ZURICH

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)

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
ABN 13 000 296 640

118 Mount Street
North Sydney NSW 2060

PO Box 677
North Sydney NSW 2059

Telephone +61 2 9995 1492
Mobile: +61 499 782 120

E-mail stuart.farquharson@zurich.com.au

ZURICH AUSTRALIAN INSURANCE LIMITED

A.B.N. 13 000 296 640

ANNUAL REPORT

For the year ended 31 December 2021

Contents	**Page Number**

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

118 Mount Street
North Sydney
NSW 2060

A description of the nature of the entity's operations and its principal activities is included in the directors' report on pages 1 – 4.

The annual report was authorised for issue by the directors on 23 March 2022. The directors have the power to amend and reissue the report.

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' report

The directors present their report on Zurich Australian Insurance Limited ("the Company") for the year ended 31 December 2021.

Directors

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

Name	Role	Appointment date	Resignation date
Paul John Bedbrook	Director, Chairman	19 November 2014	
Elaine Collins	Director	1 April 2013	
John Francis Mulcahy	Director	24 August 2017	
Matthew Reilly	Director	22 November 2017	
Timothy Paul Plant	Director	1 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:

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

Principal activities

The principal activity of the Company during the year was underwriting various classes of General Insurance.

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

Dividends

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

	2021 $'000	2020 $'000
Ordinary dividend paid	72,000	-

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

	2021	2020
Revenues and other income		
Direct premium and inwards reinsurance revenue	1,200,405	1,241,988
Reinsurance and other recoveries	24,782	677,430
Investment income	29,492	41,420
Other income	12,667	528
Foreign exchange gain/(loss)	311	(821)
	1,267,657	1,960,545
Expenses		
Claims expense	(321,767)	(306,188)
Outwards reinsurance expense	(553,140)	(1,427,649)
Underwriting expenses	(278,507)	(304,634)
	(1,153,414)	(2,038,471)
Results		
Profit/(loss) before income tax	114,243	(77,926)

Review of results and operations

Matters subsequent to the end of the financial year

1) On 21 February 2022, the Full Court of the Federal Court of Australia passed judgement on the appeals in the COVID-19 second business interruption test case. The judgement substantially upheld the earlier Federal Court decision delivered in October 2021.The judgement of the Court concluded that for nine of the ten proceedings in the second test case, business interruption claims are not covered. Given this judgement, the company has reassessed its outstanding claims liability and associated reinsurance and other recoveries. This reassessment is reflected within the results of the Company for the year ended 31 December 2021.
2) From 21 February 2022, heavy rain and flash flooding has impacted the Queensland and NSW coastline, including Southeast Queensland, northern regions of NSW, and most recently the greater Sydney region. At the time of preparing the Annual Report, this East Coast Flood catastrophe event has subsided, however the claims impact of this event is still developing. A current early estimate of the Company's gross claims is approximately $105m. After reinsurance, net claims cost to the Company from this series of weather events is expected to range between $10m to $20m.

Other than above, 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:

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

Likely developments and expected results of operations

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

Insurance of officers

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

Agreements to indemnify

The Company's Constitution permits the Company to indemnify the directors and officers of the Company 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 Company, to the extent permitted by law.

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

Environmental regulations

Whilst the Company has assessed that there are no significant environmental regulations that apply to it, the Company 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.

Directors' report *(continued)*

Environmental regulations *(continued)*

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 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.

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.

Proceedings on behalf of the company

During the financial 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 Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Rounding of amounts to the nearest thousand dollars

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

Auditor

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

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

P J Bedbrook	E Collins
Chairman	Director

Sydney
23 March 2022

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's independence declaration to the directors of Zurich Australian Insurance Limited

As lead auditor for the audit of the financial report of Zurich Australian Insurance Limited for the financial year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

David Jewell

David Jewell
Partner
23 March 2022

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of comprehensive income
For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Premium revenue			
Direct premium revenue	4 b (iii)	1,196,811	1,238,783
Inwards reinsurance revenue		3,594	3,205
Outwards reinsurance expense		(321,767)	(306,188)
Net premium revenue		878,638	935,800
Claims expense	8	(553,140)	(1,427,649)
Reinsurance and other recoveries revenue	8	24,782	677,430
Net claims incurred	8	(528,358)	(750,219)
Gross movement in unexpired risk liability	20(b)	5,269	(5,269)
Net movement in unexpired risk liability		5,269	(5,269)
Acquisition costs		(144,864)	(171,871)
Other underwriting expenses		(133,643)	(132,763)
Underwriting expenses		(278,507)	(304,634)
Underwriting result		77,042	(124,322)
Investment Income	6	29,492	41,420
Other income	7	7,398	5,797
Net foreign exchange gain/(loss)		311	(821)
Profit/(loss) before income tax		114,243	(77,926)
Income tax (expense)/benefit	9(a)	(29,653)	30,655
Profit/(loss) for the year	24(c)	84,590	(47,271)
Other comprehensive income			
Exchange difference on translating foreign operation	24(b)	373	(959)
Other comprehensive income/(loss) for the year, net of tax		373	(959)
Total comprehensive income/(loss) for the year		84,963	(48,230)

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Balance sheet
As at 31 December 2021

	Notes	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	10	107,931	114,819
Receivables	11	371,273	350,745
Financial assets at fair value through profit or loss	12	1,686,274	1,511,313
Reinsurance and other recoveries	13	1,017,112	1,304,987
Deferred acquisition costs	14	75,749	49,347
Other assets	15	169,780	166,956
Deferred tax asset	16	16,901	18,611
Total Assets		3,445,020	3,516,778
Liabilities			
Payables	17	200,551	153,839
Provisions	18	14,878	10,238
Unearned premium	19	725,540	657,614
Unexpired risk liability	20(a)	-	5,269
Outstanding claims	21(a)	2,000,888	2,199,618
Total Liabilities		2,941,857	3,026,578
Net Assets		503,163	490,200
Equity			
Contributed equity	23(a)	97,065	97,065
Reserves	24(a)	7,222	6,849
Retained profits	24(c)	398,876	386,286
Total Equity		503,163	490,200

