 17 respectively had one third party reinsurer as a counterparty in each year. This reinsurer has an S&P rating of AA- (2017: AA-); and
- 0.8% (2018: 0.2%) of the reinsurance policy liabilities and reinsurance claims recoverable in Note 13 and Note 17 respectively had other companies in the Zurich Group as a counterparty.

Reinsurance - ZAIL
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 program to enable group-wide reinsurance purchasing efficiencies. Reinsurance security is monitored continuously taking advantage of the Group's security committee analyses and there are strict controls around the use of individual reinsurers. Reinsurance accumulations are also monitored closely and used in deciding the appropriate placement programme at renewal.

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

	2019	**2018**
	$'000	$'000
AAA or AA	734,647	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)	**773,386**	**847,086**

Of the total reinsurance receivable on incurred claims:

- 7% (2018: 8%) of the reinsurance and other recoveries receivable in Note 13 had a third party reinsurer as a counter party; and
- 93% (2018: 92%) of the reinsurance and other recoveries receivable in Note 13 had companies in the Zurich Group as a counter party.

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 ZAIL. These letters of credit relate to all reinsurance contracts entered into between ZAIL 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.

5. Financial risk management *(continued)*
(b) Credit risk (continued)

(i) Financial assets (continued)

A collateral trust was established during 2013, by means of a trust deed entered into between the ZAIL, 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 ZAIL. 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 $615 million (2018: $571m) covers aged reinsurance recoverables over two balance dates of $529 million (2018: $516 million).

(ii) Business receivables

Premium receivable
General Insurance premiums receivable in ZAIL are disclosed in Note 11, the ageing of which is disclosed below:

	2019	**2018**
	$'000	$'000
Neither past due nor impaired (90 day credit terms)	338,192	267,576
Amounts past due but not impaired to 30 days	22,089	9,359
Amounts past due but not impaired 31 - 90 days	11,841	1,981
Amounts past due but not impaired over 90 days	30,344	27,930
Provisions for impairment	(2,757)	(3,221)
Total premiums receivable	399,709	303,625

Life Insurance outstanding premiums are in the most part secured by the surrender value of the related policy.

Other receivables
All other receivables in the Company and the consolidated entity do not include material amounts that are either past due or impaired.

5. Financial risk management (continued)

(c) Liquidity risk

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

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

(i) Life Insurance

The table shows expected cash flows from ZAL insurance contracts.

Year ended 31 December 2019	**Carrying amount**	**Expected cash flows (undiscounted)**				
		0-5 yrs	5-10 yrs	10-15 yrs	15-20 yrs	>20yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts	(133,631)	(611,749)	(356,940)	(140,897)	(6,814)	55,048

Year ended 31 December 2018	**Carrying amount**	**Expected cash flows (undiscounted)**				
		0-5 yrs	5-10 yrs	10-15 yrs	15-20 yrs	>20yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts	(179,702)	(612,324)	(427,079)	(267,195)	(137,845)	(111,125)

Investment contracts are payable on demand. The carrying amount of these investment contracts is $2.843 billion (2018: $1.195 billion).

Notes to financial statements
For the year ended 31 December 2019

5. Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) General Insurance

The table shows expected cash flow 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.

	Carrying amount (undiscounted)	**Expected cash flows (undiscounted)**				
2019		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, 27)	752,687	363,793	293,971	65,540	16,176	13,207
Premium liability	402,284	212,353	168,979	19,592	1,307	48
Total	1,154,971	576,146	462,950	85,132	17,483	13,255

	Carrying amount (undiscounted)	**Expected cash flows (undiscounted)**				
2018		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, 27)	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

Contractual maturity analysis
The loan and bank guarantees provided by the Company and the consolidated entity (Note 37) are due on demand.
A contractual maturity analysis is not provided in respect of other financial liabilities in the Company and the consolidated entity 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. Derivatives are typically used to manage financial risks, in particular market risks. Each derivative transaction has potential to generate credit exposure with the counterparty. A derivative contract may also have a moderate impact on liquidity due to obligations to pay. These market risks and credit risks are included in the above sections; however it is appropriate to detail the consolidated entities use of derivatives.

ZAIL and OPGI do not hold any direct derivative contracts.

ZAL and OPL do not generally hold any direct derivative contracts themselves but their policyholders' investments in unit trusts have exposures to these instruments. The trusts use derivatives for portfolio management purposes. Derivatives are used as an effective alternative to physical asset in order to achieve a desired level of total exposure and as a means to hedge against market movements. Total exposure is the sum of the market value of the physical assets plus the equivalent physical asset value attributed to the derivatives. Deliberate gearing up or leverage exposure to an asset is not permitted.

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

Derivatives in the trusts are valued on a mark-to-market value basis such that the trust valuations reflect all unrealised gains and losses on derivatives.

As at 31 December 2019 the trusts had no significant counterparty exposure to one single entity, other than normal clearing house exposure associated with dealings through recognised exchanges (2018: nil).

5. Financial risk management *(continued)*

(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 and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 37. No material losses are anticipated in respect of any of those contingencies, and the net fair value of those contingencies is assessed as an immaterial amount.

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

- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through equity; and
- Land and buildings.

Fair value hierarchy

Disclosure is required of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

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

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The following tables present the consolidated entity's assets and liabilities measured and recognised at fair value. The table does not include Receivables or Payables, which are considered Level 3 financial instruments, and are carried at cost which is the best estimate of fair value.

At 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Financial assets				
Unit trusts - equity securities	127,550	1,856,738	-	1,984,288
Debt securities	-	4,716,532	-	4,716,532
Term deposits	38,000	1,254,750	-	1,292,750
Total investments	**165,550**	**7,828,020**	**-**	**7,993,570**

At 31 December 2018				
Recurring fair value measurement				
Financial assets				
Unit trusts equity securities	223,003	785,035	-	1,008,038
Debt securities	-	2,283,027	-	2,283,027
Total investments	**223,003**	**3,068,062**	**-**	**3,291,065**

5. Financial risk management *(continued)*

(e) Fair value measurements *(continued)*

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. This is the case for unlisted equity securities.

The carrying amount of trade receivables and payables materially approximate their fair values due to their short term nature and as such are all considered level 3. The fair value of financial liabilities approximates their carrying amount, as the impact of discounting is not significant.

There were no movements in or out of level 3 for the year ended 31 December 2019 and 31 December 2018.

Notes to financial statements
For the year ended 31 December 2019

6. Revenue and other income

	2019	2018
	$'000	$'000
(a) Revenue from operations		
Premium and related revenue		
Premium revenue - General Insurance	1,506,717	1,243,028
Premium revenue - Life insurance	1,625,060	671,923
Inwards reinsurance revenue	3,735	10,189
	3,135,512	1,925,140
Reinsurance and other recoveries - General Insurance	198,673	510,071
Reinsurance and other recoveries - Life insurance	495,216	166,029
Fees for management services rendered	34,533	22,247
Total premiums and related revenue	3,863,934	2,623,487
Other revenue		
Management fees	17,085	16,410
Total other revenue	17,085	16,410
Total revenue from operations	3,881,019	2,639,897
(b) Investment income		
Dividend	174,643	128,746
Interest	142,127	127,975
Net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss	199,421	(159,215)
Other	810	784
Total investments income	517,001	98,290
(c) Other income from operations		
Other income	5,756	4,459
Total other income from operations	5,756	4,459
Total revenue and other income	4,403,776	2,742,646

7. Profit/(loss) from operations

	2019	2018
	$'000	$'000
(a) Profit/(loss) from operations		
Life and General Insurance (see below)	163,631	163,999
Movement in external unitholders' liabilities	(13,201)	805
Profit from operations before income tax	150,430	164,804
Life and General Insurance		
Premium revenue - General Insurance	1,510,452	1,253,217
Premium revenue - Life insurance	1,625,060	671,923
Fees for management services rendered	34,533	22,247
Outwards reinsurance expense - General Insurance	(306,261)	(263,754)
Outwards reinsurance expense - Life insurance	(614,107)	(198,433)
Net premium revenue	2,249,677	1,485,200
Claims expense - General Insurance	(909,692)	(1,059,536)
Claims expense - Life insurance	(964,395)	(304,669)
Reinsurance and other recoveries - General Insurance	198,673	510,071
Reinsurance and other recoveries - Life insurance	495,216	166,029
Net claims expense	(1,180,198)	(688,105)
Net movement in unexpired risk liability	-	34
(Increase)/decrease in policy liabilities	(31,586)	18,971
Increase in gross investment contract liability	(259,247)	29
(Increase)/decrease in unvested policyholder benefits	4,290	917
	(286,543)	19,917
Acquisition costs	(449,077)	(317,840)
Other underwriting costs	(305,325)	(302,213)
Underwriting expenses	(754,402)	(620,053)
Underwriting result	28,534	196,993
Investment income	517,001	98,290
Other revenue	17,085	16,410
Other income	5,756	4,459
Non-underwriting expenses	(404,745)	(152,153)
Profit from operations before income tax	163,631	163,999

Notes to financial statements
For the year ended 31 December 2019

7. Profit/(loss) from operations (continued)

(b) Net gains and expenses

	2019 $'000	2018 $'000
Net losses		
Net foreign exchange losses	(1,531)	(451)
Total net loss	(1,531)	(451)
Expenses		
Amortisation	671	(11,161)
Impairment	-	(2,239)
Depreciation	(8,819)	(6,279)
Bad and doubtful debts recovery (written off)	(162)	16
Provision for employee entitlements	(1,688)	(1,759)
Claims expense	(1,874,087)	(1,364,205)
Acquisition expense	(449,077)	(317,853)
Movement in unexpired risk liability	-	34
Outwards reinsurance expenses	(920,368)	(462,187)
Other underwriting expense	(305,325)	(302,213)
Policy maintenance	(260,384)	(78,014)
Investment management	(8,317)	(5,096)
Increase in policy liabilities	(286,543)	19,917
Restructuring costs	-	(2,546)
Other	(126,046)	(45,062)
Total expenses	(4,240,145)	(2,578,647)

Employee benefits expenses of $246,792,293 (2018: $174,182,680) have been included above in "Other underwriting expense" and "Other" (Consolidated).

