ZURICH

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

19 April 2023

Zurich Australian Insurance Limited
ABN 13 000 296 640

118 Mount Street
North Sydney NSW 2060

PO Box 677
North Sydney NSW 2059

E-mail d.longden@zurich.com.au

Dear Sir / Madam,

RE: Zurich Australian Insurance Limited (606265)

Please find attached the 31 December 2022 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 Eugene Cheong (eugene.cheong@zurich.com.au), Group Financial Controller, or myself.

Yours Sincerely,

Daniel Longden
Chief Financial Officer

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

ANNUAL REPORT

For the year ended 31 December 2022

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

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

29 Customs Street West
Auckland 1010

This financial report was approved for issue by the directors on 22 March 2023. The directors have the power to amend and reissue the report.

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Directors' report

The directors of Zurich Australian Insurance Limited present their report on the Zurich Australian Insurance Limited New Zealand Branch ("the Branch") for the year ended 31 December 2022. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited ("the Company").

Directors

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

Name	Role	Appointment date	Resignation date
Geoffrey Edward Summerhayes	Director, Chairman	17 January 2022	
Paul John Bedbrook	Director, Chairman (until resignation)	19 November 2014	31 December 2022
Elaine Collins	Director	1 April 2013	31 December 2022
John Francis Mulcahy	Director	24 August 2017	
Matthew Reilly	Director	22 November 2017	
Justin Sean Delaney	Director	19 July 2021	
Mary Brigid Waldron	Director	01 January 2023	
Nicolette Liesbeth Rubinsztein	Director	01 January 2023	
Noel Edward Condon	Director	01 January 2023	

The following persons were officers of the Company who held office during financial year 2022:

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

Principal Activities

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

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

Directors' report *(continued)*

Review of results and operations

A summary of revenues and results is set out below:

	2022	2021
	$'000	$'000
Revenues and other income		
Direct premium and inwards reinsurance revenue	114,148	76,098
Reinsurance and other recoveries	10,935	3,114
Investment income	2,419	777
Other income	334	276
Foreign exchange gain	67	8
	127,903	80,273
Expenses		
Net claims incurred	(45,878)	(31,171)
Outwards reinsurance expense	(19,653)	(20,325)
Underwriting expenses	(41,220)	(17,871)
Income tax benefit	1,626	-
	(105,125)	(69,367)
Results		
Profit after income tax	22,778	10,906

Matters subsequent to the end of the financial year

Auckland, North Island, New Zealand experienced heavy rain and flash flooding from 27 January 2023 to 2 February 2023. At the time of preparing the Financial Report, the incurred losses from this event are still developing. Our current estimate of the Branch's gross ultimate claims cost is around NZ$30m. After reinsurance, the net ultimate claims cost to the Branch from this weather event is expected to be around NZ$5.4m. In addition, the region was also impacted by Cyclone Gabrielle from the 13 to 15 February followed by a 6.1 magnitude earthquake near Wellington on the 15 February. The impact to ZAIL of the cyclone and earthquake is not expected to be material.

Apart from the above, the directors are not aware of any matter or circumstance which has arisen since 31 December 2022, other than dealt with in the financial statements, that has significantly affected or may significantly affect:

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

Likely developments and expected results of operations

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

Environmental regulations

Whilst the Branch has assessed that there are currently no significant environmental regulations that apply to it, the Branch is part of the Zurich Group which has the ambition to become one of the most responsible and impactful businesses in the world. Zurich Group is a founding member of the Net-Zero Insurance Alliance reflecting the goal to accelerate the transition to a net-zero emissions future and embed sustainability into underwriting activities, whilst locally the Company is a signatory to the Insurance Council of Australia's ("ICA") "Climate Change Roadmap – Towards a Net Zero and Resilient Future".

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Directors' report *(continued)*

Environmental regulations (*continued)*
Zurich Group's operations have been carbon-neutral since 2014. In 2022 Zurich Group accelerated its target to achieve net-zero emissions in its operations to 2030. Also in 2022, Zurich received a rating of AAA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment.

Zurich Australia & New Zealand established a local sustainability strategy aligned to Zurich Group's overall sustainability commitments and goals. In 2022, the Company appointed a formal executive owner of sustainability and completed the first phase of the strategy, establishing foundations. This includes regular reporting to the Board, monitoring of progress towards targets, appropriate governance and accountabilities, as well as education and key initiatives to drive action towards our commitments.