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

Statement of changes in equity
For the year ended 31 December 2021

	Contributed Equity $'000	Reserves $'000	Retained profits $'000	Total $'000
Balance at 1 January 2020	97,065	7,808	433,557	538,430
Total comprehensive loss for the year	-	(959)	(47,271)	(48,230)
Balance at 31 December 2020	97,065	6,849	386,286	490,200
Total comprehensive income for the year	-	373	84,590	84,963
Transactions with owners in their capacity as owners:				
Dividends paid to Australian parent entity	-	-	(72,000)	(72,000)
Balance as at 31 December 2021	97,065	7,222	398,876	503,163

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of cash flows
For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Net premiums and deposits received		898,445	873,166
Net claims and related payments		(440,714)	(634,056)
Payments to suppliers and employees		(280,234)	(280,685)
Interest received		490	2,448
Fees and commissions received		7,398	5,797
Payment/(receipt) to/from head tax entity		26,925	(27,310)
Other payments		(1,322)	(800)
Dividends received - non life insurance business		5,985	4,708
Net cash inflow/(outflow) from operating activities	25	216,973	(56,732)
Cash flows from financing activities			
Dividend paid to parent entity		(72,000)	-
Net cash outflow from financing activities		(72,000)	-
Cash flows from investing activities			
Net cash flows from (purchase)/sale of investment assets		(192,887)	(46,911)
Net interest received on investing activities		40,366	42,132
Net cash outflow from investing activities		(152,521)	(4,779)
Net decrease in cash held		(7,548)	(61,511)
Cash and cash equivalents at the beginning of the financial year		114,819	176,241
Effects of exchange rate changes on cash and cash equivalents		660	89
Cash and cash equivalents at the end of the financial year	10	107,931	114,819

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

1. Summary of significant accounting policies

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

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

Compliance with IFRS

The financial statements of Zurich Australian Insurance Limited (“the Company”) also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods. The Company’s assessment of the impact of these new standards and interpretations is set out below:

- AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard became effective from 1 January 2018, however in October 2016, the AASB published an amendment to AASB 4 which provides an option of temporary exemption from AASB 9 for entities that meet certain requirements (applied at the reporting entity level).

  The Company has assessed the applicability of the exemption and concluded that it meets the necessary requirements and is therefore exempt from AASB 9. AASB 4 will be superseded by the new insurance contracts standard AASB 17. Accordingly the temporary exemption is expected to cease to be applicable when the new insurance standard becomes effective.

- AASB 17 Insurance Contracts was adopted by the Australian Accounting Standards Board in July 2017 and subsequently amended in July 2020.

  AASB 17 will apply to insurance products of the Company from 1 January 2023. AASB 17 will apply to all insurance business and introduces a 'general model' for recognition and measurement of insurance contracts. The standard allows the application of a ‘simplified 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 Company will adopt the ‘simplified approach’ for all products. The first applicable reporting period for the Company will be for 31 December 2023, with comparative period for the year ending 31 December 2022 restated on a AASB 17 basis. AASB 17 will be applied retrospectively to all the Company’s insurance contacts on transition.

  Whilst the standard does not change the economics of the insurance business, the standard will impact the Company’s profit and loss, mostly through Discounting, Risk Adjustments and Onerous Contracts. The Company’s Capital requirements will also be impacted once the Australian Prudential Regulation Authority (APRA) standards are finalised.

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

New accounting standards and interpretations *(continued)*

The relevant key areas of consideration under AASB 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 AASB 17 compared to AASB 1023. The profit recognition is also expected to differ as a result of the more granular level of aggregation of contracts under AASB 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 Company's Onerous Contracts for local reporting is still being determined with the aim to complete this in the second half of 2022;
- Risk adjustments, which reflect uncertainties in the amount and timing of future cash flows, are required for insurance contracts under the current accounting standards (which refers to a risk margin under AASB 1023); The application of the AASB 17 requirements is one of substantial judgement and the Company is currently defining the methodology for determining the risk adjustment and, in doing so, is giving consideration to evolving industry interpretation. Given the Company'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;
- AASB 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 Company 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, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Company does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under AASB 1023;
- 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 company 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 company has assessed all its Reinsurance Contracts will apply the simplified approach across all its products.

The Company has performed an impact assessment which identified the key areas of expected impact. For Group financial reporting requirements, the Company 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 Company continues to assess the impact of the new requirements and emerging industry guidance on financial statements. The Company will be undertaking a system migration in April-2022, including being able to utilise the AASB 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.

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

New accounting standards and interpretations *(continued)*

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 AASB 17 cannot be reasonably estimated at the date of this report. The Company intends to disclose the potential financial impact of adopting AASB 17 once it is practical to provide a reliable estimate.

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.

Controlled entities

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

The Company has elected to apply AASB 127 Consolidated and Separate Financial Statements. These financial statements are separate financial statements and the Company is exempted from preparing consolidated financial statements. The Australian parent company, ZFSA, produces consolidated financial statements in accordance with the Australian Accounting Standards for public use, which can be obtained at 118 Mount Street, North Sydney, NSW, 2060.

Critical accounting estimates

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

Significant accounting policies

(a) Principles of general insurance contracts

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

(b) Insurance premium and related revenue

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

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

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

Significant accounting policies *(continued)*

(c) Fee and other revenue

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

(d) Dividend and interest income

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

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

(e) Insurance claims and related expenses

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

(f) Outwards reinsurance expense

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

(g) Income tax

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

The current income tax expense or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

Significant accounting policies *(continued)*

(g) Income tax *(continued)*

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

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

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

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

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

Under a separate tax funding agreement, the Company fully compensates ZFSA for any current tax payable assumed and is compensated by ZFSA for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to ZFSA under the tax consolidation legislation.

The funding amounts are determined by reference to the amounts recognised (notional tax) in the Company's financial statements.

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

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

For further details see Income Tax Note 9.

(h) Goods and services tax (GST)

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO and IRD is included as a current asset or current liability in the balance sheet.