Movement in policy liabilities includes the change in unvested policyholder benefits and bonuses vested in policyholders during the financial year.

(c) Shareholder's profit from operating activities in the statutory funds

ZAL insurance profit from operations in statutory funds after income tax arose from:

	2019 $'000	2018 $'000
Investment earnings on shareholder's retained profits and capital	17,061	16,784
Emergence of shareholder's planned profits	53,209	53,671
Experience profit	11,115	22,922
Reversal of capitalised loss	(6,560)	2,106
Life insurance profit from operations in statutory funds after income tax	74,825	95,483

8. Net claims incurred

	2019	2018
	$'000	$'000
Gross claims incurred and related expenses:		
- Direct	(892,844)	(1,025,349)
- Inwards reinsurance	19,884	(26,057)
- Discount to present value	(36,732)	(8,130)
	(909,692)	(1,059,536)
Reinsurance and other recoveries:		
- Direct	199,605	486,097
- Inwards reinsurance	(19,381)	20,293
- Discount to present value	18,449	3,681
	198,673	510,071
Net incurred claims	(711,019)	(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	Prior years	Total	Current year	Prior years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims expense						
- Undiscounted	(1,002,353)	129,392	(872,961)	(1,016,656)	(34,749)	(1,051,405)
- Discount	8,981	(45,712)	(36,731)	21,098	(29,229)	(8,131)
	(993,372)	83,680	(909,692)	(995,558)	(63,978)	(1,059,536)
Reinsurance and other						
- Undiscounted	248,080	(67,857)	180,223	411,003	95,386	506,389
- Discount	(4,244)	22,694	18,450	(11,633)	15,315	3,682
	243,836	(45,163)	198,673	399,370	110,701	510,071
Net claims incurred – Discounted	(749,536)	38,517	(711,019)	(596,188)	46,723	(549,465)

Notes to financial statements
For the year ended 31 December 2019

9. Income tax

	2019	2018
	$'000	$'000
(a) Total operations		
(i) Income tax expense		
Current tax	(6,737)	58,672
Deferred tax	78,339	(18,178)
Over provision in prior years	(118)	-
Total income tax expense	71,484	40,494
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (Note 14)	59,203	(1,202)
Decrease in deferred tax liabilities (Note 29)	19,135	(16,976)
	78,338	(18,178)

(ii) Numerical reconciliation of income tax expense to prima facie tax payable

	2019	2018
Profit before tax	150,430	164,804
Tax at the Australian tax rate of 30% (2018 - 30%)	45,128	49,441
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Tax offset for franked dividends	(3,483)	(2,737)
Unrealised book gain on investment in controlled entities	(356)	-
Unused tax credits not recognised	-	249
Non assessable income	(2,910)	(1,170)
Non deductible expenses	1,866	565
Policyholder tax expense (including under provisions in prior years)	27,270	(4,945)
Other	4,231	(688)
	71,746	40,715
Over provision in prior year	(118)	-
Difference in overseas tax rates	(144)	(221)
Income tax expense	71,484	40,494

9. Income tax *(continued)*

(iii) Temporary differences relating to investment in controlled entities

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

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

	2019	2018
	$'000	$'000
(b) Life insurance operations		
(i) Income tax expense		
Current tax	(39,101)	48,605
Deferred tax	105,051	(16,815)
Under/(over) provision in prior years	1,602	-
Total income tax expense	67,552	31,790

(ii) Income tax expense of the Life Insurance operations

The income tax expense of ZAL and OPL has been determined after aggregating various classes of business, each with different tax rates. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of business	**2019**	**2018**
	%	%
Complying superannuation (Virtual Pooled Superannuation Trust "VPST")	15	15
Ordinary class (including accident and disability)	30	30
Shareholder (general) fund	30	30
Current pension and immediate annuity (Segregated Exempt Assets "SEA")	Exempt	Exempt

Assessable income comprises:

1. Complying superannuation business (VPST) – taxable contributions transferred from superannuation funds, specified rollover amounts and investment income.

2. Shareholder and ordinary Life Insurance business – investment income, premiums received, transfers from VPST and SEA classes of business.

The gains and losses on sale of investments to the extent referable to the complying superannuation business are determined under the capital gains tax provisions of the Income Tax Assessment Act 1997 (ITAA). The exceptions are gains on fixed interest securities and foreign exchange gains or losses to the superannuation business, which are taxed primarily under the ordinary income provisions.

9. Income tax *(continued)*

(b) Life Insurance operations *(continued)*

(ii) Income tax expense of the Life Insurance operations *(continued)*

The gains and losses on the sale of investments to the extent referable to other taxable classes of business are taxed primarily under the ordinary income provisions, with the capital gains tax provisions potentially applying depending on the circumstance.

In addition to sales made externally by the Company, transfers of non-cash assets between different classes of business within the Company (internal transfers) are immediately assessable by that class of business if a gain is generated. Losses generated from internal transfers are not deductible within that class of business until the asset is sold externally by the Company.

Allowable deductions include:

1. Complying superannuation business (VPST) – investment related expenses, cash transfers to the ordinary class of business.
2. Shareholder and ordinary Life Insurance business – acquisition costs in relation to investment related life, superannuation and other business, investment expenses, general management expenses, cash transfers to the VPST and SEA asset pools, capital component of ordinary premiums, risk business claims.

Movements in relevant policy liabilities also may increase assessable income or increase allowable deductions.

(c) Tax consolidation

The Company 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(m).

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, the Company.

Under a separate tax funding agreement, the Company is compensated by member entities for any current tax payable assumed and compensates member entities for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company 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 by the member entities of the funding advice from the head entity, the Company, which is issued as soon as practicable after the lodgment of the consolidated income tax return with the Australian Tax Office. 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 22).

The consolidated current and deferred tax amounts for the tax consolidated group are allocated among the entities in the group, applying the 'Separate Taxpayer within Group' approach. Therefore the tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of MEC are recognised in the separate financial statements of the MEC group.

Notes to financial statements
For the year ended 31 December 2019

10. Cash and cash equivalents

	2019	2018
	$'000	$'000
Current		
Cash at bank and on hand	363,874	318,731
Term deposit and cash equivalents	373,117	53,401
	736,991	372,132

Cash and cash equivalents were invested at floating interest rates between 0.00% and 1.85% (2018: 0.00% and 2.25%).

11. Receivables

Current		
Premiums receivable (General Insurance)	189,752	144,364
Unclosed premiums (General Insurance)	139,995	162,482
	329,747	306,846
Provision for impairments (General Insurance)	(2,339)	(3,221)
	327,408	303,625
Outstanding premiums (Life insurance)	122,777	19,844
Investment income receivables	31,884	25,140
Unsettled investment sales	880	1,352
Due from related entities (Note 38 (c))	38,686	1,965,758
Tax related receivable	15,088	-
Other	172,682	10,086
Total current receivables	709,405	2,325,805

12. Financial assets at fair value through profit or loss

	2019	2018
	$'000	$'000
(a) Financial assets at fair value through Profit or Loss		
(i) General insurance financial assets		
Current		
Equity securities[1]	122,402	106,342
Debt securities	378,986	250,840
Unit trusts[1]	31,997	25,247
Term deposits	38,000	-
	571,385	382,429
Non-current		
Debt securities	895,048	1,007,564
	895,048	1,007,564
Total general insurance financial assets at fair value through profit or loss	1,466,433	1,389,993
(ii) Life insurance financial assets		
Current		
Unit trust - equity securities	1,829,889	876,449
Unit trust - debt securities[2]	944,265	17,427
Debt securities	567,252	323,610
Term deposits	1,254,750	-
	4,596,156	1,217,486
Non-current		
Unit trust - debt securities	191,350	166,772
Debt securities	1,739,631	516,814
	1,930,981	683,586
Total life insurance financial assets at fair value through profit or loss	6,527,137	1,901,072
Total financial assets at fair value through profit or loss	7,993,570	3,291,065
Current	5,167,541	1,599,915
Non-current	2,826,029	1,691,150
	7,993,570	3,291,065

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

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

[2] In 2019, management revised the basis for the current and non-current classification of Unit Trust - Debt Securities. The prior year current and non-current balances for Unit Trust - Debt securities have been adjusted for purposes of comparability.

13. Reinsurance and other recoveries

	2019	2018
	$'000	$'000
Analysis of reinsurance and other recoveries		
General Insurance		
Expected future reinsurance recoveries undiscounted		
- on claims paid	46,008	47,199
- on outstanding claims	742,712	826,085
	788,720	873,284
Discount to present value	(12,923)	(26,198)
Reinsurance receivable on incurred claims	775,797	847,086
Expected future other recoveries undiscounted		
- on outstanding claims	81,377	92,086
	81,377	92,086
Discount to present value	(763)	(2,201)
	80,614	89,885
Risk Margin	129,699	169,880
Discount to present value	(2,327)	(5,955)
	127,372	163,925
Reinsurance and other recoveries receivables	983,783	1,100,896
Life Insurance		
Reinsurance and other recoveries receivable - Life Insurance	286,175	54,576
Current		
General Insurance	482,471	567,315
Life Insurance	286,175	54,559
	768,646	621,874
Non current		
General Insurance	501,312	533,564
Total reinsurance and other recoveries	1,269,958	1,155,438

14. Deferred tax asset

	2019	2018
	$'000	$'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	311	715
Depreciable fixed assets	4,138	2,226
Accrued expense	8,754	6,964
Provision - others	54,318	13,171
Provision for leave	10,279	5,856
Software amortisation	-	868
Provision for DAC write off & unexpired risk liabilities	3,875	798
Indirect claim adjustment	11,801	12,099
Deferred origination fees	259	289
Difference in policy liability between accounting and tax	232,393	647
Tax losses	27,082	(777)
Acquisitions	85,329	-
Other	23,773	6,565
Set-off of deferred tax assets pursuant to set-off provision (Note 29)	(25,669)	(13,940)
Net deferred tax asset	436,643	35,481

Opening balance at 1 January	35,481	34,117
Charged to income statement (Note 9)	(59,203)	1,202
Changes due to IFRS	1	-
Recognised on acquisition	460,399	-
Set-off of deferred tax assets pursuant to set-off provision	(35)	162
Closing balance at 31 December	436,643	35,481

The Group 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 Group 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 Group 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 $13.5m (2018: $17.3m).