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

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

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

Other than the indemnity deed between the parent company and current and former directors of the Branch, the Branch and any related body corporate has not made any agreement to indemnify any current or former officer or auditor (as relevant) of the Branch from 1 January 2022 to the date of this report.

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

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

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

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

G E Summerhayes
Chairman

N L Rubinsztein
Director

Sydney
22 March 2023

Statement of comprehensive income
For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Premium revenue			
Direct premium revenue	4(b)(iii)	114,148	76,098
Outwards reinsurance expense		(19,653)	(20,325)
Net premium revenue		94,495	55,773
Claims expense	7	(45,878)	(31,171)
Reinsurance and other recoveries revenue	7	10,935	3,114
Net claims incurred	7	(34,943)	(28,057)
Acquisition costs		(33,812)	(10,611)
Other underwriting expenses		(7,408)	(7,260)
Underwriting expenses		(41,220)	(17,871)
Underwriting result		18,332	9,845
Investment income	6	2,419	777
Other income		334	276
Net foreign exchange gain		67	8
Profit before income tax		21,152	10,906
Income tax benefit	8 (a)	1,626	-
Profit after income tax		22,778	10,906
Other comprehensive income		-	-
Total comprehensive income after tax		22,778	10,906

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Balance sheet

As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	9(a)	13,488	11,788
Investments	9(b)	99,000	82,000
Receivables	10	34,307	24,491
Reinsurance and other recoveries	11	25,891	16,932
Deferred acquisition costs	12	10,319	3,586
Other assets	13	9,228	9,467
Deferred tax asset	14	1,626	-
Total assets		193,859	148,264
Liabilities			
Payables	15	8,524	9,949
Provisions	16	985	262
Unearned premium liability	17	53,375	35,905
Unexpired risk liability	18(a)	-	-
Outstanding claims	19(a)	55,602	49,553
Deferred tax liability	20	-	-
Total liabilities		118,486	95,669
Net assets		75,373	52,595
Head office account			
Head office current account	21(a)	85,811	85,811
Accumulated loss	21(b)	(10,438)	(33,216)
		75,373	52,595

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of changes in head office account
For the year ended 31 December 2022

	Head office current account	Accumulated losses	Total
	$'000	$'000	$'000
Balance at 1 January 2021	85,811	(44,122)	41,689
Total comprehensive income after tax	-	10,906	10,906
Balance as at 31 December 2021	85,811	(33,216)	52,595
Total comprehensive income after tax	-	22,778	22,778
Balance as at 31 December 2022	85,811	(10,438)	75,373

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

Cash flow statement
For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Net premiums and deposits received		105,408	53,684
Net claims and related payments		(42,370)	(21,353)
Payment to suppliers		(45,858)	(21,305)
Interest received		1,186	939
Fees and commissions received		334	276
Net cash inflow from operating activities	22	18,700	12,241
Cash flows from investing activities			
Payments for investments		(17,000)	(29,000)
Net cash outflow from investing activities		(17,000)	(29,000)
Net increase / (decrease) in cash held		1,700	(16,759)
Cash and cash equivalents at the beginning of the financial year		11,788	28,547
Cash and cash equivalents at the end of the financial year	9(a)	13,488	11,788

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

Notes to the financial statements
For the year ended 31 December 2022

1. Summary of significant accounting policies

This financial report comprises of the financial statements of Zurich Australian Insurance Limited New Zealand Branch ("the Branch"), as at 31 December 2022. For the purposes of complying with New Zealand Generally Accepted Accounting Principles (NZ GAAP), the Branch is a Tier 1 for-profit entity. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited ("the Company").

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

Basis of preparation

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

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

Compliance with IFRS

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

New accounting standards and interpretations

NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17")

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

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

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

New accounting standards and interpretations *(continued)*

NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17") *(continued)*

2022 restated on a NZ IFRS 17 basis.

The relevant key areas of consideration under NZ IFRS 17 Insurance Contracts are set out below:

- Portfolios of contracts (with similar risks, which are managed together) require disaggregation into those that are onerous, no significant possibility of becoming onerous and all other, as well as annual cohorts. This will result in an increase in the number of portfolios and cohorts under NZ IFRS 17. For onerous contracts, where the present value of fulfilment cash flows exceeds 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. Given the Branch's current profitability levels, the impact of the Branch's onerous contracts for local reporting is not expected to be materially different to the NZ IFRS4 Liability Adequacy Test (LAT) result at 31 December 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 NZ IFRS4). The risk adjustments will be calculated using the Zurich Group methodology, which requires a confidence level method. This will result in a material decrease in both gross insurance contract liabilities and reinsurance contract assets, relative to NZ IFRS4.
- NZ IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. The Branch will utilise Zurich Group's approach to discounting: the use of a yield curve including liquidity premium and the recognition of the amount of discounting in the NZ IFRS 17 balance sheet is not expected to be materially different to that in NZ IFRS4.
- Some changes to the acquisition cost definition including what may be deferred. This will result in a decrease in the total acquisition cost to be deferred. Furthermore, for groups of contracts that apply the simplified approach and have a coverage period of one year or less, NZ IFRS 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Branch does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under NZ IFRS4;
- The contract boundary, which is the period over which profit is recognised, is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. The Branch has assessed all its Insurance Contracts and will apply the simplified approach across all its products;
- Reinsurance contracts and the associated asset are to be determined separately to the gross contract liability and may have different contract boundaries; The Branch has assessed all its Reinsurance Contracts will apply the simplified approach across all its products.
- The New Zealand Government has proposed changes to the income tax legislation so that the insurance tax provisions would be updated to have reference to NZ IFRS 17 as opposed to the existing NZ IFRS 4. This is contained in a bill which was first proposed in 2022 but is still currently making its way through the New Zealand Parliament. These referential changes, if passed, would only take effect from 1 January 2023. Accordingly, the Branch has treated the tax effect on all transition impacts as timing differences.

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

New accounting standards and interpretations *(continued)*

NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17") *(continued)*

The transition impact on the net assets of the Branch amounting to $2.7m are outlined in the table below:

	$'000
Net assets at 31 Dec 2021 NZ IFRS 4	**52,595**
Change in discounting	111
Conversion of Risk Margin (RM) to Risk Adjustment (RA)	3,756
Conversion of Liability Adequacy Test (LAT) to Onerous Contract Test (OCT)	(1)
Change in indirect Insurance Acquisition Cash Flow (IACF) assumptions	(88)
Tax effect	(1,058)
Net assets at 31 Dec 2021 NZ IFRS 17	**55,315**

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

Critical accounting estimates

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

Significant accounting policies

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

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

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

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

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

Significant accounting policies *(continued)*

d) Interest income

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

e) Insurance claims and related expenses

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

f) Outwards reinsurance expense

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

g) Income tax

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

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

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

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

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

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

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

Significant accounting policies *(continued)*

h) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the New Zealand Inland Revenue Department (IRD). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to, the IRD is included as an asset or liability in the balance sheet.

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

i) Fire and Emergency levy and Earthquake Commission levy

A liability for fire and emergency levy and earthquake commission levy is recognised on business written to the balance date.

j) Foreign currency translation

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

k) Cash and cash equivalents

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

l) Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income and fair value through profit and loss. Financial assets are not reclassified subsequent to their initial recognition, unless the Branch changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit and loss: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets that back against general liabilities designated as fair value through profit and loss are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit and loss. All financial assets, except for those measured at fair value through profit and loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment.

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

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

Significant accounting policies *(continued)*

l) Financial assets *(continued)*

The Branch applies the principles of NZ IFRS 9 to assess and record impairment of its financial assets. NZ IFRS 9 requires recognition of expected credit losses. The Branch recognises expected credit losses through a provision, and these are based on historical credit loss experience with forward-looking information. The Branch does not have any history of recognising lifetime expected credit losses and does not expect that to change in the future as receivables are from related group Branches. The balances of loans to related parties are fully guaranteed by the Ultimate parent and carry no material credit risk.

Financial assets at fair value through profit or loss

Purchases and sales of investments are recognised on trade date – the date on which the Branch commits to purchase or sell the asset. Financial assets are initially measured at fair value plus transaction costs, unless it is carried at fair value through profit or loss. In which case, transaction costs are immediately expensed. 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 profit or loss in the statement of comprehensive income in the period in which they arise.

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

Financial assets at amortised cost (debt instruments)

Branch's financial assets at amortised cost includes trade receivables and loan to an associate or director. Financial assets at amortised cost are measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

m) Reinsurance and other recoveries receivable

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

n) Deferred acquisition costs

The fixed and variable costs of acquiring new business, “the acquisition costs”, include commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

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

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

Significant accounting policies *(continued)*

o) Impairment of assets

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

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

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

p) Payables

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

q) Provisions

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

r) Outstanding claims

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

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

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

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

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

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

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

Significant accounting policies *(continued)*

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

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

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

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

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

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

2. Critical accounting judgements and estimates

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

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

A liability is held at 31 December 2022 for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not yet reported to the Branch.

