

New Zealand Companies Office  
Companies Register  
Victoria Street West  
Auckland 1142  
New Zealand

Date 6 April 2022

Dear Sir / Madam,

**RE: Zurich Australian Insurance Limited (606265)**

Zurich Australian Insurance  
Limited  
ABN 13 000 296 640

118 Mount Street  
North Sydney NSW 2060

PO Box 677  
North Sydney NSW 2059

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Please find attached the 31 December 2021 Annual Reports for Zurich Australian Insurance Limited ("Group Financial Statements") and Zurich Australian Insurance Limited New Zealand Branch ("New Zealand Branch Financial Statements").

I note that reliance is placed on the Financial Markets Conduct (Overseas Registered Banks and Licenced Insurers) Exemption Notice 2021, in that the Group Financial Statements have been prepared in accordance with Australian Accounting Standards.

Should you have any further queries please contact Michael Burns (michael.burns@zurich.com.au), Group Financial Controller, or myself.

Yours Sincerely,



Stuart Farquharson  
Chief Financial Officer – General Insurance and Shared Services

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## ANNUAL REPORT

For the year ended 31 December 2021

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

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

29 Customs Street West  
Auckland 1010

This financial report was approved for issue by the directors on 23 March 2022. The directors have the power to amend and reissue the report.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Directors' report

The directors of Zurich Australian Insurance Limited present their report on the Zurich Australian Insurance Limited New Zealand Branch (the Branch) for the year ended 31 December 2021. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited (the Company).

## Directors

The following persons were directors of the Company at any time during the financial year and up to the date of this report:

<b>Name</b>	<b>Role</b>	<b>Appointment date</b>	<b>Resignation date</b>
Paul John Bedbrook	Director, Chairman	19 November 2014	
Elaine Collins	Director	1 April 2013	
John Francis Mulcahy	Director	24 August 2017	
Matthew Reilly	Director	22 November 2017	
Timothy Paul Plant	Director	01 September 2018	19 July 2021
Justin Sean Delaney	Director	19 July 2021	
Geoffrey Edward Summerhayes	Director	17 January 2022	

The following persons were officers of the Company who held office during financial year 2021:

<b>Name</b>	<b>Role</b>	<b>Appointment date</b>	<b>Resignation date</b>
David George Hallahan	Secretary	11 April 2008	
Cathy Anne Manolios	Secretary	16 September 2002	
Edmund Ralph Yang	Public Officer	1 June 2019	

## Principal Activities

The principal activity of the Branch during the year was underwriting various classes of general insurance.

The Branch has a new initiative in the New Zealand SME market utilising technology and data to deliver a full policy life-cycle system allowing brokers to quote and bind in real time, supported by underwriting and claims professionals. The Branch is working with brokers to bring an offering that is easy to do business with, fit for market and gives greater choice to customers and brokers with the strength of a global brand. This initiative will enable the Branch to service and grow the New Zealand SME market. A pilot commenced in December 2021 with the full roll-out to the cluster groups scheduled for Q2 2022.

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Directors' report (*continued*)

### Review of results and operations

A summary of revenues, expenses, and results is set out below:

	2021	2020
	\$'000	\$'000
<i>Revenues and other income</i>		
Direct premium and inwards reinsurance revenue	76,098	78,477
Reinsurance and other recoveries	3,114	13,866
Investment income	777	1,517
Other income	276	413
Foreign exchange gain/(loss)	8	(55)
	<u>80,273</u>	<u>94,218</u>
<i>Expenses</i>		
Claims expense	(31,171)	(47,236)
Outwards reinsurance expense	(20,325)	(18,568)
Underwriting expenses	(17,871)	(20,319)
	<u>(69,367)</u>	<u>(86,123)</u>
<i>Results</i>		
Profit for the year before income tax	<u>10,906</u>	<u>8,095</u>

### Matters subsequent to the end of the financial year

The directors are not aware of any matter or circumstance which has arisen since 31 December 2021, other than dealt with in the financial statements, that has significantly affected or may significantly affect:

- the operations in future financial years; or
- the results of those operations in future financial years; or
- the state of affairs in future financial years.

### Likely developments and expected results of operations

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

### Environmental regulations

Whilst the Branch has assessed that there are no significant environmental regulations that apply to it, the Branch is part of the Zurich Group which has the ambition to become one of the world's most environmentally responsible and impactful businesses in the world.

Zurich Group has intensified its focus on the UN Global Business Ambition Pledge to limit global temperature rise to 1.5°C. Zurich Group has been embedding sustainability into every fibre of the Company and has been operating as a carbon-neutral business since 2014. In 2020, Zurich Group has become one of the first large institutional investors to prioritize the goals – rather than the monetary amount – the impact of Zurich's investment portfolio. The Dow Jones Sustainability Index (DJSI) named Zurich Group as No. 1 in the insurance industry for improving scores across all three components of the ranking: governance and economic, environmental, and social. This is a sign that Zurich Group's long-term efforts are paying off.

Zurich Australia & New Zealand established a local sustainability working group in 2021 in order to develop its own local strategy, while taking advantage of the strong support and lead from the Zurich Group. The first phase of the strategy has been to embed our foundations, which included activities such as establishing sustainability pages on both our intranet and external website, exceeding the targeted reduction of our operational emissions and benchmarking the carbon impact of our investments, as well as reviewing our current suite of sustainable products.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Directors' report (*continued*)

### Environmental regulations (*continued*)

As part of our local sustainability strategy, we are aiming to engage and educate our customers and employees about sustainability and empower them to join us in our action against climate change. As part of this, we will be piloting a local reforestation project within our business that will lead to the regeneration of ecosystems and their native tree species in Australia.

### Insurance of officers

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

### Agreements to indemnify

The Company's Constitution permits the Company to indemnify the directors and officers of the Branch to the extent permitted by law. It is also the policy of ZFSA, as the Australian parent company, that its employees should be protected from any liability for acting in the course of their employment legally, within the parent company's policies and provided they act in good faith.

ZFSA have entered into an indemnity deed with current and former directors (as relevant) of the Company. A director who has entered into an indemnity deed with the respective parent company is indemnified, subject to the terms and conditions of the deed, for all liabilities including costs, damages and expenses incurred in his or her capacity as a director of the Branch, to the extent permitted by law.

Other than the indemnity deed between the parent company and current and former directors of the Branch, the Branch and any related body corporate has not made any agreement to indemnify any current or former officer or auditor (as relevant) of the Branch from 1 January 2021 to the date of this report.