15. Deferred acquisition costs

	2019 $'000	2018 $'000
Deferred acquisitions costs as at 1 January	112,852	61,394
Adjustment on acquisition of entities	5,286	-
Acquisition costs deferred	326,972	324,335
Amortisation charged to statement of comprehensive income	(309,040)	(282,156)
Write down for premium deficiency (Note 26(b))	(10,257)	9,279
Deferred acquisitions costs as at 31 December	125,813	112,852
Current	109,157	110,727
Non-current	16,656	2,125
	125,813	112,852

16. Deferred origination costs

	2019 $'000	2018 $'000
Deferred origination costs as at 1 January	1,882	2,062
Acquisition costs deferred	406	485
Amortisation charged to statement of comprehensive income	(598)	(665)
Deferred origination costs as at 31 December	1,690	1,882
Current	515	563
Non-current	1,175	1,319
	1,690	1,882

17. Gross policies liabilities ceded under reinsurance

	2019 $'000	2018 $'000
Current	1,628	2,007
Non current	659,092	306,442
	660,720	308,449

18. Other assets

	2019 $'000	2018 $'000
Deferred outwards reinsurance expense	152,192	136,147
Deferred emergency services levy	12,128	11,633
Prepayments	10,475	7,425
Related party prepayments	6,000	-
Other	4,202	5,299
	184,997	160,504
Current	149,634	134,158
Non-current	35,363	26,346
	184,997	160,504

19. Intangibles

	2019	2018
	$'000	$'000
Software development	895	5,627
Goodwill[1]	1,513,731	193,386
Software and systems	79,321	66,313
Value of Business Acquired[2]	(236,074)	91,926
Brand[3]	29,800	-
Distribution agreement[4]	37,500	-
Less: accumulated amortisation	(67,737)	(68,385)
	1,357,436	288,867

[1] The increase of $1,320,345 in goodwill in 2019 is due to the acquisition of OnePath. Refer to Note 41.

[2] VOBA is calculated as the present value of accounting profits after tax, less an allowance for the cost of capital. The change in VOBA in 2019 is due to the acquisition of OnePath. Refer to Note 41.

[3] The OnePath brand was acquired as part of the transaction. Refer to Note 41.

[4] This is an acquired 20 year distribution agreement was entered into with ANZ as part of the acquisition transaction. Refer to Note 41.

Notes to financial statements
For the year ended 31 December 2019

19. Intangibles *(continued)*

	Software development $'000	Goodwill $'000	Software and systems $'000	Value of Business Acquired $'000	Brand $'000	Distribution agreement $'000	Total $'000
At 1 January 2018							
Opening net book amount	1,039	193,386	14,461	86,181	-	-	295,067
Additions	7,133	-	-	-	-	-	7,133
Impairment charge	-	-	(2,239)	-	-	-	(2,239)
Transfer	(2,545)	-	2,545	-	-	-	-
Amortisation charge	-	-	(6,564)	(4,597)	-	-	(11,161)
Currency translation difference	-	-	67	-	-	-	67
Closing net book amount as at 31 December 2018	5,627	193,386	8,270	81,584	-	-	288,867
At 1 January 2019							
Opening net book amount	5,627	193,386	8,270	81,584	-	-	288,867
Additions	6,064	-	2,181	-	-	-	8,245
Additions on acquisition of OnePath	-	1,320,345	-	(328,000)	29,800	37,500	1,059,645
Transfer	(10,796)	-	10,796	-	-	-	-
Amortisation charge (Note 7(b))	-	-	(7,150)	8,915	-	(1,094)	671
Currency translation difference	-	-	8	-	-	-	8
Closing net book amount as at 31 December 2019	895	1,513,731	14,105	(237,501)	29,800	36,406	1,357,436

20. Property, plant and equipment

	Land	Building	Plant and equipment	Total
	$'000	$'000	$'000	$'000
At 31 December 2018				
At cost	2,500	20,556	53,343	76,399
Less: accumulated depreciation	-	(14,429)	(38,071)	(52,500)
Net book amount	2,500	6,127	15,272	23,899

Reconciliation

Reconciliations of the carry amounts of plant and equipment at the beginning and end of the current financial year are set out below

	Land	Building	Plant and equipment	Total
	$'000	$'000	$'000	$'000
Carry amount at 1 January 2019	2,500	6,127	15,272	23,899
Additions	-	44,879	13,548	58,427
Disposals	-	(11,274)	(98)	(11,372)
Depreciation expense (note 7(b))	-	(843)	(7,976)	(8,819)
Carry amount at 31 December 2019	2,500	38,889	20,746	62,135
At 31 December 2019				
At cost	2,500	65,435	66,402	134,337
Less: accumulated depreciation	-	(26,546)	(45,656)	(72,202)
Net book amount	2,500	38,889	20,746	62,135

21. Leases

(i) The Consolidated entity leasing activities and accounting treatment

The Consolidated entity leases various properties, and rental contracts are typically made for fixed periods of between 3 to 10 years.

Leases are recognised as a right-of-use asset that is available for use by the Consolidated entity. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases, leases of low-value assets, and leases of own-use buildings, are recognised on a straight-line basis in profit or loss.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are a lessee's right to use an asset over the life of a lease. They are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs

21. Leases *(continued)*

(ii) Amounts recognised in the consolidated balance sheet

The Branches balance sheet shows the following amounts relating to leases:

	2019	1 January 2019[2]
	$'000	$'000
Right-of-use assets[1]		
Property	33,338	6,973
	33,338	6,973

[1] Additions to the right-of-use assets during 2019 were $35,332,836.

[2] The 2019 opening balance if the Company recognised ROU asset balance in 2018.

	2019	1 January 2019
Lease liabilities		
Current	9,145	3,135
Non-current	24,969	4,213
	34,114	7,348

[1] Included in the line item ‘Property, plant and equipment’ in the consolidated balance sheet.

(iii) Amounts recognised in the statement of comprehensive income

The Branches statement of comprehensive income shows the following amounts relating to leases:

	2019	2018
	$'000	$'000
Depreciation charge of right-of-use assets	7,537	-
Interest expense (included in finance cost)	391	-
Expenses relating to leases excluded from AASB 16 accounting	3,065	-

The total cash outflow for leases in 2019 was $7,148,511.

(iv) Measurement of lease liabilities

	2019	2018
	$'000	$'000
Operating lease commitments disclosed as at 31 December 2018[1]	11,347	-
Leases not recognised as a liability under AASB 16[2]	3,999	-
Lease liability recognised as at 1 January 2019	7,349	-

[1] Includes Outgoings and Parking costs (not recognised under AASB 16).

[2] Includes short-term leases, low-value leases and intercompany leases not recognised as lease liabilities.

22. Payables

	2019	2018
	$'000	$'000
Current		
Reinsurance creditors[1]	82,354	58,526
Policy claims in process of settlement	355,621	15,986
Unsettled investment purchases	308	2,415
Commissions payable	56,258	38,299
Due to related entities	106,052	59,128
Tax related payable	0	20,231
Premiums in advance	1,467	0
Other creditors	48,801	55,037
Accruals	56,145	43,962
Total payables	707,006	293,584

[1] Reinsurance payable is reported gross of reinsurance claims recoverable as not all treaties have net-off rights.

23. Provisions

	2019	2018
	$'000	$'000
Current		
Employee entitlements (Note 24)	19,489	14,147
Emergency services levy[1]	5,300	4,033
Stamp duty[2]	16,161	2,794
Remediation provisions	201,756	-
Other	3,114	2,565
	245,820	23,539
Non current		
Employee entitlements (Note 24)	15,108	5,541
Total provisions	260,928	29,080

[1] Emergency services levies are payable by ZAIL on insurance with fire related risks in NSW, Tasmania and New Zealand. The amounts collected from policyholders are remitted by ZAIL to the revenue authorities.

[2] Stamp duty on life and general insurance premiums is payable by insurance companies in all States and Territories except the ACT. The amounts collected from policyholders are remitted to the revenue authorities by ZAIL, ZAL, OPL and OPGI in the month after the premiums are received.