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

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

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

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of notified claims to the Branch, where information about the claim event is generally available. IBNR claims may not be apparent to the insured until many years after the event giving rise to the claim. In addition, claims incurred but not enough reported ('IBNER') is also subject of uncertainty. The long-tailed classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR/IBNER reserves. For the short-tailed classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of uncertainty. In calculating the estimated cost of outstanding claims the Branch uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying data or which might cause the cost of outstanding claims to increase or reduce when compared with the cost of previously paid claims including:

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

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

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

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

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

b) Assets arising from reinsurance contracts

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

3. Actuarial assumptions and methods

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

The Appointed Actuary, Garth Brooker BComm BSc FIAA, is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities.

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

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

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

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

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

All these methods rely on future development being consistent with historical development and are thus subject to uncertainty surrounding changes to these patterns from whatever cause. In addition, there is uncertainty arising from the underlying assumptions for future wage inflation and superimposed inflation and of discount rates. Significant events, such as catastrophes, close to the balance sheet date also increase the level of uncertainty.

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% (2021: 85%).

a) Selected key variables

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

	2022 Long-tail	2022 Short-tail	2021 Long-tail	2021 Short-tail
Average weighted term to settlement	1.3 years	0.3 years	1.1 years	0.4 years
Interest rate for discounting	4.99%	4.95%	1.14%	0.83%

3. Actuarial assumptions and methods *(continued)*

b) Sensitivity analysis – insurance contracts

The Branch conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the profit after tax of the Branch. The table below gives an analysis of the sensitivity of the profit/(loss) for 2022 and 2021.

Impact of changes in key variables

December 2022	Movement in Variable	Movement in Profit/(Loss) 2022 $'000	2021 $'000
Short-tail and Long-tail			
Average weighted term to settlement - years	0.5	710	166
	-0.5	(468)	(127)
Interest rate for discounting	1%	225	265
	-1%	(232)	N/A

4. Management of risk

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

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

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

(a) Risk management framework

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

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

- The business plan – which is developed within the Board's risk appetite and having regard for the risk management strategy of the Zurich Australia Group. Capital adequacy implications are taken into account in the business planning process;
- The Risk Management Strategy (RMS) – which describes the Zurich Australia Group's strategy for managing risk and the key elements of the risk management framework that give effect to the strategy;
- The Board's Risk Appetite Statement – which sets out the Board's appetite for risk taking in the pursuit of its strategic objectives, giving consideration to the interests of policyholders; and

4. Management of risk *(continued)*

(a) Risk management framework *(continued)*

- The Internal Capital Adequacy Assessment Process (ICAAP) – which comprises the processes and procedures for assessing the risks arising from the Company's activities such that capital held is commensurate with the level of risk; and it also sets out the strategy for maintaining adequate capital over time, including the setting of capital targets consistent with the risk profile of the Company, the Board's risk appetite and regulatory capital requirements.

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

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

The Company has an ICAAP that addresses the potential impact of all risk to capital and solvency. The authority to take risk is clearly delegated through the Board's risk appetite statement. Subject matter experts are responsible for the management of each category of risk, including the impact of that risk on capital adequacy.

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.

4. Management of risk *(continued)*

(a) Risk management framework *(continued)*

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

(b) Insurance risk

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

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

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

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

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

- A formal annual total risk profiling assessment that focuses on key risks that impact the achievement of strategic and business objectives, including the development of action plans for the treatment and continuous monitoring of identified risks. This is bolstered by formal quarterly reviews of risk issues and progress against action plans;

- The maintenance and use of appropriate management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time;

- Actuarial models, using information from the management information systems, are used in calculating premiums and monitoring claims patterns. Past experience and actuarial methods are used as part of the process;

- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks;

- Natural disasters exposure is monitored through use of models involving the collation of the Company's own exposure and wider environmental data, which support decisions on limiting exposure;

- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. When selecting a reinsurer consideration is normally only given to those companies on a list approved by Zurich Group head office, which assesses reinsurer security using rating information from the public domain or gathered through internal investigations. If the Branch selects a reinsurer not on the approved list, a separate approval by Zurich Group is required before placing the risk;

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)*

- In order to limit concentrations of credit risk in purchasing reinsurance, the Branch has regard to existing reinsurance assets including the level of exposure to any single reinsurer or group of related reinsurers. Placing reinsurance with other companies in the Zurich Group is used as an initial step on a significant portion of the reinsurance program to enable group-wide reinsurance purchasing efficiencies; and

- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the sensitivity of asset values to changes in interest rates with the equivalent sensitivity of the expected pattern of claim payments; and

- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

(ii) Terms and conditions of insurance business

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

(iii) Concentration of insurance risk

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

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

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

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

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

	2022	2021
	$'000	$'000
Commercial motor	27,547	26,658
Fire and ISR	20,395	18,447
Marine	2,803	2,509
Other accident	1,316	1,507
Professional indemnity	6,038	9,736
Public and product liability	2,049	2,259
Travel	53,716	14,760
Domestic Motor	284	222
Total Direct Premium revenue	114,148	76,098

(iv) Development of claims

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

(v) Impact of investment returns on pricing

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

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

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

(c) Operational risks

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

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and controls to manage operational risks are in place. The Company undertakes risk assessments to identify, assess, manage and monitor operational risk. Risk registers are developed and recorded in a central database and include action plans for improvement of controls where required. 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. 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.

4. Management of risk *(continued)*

(c) Operational risks *(continued)*

The Branch considers controls to be key instruments for monitoring and managing operational risk including risk related to financial reporting of the Branche's Internal Controls over Financial Reporting (ICFR) framework which helps mitigate the risk of a significant misstatement in the financial statements. ICFR controls are subject to testing and are monitored by the Finance department with any ineffective controls reported to the relevant management committee and the Risk Compliance and Audit Committee, with actions to rectify. Control testing performed by separate independent parties provides reasonable assurance over the design and operational effectiveness of controls.

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

The market risk assessment and management are conducted in a consistent manner across Zurich Australia Insurance Limited for both Australia and New Zealand and the assets are regularly monitored and review by the Capital and Investment Management Committee (CIMC).

Market risk is the risk of diminution in value of the Branch's investment portfolio arising from adverse movements in the levels and volatility of interest rates, foreign exchange rates and equity prices. The risk is mitigated by transacting all activities in accordance with approved mandates, strategies and limits. Market risk analysis is conducted on a regular basis and risk management controls provide comfort that positions are monitored against the portfolio risk limits. Market risk analysis is conducted on a total portfolio basis, including the effect of market movements on the valuation of insurance liabilities, and other balance sheet items, as well as the explicit impact on investments.

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

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

The Branch's management of investments consists of analysis of market value and changes with respect of previous month and quarter; analysis of exposure and asset allocation; analysis of tail risk; 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 Zurich Risk Policy (ZRP) provides constraints on the mix of investment assets.

5. Financial risk management *(continued)*

b) Credit risk

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.

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

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

The management of credit risk is overseen by the CIMC.

i) Financial Assets

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

Cash and financial assets
Standard and Poor's (S&P) rating for Cash at bank disclosed in Note 9 is:
Auckland Saving Bank NZ (ASB) P-1 (2021: A1+)
Westpac Bank NZ A1+ (2021: A1+)
Australia and New Zealand Banking Group NZ (ANZ) A1+ (2021: A1+)
Kiwibank Ltd P-1 (2021: P-1)

Counterparty	2022 $'000	2021 $'000
Westpac Bank NZ	1,043	824
Australia and New Zealand Banking Group NZ (ANZ)	34,445	52,964
Kiwibank Ltd	77,000	40,000
Total	112,488	93,788

ii) Reinsurance

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

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

	2022 $'000	2021 $'000
AAA or AA	11,665	5,820
A	3,184	1,581
BBB or unrated	270	88
Total RI recoverables on incurred claims	15,119	7,489

5. Financial risk management *(continued)*

b) Credit risk *(continued)*

ii) Reinsurance (continued)

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

- 7% (2021: 14%) of the reinsurance receivable on incurred claims had a third-party reinsurer as a counter party; and
- 93% (2021: 86%) of the reinsurance receivable on incurred claims had companies in the Zurich Group as a counterparty.

Comparative information has been restated to align with current year calculation.

Irrevocable standby letters of credit for a total of up to AUD $48m (2021: $205m) were issued by Australian banks on behalf of other entities in the Zurich Group in favour of the Company. These letters of credit relate to all reinsurance contracts entered into between the Company and other entities in the Zurich Group on or after 31 December 2008. AUD $48m is valid until amended or cancelled. As at 31 December 2022, AUD $48m (2021: $205m) of reinsurance recoverable due from other entities in the Zurich group were secured under these letters of credit.