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

Significant accounting policies *(continued)*

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

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

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

The results and financial position of foreign operations are translated into the presentation currency as follows:
- Assets and liabilities at closing rate at balance date;
- Income and expenses at year to date average exchange rate; and
- All resulting exchange differences are recognised as a separate component of equity.

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

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

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

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

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

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

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

Significant accounting policies *(continued)*

(l) Financial assets *(continued)*

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

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

(ii) Receivables

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

(m) Reinsurance and other recoveries

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

(n) Deferred acquisition costs

The fixed and variable costs of acquiring new business, acquisition costs, include commission, advertising, policy issue and underwriting costs, agency expenses and premium collection costs.

A portion of acquisition costs relating to unearned premium revenue is deferred and recognised as an asset, where it can be reliably measured and where it is probable that it will give rise to premium revenue that will be recognised in future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

(o) Impairment of assets

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

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

(p) Payables

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

(q) Provisions

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

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

Significant accounting policies *(continued)*

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

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

The future payments include those in relation to outstanding claims, IBNR, IBNER and their associated allocated costs as well as anticipated claims handling costs.

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

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

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, net of reinsurance, then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see Note 21. The entire deficiency, net of reinsurance, is recognised immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

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

(v) Comparative information
Where necessary, the amounts shown for the previous year have been reclassified to facilitate comparison.

2. Critical accounting judgements and estimates

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

(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 Company.

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

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

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

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

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

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

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

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

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

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

Liabilities are evaluated gross of any reinsurance and non-reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable based upon the gross liabilities.

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

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

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 the insurance industry, and continues to give rise to uncertainty and volatility in global economies and markets. In determining the impact of COVID-19 on the 2021 financial results, the Company has calculated its claims liability in line with the critical accounting judgements noted above, 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 fell by $478m in 2020 compared to the prior financial year, and has partially recovered by $102m in 2021 compared to 2020. COVID-19 has also impacted claims, with the company recording estimated losses of $113m gross and $30m net to date (2020: $253m gross and $35m net), across business interruption, travel losses, and potential liability claims. This estimate has been based on a detailed review of the Company's exposures using scenario analysis under a variety of macroeconomic and legislative outcomes. Uncertainty remains around potential claims emergence from property business interruption claims and certain long-tail classes and the Company 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 Company may not receive amounts due to it and these amounts can be reliably measured.

3. Actuarial assumptions and methods

The Company writes both short-tailed and long-tailed business. The Appointed Actuary, James Goodchild (MA 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.

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.

3. Actuarial assumptions and methods *(continued)*

All these methods rely on future development being consistent with historical development and are thus subject to uncertainty surrounding changes to these patterns from whatever cause. In addition, there is uncertainty arising from the underlying assumptions for future wage inflation and superimposed inflation and interest rates. Significant events, such as catastrophes close to the balance sheet date, emergence of Design & Construction claims and Business Interruption claims arising from COVID-19 required specialised methods, also increasing the level of uncertainty. The presence of asbestos and silicosis 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	3.1 years	0.6 years	3.1 years	0.7 years
Interest rate for discounting	0.76%	0.23%	0.22%	0.05%
Wage inflation	3.75% for asbestos related reserves otherwise 2.00%	N/A	3.75% for asbestos related reserves otherwise 2.00%	N/A
Superimposed inflation	0 to 6.0%	N/A	0 to 6.0%	N/A

3. Actuarial assumptions and methods *(continued)*

(b) Sensitivity analysis – insurance contracts

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

Impact of changes in key variables

As at 31 December 2021	**Movement in Variable**	**Movement in Profit/(Loss)** 2021 $'000	2020 $'000
Short-tail and long-tail			
Average weighted term to settlement	0.5 years	1,006	(1,092)
	-0.5 years	(1,176)	900
Interest rate for discounting	1%	15,897	15,442
	-1%	(17,019)	N/A
Wage inflation and superimposed inflation rates	1%	(3,229)	(4,766)
	-1%	2,969	4,398
Financial assets			
Shift in yield curve	1%	(30,091)	(31,130)
	-1%	30,091	31,130
Equity prices	20%	27,570	22,231
	-20%	(27,570)	(22,231)

4. Management of risk

The Company's activities expose it to a variety of risks, including those arising from COVID-19, that could potentially impact the financial standing of the Company. This note and Note 5 Financial risk management, provide an overview of the processes and considerations undertaken in managing these risks.

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

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

(a) Risk management framework

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

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

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

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

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

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

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

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

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

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

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

The RMS and REMS have been approved by the Board.

Key aspects of the processes implemented to manage risks arising from insurance contracts include:

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

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

(ii) Terms and conditions of insurance business

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

(iii) Concentration of insurance risk

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

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

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

	2021 $'000	2020 $'000
Property	315,280	342,804
Motor	355,589	346,354
Marine & aviation	71,698	44,395
Public & product liability	134,204	126,311
Employers' liability	58,387	53,398
Professional indemnity	92,545	90,227
Travel	64,677	145,991
Other	104,431	89,303
Total direct premium revenue	1,196,811	1,238,783

(iv) Development of claims

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

(v) Impact of investment returns on pricing

The value of an insurance contract to the Company is in part driven by the investment returns achievable on premium paid. Typically this is estimated by the risk-free interest rate currently available in the market. Prior to business being written, the risk is managed by regularly repricing product as interest rates materially change. Insurance and reinsurance contracts are generally entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

4. Management of risk *(continued)*

***(c)* Operational risks**

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

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and controls to manage operational risks are in place. All functional business areas within the Company undertake a risk assessment to identify, assess, manage and monitor operational risk. Risk registers are developed and recorded in a central database for each functional business area, including identifying control owners and action plans for improvement of controls. The risk registers are regularly reviewed, updated and improved. Some functions are also subject to operational key controls which sets a minimum framework of operational controls. Risk Management facilitates the formal review of 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 Company considers controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls over financial reporting, internal control efforts also include related operational and compliance controls. The Company continues to strengthen the robustness, consistency, documentation and assessment of internal controls for business processes. Operational effectiveness of key controls is assessed by self assessment and independent testing on relevant controls supporting the financial statements.