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23. Provisions *(continued)*

Movements in provisions (excluding employee entitlements)	Emergency Services Levy	Stamp duty	Restructuring costs	Remediation provisions	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated - 2018						
Current						
Carrying amount at start of year	1,385	7,216	2,075	-	2,870	13,546
Additional provision recognised	24,024	67,501	-	-	65,673	157,198
Payments / other sacrifices of economic benefits	(21,366)	(71,923)	(2,075)	-	(65,978)	(161,342)
Foreign exchange	(10)	-	-	-	-	(10)
Carrying amount at end of year	4,033	2,794	-	-	2,565	9,392
Consolidated - 2019						
Current						
Carrying amount at start of year	4,033	2,794	-	-	2,565	9,392
Adjustment on acquisition of entities	-	5,960	-	207,415	-	213,375
Additional provision recognised	25,623	91,940	-	-	39,355	156,918
Payments / other sacrifices of economic benefits	(24,354)	(84,533)	-	(5,659)	(38,806)	(153,352)
Foreign exchange	(2)	-	-	-	-	(2)
Carrying amount at end of year	5,300	16,161	-	201,756	3,114	226,331

24. Employee benefits

	2019 $'000	2018 $'000
(a) Employee entitlement liabilities		
Provision for employee entitlements		
Current (Note 23)	15,176	14,147
Non current (Note 23)	6,385	5,541
Aggregate employee entitlement liability	21,561	19,688

(b) Employee numbers

	Number 2019	2018
Number of employees at the end of the year	1,673	1,077

Long service leave

Provision is made for long service leave for all employees who have been employed by the consolidated entity.

25. Unearned premium liability

	2019 $'000	2018 $'000
Unearned premium liability as at 1 January	732,461	623,207
Adjustment on acquisition of entities	26,471	-
Deferral of premiums on contracts written in the period	1,585,306	1,362,471
Earning of premiums written in previous periods	(1,510,166)	(1,253,217)
Unearned premium liability as at 31 December	834,072	732,461
Current	761,035	691,541
Non-current	73,037	40,920
	834,072	732,461

26. Unexpired risk liability

	2019	2018
	$'000	$'000
(a) Unexpired risk liability		
Unexpired risk liability as at 1 January	-	34
Unexpired risk liability as at 31 December	-	(34)
(b) Deficiency recognised in the statement of comprehensive Income		
Gross movement in unexpired risk liability	-	34
Write back of deferred acquisition costs (Note 15)	(10,257)	9,279
	(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 28. 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 for ZAIL resulted in a deficiency of $12.9 million (2018: $2.7 million). The below tables show the ZAIL LAT deficiency of the Australia long-tail and New Zealand short-tail segments.

The LAT performed at reporting date for OPGI resulted in a surplus of $6.3m.

26. Unexpired risk liability *(continued)*

(c) Liability adequacy test *(continued)*

2019

ZAIL	Australia long-tail	Australia short-tail	Total
	$'000	$'000	$'000
Gross unearned premium liability	176,822	584,328	761,150
Reinsurance unearned premium liability	(55,579)	(90,497)	(146,076)
Net 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
Net deferred acquisition costs before LAT write down	(9,671)	(121,962)	(131,633)
Net premiums liability	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

ZAIL	Australia long-tail	Australia short-tail	Total
	$'000	$'000	$'000
Gross unearned premium liability	171,216	-	171,216
Reinsurance unearned premium liability	(48,949)	-	(48,949)
Net unearned premium liability	122,267	-	122,267
Gross deferred acquisition costs	(13,278)	-	(13,278)
Reinsurance deferred acquisition costs	2,525	-	2,525
Net deferred acquisition costs before LAT write down	(10,753)	-	(10,753)
Net premiums liability	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)**

27. Deferred origination fees

	2019 $'000	2018 $'000
Deferred origination fees as at 1 January	1,874	2,048
Amount deferred over the year	405	481
Amortisation charge for the year	(593)	(655)
Deferred origination fees as at 31 December	1,686	1,874
Current	511	558
Non-current	1,175	1,316
	1,686	1,874

28. Outstanding claims

(a) Outstanding claims liability

	2019 $'000	2018 $'000
Central estimate	1,529,905	1,585,797
Discount to present value	(30,487)	(58,642)
	1,499,418	1,527,155
Claims handling costs	39,685	40,955
Discount to present value	(857)	(1,725)
	38,828	39,230
Risk margin	247,891	297,224
Discount to present value	(6,546)	(13,918)
	241,345	283,306
Gross outstanding claims liability	1,779,591	1,849,691
Undiscounted expected future claims payments	1,817,482	1,923,976
Discount to present value	(37,891)	(74,285)
Liability for outstanding claims	1,779,591	1,849,691
Current	879,143	927,278
Non-current	900,448	922,413
	1,779,591	1,849,691

28. 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 a probability of adequacy in 2019 of 85% for ZAL and 75% for OPGI (2018: 85% for ZAL, 75% for OPGI).

Risk margins applied

APRA class	**2019**	**2018**
	Net Outstanding Claims Margin	Net Outstanding Claims Margin
ZAIL		
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%**
OPGI		
Consumer Credit Insurance	7.3%	N/A
Motor	12.1%	N/A
Householders (incl. Landlords)	9.5%	N/A
Travel	17.6%	N/A

28. 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
Adjustment on acquisition of entities	13,757	-
Impact of change in assumptions	632	(6,722)
Margin release on prior periods	(44,646)	(41,081)
Other	5,665	1,080
Change in prior year estimates	(38,349)	(46,723)
Claims incurred on events in current year	749,534	596,188
Incurred claims recognised in the income statement	711,185	549,465
CTP retroactive reinsurance[1]	-	(369,352)
Exchange rate adjustment	41	1,250
Claim payments during the year	(679,184)	(489,508)
Carried forward	841,792	795,993

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For the year ended 31 December 2019

28. 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	374,112	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
2008 & prior											139,415
Outstanding claims - discounted											1,157,184
Short tail outstanding claims											603,542
OPGI gross outstanding claims[1]											18,865
Total gross											1,779,591

[1] OPGI gross undiscounted incurred claims development table data not available. OPGI total gross outstanding claims added to table data.

28. 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
2008 & prior											110,581
Outstanding claims - discounted											566,561
Short tail outstanding claims											262,990
OPGI net outstanding claims[1]											12,218
Total net											841,769

[1] OPGI net undiscounted incurred claims development table data not available. OPGI total net outstanding claims added to table data.

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29. Deferred tax liability

	Consolidated	
	2019	**2018**
	$'000	$'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Unrealised gain on investments	55,162	5,898
Deferred origination costs	507	565
Provisions for DAC write off and unexpired risk liability	23,529	24,289
Set-off of deferred tax liabilities pursuant to set-off provision (14)	(25,669)	(13,940)
Net deferred tax liability	53,529	16,812
Deferred tax liability movements:		
Opening balance at 1 January	16,812	33,626
Charged to income statement (Note 9(a))	19,135	(16,976)
Recognised on acquisition	17,617	-
Set-off of deferred tax assets pursuant to set-off provision	(35)	162
Closing balance at 31 December	53,529	16,812

Notes to financial statements
For the year ended 31 December 2019

30. Policy liabilities

a) Increase/(Decrease) in Net Policy Liabilities

	Total Insurance Contracts		Total Investment Contracts		Total Statutory Funds	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	$'000	$'000	$'000	$'000	$'000	$'000
Gross policy liabilities	2,593,652	125,184	2,845,976	1,198,091	5,439,628	1,323,275
Reinsured policy liabilities - Gross policy liabilities ceded	(658,588)	(304,886)	(2,492)	(3,563)	(661,080)	(308,449)
Net policy liabilities	1,935,064	(179,702)	2,843,484	1,194,528	4,778,548	1,014,826
Net increase/(decrease) in policy liabilities recognised in Statement of Comprehensive Income	31,586	(18,971)	259,247	(29)	290,833	(19,000)
Plus deposits recognised as an increase in policy liabilities	-	-	51,259	37,021	51,259	37,021
Less non-premium related fees	-	-	(19,392)	(21,014)	(19,392)	(21,014)
Less withdrawals recognised as a reduction in policy liabilities	-	-	(382,405)	(168,534)	(382,405)	(168,534)
Net increase/(decrease) in policy liabilities	31,586	(18,971)	(91,291)	(152,556)	(59,705)	(171,527)
Summary of the movements in gross policy liabilities						
Opening balance	125,184	127,840	1,198,091	1,352,314	1,323,275	1,480,154
Take on balance from OPL	2,198,512	-	1,740,247	-	3,938,759	-
Net (decrease)/increase in gross policy liabilities	269,956	(2,656)	(92,362)	(154,223)	177,594	(156,879)
Closing balance – gross policy liabilities	2,593,652	125,184	2,845,976	1,198,091	5,439,628	1,323,275
Summary of the movements in reinsurance policy liabilities						
Opening balance	(304,886)	(288,571)	(3,563)	(5,230)	(308,449)	(293,801)
Take on balance from OPL	(115,332)	-	-	-	(115,332)	-
Net (increase)/decrease in reinsurance policy liabilities	(238,370)	(16,315)	1,071	1,667	(237,299)	(14,648)
Closing balance – reinsurance policy liabilities	(658,588)	(304,886)	(2,492)	(3,563)	(661,080)	(308,449)
The net policy liabilities that include policy liabilities subject to capital guarantees	486,944	188,976	688,004	109,343	1,174,948	298,319
Investment contract liabilities subject to investment performance guarantees	-	-	348,000	-	348,000	-

30 Policy liabilities *(continued)*

b) (Decrease)/increase in Unvested Policyholder Benefits

	Total Insurance Contracts		Total Investment Contracts		Total Statutory Funds	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	$'000	$'000	$'000	$'000	$'000	$'000
Unvested policyholder benefits at the end of the year	62,409	23,006	791	680	63,200	23,686
Unvested policyholder benefits at the beginning of the year	66,810	23,550	680	1,053	67,490	24,603
(Decrease)/increase in unvested policyholder benefits	**(4,401)**	**(544)**	**111**	**(373)**	**(4,290)**	**(917)**