### Proceedings on behalf of the branch

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

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

### Rounding of amounts to the nearest thousand dollars

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

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



P J Bedbrook  
Chairman



E Collins  
Director

Sydney  
23 March 2022

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Statement of comprehensive income  
For the year ended 31 December 2021**

	Notes	2021 \$'000	2020 \$'000
<b>Premium revenue</b>			
Direct premium revenue	4(b)(iii)	76,098	78,477
Outwards reinsurance expense		(20,325)	(18,568)
Net premium revenue		55,773	59,909
Claims expense	7	(31,171)	(47,236)
Reinsurance and other recoveries revenue/(expense)	7	3,114	13,866
Net claims incurred	7	(28,057)	(33,370)
Acquisition costs		(10,611)	(13,201)
Other underwriting expenses		(7,260)	(7,118)
Underwriting expenses		(17,871)	(20,319)
<b>Underwriting result</b>		9,845	6,220
Investment income	6	777	1,517
Other income		276	413
Net foreign exchange gain/(loss)		8	(55)
<b>Profit before income tax</b>		10,906	8,095
Income tax expense	8 (a)	-	-
<b>Profit for the year</b>		10,906	8,095
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		10,906	8,095

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

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Balance sheet**

**As at 31 December 2021**

	Notes	2021 \$'000	2020 \$'000
<b>Assets</b>			
Cash and cash equivalents	9(a)	11,788	28,547
Investments	9(b)	82,000	53,000
Receivables	10	24,491	23,771
Reinsurance and other recoveries	11	16,932	19,653
Deferred acquisition costs	12	3,586	2,245
Other assets	13	9,467	10,688
Deferred tax asset	14	-	-
<b>Total assets</b>		<b>148,264</b>	<b>137,904</b>
<b>Liabilities</b>			
Payables	15	9,949	7,975
Provisions	16	262	308
Unearned premium liability	17	35,905	37,380
Unexpired risk liability	18(a)	-	-
Outstanding claims	19(a)	49,553	50,552
Deferred tax liability	20	-	-
<b>Total liabilities</b>		<b>95,669</b>	<b>96,215</b>
<b>Net assets</b>		<b>52,595</b>	<b>41,689</b>
<b>Head office account</b>			
Head office current account	21(a)	85,811	85,811
Accumulated loss	21(b)	(33,216)	(44,122)
		<b>52,595</b>	<b>41,689</b>

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

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Statement of changes in head office account  
For the year ended 31 December 2021**

	Head office current account \$'000	Accumulated losses \$'000	Total \$'000
<b>Balance at 1 January 2020</b>	85,811	(52,217)	33,594
Total comprehensive income for the year	-	8,095	8,095
<b>Balance as at 31 December 2020</b>	<u>85,811</u>	<u>(44,122)</u>	<u>41,689</u>
Total comprehensive income for the year	-	10,906	10,906
<b>Balance as at 31 December 2021</b>	<u><u>85,811</u></u>	<u><u>(33,216)</u></u>	<u><u>52,595</u></u>

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



**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Cash flow statement  
For the year ended 31 December 2021**

	Notes	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Net premiums and deposits received		53,684	60,192
Net claims and related payments		(21,353)	(44,403)
Payment to suppliers		(21,305)	(15,827)
Interest received		939	1,331
Fees and commissions received		276	413
<b>Net cash inflow from operating activities</b>	22	<u>12,241</u>	<u>1,706</u>
<b>Cash flows from investing activities</b>			
Payments for investments		(29,000)	(53,000)
<b>Net cash outflow from investing activities</b>		<u>(29,000)</u>	<u>(53,000)</u>
<b>Net decrease in cash held</b>		<u>(16,759)</u>	<u>(51,294)</u>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>28,547</u>	<u>79,841</u>
<b>Cash and cash equivalents at the end of the financial year</b>	9(a)	<u><u>11,788</u></u>	<u><u>28,547</u></u>

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 1. Summary of significant accounting policies

This financial report includes the financial statements of Zurich Australian Insurance Limited New Zealand Branch (“the Branch”), as at 31 December 2021. For the purposes of complying with New Zealand Generally Accepted Accounting Principles (NZ GAAP), the Branch is a Tier 1 for-profit entity. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited (“the Company”).

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

#### Basis of preparation

The financial statements have been prepared in accordance with NZ GAAP, New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs), the Companies Act 1993 and the requirements of the Financial Markets Conduct Act 2013 (FMC Act). The Branch is an FMC Reporting Entity under the FMC Act.

It is prepared in accordance with the historical cost convention, except in the case of certain financial assets, as noted in the accounting policies below, which are measured on the basis of fair value as required by NZ IFRS 9 Financial Instruments, and liabilities for long-tail outstanding claims which have been inflated and discounted as required by NZ IFRS 4 Insurance Contracts.

#### Compliance with IFRS

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

#### New accounting standards and interpretations

NZ IFRS 17 was adopted by the New Zealand Accounting Standards Board (NZ ASB) in August 2017. The IASB subsequently issued Amendments to IFRS 17 in June 2020 to address feedback and implementation issues raised by stakeholders. The amendments were adopted by the NZ ASB in August 2020 and include the deferral of the mandatory effective date to reporting periods beginning on or after 1 January 2023.

NZ IFRS 17 will apply to insurance products of the Branch from 1 January 2023. NZ IFRS 17 will apply to all insurance business and introduces a ‘general model’ for recognition and measurement of insurance contracts. The standard allows the application of a ‘simplified approach’ if the coverage period of the contract is 12 months or less or if the liability for remaining coverage under the simplified approach would not materially differ from the general model. The Branch will adopt the ‘simplified approach’ for all products. The first applicable reporting period for the Branch will be for 31 December 2023, with comparative period for the year ending 31 December 2022 restated on a NZ IFRS 17 basis. NZ IFRS 17 will be applied retrospectively to all the Branch’s insurance contracts on transition.

Whilst the standard does not change the economics of the insurance business, the standard will impact the Branch’s profit and loss, mostly through Discounting, Risk Adjustments and Onerous Contracts.

The relevant key areas of consideration under NZ IFRS 17 Insurance Contracts are set out below and, where possible, the current proposed approach has been detailed:

- Portfolios of contracts (with similar risks, which are managed together) require disaggregation into those that are onerous, as well as annual cohorts. This will result in an increase in the number of portfolios and cohorts under NZ IFRS 17. The profit recognition is also expected to differ as a result of the more granular level of aggregation of contracts under NZ IFRS 17. For onerous contracts, where fulfilment cash flows exceed the carrying balance of the liability for remaining coverage of a portfolio, the loss component will flow through the P&L in the insurance service result. The full impact of the Branch’s Onerous Contracts for local reporting is still being determined with the aim to complete this in the second half of 2022.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### New accounting standards and interpretations (*continued*)

- Risk adjustments, which reflect uncertainties in the amount and timing of future cash flows that arises from non-financial risk; The application of the NZ IFRS 17 requirements is one of substantial judgement and the Branch is currently defining the methodology for determining the risk adjustment and, in doing so, is giving consideration to evolving industry interpretation. Given the Branch's ongoing work on this complex component of the standard, the financial impact cannot be reasonably estimated at the balance date with the aim to complete this in the second half of 2022.
- NZ IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows, but does not prescribe a methodology for determining the discount rates used. The Branch will recognise changes in assumptions regarding discount rate in other comprehensive income, rather than in profit and loss. This methodology and assumptions are currently being determined with the aim to complete this in the second half of 2022.
- Some changes to the acquisition cost definition including what may be deferred. This will result in an increase in the total acquisition cost to be deferred. Furthermore, for groups of contracts that apply the simplified approach and have a coverage period of one year or less, NZ IFRS 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Branch does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts.
- The contract boundary, which is the period over which profit is recognised, is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. The Branch has assessed all its Insurance Contracts and will apply the simplified approach across all its products.
- Reinsurance contracts and the associated asset are to be determined separately to the gross contract liability and may have different contract boundaries; The Branch has assessed all its Reinsurance Contracts will apply the simplified approach across all its products.

The Branch has performed an impact assessment which identified the key areas of expected impact. For Group financial reporting requirements, the Branch has completed 3x 'light parallel runs' to assess the local Accounting team processes and actuarial tools pre-2022. A 'full parallel run' will be conducted for the year 2022 such that the Branch continues to assess the impact of the new requirements and emerging industry guidance on financial statements. The Branch will be undertaking a system migration in April-2022, including being able to utilise the NZ IFRS 17 ledger for reporting purposes and the transition approach also includes the development and delivery of training to the finance teams and relevant stakeholders on the new requirements.