An operational risk of particular relevance to this report is the risk of misstatement of financial statements.

5. Financial risk management

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

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

(a) Market risk

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

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, credit spreads or foreign exchange rates.

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

The management of market risk, including asset and liability management is overseen by the CIMC. The ultimate controlling entity, Zurich Insurance Group Ltd's, risk policy provides constraints on the mix of investment assets.

On-balance sheet

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

Off-balance sheet

The Company has potential financial liabilities which may arise from certain contingencies disclosed in Note 27. No material losses are anticipated in respect of any of those contingencies, and the net fair value is assessed as an immaterial amount.

(b) Credit risk

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

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

i) The assumption of credit risk through investments in corporate debt;
ii) Credit risk created through reinsurance, where a reinsurance asset represents an obligation of the reinsurer to the entity; and
iii) Receivables within the business, where the entity is owed payment or services by a third party. Most typically this is the receipt of invoiced funds.

The management of credit risk is overseen by the CIMC.

i) Financial assets

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

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

Australia and New Zealand Banking Group Limited AA- (2020: A1+)
Westpac Banking Corporation AA- (2020: A1+)
HSBC Bank Australia Ltd A+ (2020: A1)

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

	2021 $'000	2020 $'000
Debt securities (held directly)		
AAA	281,835	281,390
AA	477,780	575,227
A	363,461	229,288
BBB	318,597	221,173
Total debt securities	1,441,673	1,307,078
Current debt securities	318,721	331,674
Non-current debt securities	1,122,952	975,404
Total debt securities	1,441,673	1,307,078

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

	2021 $'000	2020 $'000
Counterparty		
Australia and New Zealand Banking Group	100,311	66,584
Western Australia Treasury Corporation	75,762	65,170
South Australia Government of Australia	70,885	72,367
Commonwealth Government of Australia	70,081	117,102
Queensland Treasury Corporation	47,812	56,920
	364,851	378,143

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

ii) Reinsurance receivables

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

Reinsurance receivable on incurred claims disclosed in Note 13 are analysed in the table below using S&P rating.

	2021 $'000	2020 $'000
AAA or AA	608,570	962,186
A	161,285	59,283
BBB or unrated	9,221	20,512
Total reinsurance receivable on incurred claims (excluding risk margin and other recoveries)	779,076	1,041,981

Of the total Reinsurance receivable on incurred claims:

- 14% (2020: 10%) of the reinsurance receivable on incurred claims had a third party reinsurer as a counter party; and
- 86% (2020: 90%) 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 $205 million (2020: $172 million) were issued by Australian banks on behalf of other entities in the Zurich Group in favour of the Company. These letters of credit relate to all reinsurance contracts entered into between the Company and other entities in the Zurich Group on or after 31 December 2008. $205 million is valid until amended or cancelled. As at 31 December 2021, $205 million (2020: $172 million) of reinsurance recoverable due from other entities in the Zurich Group were secured under these letters of credit.

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

A bank guarantee of $10 million (2020: $10 million) in the favour of the Company is in place for non-Zurich Group third party reinsurer obligations.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

iii) Business receivables

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

	2021 $'000	2020 $'000
Neither past due nor impaired (90 day credit terms)	271,351	266,371
Amounts past due but not impaired to 30 days	46,116	27,611
Amounts past due but not impaired 31 to 90 days	7,362	6,502
Amounts past due but not impaired over 90 days	14,707	18,665
Provisions for impairment	(2,746)	(2,442)
Total premiums receivable	336,790	316,707

(c) Liquidity risk

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

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

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

2021	Carrying amount (undiscounted)	Expected cash flows (undiscounted)				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding claims (Note 13, 21)	889,737	364,667	397,690	98,266	18,333	10,781
Premium liability	304,387	129,564	151,477	21,659	1,617	70
Total	1,194,124	494,231	549,167	119,925	19,950	10,851

2020	Carrying amount (undiscounted)	Expected cash flows (undiscounted)				
		0-1 yrs	1-5 yrs	5-10yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding claims (Note 13, 21)	803,449	326,432	364,106	88,310	15,123	9,478
Premium liability	289,419	119,210	143,498	25,089	1,570	52
Total	1,092,868	445,642	507,604	113,399	16,693	9,530

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

5. Financial risk management *(continued)*

(d) Derivative holdings

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

(e) Fair value measurements

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

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

- Financial assets at fair value through profit or loss

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

At 31 December 2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurement				
Financial assets				
Equity securities	166,949	-	-	169,949
Debt securities	-	1,364,437	-	1,364,437
Unit trusts	29,845	-	-	29,845
Term deposit	77,236	-	-	77,236
Shares in controlled entities	-	-	47,807	47,807
Total investments	274,030	1,364,437	47,807	1,686,274

At 31 December 2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurement				
Financial assets				
Equity securities	129,041	-	-	129,041
Debt securities	-	1,257,622	-	1,257,622
Unit trusts	24,294	5,463	-	29,757
Term deposit	49,456	-	-	49,456
Shares in controlled entities	-	-	45,437	45,437
Total investments	202,791	1,263,085	45,437	1,511,313

Fair value measurements

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

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

5. Financial risk management *(continued)*

(e) Fair value measurements *(continued)*

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

Specific valuation techniques used to value financial instruments include:

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

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

The Company's shares in controlled entities represent its 60% investment in a property company. This investment is valued at 60% of the net asset value of the property company. ZFSA engages external, independent and qualified valuers to determine the fair value of the Group's property asset at the end of every financial year. As at 31 December 2021, the fair value of the property asset has been determined by CBRE, which management adopts as the valuation.

The following table presents the changes in level 3 instruments.