30. Policy liabilities *(continued)*

c) Components of Policy Liabilities

Valuation of net policy liabilities at end of period	**2019** $'000 Previous Year's Basis (5)	**2019** $'000 Current Year's Basis	**2018** $'000 Previous Year's Basis (5)
Insurance Contracts - Best estimate liability (1)			
- Value of future policy benefits (2)	7,386,713	8,070,655	2,674,205
- Value of future expenses	5,806,124	6,159,965	1,968,387
- Value of future premiums	(13,459,636)	(13,453,017)	(5,899,470)
Total Best Estimate liability for Insurance Contracts	(266,799)	777,603	(1,256,878)
Insurance Contracts - Value of future profits (1)			
- Value of future policyholder bonuses (3)	26,617	25,119	14,017
- Value of future Shareholder profit margins	1,756,582	1,150,059	1,060,443
Total Value of future profits	1,783,199	1,175,178	1,074,460
Total value of declared bonuses (4)	10,719	10,719	2,718
Value of policy liabilities - other	(28,000)	(28,435)	-
	(17,281)	(17,716)	2,718
Net Policy Liabilities for Insurance Contracts	1,499,119	1,935,065	(179,700)
Investment Linked Contracts			
- Value of investment contract liability	2,150,029	2,150,029	1,084,398
Net Policy Liabilities for Investment Linked Contracts	2,150,029	2,150,029	1,084,398
Other Investment Contracts			
- Value of investment contract liability	693,455	693,455	110,130
Net Policy Liabilities for Other Investment Contracts	693,455	693,455	110,130
Net policy liabilities	4,342,603	4,778,549	1,014,828

Explanatory Notes:

1. All business regardless of method of valuation.
2. Future policy benefits include bonuses credited to policyholders in prior periods but exclude current year bonuses [as shown in (4)] and future bonuses [as shown in (3)].
3. Future bonuses exclude current year bonuses.
4. Current year declared bonus valued in accordance with APRA Prudential Standards.
5. Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business.

31. Net assets attributable to unitholders

	Value of holding		External unitholders' Interest holding	
	2019	**2018**	**2019**	**2018**
	$'000	$'000	%	%
Total holdings in unit trusts				
Zurich investments Australian cash pool	2,853	19,864	4.22	17.09
Zurich investments diversified Australian share	26,162	28,439	11.34	10.81
Zurich investments diversified fixed interest pool	23,628	19,720	10.28	9.37
Zurich investments concentrated global growth	18,720	698	31.46	2.02
Zurich investments emerging markets equity	3,938	3,372	14.17	13.91
Total net assets attributable to unitholders	75,301	72,093		

32. Contributed equity

	2019	**2018**	**2019**	**2018**
	No. of shares (0000's)	No. of shares (0000's)	$'000	$'000
(a) Share capital				
Ordinary shares - fully paid	1,337,433	1,099,383	2,753,373	2,277,273

(b) Movements in ordinary share capital

Details	No. of shares (000's)	$'000
Opening balance	1,099,383	2,277,273
Movement	238,050	476,100
Balance	1,337,433	2,753,373

32. Contributed equity *(continued)*

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

Ordinary shares have no par value and the consolidated entity does not have a limited amount of authorised capital.

The consolidated entity manages its capital so that the parent entity and controlled entities 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 Investment Commission (ASIC). The consolidated entity aims to maintain capital beyond minimum requirements as described below.

The capital structure of the consolidated entity consists of issued capital, reserves and retained earnings. The board's risk appetite statement sets out the level of capital to be targeted by the consolidated entity.

Life Insurance operations
ZAL and OPL are required by the Life Insurance Act 1995 to meet its regulatory capital requirement on a continuous basis and this drives the need for a buffer of additional capital known as “Target Surplus”. The Target Surplus is the target amount of assets to be held within ZAL and OPL’s shareholder and statutory funds in excess of the prudential capital requirement such that the Company can continue to meet the prudential capital requirement over the next 12 months at a confidence level of 97.5% for ZAL and 98.7% for OPL.

General Insurance operations
ZAIL is an insurance business registered and regulated by APRA and is subject to its prudential standards. ZAIL uses the standardised framework to calculate the regulatory capital requirements to meet policyholder obligations. It is ZAIL’s policy to maintain an adequate capital position.

ZAIL sets its long-term target capital ranges to a total capital 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 ZAIL for 2019 is 1.80 (2018: 1.92).

OPGI sets its long-term target capital ranges to a total capital position equivalent to 1.80-2.40 times the PCA, compared to a proposed regulatory requirement of 1.0 times. The capital adequacy multiple for OPGI for 2019 is 2.97.

32. Contributed equity *(continued)*

(c) Reserves and retained earnings

	2019 $'000	2018 $'000
(i) Composition:		
Foreign currency reserve	6,343	4,641
	6,343	4,641
(ii) Movement:		
Balance at beginning of the year	4,641	6,188
- foreign exchange	1,702	(1,547)
Balance at end of the year	6,343	4,641
(iii) Retained profits		
Retained profits at the beginning of the year	1,451,904	1,327,594
Profit attributable to the member of Zurich Financial Services Australia Limited	78,946	124,310
Opening adjustment on implementation of IFRS 16	(263)	-
Retained profits at the end of the year	1,530,587	1,451,904

33. Franking credits

	2019 $'000	2018 $'000
Total franking credits available for subsequent reporting periods based on a tax rate of 30% (2018 - 30%)	723,006	694,885

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

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34. Statement of cash flows reconciliation

Reconciliation of profit after income tax to net cash outflows from operating

	2019 $'000	2018 $'000
Profit from ordinary activities after income tax	78,946	124,310
Bonus paid	(119)	(86)
Depreciation & amortisation and other non cash transactions from property, plant & equipment and intangibles	23,990	20,045
Provisions on impairment - receivables	(1,638)	(655)
Profit on sale of investments	18,014	(8,272)
Net purchase of investments	(47,383)	9,158
Net unrealised losses/(gains)	(229,913)	161,787
Interest relating to investment activities	-	1,739
Net exchange difference	192	1,250
Opening retained earnings leases adjustment	(263)	-
Deferred origination costs/Deferred origination fee	4	6
(Increase)/decrease in operating assets:		
Premium outstanding	(34,285)	(12,674)
Accrued interest, dividends & rents	6,577	3,899
Acquisition costs	(9,314)	(51,458)
Reinsurance and other recoveries	108,404	(173,777)
Other receivables	(224,500)	(64,106)
Deferred tax assets	60,335	(1,355)
Amortisation of present value of future profits	4,597	4,597
Other assets	(126,411)	68,600
Increase/(decrease) in operating liabilities:		
Provisions for deferred tax	47,985	(14,391)
Unearned premiums	75,271	109,238
Unexpired risk liability	-	(34)
Claims outstanding and other payables	(48,625)	(162,352)
Other provisions & creditors	(67,277)	(31,091)
Vested/ unvested policyholder benefits	(4,171)	(831)
Net policy liabilities	(31,660)	(171,527)
Net cash outflows from operating activities	(401,244)	(187,980)

35. Remuneration of auditors

	2019 $'000	2018 $'000
Remuneration for PricewaterhouseCooopers audit or review of the financial reports of the Company		
Statutory audit fees	1,072,069	1,009,807
	1,072,069	1,009,807
Remuneration for other services:		
Other regulatory and assurance services	282,611	263,676
Advisory and other services	25,867	8,860
Total other services	308,478	272,536
Audit of superannuation fund and unit trusts	380,286	651,445

36. Commitments for expenditure

(a) Capital commitments	2019 $'000	2018 $'000
Capital commitments for which no provision has been made in the financial statements:		
Capital expenditure on building contracts (Not later than one year)	13,000	3,450
(b) Lease commitments Total non-cancellable lease expenditure contracted for at balance date but not		
Not later than one year	10,920	4,810
Later than one year but not later than five years [1]	86,183	7,418
Later than five years [1]	82,858	-
	179,961	12,228

[1] ZFSA has entered into a lease commitment as major tenant of the Mount Street property (estimated $86m later than one year but not later than 5 years, and estimated $83m later than 5 years).

The consolidated entity leases various offices under non-cancellable operating leases expiring within one to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 January 2019, the consolidated entity has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 21 for further information.

37. Contingent liabilities and assets

(a) Contingent liabilities

The consolidated entity had the following unsecured contingent liabilities for which no provision has been made in the financial statements:

	Notes	2019 $'000	2018 $'000
Loan guarantees	(1)	5,000	5,000
Performance guarantees:			
Allstate Insurance Company	(2)	97	97
Letter of Credit – ZIC Canada	(3)	2,251	2,375
Warranties and indemnities	(4)	2,500	-
Bank guarantees – OnePath leases	(5)	8,672	-
		18,520	7,472

Details of contingent liabilities are as follows:

1. Loan guarantees mainly relate to a subordinated loan facility provided by the Company to its controlled entity, Zurich Investment Management Limited (ZIM), largely to meet the Australian Financial Services Licence requirements (2018: Zurich Investment Management Limited of $5m).

2. 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.

3. 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.

4. Indemnity for breech of vendor warranties in share sale agreement of Zurich Australian Superannuation Pty Limited (ZAS) to EQT Holdings Ltd on 21st March 2019.

5. Bank guarantee of $8,567,570 issued by ANZ in favour of Investa Listed Funds Management Limited to provide security in respect of the tenant's obligation under a lease agreement to the Company in relation to 347 Kent Street Sydney NSW.
   Bank guarantee of $103,603 issued by ANZ in favour of KL Properties Pty Ltd to provide security in respect of the tenant's obligation under a lease agreement to the Company in relation to 280 Mann Street Gosford NSW

(b) Contingent assets

The Company has nil contingent assets for which no receivable has been booked in the financial statements.

38. 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
Timothy James Bailey
John Inniss Howell
John Francis Mulcahy
Timothy Paul Plant
Justin Sean Delaney
Marc Joseph de Cure

(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 Group 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		3,610,336	1,902,914
Termination benefits		-	684,833
Share-based payments / benefits	(i)	1,166,724	556,468
		4,777,060	3,144,215

(i) Share based payments / benefits

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

The payment for global incentive plans shown later in this note represents the cost to the parent company and consolidating entity for purchasing these rights to shares.