The standard introduces substantial changes in presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes. The financial impact of adopting NZ IFRS 17 cannot be reasonably estimated at the date of this report. The Branch intends to disclose the potential financial impact of adopting NZ IFRS 17 once it is practical to provide a reliable estimate.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### New accounting standards and interpretations (*continued*)

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

#### Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 2 and 3.

#### Significant accounting policies

**a) Principles of general insurance contracts**

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

**b) Insurance premium and related revenue**

Direct and inwards reinsurance premium comprises amounts charged to the policyholders or other insurers, excluding fire service levies and earthquake levies, and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable, including bound, but not incepted, and unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk.

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

**c) Fee and other revenue**

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

**d) Interest income**

Interest income is recognised in the statement of comprehensive income using the effective interest rate method.

**e) Insurance claims and related expenses**

Claims expense represents payment for claims (and claims related expenses) and the movement in outstanding claims liabilities.

**f) Outwards reinsurance expense**

Amounts paid to reinsurers under insurance contracts held by the Branch are recorded as outwards reinsurance expense and are recognised in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of the risk ceded. Accordingly, a portion of outwards reinsurance expense is treated as a prepayment and presented as deferred outward reinsurance expense on the balance sheet as at reporting date.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### Significant accounting policies (*continued*)

##### g) **Income tax**

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

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

Deferred tax assets and liabilities are recognised using the liability method for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

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

##### h) **Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the New Zealand Inland Revenue Department (IRD). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to, the IRD is included as an asset or liability in the balance sheet.

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

##### i) **Fire and emergency and other statutory charges**

A liability for fire and emergency 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.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### Significant accounting policies (*continued*)

##### j) Foreign currency translation

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

##### k) Cash and cash equivalents

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

##### l) Financial assets

The Branch classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; financial assets at fair value through comprehensive income and financial assets at amortised cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Branch assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired, except for the financial assets at fair value through profit and loss.

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

#### *Financial assets at fair value through profit or loss*

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

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### Significant accounting policies (*continued*)

##### l) Financial assets (*continued*)

###### *Loans and receivables*

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

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

##### m) Reinsurance and other recoveries receivable

The benefits to which the Branch is entitled under its reinsurance contracts held are recognised as reinsurance receivable. Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and unexpired risk liabilities are recognised as reinsurance and other recoveries revenue. Recoveries receivable are assessed in a manner similar to the assessment of insurance outstanding claims. Recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, evaluated on the same basis as the liability for insurance outstanding claims to which they relate.

##### n) Deferred acquisition costs

The fixed and variable costs of acquiring new business, 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.

##### o) Impairment of assets

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

Assets that have an indefinite useful life, such as identifiable intangible assets, are not subject to amortisation and are tested at least annually for impairment. Non-financial assets are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

##### p) Payables

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

#### Significant accounting policies (*continued*)

**q) Provisions**

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

**r) Outstanding claims**

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

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

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

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

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

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

**s) Unexpired risk liability**

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, net of reinsurance, then the unearned premium liability is deemed to be deficient. The Branch applies a risk margin to achieve the same probability of adequacy for future claims as is achieved by the estimate of the outstanding claims liability, see Note 19.

A write down to recoverable amount is recognised when the present value of expected future claims (including settlement costs and risk margins) in relation to business written to the reporting date exceeds related unearned premium revenue. The entire deficiency, net of reinsurance, is recognised immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

**t) Equity**

The Branch does not have any share capital; however, the total head office account represents the value of any funding provided by the Company in support of the Branch operations and accumulated profits / (losses).

**u) Rounding of amounts**

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

**v) Comparative information**

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



# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 2. Critical accounting judgements and estimates

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

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

A liability is held at 31 December 2021 for the estimated cost of claims incurred, but not settled, including the cost of claims incurred, but not yet reported to the Branch.

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

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of notified claims to the Branch, where information about the claim event is generally available. IBNR claims may not be apparent to the insured until many years after the event giving rise to the claim. In addition, claims incurred but not enough reported ('IBNER') is also subject of uncertainty.

The long-tailed classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR/IBNER reserves. For the short-tailed classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of uncertainty. In calculating the estimated cost of outstanding claims the Branch uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying data or which might cause the cost of outstanding claims to increase or reduce when compared with the cost of previously paid claims including:

- Changes in the Branch's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the data from previous periods;
- Changes in the legal environment;
- The effects of inflation (both economic and superimposed);
- Changes in the mix of business;
- The impact of large losses;
- Movements in industry benchmarks;
- Medical and technological developments; and
- Changes in policyholder behaviour.

A component of these techniques is usually the estimation of the costs of outstanding claims. In estimating the cost of these the Branch has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

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

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

Where possible, the Branch adopts multiple techniques to estimate the required level of liabilities. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

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.

#### COVID-19

The World Health Organisation declared COVID-19 a pandemic in March 2020. COVID-19 has had a significant impact on the global economy, including insurance industries, and continues to give rise to uncertainty and volatility in global economies and markets. In determining the continuous impact of COVID-19 on the 2021 financial results, the Branch has calculated its claims liability in line with the critical accounting judgements, but also considered additional factors and assumptions specific to COVID-19. Given the ongoing impact of this virus, and related uncertainty, market conditions are likely to change and the impact of these changes will be accounted for in subsequent reporting periods.

COVID-19 has impacted gross written premium, which for the Travel product compared to prior financial year fell by \$42m in 2020, and has since partially recovered by \$10m in 2021. COVID-19 has also impacted claims, with the Branch recording estimated losses of \$6m gross and \$2m net to date (2020: \$6m gross and \$2m net) on travel losses. This estimate has been based on a detailed review of the Branch's exposures using scenario analysis under a variety of macroeconomic and legislative outcomes. Uncertainty remains around potential claims emergence from travel claims and the branch will continue to closely monitor emerging claims experience, legislative outcomes and wider market developments so that the net losses are reflective of expected future claims. The impact of COVID-19 on the recoverability of receivables from insurance and reinsurance contracts has been considered and no recoverability issues have been identified.

#### b) Assets arising from reinsurance contracts

Reinsurance recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis so that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

### 3. Actuarial assumptions and methods

The Branch writes both short-tailed and long-tailed business. The Appointed Actuary, Garth Brooker BComm BSc FIAA, is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. 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.

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Notes to the financial statements  
For the year ended 31 December 2021**

**3. Actuarial assumptions and methods (continued)**

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% (2020: 85%).

**(a) Selected key variables**

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

	2021 Long-tail	2021 Short-tail	2020 Long-tail	2020 Short-tail
Average weighted term to settlement	1.1 years	0.4 years	1.4 years	0.4 years
Interest rate for discounting	1.14%	0.83%	0.21%	0.18%

**(b) Sensitivity analysis – insurance contracts**

The Branch conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the profit after tax of the Branch. The table below gives an analysis of the sensitivity of the profit/(loss) for 2021 and 2020.

*Impact of changes in key variables*

<b>December 2021</b>	<b>Movement in Variable</b>	<b>Movement in Profit/(Loss) 2021 \$'000</b>	<b>2020 \$'000</b>
<b><i>Short-tail and Long-tail</i></b>			
Average weighted term to settlement - years	0.5	166	31
	-0.5	(127)	(24)
Interest rate for discounting	1%	265	317
	-1%	N/A	N/A

# ZURICH AUSTRALIAN INSURANCE LIMITED

## NEW ZEALAND BRANCH

### Notes to the financial statements For the year ended 31 December 2021

#### 4. Management of risk

The Branch conducts general insurance business in New Zealand which is underwritten by the Company. Consequently, the Branch is exposed to a variety of risks including those arising from COVID-19, that could potentially impact the financial standing of the Company. The Risk Management Framework for the Branch is governed by the same Risk Management Framework of the Company. This note and Note 5 Financial risk management provide an overview of the processes and considerations undertaken in managing these risks.