	2021 Shares in controlled entities $'000	2020 Shares in controlled entities $'000
Opening balance 1 January	45,437	43,071
Gains recognised in statement of comprehensive income	2,370	2,366
Closing balance 31 December	47,807	45,437

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

	2021	2020
	$'000	$'000
6. Investment income		
Dividends	5,889	4,901
Interest	41,530	43,623
Losses on financial assets at fair value through profit or loss	(17,927)	(7,104)
Total investment income	29,492	41,420
7. Other income		
Management fees	4,764	3,448
Other income	2,634	2,349
Total other income	7,398	5,797
8. Net claims incurred		
Gross claims incurred and related expenses:		
- Direct	(580,738)	(1,379,249)
- Inwards reinsurance	(957)	(28,621)
- Discount to present value	28,555	(19,779)
	(553,140)	(1,427,649)
Reinsurance and other recoveries:		
- Direct	32,929	640,895
- Inwards reinsurance	1,525	27,267
- Discount to present value	(9,672)	9,268
	24,782	677,430
Net incurred claims	(528,358)	(750,219)

9. Income tax

	2021 $'000	2020 $'000
(a) Income tax expense		
Current tax	27,493	(27,789)
Deferred tax	1,710	(2,866)
Over provision in prior years	450	-
Total income tax expense/(benefit)	29,653	(30,655)
Deferred income tax (revenue)/ expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (Note 16)	1,935	(3,044)
(Decrease)/increase in deferred tax liabilities (Note 22)	(225)	178
	1,710	(2,866)

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

	2021	2020
Profit/(Loss) before tax	114,243	(77,926)
Tax at the Australian tax rate of 30% (2020 - 30%)	34,273	(23,378)
Tax offset for franked dividends	(1,279)	(953)
Value of deferred tax assets relating to unused tax losses not recognised	(2,246)	(2,179)
Other	(1,545)	(4,145)
Over provision in prior year	450	-
Income tax expense/(benefit)	29,653	(30,655)

(c) Temporary differences relating to investment in controlled entities

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

(d) Tax consolidation legislation

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

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

10. Cash and cash equivalents	2021 $'000	2020 $'000
Cash at bank and on hand	103,910	86,468
Term deposit (less than three months)	4,021	28,351
Total cash and cash equivalents	107,931	114,819

11. Receivables

Current		
Premiums receivable	228,087	200,507
Unclosed premiums	111,449	118,642
	339,536	319,149
Provision for impairment	(2,746)	(2,442)
	336,790	316,707
Investment income accrued and receivable	9,259	8,253
Due from related entities (Note 28 (c))	17,025	1,728
Intercompany receivable from head tax entity (Note 28(c))	-	23,945
Other trade debtors	8,199	112
Total current receivables	371,273	350,745

12. Financial assets at fair value through profit or loss

	2021 $'000	2020 $'000
Current		
Term deposit (greater than three months)	77,236	49,456
Equity securities	166,949	129,041
Government and semi-government bonds	105,550	113,106
Unit trusts	29,845	29,757
Bonds - Other corporate	135,935	169,113
	515,515	490,473
Non-current		
Government and semi-government bonds	217,555	286,259
Bonds - Other corporate	905,397	689,144
Shares in controlled entities	47,807	45,437
	1,170,759	1,020,840
Total financial assets at fair value through profit or loss	1,686,274	1,511,313

13. Reinsurance and other recoveries

	2021 $'000	2020 $'000
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	24,673	53,064
- on outstanding claims	767,696	994,498
	792,369	1,047,562
Discount to present value	(13,293)	(5,581)
Reinsurance receivable on incurred claims	779,076	1,041,981
Expected future other recoveries undiscounted		
- on outstanding claims	97,739	95,543
Discount to present value	(820)	(235)
	96,919	95,308
Risk Margin	143,268	168,474
Discount to present value	(2,151)	(776)
	141,117	167,698
Reinsurance and other recoveries receivables on incurred claims	1,017,112	1,304,987
Current	587,037	678,262
Non-current	430,075	626,725
	1,017,112	1,304,987

14. Deferred acquisition costs

	2021	2020
Deferred acquisitions costs as at 1 January	49,347	122,166
Acquisition costs deferred	147,400	87,193
Amortisation charged to income	(122,129)	(158,072)
Write back/(down) for premium deficiency	1,131	(1,940)
Deferred acquisitions costs as at 31 December	75,749	49,347
Current	69,064	45,803
Non-current	6,685	3,544
	75,749	49,347

15. Other assets

	2021 $'000	2020 $'000
Deferred outwards reinsurance expense	155,503	153,357
Related party prepayments	1,124	-
Other prepaid expenses	1,322	1,608
Emergency services levy	11,831	11,991
	169,780	166,956
Current	139,017	126,666
Non-current	30,763	40,290
	169,780	166,956

16. Deferred tax asset

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

	2021 $'000	2020 $'000
Provision for impairment	-	(1,894)
Accrued expenses	130	82
Provision for deferred acquisition cost write-off and unexpired risk liability	4,403	5,946
Indirect Claim adjustment expense	12,647	12,551
Tax losses	(367)	2,063
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 22)	88	(137)
Net deferred tax asset	16,901	18,611

Deferred Tax Assets Movements:

	2021 $'000	2020 $'000
Opening balance at 1 January	18,611	15,745
Charged to Income Statement (Note 9)	(1,935)	3,044
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 22)	225	(178)
Closing balance at 31 December	16,901	18,611

The Company only recognises deferred tax assets in respect of unused tax losses incurred by the New Zealand branch to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Company has undertaken a prima-facie analysis of future taxable profits to determine the likelihood of being able to recover the unused tax losses over the short term. The Company has concluded that, based on profit history and the uncertainty of future profits, no deferred tax asset should be recognised. The deferred tax asset that has not been recognised as at 31 December 2021 is $8.3 million (2020: $10.5 million).