38. Related parties *(continued)*

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

	2019 $	2018 $
Current		
Ultimate controlling entity	282,355	1,894,619,600
Other related entities	38,404,076	71,138,296
	38,686,431	1,965,757,896

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

	2019 $	2018 $
Current		
Ultimate controlling entities	3,210,857	2,160
Common controlled entities	-	47,468
Other related entities	102,841,467	59,077,893
	106,052,324	59,127,521

38. Related parties *(continued)*

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

	2019 $	2018 $
Reinsurance claims received		
Other related entities	353,115,636	201,742,455
Reinsurance claims Paid		
Other related entities	8,847,458	15,457,612
Reinsurance commission received		
Other related entities	46,956,831	31,966,428
Reinsurance premium expenses		
Other related entities	491,657,887	182,817,900
Reinsurance premium receipts		
Other related entities	-	3,141,689
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
Unrealised gain on shares		
Other related entities	64,934	1,157,597
Realised gain on sale of ZPL		
Other related entities	-	2,600,000
Receipt of investment income	15,584,274	31,742,134
Ultimate controlling entity	(61,113)	(28,342)
Other related entities		

38. Related parties *(continued)*

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

	2019 $	2018 $
Payment of management fees		
Other related entities	539,379	441,631
Receipt of other income		
Ultimate controlling entity	-	423,795
Receipt of proceeds from sale of shares		
Other related entities	-	22,600,000
Payment of other expenses		
Ultimate controlling entity[1]	38,469,613	14,437,554
Other related entities	8,807,875	8,331,266
Expenses for global incentive plans		
Ultimate controlling entity	3,707,189	3,041,882
Payments for global incentive plans		
Ultimate controlling entity	4,552,638	4,447,383

The above transactions were made on commercial terms and conditions at markets rates. Interests held in controlled entities are included in Note 40.

[1] Prior year balance restated to amend an incorrect balance.

(f) Related parties of the consolidated entity fall into the following categories:

(i) Controlling entities

The ultimate and immediate controlling entity is Zurich Insurance Group Ltd (incorporated in Switzerland). This entity provides the Company with general management services. The amount accrued at balance date for these services was $2,454,459 (2018: $2,454,459).

(ii) Other related entities

Included in the reinsurance and other recoveries amounts in Note 13 is $722,519,846 (2018: $781,933,785) owing by related entities.

Included in other assets Note 18 is $96,967,233 (2018: $59,504,145) in respect of deferred outwards reinsurance expense by related entities. The reinsurance arrangements for outward treaties ceded to related overseas reinsurers are in accordance with APRA Prudential Standard GPS 230 - Reinsurance Management.

(g) Subordinated loan facility

ZAL provided a subordinated loan facility to its controlled entity, Zurich Investment Management Limited (ZIM). Refer to Note 37(a).

Notes to financial statements
For the year ended 31 December 2019

39. Investment in controlled entities

Controlled Entities	Equity holding		Class of shares	Principal activities
	2019 %	2018 %		
Zurich Australia Insurance Limited	100.0	100.0	Ordinary	General Insurance
Zurich Australia Limited	100.0	100.0	Ordinary	Life insurance
ZAL and its controlled entities				
Zurich Investment Management Limited	100	100	Ordinary	Investment management
ZAL controlled unit trusts				
Zurich Investments Australian Cash Pool	81.4	70.3		Investment fund
Zurich Investments Diversified Australian Share Pool	88.7	89.2		Investment fund
Zurich Investments International Fixed Interest Pool	89.7	90.6		Investment fund
Zurich Investments Australian Value Share Pool	100	100		Investment fund
Zurich Investments Emerging Global Equity Scheme	85.8	86.1		Investment fund
Zurich Investments Concentrated Global Growth Scheme	68.5	98.0		Investment fund
Entities controlled jointly by ZAIL and ZAL				
Zurich Australian Insurance Properties Pty Limited (ZAIL owns 60% and ZAL owns 40%)	100.0	100.0	Ordinary	Property management
OPLH and its controlled entity				
OnePath Life Limited	100.0	-	Ordinary	Life insurance
Other entities directly held by the Company				
OnePath General Insurance Pty Limited	100.0	-	Ordinary	General Insurance
Zurich Services (Australia) Pty Limited	100.0	-	Ordinary	Payroll services
Associated Marine Insurers Agents Pty Limited	100.0	100.0	Ordinary	Marine insurance agency
ZCM Asia Holdings Pty Limited	100.0	100.0	Ordinary	Previous head of tax consolidated group

The Directors are satisfied that the carrying value of investments in controlled entities is not in excess of recoverable amount. Minority interests in controlled unit trusts are considered to be liabilities and are shown in Note 31.

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

40. Events occurring after reporting date

On 5 March 2020 the Company resolved to issue 11,500,000 ordinary shares in the Company to ZIC at an issue price of $2 per share.

On 2 December 2019, APRA announced a range of sustainability measures to address the poor performance of individual disability income insurance ("IDII") in the life industry. One of the measures is the introduction of a supervisory adjustment to the Prudential Capital Requirement (PCR) of life insurers with exposure to IDII. ZAL and OPL was informed on 2 December 2019 that a supervisory adjustment would be required to be held within the PCR taking effect on 31 March 2020.

On 28 February 2020, the law firm Slater & Gordon filed a class action relating to consumer credit insurance in the Federal Court against ANZ, QBE, OPL and OPGI. ANZ sold certain products, the subject of the claim, which were issued by OPL. The Group intends to defend the action. As this matter is currently at an extremely early stage, the ultimate outcome is unknown as it is subject to uncertain events that are not wholly within the control of OPL. As such, any possible obligation cannot be reliably estimated and no allowance has been made in these accounts for any contingent liability or costs.

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.

The directors have not become aware of any other matter or circumstance not otherwise dealt with in the financial statements that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

41. Business Combination

(a) Summary of Acquisition

On 12 December 2017, the Company, Zurich Insurance Company Ltd (ZIC), Australia and New Zealand Banking Group Ltd (ANZ) and other parties entered into an agreement (the SSA) for the Company to acquire the OnePath insurance businesses from ANZ, comprising OPLAH, OPL and OPGI. The Company acquired 100% of all equity interests in OPLAH, OPL and OPGI.

The acquisition transaction completed on 31 May 2019 for $2.1b, subject to purchase price adjustments.

The purchase consideration was funded by capital injections from the ultimate controlling entity (Note 32(a)).

As part of the transaction, the Company entered into a 20-year strategic alliance agreement with ANZ, which provides for life insurance products issued by OPL and other Group members to be distributed through ANZ bank channels.

As at 31 December 2019 the adjusted purchase price consideration for the acquisition of the OnePath insurance businesses is being determined in accordance with a purchase price allocation accounting process documented in the SSA.

The Company acquired all shares on issue in OPLAH and OPGI. ZSA has 100% of the voting rights in OPLAH and OPGI. OPLAH continues to hold 100% of the voting rights in OPL. As the ultimate Australian holding company, ZFSA controls 100% of the voting rights in OPLAH, OPGI and OPL.

OPL and OPGI operate complex insurance businesses which identify, from time to time, past errors or other events requiring remediation. The potential for past errors or events to be identified which require remediation has historically been disclosed in the OPL and OPGI financial statements.

In order to identify an appropriate value to recognise as a contingent liability for AASB 3 *Business Combinations* purposes, historic data was compiled from previous remediation matters arising over recent years by major groups of business. In addition, the impact of additional costs, and the appropriate timeframe over which to accrue this contingent liability, has been considered.

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41. Business Combination *(continued)*

(a) Summary of Acquisition *(continued)*

The amount disclosed as contingent liabilities associated with the acquisition of the OnePath insurance businesses represents the best estimate of the amount and associated costs of undiscovered remediation matters.

Details of the preliminary purchase consideration, net assets acquired and indicative goodwill are as follows:

	2019
	$'000
Purchase consideration – cash paid on the acquisition date	2,117,052
Estimated purchase price adjustment refund receivable	(104,391)
Estimated adjusted purchase consideration	2,012,661

The assets acquired and liabilities assumed as a result of the acquisition are as follows:

	Fair value
	$'000
Cash and cash equivalents (including term deposits)	1,489,922
Receivables	114,180
Financial assets at fair value through profit or loss	3,207,970
Reinsurance and other recoveries	229,680
Gross policy liabilities ceded under reinsurance	115,332
Property, plant & equipment	802
Payables	(401,645)
Provisions	(220,793)
General Insurance liabilities	(41,334)
Gross policy liabilities – insurance contracts	(2,198,512)
Gross policy liabilities – investment contracts	(1,740,247)
Unvested policy owner benefits	(43,804)
Deferred tax asset	363,256
Net identifiable assets acquired	874,807
Value of Business Acquired	(328,000)
Brand intangible asset	29,800
Distribution Agreement intangible asset	37,500
Goodwill	1,320,344
Deferred tax asset	78,210
Net intangible assets acquired	1,137,854
Total net assets acquired	2,012,661

41. Business Combination *(continued)*

(a) Summary of Acquisition *(continued)*

The goodwill associated with the acquisition of the OnePath Insurance businesses can be attributed to the value of future new business expected to be written following the 31 May 2019 acquisition date, workforce expertise, additional innovative products now available to the Group, growth opportunities and buyer specific synergies (eg. capital, reinsurance, expense).

OnePath's gross written premiums and net profit after tax since the acquisition date were $924m and $1.3m respectively and are included in the consolidated statement of comprehensive income for the year ended 31 December 2019.