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

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

##### (a) Risk management framework

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

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

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

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

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

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 4. Management of risk (*continued*)

#### (a) Risk management framework (*continued*)

The broadest categorisation of risks is:

- Insurance risk
- Strategic risk
- Operational risk
- Financial risk, subcategorised as:
  - Market risk
  - Credit risk
  - Liquidity risk

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

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

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

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

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

#### (b) Insurance risk

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

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

In accordance with Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Arrangements, issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented, and maintained a Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 4. Management of risk (*continued*)

#### (b) Insurance risk (*continued*)

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

The RMS and the REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to enable compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and REMS.

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

- A formal annual total risk profiling assessment that focuses on key risks that impact the achievement of strategic and business objectives, including the development of action plans for the treatment and continuous monitoring of identified risks. This is bolstered by formal quarterly reviews of risk issues and progress against action plans;
- The maintenance and use of appropriate management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time;
- Actuarial models, using information from the management information systems, are used in calculating premiums and monitoring claims patterns. Past experience and actuarial methods are used as part of the process;
- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks;
- Natural disasters exposure is monitored through use of models involving the collation of the Company's own exposure and wider environmental data, which support decisions on limiting exposure;
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. When selecting a reinsurer consideration is normally only given to those companies on a list approved by Zurich Group head office, which assesses reinsurer security using rating information from the public domain or gathered through internal investigations. If the Branch selects a reinsurer not on the approved list, a separate approval by Zurich Group is required before placing the risk;
- In order to limit concentrations of credit risk in purchasing reinsurance, the Branch has regard to existing reinsurance assets including the level of exposure to any single reinsurer or group of related reinsurers. Placing reinsurance with other companies in the Zurich Group is used as an initial step on a significant portion of the reinsurance program to enable group-wide reinsurance purchasing efficiencies; and
- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the sensitivity of asset values to changes in interest rates with the equivalent sensitivity of the expected pattern of claim payments; and
- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Notes to the financial statements  
For the year ended 31 December 2021**

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

**(b) Insurance risk (continued)**

**(ii) Terms and conditions of insurance business**

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Branch. The majority of direct insurance contracts written are entered into on a standard form basis. Standard form contracts are formally approved through a full due diligence process. Any non-standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, from the Chief Underwriting Officer.

**(iii) Concentration of insurance risk**

Specific processes for monitoring identified key concentrations are set out below.

<b>Risk</b>	<b>Source of concentration</b>	<b>Risk management measures</b>
Natural catastrophes	Properties and motor vehicles concentrated in regions that are subject to: <ul style="list-style-type: none"> <li>• Earthquakes;</li> <li>• Cyclones;</li> <li>• Hail storms; and</li> <li>• Other significant natural events.</li> </ul>	The Branch's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Branch has modelled aggregated risk using catastrophe models. Based on the probable maximum loss of a 1 in 250 year event per the models, the Branch purchases catastrophe reinsurance cover to limit exposure to any single event.

The Branch's exposure to concentration of insurance risk is mitigated by a portfolio of diversified individual risks. Direct premium revenue disclosed in the statement of comprehensive income is split by product in the table below.

	2021	2020
	\$'000	\$'000
Commercial motor	26,658	27,290
Fire and ISR	18,447	16,738
Marine	2,509	1,539
Other accident	1,507	2,009
Professional indemnity	9,736	11,950
Public and product liability	2,259	2,804
Travel	14,760	16,117
Domestic Motor	222	30
Total Direct Premium revenue	<u>76,098</u>	<u>78,477</u>

**(iv) Development of claims**

There is a possibility that changes may occur in the estimate of the Branch's obligations up until the time they are settled. The tables in Note 19(d) show the Branch's estimates of total claims outstanding for each accident year at successive year ends for classes of business that are typically resolved in more than one year.

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

The value of an insurance contract to the Branch is in part driven by the investment returns achievable on premium paid. Typically this is estimated by the risk-free interest rate currently available in the market.

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 4. Management of risk (*continued*)

#### (b) Insurance risk (*continued*)

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

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

#### (c) Operational risks

Operational risk is the risk of loss or the risk of not achieving business objectives resulting from inadequate or failed internal processes, people, and systems or from external events such as catastrophes, legislation, external fraud, or losses related to outsourcing. The Branch has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk.

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

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

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

An operational risk of particular relevance to this report is the risk of mis-statement of financial statements.

### 5. Financial risk management

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

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

#### a) Market risk

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



# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 5. Financial risk management (*continued*)

#### a) Market risk (*continued*)

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

##### *Asset and liability management techniques*

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

The Branch's management of investments consists of analysis of market value and changes with respect of previous month and quarter; analysis of exposure and asset allocation; analysis of tail risk (to an expected shortfall of 99%); analysis of sensitivities (duration, convexity and volatility); stress testing (monetary impact on assets and liabilities of various interest rate, credit spread and equity index shocks); and analysis of credit exposures by rating, industry and seniority and portfolio concentration (all credit-sensitive assets are investment grade, above BBB-).

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

##### *On-balance sheet*

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

##### *Off-balance sheet*

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

#### b) Credit risk

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

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

The management of credit risk is overseen by the CIMC.

##### i) *Financial assets*

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 5. Financial risk management (continued)

#### b) Credit risk (continued)

##### i) Financial assets (continued)

###### Cash and financial assets

Standard and Poor's (S&P) rating for Cash at bank disclosed in Note 9 is:

Auckland Saving Bank NZ (ASB) A1+ (2020: A1+)

Westpac Bank NZ A1+ (2020: A1+)

Australia and New Zealand Banking Group NZ (ANZ) A1+ (2020: A1+)

Kiwibank Ltd P-1 (2020: A1)

Counterparty	2021 \$'000	2020 \$'000
Auckland Saving Bank NZ (ASB)	-	24,000
Westpac Bank NZ	824	1,371
Australia and New Zealand Banking Group NZ (ANZ)	52,964	39,176
Kiwibank Ltd	40,000	17,000
<b>Total</b>	<b>93,788</b>	<b>81,547</b>

##### ii) Reinsurance receivables

The Branch monitors its credit risk associated with reinsurance assets with Zurich Group companies and other reinsurers. Placing reinsurance with companies in the Zurich Group is used as an initial step on a significant portion of the reinsurance programme to enable group-wide reinsurance purchasing efficiencies. Reinsurance security is monitored continuously taking advantage of the Group's Security Committee analyses and there are strict controls around the use of individual reinsurers. Reinsurance accumulations are also monitored closely and used in deciding the appropriate placement programme at renewal.

Reinsurance receivable on incurred claims disclosed in Note 11 are analysed in the table below using Standard and Poor's (S&P) ratings:

	2021 \$'000	2020 \$'000
AAA or AA	5,820	8,933
A	1,581	567
BBB or unrated	88	194
<b>Total RI receivable on incurred claims</b>	<b>7,489</b>	<b>9,694</b>

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

- 14% (2020: 11%) of the reinsurance receivable on incurred claims had a third-party reinsurer as a counterparty; and
- 86% (2020: 89%) of the reinsurance receivable on incurred claims had companies in the Zurich Group as a counterparty.

Irrevocable standby letters of credit for a total of up to AUD \$205m (2020: \$172m) were issued by Australian banks on behalf of other entities in the Zurich Group in favour of the Company. These letters of credit relate to all reinsurance contracts entered into between the Company and other entities in the Zurich Group on or after 31 December 2008. AUD \$205m is valid until amended or cancelled. As at 31 December 2021, AUD \$205m (2020: \$172m) of reinsurance recoverable due from other entities in the Zurich group were secured under these letters of credit.