17. Payables

	2021 $'000	2020 $'000
Current		
Reinsurance creditors	47,481	47,482
Due to related entities (Note 28 (d))	61,698	62,084
Commission payable	39,069	29,142
Other payables	25,378	15,131
Intercompany payable to head tax entity (Note 28 (d))	26,925	-
	200,551	153,839

18. Provisions

	2021	2020
Current		
Emergency services levy	4,990	2,614
Stamp duty	9,157	6,821
Other	731	803
	14,878	10,238

2021 Movements in provisions	Emergency Service Levy $'000	Stamp duty $'000	Other $'000	Total $'000
Current				
Carrying amount at start of year	2,614	6,821	803	10,238
Additional provision recognised	31,128	94,524	372	126,024
Payments/other sacrifices of economic benefits	(28,752)	(92,188)	(446)	(121,386)
Exchange rate adjustment	-	-	2	2
Carrying amount at end of year	4,990	9,157	731	14,878

2020 Movements in provisions	Emergency Service Levy $'000	Stamp duty $'000	Other $'000	Total $'000
Current				
Carrying amount at start of year	5,300	7,397	525	13,222
Additional provision recognised	26,037	83,641	379	110,057
Payments/other sacrifices of economic benefits	(28,732)	(84,217)	(99)	(113,048)
Exchange rate adjustment	9	-	(2)	7
Carrying amount at end of year	2,614	6,821	803	10,238

19. Unearned premium liability

	2021 $'000	2020 $'000
Unearned premium liability as at 1 January	657,614	815,810
Premiums deferred during the year	1,268,330	1,083,792
Premiums earned during the year	(1,200,404)	(1,241,988)
Unearned premium liability as at 31 December	725,540	657,614
Current	668,204	600,385
Non-current	57,336	57,229
	725,540	657,614

20. Unexpired risk liability

(a) Unexpired risk liability

	2021 $'000	2020 $'000
Unexpired risk liability as at 1 January	5,269	-
(Release)/recognition of unexpired risk liability in the period	(5,269)	5,269
Unexpired risk liability as at 31 December	-	5,269

(b) Deficiency recognised in the statement of comprehensive income

	2021 $'000	2020 $'000
Movement in unexpired risk liability	5,269	(5,269)
Write back/(down) of deferred acquisition costs (Note 14)	1,131	(1,940)
Total amount recognised in the Statement of Comprehensive Income	6,400	(7,209)

(c) Liability adequacy test

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

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

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 21. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2021 (2020: 85%).

The LAT performed at reporting date resulted in a deficiency of $13.7 million (2020: $20.1 million). The following tables show the LAT deficiency of the Australia long-tail and New Zealand long-tail segments.

20. Unexpired risk liability *(continued)*

(c) Liability adequacy test

2021	Australia Long-Tail	New Zealand Long-Tail	Total
	$'000	$'000	$'000
Gross unearned premium	190,481	-	190,481
Reinsurance unearned premium	(44,424)	-	(44,424)
Unearned premium liability	146,057	-	146,057
Gross deferred acquisition costs	(24,494)	-	(24,494)
Reinsurance deferred acquisition costs	5,598	-	5,598
Deferred acquisition costs before LAT write down	(18,896)	-	(18,896)
Net premiums liabilities	127,161	-	127,161
Discounted central estimate	115,996	-	115,996
Discounted risk margin	24,891	-	24,891
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	140,887	-	140,887
Total deficiency	**(13,726)**	**-**	**(13,726)**

2020	Australia Long-Tail	New Zealand Long-Tail	Total
	$'000	$'000	$'000
Gross unearned premium	186,999	9,291	196,290
Reinsurance unearned premium	(50,131)	(1,624)	(51,755)
Unearned premium liability	136,868	7,667	144,535
Gross deferred acquisition costs	(21,879)	(1,074)	(22,953)
Reinsurance deferred acquisition costs	7,328	485	7,813
Deferred acquisition costs before LAT write down	(14,551)	(589)	(15,140)
Net premiums liabilities	122,317	7,078	129,395
Discounted central estimate	115,686	6,305	121,991
Discounted risk margin	26,451	1,079	27,530
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	142,137	7,384	149,521
Total deficiency	**(19,820)**	**(306)**	**(20,126)**

21. Outstanding claims

(a) Outstanding claims liability

	2021 $'000	2020 $'000
Central estimate	1,712,593	1,851,320
Discount to present value	(37,473)	(13,954)
	1,675,120	1,837,366
Claims handling costs	42,579	42,170
Discount to present value	(1,162)	(620)
	41,417	41,550
Risk margin	292,111	323,967
Discount to present value	(7,760)	(3,265)
	284,351	320,702
Gross outstanding claims liability	2,000,888	2,199,618
Undiscounted expected future claims payments	2,047,284	2,217,457
Discount to present value	(46,396)	(17,839)
Liability for outstanding claims	2,000,888	2,199,618
Current	1,014,950	1,034,970
Non-current	985,938	1,164,648
	2,000,888	2,199,618

21. Outstanding claims *(continued)*

(b) Risk margin

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

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall outstanding claims liability which is intended to have an 85% probability of adequacy in 2021 (2020: 85%).

Risk margins applied

APRA class	2021 Net Outstanding Claims Margin	2020 Net Outstanding Claims Margin
Short tail		
Domestic motor vehicle	4.3%	3.5%
Commercial motor vehicle	5.4%	5.4%
Houseowners/householders	9.6%	10.5%
Travel	5.7%	8.8%
Fire and ISR (incl inwards treaty)	17.7%	19.4%
Other	12.7%	13.0%
Marine & aviation	12.5%	12.8%
Other accident	10.4%	12.2%
Average short tail	**11.5%**	**12.4%**
Long tail		
Employers' liability	15.7%	17.1%
Public & product liability (incl inwards treaty)	17.6%	18.2%
Professional indemnity	21.1%	29.4%
Average long tail	**18.3%**	**21.7%**
Overall	**16.6%**	**19.3%**

21. Outstanding claims *(continued)*

(c) Reconciliation of movement in discounted outstanding claim liability

	2021 Net $'000	2020 Net $'000
Brought forward	947,695	829,551
Impact of change in assumptions	(5,511)	84,631
Margin release on prior periods	(45,434)	(1,667)
Other	(12,355)	17,742
Change in prior year estimates	(63,300)	100,706
Claims incurred on events in current year	591,658	649,513
Incurred claims recognised in the income statement	528,358	750,219
Exchange rate adjustment	311	(981)
Claim payments during the year	(467,915)	(631,094)
Carried forward	1,008,449	947,695