OnePath's pro-forma gross written premiums and net profit after tax for the twelve months ended 31 December 2019 were approximately $1,612m and $11.9m respectively. Pro-forma numbers are calculated as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

There were no acquisitions in the year ended 31 December 2018.

(b) Purchase Consideration – Cash Outflow

	2019
	$'000
Outflow of cash to acquire the OnePath insurance businesses, net of cash acquired	
Cash consideration	2,117,052
Less: Cash balances and term deposits acquired	(1,489,922)
Net outflow of cash – investing activities	627,130

(c) Acquisition-related costs

The Company incurred acquisition related costs of $33.7m. In 2019, $25.9m of acquisition expenses are included in the Operating expenses in the consolidated statement of comprehensive income and in cash flows from operating activities in the consolidated cash flow statement.

(d) Purchase Price Adjustments

Final purchase price adjustments will be determined in accordance with an agreed timetable and purchase price accounting process set out in the SSA.

It is anticipated that the final purchase price accounting process will be concluded and final values for goodwill determined, within the 12 month post acquisition measurement period, as required under AASB 3 Business Combinations.

The amounts disclosed in this note are therefore preliminary and are subject to change.

42. Disaggregated Information for Statutory Funds and the Shareholder Fund

(a) Statutory fund information – ZAL

The Company operates predominantly in the Life Insurance industry. The principal activities of the Company are the underwriting of various classes of ordinary and superannuation Life Insurance and the investment of related funds. The Company operates in one geographical area, being Australia.

In accordance with the requirements of the Life Insurance Act 1995, the Company has established separate statutory funds to account for the different type of Life Insurance business written by the Company. Details are as follows:

Type of business	Major products
No.2 Statutory Fund Non investment linked ordinary and superannuation business	Term Insurance, Income Protection Insurance, Total and Permanent Disablement Insurance, Trauma Insurance, Investment Account, Quality Life, Group Life, Group Salary Continuance, Participating and Non-Participating Whole of Life and Endowment Insurance, Term Certain and Lifetime Annuities
No.3 Statutory Fund Investment linked ordinary and superannuation business	Investment Linked Business Regular and Single Premiums, Allocated Pensions

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(b) Abbreviated statement of comprehensive income at fund level for the year ended 31 December 2019 - ZAL

	Statutory Fund No.2 $'000	Statutory Fund No.2 $'000	Total Statutory Funds $'000	Shareholder's Funds $'000
Insurance premium revenue	715,489	-	715,489	-
Outward reinsurance expense	(224,969)	-	(224,969)	-
Net Insurance premium revenue	490,520	-	490,520	-
Fees for management services rendered	1,510	19,071	20,581	-
Investment Income	73,898	207,879	281,777	1,915
Other income	151	3,301	3,452	-
Total revenue and other income	566,079	230,251	796,330	1,915
Claims expense	(333,891)	-	(333,891)	-
Reinsurance recoveries	191,167	-	191,167	-
Commission expenses	(131,255)	(3,527)	(134,782)	-
Administration expenses	(129,595)	(12,680)	(142,275)	(1,840)
Increase in net policy liabilities	(48,185)	(191,074)	(239,259)	-
Decrease in unvested policyholder benefits	214	-	214	-
Total operating expenses	(451,545)	(207,281)	(658,826)	(6,437)
Profit/(loss) before income tax	114,534	22,970	137,504	(4,522)
Income tax benefit/(expense)	(39,789)	(16,759)	(56,548)	1,357
Profit/(loss) after income tax	74,745	6,211	80,956	(3,165)
Appropriations:				
- Transfers to shareholder’s funds	(55,859)	-	(55,859)	55,859
- Dividends	-	-	-	(55,000)
Profit/(loss) after appropriations	18,886	6,211	25,097	(2,306)

Statutory Fund No. 2 is wholly non-investment linked. Statutory Fund No. 3 is wholly investment linked.

Notes to financial statements

For the year ended 31 December 2019

42. Disaggregated Information for Statutory Funds

(c) Abbreviated statement of comprehensive income at fund level for the year ended 31 December 2018 - ZAL

	Statutory Fund No.2 $'000	Statutory Fund No.2 $'000	Statutory Fund Funds $'000	Shareholder's Funds $'000
Insurance premium revenue	671,923	0	671,923	0
Outward reinsurance expense	(198,433)	0	(198,433)	-
Net Insurance premium revenue	473,490	-	473,490	-
Fees for management services rendered	1,716	20,531	22,247	-
Investment Income	37,410	(10,507)	26,903	1,338
Other income	122	2,633	2,755	-
Total revenue and other income	512,738	12,657	525,395	1,338
Claims expense	(304,669)	-	(304,669)	-
Reinsurance recoveries	166,029	-	166,029	-
Commission expenses	(127,308)	(3,968)	(131,276)	-
Administration expenses	(126,583)	(16,631)	(143,214)	(2,036)
Increase in net policy liabilities	16,460	2,540	19,000	-
Decrease in unvested policyholder benefits	917	-	917	-
Amortisation of intangible asset	-	-	-	(4,597)
Total operating expenses	(375,154)	(18,059)	(393,213)	(6,633)
Profit/(loss) before income tax	137,584	(5,402)	132,182	(5,295)
Income tax benefit/(expense)	(41,655)	8,277	(33,378)	1,588
Profit/(loss) after income tax	95,929	2,875	98,804	(3,707)
Appropriations:				
- Transfers to shareholder's funds	(31,897)	-	(31,897)	31,897
- Dividends	-	-	-	(23,000)
Profit/(loss) after appropriations	64,032	2,875	66,907	5,190

Statutory Fund No. 2 is wholly non-investment linked. Statutory Fund No. 3 is wholly investment linked.

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(d) Abbreviated statement of balance sheet at fund level for the year ended 31 December 2019 - ZAL

	Statutory Fund No.2 $'000	Statutory Fund No.3 $'000	Total Statutory Funds $'000	Shareholder's Fund $'000
Equities	134,426	846,511	980,937	13,555
National government interest bearing securities	319,529	41,483	361,012	4,514
Other public sector interest bearing securities	231,460	30,144	261,604	7,015
Private sector interest bearing securities	324,047	175,562	499,609	10,600
Loans	1,143	-	1,143	-
Total investment assets	1,010,605	1,093,700	2,104,305	35,684
Gross policy liabilities ceded	457,786	-	457,786	-
Other assets	122,714	70,049	192,763	4,637
Intangible assets	-	-	-	270,373
Total assets	1,591,105	1,163,749	2,754,854	310,694
Gross policy liabilities – insurance contracts	321,663	-	321,663	-
Gross policy liabilities – investment contracts	98,199	1,109,052	1,207,251	-
Unvested policyholder benefits	23,472	-	23,472	-
Other liabilities	84,359	8,401	92,760	25,194
Total liabilities	527,693	1,117,453	1,645,146	25,194
Net assets	1,063,412	46,296	1,109,708	285,500
Shareholder's equity				
- Reserves	-	-	-	1,282
- Share capital	-	-	-	486,000
- Transfer of capital	222,319	-	222,319	(222,319)
- Shareholder's retained profits (Aust par)	5,868	-	5,868	-
- Shareholder's retained profits (Aust non par)	835,224	46,296	881,520	20,537
Total equity	1,063,411	46,296	1,109,707	285,500

Statutory Fund No. 2 is wholly non-investment linked. Statutory Fund No. 3 is wholly investment linked.

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42. Disaggregated Information for Statutory Funds and the Shareholder

(e) Abbreviated statement of comprehensive income at fund level for the year ended 31 December 2018 - ZAL

	Statutory Fund No.2 $'000	Statutory Fund No.3 $'000	Total Statutory Funds $'000	Shareholder's Fund $'000
Equities	120,194	795,106	915,300	16,195
National government interest bearing securities	272,308	47,132	319,440	13,538
Other public sector interest bearing securities	160,484	33,365	193,849	9,111
Private sector interest bearing securities	330,400	145,668	476,068	19,078
Loans	1,272	-	1,272	-
Total investment assets	884,658	1,021,271	1,905,929	57,922
Gross policy liabilities ceded	308,449	-	308,449	-
Other assets	109,925	106,931	216,856	8,600
Intangible assets	-	-	-	274,970
Total assets	1,303,032	1,128,202	2,431,234	341,492
Gross policy liabilities – insurance contracts	125,184	-	125,184	-
Gross policy liabilities – investment contracts	113,693	1,084,398	1,198,091	-
Unvested policyholder benefits	23,686	-	23,686	-
Other liabilities	75,945	3,719	79,664	21,045
Total liabilities	338,508	1,088,117	1,426,625	21,045
Net assets	964,524	40,085	1,004,609	320,447
Shareholder's equity				
- Reserves	-	-	-	3,922
- Share capital	-	-	-	436,000
- Transfer of capital	142,318	-	142,318	(142,318)
- Shareholder's retained profits (Aust par)	5,922	-	5,922	-
- Shareholder's retained profits (Aust non par)	816,284	40,085	856,369	22,843
Total equity	964,524	40,085	1,004,609	320,447

Statutory Fund No. 2 is wholly non-investment linked. Statutory Fund No. 3 is wholly investment linked.