A collateral trust was established during 2013, by means of a trust deed entered into between the Company, Zurich Insurance Company (ZIC) and Perpetual Corporate Trust Ltd. The funds of the Trust are to be contributed by ZIC, to constitute recognised collateral in respect of aged reinsurance recoverable owed by ZIC to the Company. The total collateral in the trust at 31 December 2022 was AUD $405m (2021: $456m). The letters of credit and collateral trust total of $453m (2021: $661m) covers aged reinsurance recoverables of $434m (2021: $613m).

iii) Business receivables

Premium receivable

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

	2022 $'000	2021 $'000
Neither past due nor impaired (90 day credit terms)	16,505	11,814
Amounts past due not impaired to 30 days	1,070	933
Amounts past due but not impaired 31 - 90 days	178	655
Amounts past due but not impaired over 90 days	58	-
Provision for impairment	-	(86)
Total premium receivable	17,811	13,316

Comparative information has been restated to align with current year calculation.

c) Liquidity risk

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

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

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

5. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

2022	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	> 15 yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Net Outstanding Claims (Note 11,19)	26,685	18,792	7,664	229	-	-
Premium Liability	20,516	13,292	7,159	65	-	-
Total	47,201	32,084	14,823	294	-	-

2021	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	> 15 yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Net Outstanding Claims (Note 11,19)	28,361	20,491	7,593	277	-	-
Premium Liability	13,616	8,173	5,337	106	-	-
Total	41,977	28,664	12,930	383	-	-

Comparative information has been restated to align with current year calculation.

Notes to the financial statements
For the year ended 31 December 2022

	2022	2021
	$'000	$'000
6. Investment income		
Interest	2,419	777
Total investment income	2,419	777

7. Net claims incurred

	2022	2021
Gross claims incurred and related expenses:		
Direct	(47,248)	(31,733)
Inwards Reinsurance	1	8
Discount to present value	1,369	554
Total Gross claims incurred and related expenses	(45,878)	(31,171)
Reinsurance and other recoveries:		
Direct	11,562	3,340
Inwards Reinsurance	-	(1)
Discount to present value	(627)	(225)
Total Reinsurance and other recoveries	10,935	3,114
Net claims incurred	(34,943)	(28,057)

Claims development

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

Notes to the financial statements
For the year ended 31 December 2022

	2022 $'000	2021 $'000
8. Income tax		
(a) Income tax benefit		
Current tax	-	-
Deferred tax	(1,626)	-
Total income tax benefit	(1,626)	-
Deferred income tax expense included income tax expense comprises:		
(Increase)/decrease in deferred tax asset (Note 14)	(4,608)	237
Increase/(decrease) in deferred tax liabilities (Note 20)	2,983	(237)
Total income tax benefit	(1,626)	-
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit before tax	21,152	10,907
Tax at the New Zealand tax rate of 28% (2021: 28%)	5,922	3,054
Value of Deferred tax not recognised	(7,563)	(2,386)
Transfer tax loss to affiliate	14	-
Over/(under) provision in prior year	1	(668)
Income tax benefit	(1,626)	-

	2022 $'000	2021 $'000
9. Investment Composition		
(a) Cash and Cash Equivalents		
Cash at bank and on hand	13,488	11,788
Total Cash and Cash Equivalents	13,488	11,788
(b) Investments		
Term deposits greater than three months	99,000	82,000
Total Investments	99,000	82,000
Total	112,488	93,788

Cash and cash equivalents were invested at floating and fixed interest rates between 0.75% and 4.25% p.a. (2021: 0.00% and 2.33% p.a.). The fair value of investments is included in level 1.

	2022 $'000	2021 $'000
10. Receivables		
Current		
Premium Receivable	9,971	15,842
Unclosed premiums	7,840	(2,440)
	17,811	13,402
Provision for Impairment	-	(86)
	17,811	13,316
Due from related entities (Note 24 (c))	11,845	7,790
Other trade debtors	3,168	3,135
Interest receivables	1,483	250
Total current receivables	34,307	24,491

Notes to the financial statements
For the year ended 31 December 2022

	2022	2021
	$'000	$'000
11. Reinsurance and other recoveries		
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	(73)	(156)
- on outstanding claims	15,790	7,804
	15,717	7,648
Discount to present value	(598)	(159)
Reinsurance receivable on incurred claims	15,119	7,489
Other recoveries undiscounted	7,276	6,733
Discount to present value	(169)	(80)
	7,107	6,653
Risk Margin	3,808	2,834
Discount to present value	(143)	(44)
	3,665	2,790
Reinsurance and other recoveries receivables on incurred claims	25,891	16,932
Current	19,274	9,606
Non- current	6,617	7,326
	25,891	16,932