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

21. Outstanding claims *(continued)*

(d) Claims development tables

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

(i) Gross incurred

Accident year	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
End of accident year	393,147	426,563	443,477	398,537	341,070	228,280	311,482	234,342	255,985	256,362	
One year later	394,685	438,049	469,570	391,080	398,089	294,421	296,458	279,560	232,122		
Two years later	374,112	411,003	440,308	340,821	354,391	257,533	312,723	277,309			
Three years later	351,830	364,943	407,921	237,272	356,127	324,955	316,759				
Four years later	328,221	371,132	350,220	220,725	348,261	310,515					
Five years later	308,569	302,424	336,522	226,457	328,603						
Six years later	283,404	300,048	364,875	230,120							
Seven years later	286,237	302,857	326,536								
Eight years later	281,698	296,567									
Nine years later	279,278										
Current estimate of incurred	279,278	296,567	326,536	230,120	328,603	310,515	316,759	277,309	232,122	256,362	2,854,171
Cumulative payments	269,718	285,001	301,815	206,472	277,400	173,754	100,777	84,911	37,403	15,424	1,752,675
Outstanding claims - undiscounted	9,560	11,566	24,721	23,648	51,203	136,761	215,982	192,398	194,719	240,938	1,101,496
Discount	(53)	(106)	(283)	(391)	(875)	(2,518)	(4,483)	(5,023)	(6,611)	(8,448)	(28,791)
Claim handling expense	214	212	489	445	888	1,152	4,330	4,014	4,734	5,888	22,366
2010 & Prior											220,290
Outstanding claims - discounted											1,315,361
Short tail outstanding claims											685,527
Total gross											2,000,888

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

21. Outstanding claims *(continued)*

(d) Claims development tables *(continued)*

(ii) Net incurred

Accident year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
End of accident year	319,912	330,730	341,669	295,759	252,753	106,483	162,046	149,987	170,496	183,778	
One year later	308,711	343,052	343,332	308,130	265,247	108,522	158,814	196,499	159,818		
Two years later	303,197	330,480	318,741	270,866	198,067	103,056	167,542	188,471			
Three years later	296,662	300,923	290,386	163,271	183,329	109,245	189,058				
Four years later	286,685	299,079	209,693	149,075	186,957	103,012					
Five years later	274,753	235,297	196,105	158,524	172,716						
Six years later	243,743	233,925	198,032	158,225							
Seven years later	247,117	235,132	198,378								
Eight years later	244,689	233,504									
Nine years later	243,811										
Current estimate of incurred	243,811	233,504	198,378	158,225	172,716	103,012	189,058	188,471	159,818	183,778	1,830,771
Cumulative payments	237,261	224,023	182,441	145,567	147,264	79,784	80,765	67,581	35,420	14,714	1,214,820
Outstanding claims - undiscounted	6,550	9,481	15,937	12,658	25,452	23,228	108,293	120,890	124,398	169,064	615,951
Discount	(36)	(83)	(155)	(175)	(420)	(480)	(2,163)	(3,089)	(3,924)	(5,950)	(16,475)
Claim handling expense	214	212	489	445	888	1,152	4,330	4,014	4,734	5,888	22,366
2010 & Prior											138,380
Outstanding claims - discounted											760,222
Short tail outstanding claims											248,227
Total net											1,008,449

22. Deferred tax liability

	2021 $'000	2020 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for deferred acquisition cost write-off and unexpired risk liability	(88)	137
Set-off of deferred tax assets pursuant to set-off provisions	88	(137)
Net deferred tax liability	-	-

Deferred tax liabilities movements:

	2021 $'000	2020 $'000
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 9)	(225)	178
Set-off of deferred tax assets pursuant to set off provisions	225	(178)
Closing balance at 31 December	-	-

23. Contributed equity

	2021 $'000	2020 $'000
(a) Share capital		
Ordinary shares - fully paid	97,065	97,065

(b) Movements in ordinary share capital

	No. of shares '000
Closing Balance 31 December 2020	13,236
Closing Balance 31 December 2021	13,236

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

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

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

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

24. Reserves and retained profits

	2021 $'000	2020 $'000
a) Composition		
Foreign currency translation reserve	7,222	6,849
b) Movements:		
Foreign currency translation reserve		
Balance at beginning of the year	6,849	7,808
Currency translation differences arising during the year	373	(959)
Balance at the end of the year	7,222	6,849
c) Retained profits		
Retained profits at the beginning of the year	386,286	433,557
Profit/(loss) attributable to the member of Zurich Australian Insurance Limited	84,590	(47,271)
Dividend paid	(72,000)	-
Retained profits at the end of the year	398,876	386,286

25. Cash flow statement reconciliation

	2021 $'000	2020 $'000
Profit/(loss) from ordinary activities after income tax	84,590	(47,271)
Bad and doubtful debts provisions	304	(315)
Net proceeds from sale of investments	17,927	7,103
Interest relating to investment activities	(40,366)	(42,132)
Net foreign exchange difference	(287)	(1,047)
(Increase)/decrease in operating assets:		
Premiums outstanding	(20,387)	8,130
Outstanding interest, dividends & rents	(1,006)	340
Deferred acquisition costs	(26,402)	72,820
Reinsurance and other recoveries	287,874	(328,019)
Other receivables	562	44,993
Deferred tax asset	1,710	(2,866)
Other assets	(2,824)	4,490
Increase/(decrease) in operating liabilities:		
Provisions for tax	26,925	(29,541)
Unearned premiums	67,926	(158,196)
Unexpired risk liability	(5,269)	5,269
Claims outstanding	(198,731)	438,892
Other provisions & payables	24,427	(29,382)
Net cash inflows/(outflows) from operating activities	216,973	(56,732)

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

26. Remuneration of auditors

	2021	2020
	$	$
Remuneration for Ernst & Young audit or review of the financial reports of the company*		
Statutory audit fees	384,174	391,518
	384,174	391,518
Remuneration for Ernst & Young Australia other services:		
Other regulatory and assurance services	384,174	135,191
Total other services	384,174	135,191

* Ernst & Young Australia (EY) replaced PricewaterhouseCoopers Australia (PwC) as the Auditor of the Company on 27 July 2021. The 2021 fees were paid to EY and the 2020 comparatives were paid to PwC.