A collateral trust was established during 2013, by means of a trust deed entered into between the Company, Zurich Insurance Company (ZIC) and Perpetual Corporate Trust Ltd. The funds of the Trust are to be contributed by ZIC, to constitute recognised collateral in respect of aged reinsurance recoverable owed by ZIC to the Company. The total collateral in the trust at 31 December 2021 was AUD \$456m (2020: \$468m). The letters of credit and collateral trust total of \$661m (2020: \$639m) covers aged reinsurance recoverables over two balance dates of \$613m (2020: \$537m).

**ZURICH AUSTRALIAN INSURANCE LIMITED  
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**Notes to the financial statements  
For the year ended 31 December 2021**

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

**b) Credit risk (continued)**

*iii) Business receivables*

*Premium receivable*

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

	2021 \$'000	2020 \$'000
	<hr/>	<hr/>
Neither past due nor impaired (90 day credit terms)	12,018	11,874
Amounts past due not impaired to 30 days	933	1,244
Amounts past due but not impaired 31 - 90 days	655	391
Amounts past due but not impaired over 90 days	(204)	(304)
Provision for impairment	(86)	(218)
<b>Total premium receivable</b>	<hr/> <b>13,316</b>	<hr/> <b>12,987</b>

**c) Liquidity risk**

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

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

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

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Notes to the financial statements  
For the year ended 31 December 2021

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

**c) Liquidity risk (continued)**

2021	Carrying amount (undiscounted) \$'000	Expected cash flows (undiscounted)				
		0-1 yrs \$'000	1-5 yrs \$'000	5-10 yrs \$'000	10-15 yrs \$'000	>15yrs \$'000
<b>Insurance contracts</b>						
Outstanding claims (Note 13, 21)	28,362	20,491	7,593	277	-	-
Premium liability	13,616	8,173	5,337	106	-	-
<b>Total</b>	<b>41,978</b>	<b>28,664</b>	<b>12,930</b>	<b>383</b>	<b>-</b>	<b>-</b>

2020	Carrying amount (undiscounted) \$'000	Expected cash flows (undiscounted)				
		0-1 yrs \$'000	1-5 yrs \$'000	5-10 yrs \$'000	10-15 yrs \$'000	>15yrs \$'000
<b>Insurance contracts</b>						
Outstanding claims (Note 13, 21)	26,222	16,293	9,579	348	-	-
Premium liability	15,292	8,339	6,769	186	-	-
<b>Total</b>	<b>41,514</b>	<b>24,632</b>	<b>16,348</b>	<b>534</b>	<b>-</b>	<b>-</b>

**ZURICH AUSTRALIAN INSURANCE LIMITED  
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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>6. Investment income</b>		
Interest	777	1,517
Total investment income	<u>777</u>	<u>1,517</u>
<b>7. Net claims incurred</b>		
<b>Gross claims incurred and related expenses:</b>		
Direct	(31,733)	(46,973)
Inwards Reinsurance	8	4
Discount to present value	554	(267)
Total Gross claims incurred and related expenses	<u>(31,171)</u>	<u>(47,236)</u>
<b>Reinsurance and other recoveries:</b>		
Direct	3,340	13,782
Inwards Reinsurance	(1)	-
Discount to present value	(225)	84
Total Reinsurance and other recoveries	<u>3,114</u>	<u>13,866</u>
Net claims incurred	<u>(28,057)</u>	<u>(33,370)</u>

**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.

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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021 \$'000	2020 \$'000
<b>8. Income tax</b>		
<b>(a) Income tax expenses</b>		
Current tax	-	-
Deferred tax	-	-
Total income tax expense	-	-
<b>Deferred income tax expense included income tax expense comprises:</b>		
Decrease in deferred tax asset (note 14)	237	(184)
Increase in deferred tax liabilities (Note 20)	(237)	184
Total other income	-	-
<b>(b) Numerical reconciliation of income tax to prima facie tax payable</b>		
Profit before tax	10,907	8,095
Tax at the New Zealand tax rate of 28% (2019:28%)	3,054	2,266
Value of Deferred tax not recognised	(2,386)	(2,314)
Transfer tax loss to affiliate	-	47
Under provision in prior year	(668)	1
Income tax expenses	-	-
<b>9. Investment Composition</b>		
<b>(a) Cash and Cash Equivalents</b>		
Cash at bank and on hand	11,788	11,547
Term deposits less than three months	-	17,000
<b>Total Cash and Cash Equivalents</b>	11,788	28,547
<b>(b) Investments</b>		
Term deposits greater than three months	82,000	53,000
<b>Total Investments</b>	82,000	53,000
<b>Total</b>	93,788	81,547
Cash and cash equivalent was invested at floating and fixed interest rates between 0.00% and 2.33% p.a. (2020: 0.00% and 2.50% p.a.)		
<b>10. Receivables</b>		
<b>Current</b>		
Premium Receivable	15,842	12,755
Unclosed premiums	(2,440)	450
	13,402	13,205
Provision for Impairment	(86)	(218)
	13,316	12,987
Due from related entities ( Note 24 (c))	7,790	8,840
Other trade debtors	3,135	1,533
Interest receivables	250	411
Total current receivables	24,491	23,771

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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>11. Reinsurance and other recoveries</b>		
<b>Analysis of reinsurance and other recoveries</b>		
Expected future reinsurance recoveries undiscounted		
- on claims paid	(156)	(268)
- on outstanding claims	7,804	9,994
	7,648	9,726
Discount to present value	(159)	(32)
Reinsurance receivable on incurred claims	7,489	9,694
Other recoveries undiscounted	6,733	6,842
Discount to present value	(80)	(17)
	6,653	6,825
Risk Margin	2,834	3,144
Discount to present value	(44)	(10)
	2,790	3,134
Reinsurance and other recoveries receivables on incurred claims	16,932	19,653
Current	9,606	12,261
Non- current	7,326	7,392
	16,932	19,653
<b>12. Deferred acquisition costs</b>		
Deferred acquisition costs as at 1 January	2,245	9,383
Acquisition costs deferred	10,106	5,572
Amortisation charged to Statement of Comprehensive Income	(8,765)	(13,038)
Write down of deferred acquisition costs (Note 18)	-	328
Deferred acquisitions costs as at 31 December	3,586	2,245
Current	3,457	2,197
Non- current	129	48
	3,586	2,245

**ZURICH AUSTRALIAN INSURANCE LIMITED  
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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>13. Other assets</b>		
<i>Current</i>		
Deferred outwards reinsurance expense	9,467	10,355
Other assets	-	333
	<u>9,467</u>	<u>10,688</u>
Current	9,383	10,648
Non-current	84	40
	<u>9,467</u>	<u>10,688</u>

**14. Deferred tax assets**

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Provision for doubtful debt	302	(1,985)
Tax Loss	(396)	2,129
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 20)	94	(144)
Net deferred tax asset	<u>-</u>	<u>-</u>

**Deferred tax asset movement**

Opening balance at 1 January	-	-
Charged to Statement of Comprehensive Income (Note 8)	(237)	184
Set-off of deferred tax asset pursuant to movement set-off provision (Note 20)	237	(184)
Closing balance at 31 December	<u>-</u>	<u>-</u>

The Branch only recognises deferred tax assets in respect of unused tax losses incurred by the New Zealand branch to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Branch has undertaken a prima-facie analysis of future taxable profits to determine the likelihood of being able to recover the unused tax losses over the short term. The Branch has concluded that, based on profit history and the uncertainty of future profits, no deferred tax asset should be recognised. The deferred tax asset that has not been recognised as at 31 December 2021 is \$8,775,822 (2020: \$11,161,839).