12. Deferred acquisition costs

	2022	2021
Deferred acquisition costs as at 1 January	3,586	2,245
Acquisition costs deferred	34,155	10,106
Amortisation charged to Statement of Comprehensive Income	(27,422)	(8,765)
Deferred acquisitions costs as at 31 December	10,319	3,586
Current	10,036	3,457
Non- current	283	129
	10,319	3,586

Notes to the financial statements
For the year ended 31 December 2022

13. Other assets

	2022 $'000	2021 $'000
Current		
Deferred outwards reinsurance expense	8,019	9,467
Other Prepaid Expenses	467	-
Other assets	742	-
	9,228	9,467
Current	9,204	9,383
Non-current	24	84
	9,228	9,467

14. Deferred tax assets

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

	2022 $'000	2021 $'000
Provision	688	302
Tax Loss	5,039	(396)
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 20)	(2,889)	94
Valuation allowance	(1,212)	-
Net deferred tax asset	1,626	-
Deferred tax asset movement		
Opening balance at 1 January	-	-
Charged to Statement of Comprehensive Income (Note 8)	4,608	(237)
Set-off of deferred tax asset pursuant to movement set-off provision (Note 20)	(2,983)	237
Closing balance at 31 December	1,626	-

The Branch has carry-forward tax losses that contributes to majority of the amount of the DTA position which has not been recognized in the prior years due to the uncertainty of profitability of the New Zealand business. Based on the analysis conducted in the current financial year, if the expected underlying profit of the New Zealand business continues at the current pace, the recoverability of prior year losses in future is feasible. Therefore, a valuation allowance has been recorded as at 31 December 2022 to offset only 50% of the net deferred tax asset position closing balance. As a result, the deferred tax asset that has not been recognised as at 31 December 2022 is $1,625,562 (2021: $8,775,822).

15. Payables

	2022 $'000	2021 $'000
Current		
Reinsurance creditors	3,376	1,469
Due to related entities (Note 24 (d))	2,732	7,489
Commission payable	1,417	-
Other payables	999	991
Total	8,524	9,949

Notes to the financial statements
For the year ended 31 December 2022

16. Provisions

	2022 $'000	2021 $'000
Current		
Fire and Emergency levy	-	209
Earthquake levy	49	53
GST provisions	936	-
Total	985	262

	Fire Service Levy $'000	Earthquake Levy $'000	GST Provisions $'000	Total $'000
Carrying amount at start of year	209	53	-	262
Additional provision recognised	3,241	372	936	4,549
Payments/other sacrifices of economic benefits	(4,192)	(376)	-	(4,568)
Reclassification from liability to asset	742	-	-	742
Carrying amount at end of the 2022 year	-	49	936	985
Carrying amount at start of year	308	-	-	308
Additional provision recognised	4,175	299	-	4,474
Payments/other sacrifices of economic benefits	(3,944)	(246)	-	(4,190)
Reclassification from asset to liability	(330)	-	-	(330)
Carrying amount at end of the 2021 year	209	53	-	262

17. Unearned premium liability

	2022 $'000	2021 $'000
Unearned Premium liability as at 1 January	35,905	37,380
Premiums deferred during the period	131,618	74,623
Premiums earned during the period	(114,148)	(76,098)
Unearned premium liability as at 31 December	53,375	35,905
Current	48,156	34,618
Non-current	5,219	1,287
Total	53,375	35,905

Notes to the financial statements
For the year ended 31 December 2022

18. Unexpired risk liability

(a) Unexpired risk liability

	2022 $'000	2021 $'000
Unexpired risk liability as at 1 January	-	-
Recognition/ (Release) of unexpired risk liability	-	-
Unexpired risk liability as at 31 December	-	-

(b) Deficiency recognised in the Statement of comprehensive income

	2022 $'000	2021 $'000
Total amount recognised in the Statement of comprehensive income	-	-

(c) Liability adequacy test

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

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

The LAT performed at reporting date resulted in a surplus in the long tail and short tail segment for the current year.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 19. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2022 (2021: 85%).