27. Contingent liabilities

	2021	2020
	$'000	$'000
The company had the following unsecured contingent liabilities for which no provision had been made in the financial statements:		
Allstate Insurance Company	79	89
Letter of Credit - ZIC Canada	460	492
	539	581

Details of significant contingent liabilities are as follows:

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

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

(c) During October 2021 the Australian Securities and Investments Commission (ASIC) requested selected general insurers to undertake a review of their pricing practices, systems and controls to confirm whether all discounts or price rewards promised on all retail general insurance products over the last five years have been fully delivered to customers. Whilst ZAIL was not selected, a comprehensive review for ZAIL is to be undertaken. The full extent of exposures to and impacts on the Company are at this stage uncertain. The Company is closely monitoring this matter.

28. Related parties

(a) Directors

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

Paul John Bedbrook
Elaine Collins
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 2020 is set out below.

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

	Notes	2021	2020
		$	$
Short-term employee benefits		1,586,974	1,292,394
Termination benefits		97,990	-
Share-based payments / benefits	(i)	1,066,645	507,283[1]
		2,751,609	1,799,677

(i) Share based payments / benefits

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

[1] Comparative information have been restated to align with current year calculations.

28. Related parties *(continued)*

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

	2021 $	2020 $
Current		
Ultimate Australian controlling entity	3,652,564	1,728,021
Other related entities	13,372,552	-
Intercompany receivable from head tax entity	-	23,944,582
Total receivables from related entities	17,025,116	25,672,603

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

	2021 $	2020 $
Current		
Ultimate Australian controlling entity	27,349,566	18,565,633
Other related entities	34,348,447	43,518,159
Intercompany payable to head tax entity	26,924,503	-
Total payable to related entities	88,622,516	62,083,792

Expenses incurred by the parent and recharged to the Company 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.

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

28. Related parties *(continued)*

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

	2021 $	2020 $
Reinsurance claims received		
Other related entities	178,762,373	270,838,328
Reinsurance claims Paid		
Other related entities	1,163,122	3,513,527
Reinsurance commission received		
Other related entities	25,700,981	33,400,070
Reinsurance premium expenses		
Other related entities	258,323,352	252,022,881
Reinsurance premium receipts		
Other related entities	82,500	184,723
Reinsurance receivable on incurred claims		
Other related entities	714,134,222	967,834,803
Deferred outwards reinsurance expenses		
Other related entities	71,595,258	63,285,551
Investment expenses		
Other related entities	438,772	509,752
Payment of other expenses		
Ultimate Australia controlling entity	141,336,385	141,255,706
Other related entities	1,514,704	856,755
Receipt of other income		
Other related entities	-	15,000
Dividend payment		
Ultimate Australia controlling entity	72,000,000	-

28. Related parties *(continued)*

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

(i) Controlling entities

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

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

(ii) Other related entities

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

29. Investments in controlled entities

	Class of shares	Equity holding		Carrying amount		Principle activities
		2021	2020	2021	2020	
Controlled entities		%	%	$'000	$'000	
Zurich Australian Insurance Properties Pty Limited	Ordinary	60	60	47,807	45,437	Property management
				47,807	45,437	

Note: All entities are incorporated in Australia.

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

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

30. Capital adequacy for Zurich Australian Insurance Limited

(a) Regulatory capital

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

The Company set its long-term target capital ranges to a total capital adequacy multiple position equivalent to 1.45-1.65 times the PCA, compared to a proposed regulatory requirement of 1.0 times. The capital adequacy multiple for the Company for 2021 is 1.58 (2020: 1.54).

	2021 $'000	2020 $'000
Eligible tier 1 capital		
Paid-up ordinary shares	97,065	97,065
General reserves	7,221	6,847
Retained earnings brought forward	314,287	433,558
Current years earnings	84,589	(47,271)
Excess outstanding claims liability - net of tax	85,682	77,096
Total	588,844	567,295
Less: deductions from tier 1 capital	(16,574)	(18,312)
Total capital base	572,270	548,983
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 capital charge	17,500	17,500
Less: aggregation benefit	(94,426)	(91,973)
Prescribed capital amount (PCA)	363,014	356,792
Capital in excess of PCA	209,256	192,191
PCA coverage	1.58	1.54

The Company does not have any Tier 2 capital.

The liability required by GPS 115 for prudential reporting purposes differs from accounting purposes primarily because GPS 115 requires a prudential margin with a sufficiency of 75% for outstanding claims and premium liabilities. The directors have adopted a liability that exceeds this requirement by $85.7 million (2020: $77.1 million).

31. Events occurring after reporting date

1) On 21 February 2022, the Full Court of the Federal Court of Australia passed judgement on the appeals in the COVID-19 second business interruption test case. The judgement substantially upheld the earlier Federal Court decision delivered in October 2021.The judgement of the Court concluded that for nine of the ten proceedings in the second test case, business interruption claims are not covered. Given this judgement, the company has reassessed its outstanding claims liability and associated reinsurance and other recoveries. This reassessment is reflected within the results of the Company for the year ended 31 December 2021.
2) From 21 February 2022, heavy rain and flash flooding has impacted the Queensland and NSW coastline, including Southeast Queensland, northern regions of NSW, and most recently the greater Sydney region. At the time of preparing the Annual Report, this East Coast Flood catastrophe event has subsided, however the claims impact of this event is still developing. A current early estimate of the Company's gross claims is approximately $105m. After reinsurance, net claims cost to the Company from this series of weather events is expected to range between $10m to $20m.

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 5 to 55 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Company's financial position as at 31 December 2021 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; andz

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

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

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

P J Bedbrook
Chairman

E. Collins

E Collins
Director

Sydney
23 March 2022

Building a better
working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

Opinion

We have audited the financial report of Zurich Australian Insurance Limited (the Company), which comprises the balance sheet as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the Company's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We are also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

David Jewell
Ernst & Young
Partner
Sydney
23 March 2022

Zurich Australian Insurance Limited

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 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 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 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 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.