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(f) Life Insurance Act Operating Profit and Retained Profits for the year ended 31 December 2019 - ZAL

	Statutory Fund No.2	Statutory Fund No.3	Total Statutory Funds
	$'000	$'000	$'000
Life Insurance Act operating profit after tax	77,966	6,211	84,177
Allocated to			
- Policyholders	3,221	-	3,221
- Shareholders	74,745	6,211	80,956
	77,966	6,211	84,177
Policyholder retained profits at start of year	23,686	-	23,686
Operating profit allocated	3,221	-	3,221
Bonuses to policyholders	(3,435)	-	(3,435)
Policyholder retained profits at end of year	23,472	-	23,472
Shareholder's retained profits (Aust participating) at start of year	5,922	-	5,922
Operating profits allocated	805	-	805
Transfers to Shareholder's Fund	(859)	-	(859)
Shareholder's retained profits (Aust participating) at end of year	5,868	-	5,868
Shareholder's retained profits (non-participating) at start of the year as reported	816,284	40,085	856,369
Operating profits allocated	73,940	6,211	80,151
Transfer to Shareholders' Fund	(55,000)	-	(55,000)
Shareholder's retained profits (non-participating) at end of year	835,224	46,296	881,520

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(g) Life Insurance Act Operating Profit and Retained Profits for the year ended 31 December 2018 - ZAL

	Statutory Fund No.2 $'000	Statutory Fund No.3 $'000	Total Statutory Funds $'000
Life Insurance Act operating profit after tax	98,600	2,875	101,475
Allocated to			
- Policyholders	2,670	-	2,670
- Shareholders	95,930	2,875	98,805
	98,600	2,875	101,475
Policyholder retained profits at start of year	24,603	-	24,603
Operating profit allocated	2,670	-	2,670
Bonuses to policyholders	(3,587)	-	(3,587)
Policyholder retained profits at end of year	23,686	-	23,686
Shareholder's retained profits (Aust participating) at start of year	6,151	-	6,151
Operating profits allocated	668	-	668
Transfers to Shareholder's Fund	(897)	-	(897)
Shareholder's retained profits (Aust participating) at end of year	5,922	-	5,922
Shareholder's retained profits (non-participating) at start of the year as reported	752,022	37,210	789,232
Operating profits allocated	95,262	2,875	98,137
Transfer to Shareholders' Fund	(31,000)	-	(31,000)
Shareholder's retained profits (non-participating) at end of year	816,284	40,085	856,369

42. Disaggregated Information for Statutory Funds and the Shareholder Fund

(h) Statutory fund information – OPL

OPL operates predominantly in the Life Insurance industry. The principal activities of the Company are the underwriting of various classes of ordinary and superannuation Life Insurance and the investment of related funds. OPL operates in one geographical area, being Australia.

In accordance with the requirements of the Life Insurance Act 1995, OPL has established separate statutory funds to account for the different type of Life Insurance business written by OPL. Details are as follows:

Type of business	**Major products**
No.1 Statutory Fund Non investment linked ordinary business	Conventional, Group Investment, Group Life, Group Salary Continuance, Consumer Credit Life Insurance, Insurance Bonds, Regular Premium Investment, Yearly Renewable Disability, Yearly Renewable Term
No.2 Statutory Fund Investment linked ordinary business	Group Investment, Insurance Bonds, Regular Premium Investment
No.3 Statutory Fund Non Investment superannuation business	Conventional, Allocated Pensions, Group Investment, Group Life, Group Salary Continuance, Yearly Renewable Term, Yearly Renewable Disability, Immediate Annuities, Master Trust and Corporate Superannuation, Regular Premium Investment, Rollover Bonds, Superannuation Bonds
No.4 Statutory Fund Investment linked superannuation business	Allocated Pensions, Group Investment, Master Trust and Corporate Superannuation, Regular Premium Investment, Rollover Bonds, Superannuation Bonds
No.5 Statutory Fund Non investment linked	Annuity with Longevity Risk

Notes to financial statements

For the year ended 31 December 2019

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(i) Abbreviated statement of comprehensive income at fund level for the year ended 31 December 2019 - OPL

	Shareholder Funds Total $'000	Statutory Fund No.2 $'000	Statutory Fund No.3 $'000	Statutory Fund No.5 $'000	Total $'000	Statutory Fund No.2 $'000	Statutory Fund No.4 $'000	Total $'000	Statutory Funds Total $'000	Total $'000
Premium revenue	-	587,229	322,342	-	909,571	-	-	-	909,571	909,571
Outward reinsurance expense	-	(296,837)	(92,301)	-	(389,138)	-	-	-	(389,138)	(389,138)
Investment revenue	22	20,760	36,367	109	57,236	37,599	26,296	63,895	121,131	121,153
Fee income	-	803	2,736	370	3,909	5,608	3,029	8,637	12,546	12,546
Amortisation of deferred entry fees	-	-	-	-	-	-	-	-	-	-
	22	311,955	269,144	479	581,578	43,207	29,325	72,532	654,110	654,132
Claims expense	-	(331,503)	(297,039)	-	(628,542)	-	-	-	(628,542)	(628,542)
Reinsurance recoveries revenue	-	216,002	88,046	-	304,048	-	-	-	304,048	304,048
Operating expenses	-	(183,771)	(83,467)	(26)	(267,264)	(3,084)	(1,259)	(4,343)	(271,607)	(271,607)
Net movement in policy liability	-	(7,678)	7,699	(147)	(126)	(26,091)	(21,280)	(47,371)	(47,497)	(47,497)
	-	(306,950)	(284,761)	(173)	(591,884)	(29,175)	(22,539)	(51,714)	(643,598)	(643,598)
(Loss) / Profit before income tax expense	22	5,005	(15,617)	306	(10,306)	14,032	6,786	20,818	10,512	10,534
Income tax credit / (expense)	(6)	(3,002)	3,133	(46)	85	(10,785)	(3,614)	(14,399)	(14,314)	(14,320)
(Loss) / Profit after income tax expense	16	2,003	(12,484)	260	(10,221)	3,247	3,172	6,419	(3,802)	(3,786)

Notes to financial statements

For the year ended 31 December 2019

42. Disaggregated Information for Statutory Funds and the Shareholder Fund (continued)

(j) Abbreviated statement of financial position at fund level for the year ended 31 December 2019 - OPL

		Non-Linked				Linked			Statutory	Shareholder	
	Shareholder Fund	Statutory Fund 1	Statutory Fund 3	Statutory Fund 5	Total	Statutory Fund 2	Statutory Fund 4	Total	Funds Total	Funds Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Term deposits and debt securities	-	1,520,629	1,465,853	5,000	2,991,482	131,918	393,519	525,437	3,516,919	3,516,919	3,516,919
Unit trusts	-	50,018	165,153	-	215,171	434,923	231,870	666,793	881,964	881,964	881,964
Cash and cash equivalents	10,249	176,479	107,003	12,111	295,593	15,515	17,763	33,278	328,871	328,871	339,120
Total investment assets	10,249	1,747,126	1,738,009	17,111	3,502,246	582,356	643,152	1,225,508	4,727,754	4,727,754	4,738,003
Other assets	6	244,382	116,939	132	361,453	1,725	7,489	9,214	370,667	370,667	370,673
Total assets	10,255	1,991,508	1,854,948	17,243	3,863,699	584,081	650,641	1,234,722	5,098,421	5,098,421	5,108,676
Insurance contract liabilities/(assets)	-	1,145,447	1,126,730	(188)	2,271,989	-	-	-	2,271,989	2,271,989	2,271,989
Insurance contract policy liabilities ceded	-	(172,206)	(31,088)	-	(203,294)	-	-	-	(203,294)	(203,294)	(203,294)
Investment contracts liabilities	-	76,407	521,341	-	597,748	530,502	510,474	1,040,976	1,638,724	1,638,724	1,638,724
Unvested policyowner benefits	-	32,537	7,192	-	39,729	-	-	-	39,729	39,729	39,729
Other liabilities	9,111	367,467	17,222	72	384,761	21,907	116,512	138,419	523,180	523,180	532,291
Net deferred tax liability / (asset)	(2,731)	(220,566)	(48,029)	-	(268,595)	17,963	(8,892)	9,071	(259,524)	(259,524)	(262,255)
Total liabilities	6,380	1,229,086	1,593,368	(116)	2,822,338	570,372	618,094	1,188,466	4,010,804	4,010,804	4,017,184
Net assets	3,875	762,422	261,580	17,359	1,041,361	13,709	32,547	46,256	1,087,617	1,087,617	1,091,492
Ordinary shares	3,860	760,419	274,066	17,099	1,051,584	10,463	29,376	39,839	1,091,423	1,091,423	1,095,283
Preference shares	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	15	2,003	(12,485)	260	(10,222)	3,247	3,171	6,418	(3,804)	(3,804)	(3,789)
Asset revaluation reserve	-	-	-	-	-	-	-	-	-	-	-
Capital transfer between funds	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-
Total shareholder's equity	3,875	762,422	261,581	17,359	1,041,362	13,710	32,547	46,257	1,087,619	1,087,619	1,091,494

43. Parent entity financial information

(a) Summary of financial statements

The individual financial statements for the Parent Entity show the following aggregate amounts:

	2019 $'000	2018 $'000
Balance Sheet		
Current assets	304,343	1,968,360
Non-current assets	3,477,401	1,131,210
Total assets	**3,781,744**	**3,099,570**
Current liabilities	250,758	95,258
Total liabilities	**250,758**	**95,258**
Net assets	**3,530,986**	**3,004,312**
Equity		
Contributed equity	2,753,373	2,277,273
Retained profits	777,613	727,039
Total equity	**3,530,986**	**3,004,312**
Comprehensive income		
Profit before income tax	23,520	144,001
Income tax credit	27,317	3,036
Profit/ for the year	**50,837**	**147,037**
Total comprehensive income	**50,837**	**147,037**

Directors' declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 7 to 116 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	N L Rubinsztein
Director	Director

Sydney
19 March 2020

Independent auditor's report

To the members of Zurich Financial Services Australia Limited

Our opinion

In our opinion:

The accompanying financial report of Zurich Financial Services Australia Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group'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 Group financial report comprises:

- the consolidated balance sheet as at 31 December 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the consolidated 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 Group 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.

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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.

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 Group 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 Group 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/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Cooper

R Cooper
Partner

Sydney
19 March 2020