**15. Payables**

*Current*

Reinsurance creditors	1,469	2,934
Due to related entities (Note 24 (d))	7,489	3,729
Other payables	991	1,312
Total	<u>9,949</u>	<u>7,975</u>



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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>16. Provisions</b>		
<i>Current</i>		
Fire service levy	209	308
Earthquake levy	53	-
Total	<u>262</u>	<u>308</u>

	Fire Service Levy \$'000	Earthquake Levy \$'000	Total \$'000
<b>2021 Movements in provisions</b>			
Carrying amount at start of year	308	-	308
Additional provision recognised	4,175	299	4,474
Payments/other sacrifices of economic benefits	(3,944)	(246)	(4,190)
Reclassification from asset to liability	(330)	-	(330)
Carrying amount at end of the year	<u>209</u>	<u>53</u>	<u>262</u>

<b>2020 Movements in provisions</b>			
Carrying amount at start of year	-	25	25
Additional provision recognised	3,349	264	3,613
Payments/other sacrifices of economic benefits	(3,041)	(291)	(3,332)
Reclassification from liability to asset	-	2	2
Carrying amount at end of the year	<u>308</u>	<u>-</u>	<u>308</u>

**17. Unearned premium liability**

Unearned Premium liability as at 1 January	37,380	44,355
Premiums deferred during the period	74,623	71,502
Premiums earned during the period	(76,098)	(78,477)
Unearned premium liability as at 31 December	<u>35,905</u>	<u>37,380</u>
Current	34,618	36,608
Non-current	1,287	772
Total	<u>35,905</u>	<u>37,380</u>

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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>18. Unexpired risk liability</b>		
<b>(a) Unexpired risk liability</b>		
Unexpired risk liability as at 1 January	-	-
Recognition/ (Release) of unexpired risk liability	-	-
Unexpired risk liability as at 31 December	-	-
<b>(b) Deficiency recognised in the statement of comprehensive income</b>		
Write down of deferred acquisition costs (Note 12)	-	328
Total amount recognised in the Statement of comprehensive income	-	328
<b>(c) Liability adequacy test</b>		

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

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

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

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 19. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2021 (2020: 85%).

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**Notes to the financial statements  
For the year ended 31 December 2021**

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

**(c) Liability Adequacy test (*continued*)**

	Long-Tail 2021 \$'000	Long-Tail 2020 \$'000
Gross Unearned Premium	-	9,957
Reinsurance Unearned Premium	-	(1,740)
Net unearned Premium	-	8,217
Gross deferred acquisition costs	-	(1,152)
Reinsurance deferred acquisition costs	-	520
Deferred acquisition costs before LAT write down	-	(632)
Unearned premium liability net of deferred acquisition costs	-	7,585
Discounted central estimate	-	6,756
Discounted risk margin	-	1,157
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	-	7,913
<b>Total deficiency</b>	-	<b>(328)</b>

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**Notes to the financial statements**

**For the year ended 31 December 2021**

	2021	2020
	\$'000	\$'000
<b>19. Outstanding claims</b>		
<b>(a) Outstanding claims liability</b>		
Central Estimate	41,375	41,345
Discount to present value	(580)	(125)
	<u>40,795</u>	<u>41,220</u>
Claims Handling Costs	1,523	1,712
Discount to present value	(19)	(6)
	<u>1,504</u>	<u>1,706</u>
Risk Margin	7,363	7,649
Discount to present value	(109)	(23)
	<u>7,254</u>	<u>7,626</u>
Gross outstanding claims liability	<u><u>49,553</u></u>	<u><u>50,552</u></u>
Undiscounted Expected Future Claims Payments	50,261	50,706
Discount to present value	(708)	(154)
Liability for outstanding claims	<u><u>49,553</u></u>	<u><u>50,552</u></u>
Current	34,295	31,478
Non-current	<u>15,258</u>	<u>19,074</u>
	<u><u>49,553</u></u>	<u><u>50,552</u></u>

**(b) Risk margin**

*Process for determining risk margin*

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification. These margins are consistent with those applied to the Branch as a whole in order to arrive at an overall outstanding claims liability which is intended to have an 85% (2020: 85%) probability of adequacy.

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**Notes to the financial statements  
For the year ended 31 December 2021**

**19. Outstanding claims (continued)**

**(b) Risk margin (continued)**

*Risk Margins Applied*

Class	2021	2020
	Net Outstanding Claims Margin	Net Outstanding Claims Margin
<b>Short-tail</b>		
Commercial motor vehicle	12.7%	13.0%
Fire and ISR (incl inwards treaty)	14.1%	17.5%
Marine & aviation	17.4%	18.7%
Other accident	18.6%	18.6%
Travel	3.9%	6.1%
Average short-tail	10.9%	13.4%
<b>Long-tail</b>		
Public & product liability (incl inwards treaty)	18.6%	19.0%
Professional indemnity	18.6%	19.0%
Average long-tail	18.6%	19.0%
<b>Overall</b>	<b>14.0%</b>	<b>17.2%</b>

**(c) Reconciliation of movement in discounted outstanding claim liability**

	2021	2020
	Net	Net
	\$'000	\$'000
Brought Forward	30,631	31,905
Impact of change in assumptions	(1,324)	(861)
Margin release on prior periods	(1,675)	(2,236)
Other	(198)	808
Change in prior year estimates	(3,197)	(2,289)
Claims incurred during the year	31,254	35,659
Incurred claims recognised in the income statement	28,057	33,370
Claim payments / recoveries during the year	(26,222)	(34,644)
Carried Forward	32,466	30,631

**ZURICH AUSTRALIAN INSURANCE LIMITED  
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**Notes to the financial statements**

**For the year ended 31 December 2021**

**19. Outstanding claims (continued)**

**(d) Claims development tables**

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

**(i) Gross claims development**

<b>Accident Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
End of accident year	4,092	5,359	5,082	5,946	8,313	7,359	12,671	9,520	18,036	8,100	
One year later	2,740	2,597	8,743	5,131	6,401	7,907	7,970	4,879	10,689		
Two years later	2,230	1,841	7,881	3,129	5,643	5,694	7,377	4,862			
Three years later	1,864	1,674	1,633	3,052	4,110	4,675	6,975				
Four years later	1,762	1,208	1,294	2,895	3,723	4,989					
Five years later	1,576	1,133	774	6,515	3,517						
Six years later	4,999	1,045	3,526	6,132							
Seven years later	5,526	1,067	7,339								
Eight years later	1,710	1,031									
Nine years later	1,703										
Current estimate of incurred	1,703	1,031	7,339	6,132	3,517	4,989	6,975	4,862	10,689	8,101	55,338
Cumulative payments	1,705	1,032	720	6,031	3,236	2,749	4,736	1,656	1,066	381	23,312
Outstanding claims - undiscounted	(2)	(1)	6,619	101	281	2,240	2,239	3,206	9,623	7,720	32,026
Discount	-	-	(14)	(1)	(4)	(39)	(44)	(68)	(221)	(212)	(604)
Claim handling expense											917
2010 & Prior											(4)
Outstanding claims - discounted											32,335
Short tail outstanding claims											17,218
Total gross											49,553

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**19. Outstanding claims (continued)**

**(d) Claims development tables (continued)**

**(ii) Net claims development**

<b>Accident year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
End of accident year	3,107	3,223	3,432	3,988	6,293	5,709	8,224	5,008	9,013	5,598	
One year later	2,255	1,832	7,354	4,497	4,958	5,375	7,034	3,956	4,598		
Two years later	1,885	1,288	6,836	2,490	4,509	4,038	6,557	4,111			
Three years later	1,755	1,157	1,307	2,459	3,317	3,968	6,266				
Four years later	1,673	769	1,065	2,268	3,011	4,125					
Five years later	1,518	715	618	5,814	2,846						
Six years later	4,497	639	3,028	5,586							
Seven years later	4,991	659	6,354								
Eight years later	1,729	628									
Nine years later	1,723										
Current estimate of incurred	1,723	628	6,354	5,586	2,846	4,125	6,266	4,111	4,598	5,598	41,834
Cumulative payments	1,725	628	594	5,499	2,610	2,437	4,342	1,413	1,001	375	20,624
Outstanding claims - undiscounted	(2)	-	5,760	87	236	1,688	1,924	2,698	3,597	5,223	21,210
Discount	-	-	(12)	(1)	(4)	(29)	(38)	(57)	(84)	(145)	(370)
Claim handling expense											917
2010 & prior											(3)
Outstanding claims - discounted											21,754
Short tail outstanding claims											10,712
Total net											32,466

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2021	2020
\$'000	\$'000

**20. Deferred tax liability**

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

Provision for DAC write off and unexpired risk liability	(94)	144
Set-off of deferred tax assets pursuant to set-off provisions (Note 14)	94	(144)
Net deferred tax liability	-	-

**Deferred tax liabilities movements**

Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 8)	(237)	184
Set-off of deferred tax asset pursuant to set-off provisions (Note 14)	237	(184)
Closing balance at 31 December	-	-

**21. Head office account**

**a) Head office current account**

Current account at the beginning of the year	85,811	85,811
Current account at the end of the year	85,811	85,811

**b) Accumulated loss**

Accumulated losses at the beginning of the year	(44,122)	(52,217)
Profit attributable to the Company	10,906	8,095
Accumulated losses at the end of the year	(33,216)	(44,122)

Total head office account	52,595	41,689
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**ZURICH AUSTRALIAN INSURANCE LIMITED  
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**Notes to the financial statements  
For the year ended 31 December 2021**

**22. Cash flow statement reconciliation**

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

	2021	2020
	\$'000	\$'000
	<u>          </u>	<u>          </u>
Profit from ordinary activities after income tax	10,906	8,095
Increase/(decrease) in bad and doubtful debts provisions	(132)	104
 (Increase)/decrease in operating assets:		
Premium outstanding	852	6,520
Accrued interest, dividends & rents	162	(186)
Deferred acquisition costs	(1,340)	7,139
Reinsurance and other recoveries	2,722	(2,420)
Other receivables	(1,603)	(1,533)
Other assets	1,221	(3,661)
 Increase/(decrease) in operating liabilities:		
Unearned premiums	(1,475)	(6,975)
Claims outstanding	(999)	1,154
Other provisions & creditors	1,927	(6,531)
 <b>Net cash inflows from operating activities</b>	 <u>12,241</u>	 <u>1,706</u>

**23. Remuneration of auditors**

	2021	2020
	\$'000	\$'000
	<u>          </u>	<u>          </u>
Remuneration for appointed auditors for the audit or review of the financial reports of the Branch - Statutory audit fees	62,488	62,488 <sup>1</sup>
	<u>62,488</u>	<u>62,488</u>

<sup>1</sup> Ernst & Young Australia (EY) replaced PricewaterhouseCoopers Australia (PwC) as the Auditors of the Branch on 27 July 2021. The 2021 fees were paid to EY and the 2020 comparatives were paid to PwC.

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Notes to the financial statements  
For the year ended 31 December 2021**

**24. Related parties**

**(a) Directors**

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

Paul John Bedbrook  
Elaine Collins  
John Francis Mulcahy  
Matthew Reilly  
Timothy Paul Plant  
Justin Sean Delaney

**(b) Key management personnel compensation**

Key management personnel compensation for the years ended 31 December 2021 and 31 December 2020 is set out below expressed in New Zealand dollars.

The key management personnel are all the directors of the Company and their compensation is paid by Zurich Financial Services Australia Limited (ZFSA), the ultimate Australian holding company. The amount disclosed below reflects the total compensation paid/attribution to the key management personnel in their duties as employees of ZFSA and or directors of various entities translated using the average exchange rate for the financial year. The executive director's compensation is not able to be allocated to the individual entities whose affairs they manage or control.

	Notes	2021 \$'000	2020 \$'000
Short term employee benefits		1,686,066	1,372,099
Termination benefits		104,108	-
Share-based payments/benefits	(i)	1,133,246	538,568 <sup>2</sup>
		<u>2,923,420</u>	<u>1,910,667</u>

**(i) Share based payments / benefits**

The Global Long Term Performance Share Plan and Global Share Option Plan are executive incentive plans administered globally by a central shareholding vehicle. ZFSA purchases the right to shares from this holding vehicle for Australian resident executives who participate in the plans. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants. ZFSA does not bear any exchange or price risk in relation to payments for these rights to shares.

<sup>2</sup> Balance restated due error in calculation.

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Notes to the financial statements  
For the year ended 31 December 2021**

	2021	2020
	\$	\$
<hr/>		
<b>24. Related parties (<i>continued</i>)</b>		
<b>(c) Aggregate amounts receivable from related entities at balance date</b>		
<i>Current</i>		
Ultimate Australian controlling entity	1,770,024	1,482,774
Other related entities	6,020,228	7,357,120
	<hr/>	<hr/>
	7,790,253	8,839,894
	<hr/>	<hr/>
<b>(d) Aggregate amounts payable to related entities at balance date</b>		
<i>Current</i>		
Ultimate Australian controlling entity	2,573,583	507,946
Other related entities	4,915,059	3,220,914
	<hr/>	<hr/>
	7,488,642	3,728,860
	<hr/>	<hr/>

Related parties to note that the expenses incurred by the parent and recharged to the Branch include those related to the cost of human resources, lease and equipment and other miscellaneous operating expenses. As a consequence, no additional information on the nature of expenses has been included within the financial statements.

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

	2021	2020
	\$	\$
<hr/>		
<b><i>Reinsurance claims received</i></b>		
Other related entities	3,045,252	9,115,011
<b><i>Reinsurance commission received</i></b>		
Other related entities	2,584,612	3,650,517
<b><i>Reinsurance premium expense</i></b>		
Other related entities	19,333,938	18,277,977
<b><i>Reinsurance recoverable on incurred claims</i></b>		
Other related entities	8,558,465	15,793,385
<b><i>Deferred outwards reinsurance expenses</i></b>		
Other related entities	6,449,463	5,540,242
<b><i>Payment of other expenses</i></b>		
Ultimate Australian controlling entity	9,206,849	9,390,450
Other related entities	256,039	99,431

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

# ZURICH AUSTRALIAN INSURANCE LIMITED NEW ZEALAND BRANCH

## Notes to the financial statements For the year ended 31 December 2021

### 24. Related parties (*continued*)

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

(i) **Head office**

This branch is the New Zealand branch of an Australian operation, Zurich Australian Insurance Limited, which is an Australian registered insurance company.

(ii) **Controlling entities**

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

### 25. Credit rating of insurer

During 2021, Standard & Poor's has affirmed the credit rating of the Company with an AA- credit rating. This rating was assigned on 20 August 2021.

### 26. Reinsurance programme

The reinsurance strategy chosen to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy in 2021. It has the following characteristics:

- A maximum per risk net retention NZD equivalent to AUD 5 million for Property, Marine, Liability and Motor TPPD (Third Party Property Damage), NZD equivalent to AUD 2.5 million for Financial Lines, and NZD equivalent to AUD 1 million for Engineering; and
- A maximum per catastrophe event retention of NZD equivalent to AUD 5 million.

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

### 27. Capital management

(a) **Regulatory Capital**

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

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

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

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**

**Notes to the financial statements**

**For the year ended 31 December 2021**

**27. Capital management (continued)**

	Company 2021 AUD \$'000	Company 2020 AUD \$'000
<b>Eligible Tier 1 capital</b>		
Paid-up ordinary shares	97,065	97,065
General reserves	7,221	6,847
Retained earnings brought forward	314,287	433,558
Current year's earnings	84,589	(47,271)
Excess outstanding claims liability - net of tax	85,682	77,096
<b>Total</b>	<b>588,844</b>	<b>567,295</b>
<b>Less: deductions from Tier 1 capital</b>	<b>(16,574)</b>	<b>(18,312)</b>
<b>Total capital base</b>	<b>572,270</b>	<b>548,983</b>
Insurance Risk Capital Charge	185,446	174,460
Asset Risk Charge	216,472	217,965
Operational Risk Charge	38,022	38,840
Insurance Concentration Risk Charge	17,500	17,500
Less: Aggregation Benefit	(94,426)	(91,973)
<b>Prescribed capital amount (PCA)</b>	<b>363,014</b>	<b>356,792</b>
<b>Capital in excess of PCA (Solvency Margin)</b>	<b>209,256</b>	<b>192,191</b>
<b>PCA coverage</b>	<b>1.58</b>	<b>1.54</b>

The Company does not have any Tier 2 capital.

**28. Events occurring after reporting date**

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

**ZURICH AUSTRALIAN INSURANCE LIMITED  
NEW ZEALAND BRANCH**


**Directors Declaration  
For the year ended 31 December 2021**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 43 are in accordance with the *Companies Act 1993*, including:
  - (i) complying with Accounting Standards, the *Companies Act 1993* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Branch's financial position as at 31 December 2021 and of its performance, as represented by the results of its operations, changes in Head Office Account and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Branch will be able to pay its debts as and when they become due and payable.

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

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



\_\_\_\_\_  
P. Bedbrook  
Chairman



\_\_\_\_\_  
E Collins  
Director

Sydney  
23 March 2022



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## Independent auditor's report to the Shareholder of Zurich Australian Insurance Limited

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of the New Zealand Branch ("the Branch") of Zurich Australian Insurance Limited ("the Company") which comprise the balance sheet of the Branch as at 31 December 2021, and the statement of comprehensive income, statement of changes in head office account and cash flow statement for the year then ended of the Branch, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

#### Basis for opinion

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

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

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

Ernst & Young provides taxation and other assurance related services to the Branch. Partners and employees of our firm may deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch. We have no other relationship with, or interest in, the Branch.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material



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misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Valuation of Outstanding Claim Liability

### Why significant

At 31 December 2021, the Branch recorded an outstanding claims liability balance of \$49.6m. The valuation of the outstanding claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. The Branch's actuarial specialist determined the liability by considering different classes of business and the relevant model and assumptions applicable to each class.

We considered this to be a key audit matter because of the:

- financial significance of the outstanding claims liability
- degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include:
  - discount rates
  - assumed rates of inflation
  - assumptions as to the timing and amount of reported claim payments
  - assumptions in relation to the number and size of claims incurred but not reported
  - assumptions in relation to future claims handling expenses
  - allowance for risk in estimating future cash flows through the inclusion of a risk margin

The level of judgement involved in its estimation means that the valuation of the outstanding claims liability may change significantly due to changes in assumptions.

Details on the valuation techniques, inputs and assumptions used are disclosed in Note 3.

### How our audit addressed the key audit matter

Key audit procedures included the following:

- with the assistance of our in-house actuarial specialist we:
  - evaluated the competence, capabilities and objectivity of the Branch's actuary
  - gained an understanding of the work of the Branch's actuary and evaluated the appropriateness of their work, including their models
  - assessed the valuation methods and approach used by the Branch's actuary against the requirements of accounting standards and consistency with industry practice and the underlying claims exposure
  - assessed the assumption setting process, including data on the Branch's obligations to policyholders/beneficiaries and claims payment information used as inputs into the valuation models
  - reviewed the results of the experience investigations carried out by the Branch's actuary, to determine how they inform the key assumptions adopted
  - performed independent valuation projections on key valuation classes
  - performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liability
- assessed the adequacy of the related financial statement disclosures against the requirements of applicable financial reporting standards.

## Information other than the financial statements and auditor's report

The Directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

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





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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, 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.

### **Directors' responsibilities for the financial statements**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

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

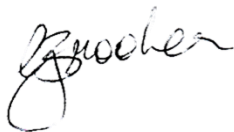
Signed,

A handwritten signature in black ink that reads 'David Jewell'.

David Jewell  
Sydney  
23 March 2022

# **Zurich Australian Insurance Limited (New Zealand Branch)**

Section 78 Report for the year ending  
31 December 2021



Zurich Australian  
Insurance Limited  
ABN 13 000 296 640  
Finance

Author	Garth Brooker, BComm BSc FIAA
Version	Final
Version Date	21 March 2022

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## Section 59 Exemption

A full licence for Zurich Australian Insurance Limited (“ZAIL”) to operate insurance business in New Zealand was granted by RBNZ on 15 July 2013. The modifications to the conditions of licence were issued by RBNZ on the 11 December 2015 with a Section 59 exemption effective as at and from 31 December 2015. For the purposes of S59 exemption, actuarial information relates to the following items within the financial statement:

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

Under the S59 exemption, ZAIL is exempted from compliance with the “Solvency Standard for Non-life Insurance Business” and is to report its solvency position under the APRA prudential standards.

## Scope

I, Garth Brooker, BComm BSc FIAA am the Appointed Actuary for the NZ Branch of Zurich Australian Insurance Company (‘ZAIL’). The Board of ZAIL has resolved that I prepare this Section 78 report in my capacity as Appointed Actuary of ZAIL (NZ Branch). I am an employee of ZAIL’s holding company, Zurich Financial Services Australia Limited (“ZFSA”). This report is in respect of the year ending 31 December 2021. The audited 2021 ZAIL annual financial statements are separately provided with this report.

## Compliance

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

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

## Reliance and Limitations

This report is based on the audited accounts for ZAIL (NZ Branch) for the year ending 31 December 2021 and reliance has also been placed upon information supplied by the management and staff of ZAIL.

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

In my opinion, information provided to me was adequate for the purposes of the S78 Report and all information requested was made to me on a sufficiently timely basis.

## Conclusion

I confirm I have reviewed the unearned premium, liability adequacy test, net outstanding claims liability, reinsurance and other recovery asset(s) disclosed in the 2021 ZAIL (NZ Branch) annual financial statements. For the deferred acquisition costs and deferred fee revenue, I have discussed with ZAIL's Financial Accounting Reporting team on the source of information, methodology, and control processes between the Ledger and source systems to ensure the veracity of the information at 31 December 2021.

In my opinion and from an actuarial perspective,

- the actuarial information (as specified in Section 77 of the Act) contained in the 2021 ZAIL (NZ Branch) annual financial statements has been appropriately included in those statements; and
- the actuarial information (as specified in Section 77 of the Act) used in the preparation of the 2021 ZAIL (NZ Branch) annual financial statements has been used appropriately; and
- in accordance with the S59 exemption, ZAIL has an adequate solvency margin (as measured by APRA's capital prudential requirement) as of 31 December 2021.