	2022 $'000	2021 $'000
19. Outstanding claims		
(a) Outstanding claims liability		
Central Estimate	48,038	41,375
Discount to present value	(1,696)	(580)
	46,342	40,795
Claims Handling Costs	1,713	1,523
Discount to present value	(63)	(19)
	1,650	1,504
Risk Margin	7,928	7,363
Discount to present value	(318)	(109)
	7,610	7,254
Gross outstanding claims liability	55,602	49,553
Undiscounted Expected Future Claims Payments	57,679	50,261
Discount to present value	(2,077)	(708)
Liability for outstanding claims	55,602	49,553
Current	40,728	34,295
Non-current	14,874	15,258
	55,602	49,553

(b) Risk margin

Process for determining risk margin

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

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

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification. These margins are consistent with those applied to the Branch as a whole in order to arrive at an overall outstanding claims liability which is intended to have an 85% (2021: 85%) probability of adequacy.

Notes to the financial statements
For the year ended 31 December 2022

19. Outstanding claims *(continued)*

(b) Risk margin *(continued)*

Risk Margins Applied

APRA Class	2022	2021
	Net Outstanding Claims Margin	Net Outstanding Claims Margin
Short-tail		
Commercial motor vehicle	12.5%	12.7%
Fire and ISR (incl inwards treaty)	18.1%	14.1%
Marine & aviation	17.3%	17.4%
Other accident	18.6%	18.6%
Travel	7.7%	3.9%
Average short-tail	**12.1%**	**10.9%**
Long-tail		
Public & product liability (incl inwards treaty)	18.3%	18.6%
Professional indemnity	18.3%	18.6%
Average long-tail	**18.3%**	**18.6%**
Overall	**15.4%**	**14.0%**

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

	2022 Net $'000	2021 Net $'000
Brought Forward	32,466	30,631
Impact of change in assumptions	(5,000)	(1,324)
Margin release on prior periods	(2,234)	(1,675)
Other	418	(198)
Change in prior year estimates*	(6,816)	(3,197)
Claims incurred during the year	41,759	31,254
Incurred claims recognised in the income statement	34,943	28,057
Claim payments / recoveries during the year	(37,771)	(26,222)
Carried Forward	29,638	32,466

*Change in prior year estimates is due to favourable development on prior year claims.

Notes to the financial statements

For the year ended 31 December 2022

19. Outstanding claims *(continued)*

(d) Claims development tables

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

(i) Gross claims development

Accident Year	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
End of accident year	5,359	5,082	5,946	8,313	7,359	12,671	9,520	18,036	8,100	6,320	
One year later	2,597	8,743	5,131	6,401	7,907	7,970	4,879	10,689	6,053		
Two years later	1,841	7,881	3,129	5,643	5,694	7,377	4,862	10,653			
Three years later	1,674	1,633	3,052	4,110	4,675	6,975	4,112				
Four years later	1,208	1,294	2,895	3,723	4,989	7,484					
Five years later	1,133	774	6,515	3,517	4,185						
Six years later	1,045	3,526	6,132	4,321							
Seven years later	1,067	7,339	6,086								
Eight years later	1,031	1,418									
Nine years later	1,032										
Current estimate of incurred	1,032	1,418	6,086	4,321	4,185	7,484	4,112	10,653	6,053	6,320	51,664
Cumulative payments	1,032	1,371	6,031	3,260	2,923	4,759	2,362	2,062	748	20	24,568
Outstanding claims - undiscounted	-	47	55	1,061	1,262	2,725	1,750	8,591	5,305	6,300	27,096
Discount	-	(1)	(1)	(51)	(62)	(141)	(100)	(508)	(328)	(456)	(1,648)
Claim handling expense											1,034
Outstanding claims - discounted											26,482
Short tail outstanding claims											29,120
Total gross											55,602

Notes to the financial statements
For the year ended 31 December 2022

19. Outstanding claims *(continued)*

(d) Claims development tables *(continued)*

(ii) Net claims development

Accident year	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
End of accident year	3,223	3,432	3,988	6,293	5,709	8,224	5,008	9,013	5,598	3,760	
One year later	1,832	7,354	4,497	4,958	5,375	7,034	3,956	4,598	4,465		
Two years later	1,288	6,836	2,490	4,509	4,038	6,557	4,111	4,352			
Three years later	1,157	1,307	2,459	3,317	3,968	6,266	3,536				
Four years later	769	1,065	2,268	3,011	4,125	6,720					
Five years later	715	618	5,814	2,846	3,581						
Six years later	639	3,028	5,586	3,553							
Seven years later	659	6,354	5,547								
Eight years later	628	1,291									
Nine years later	628										
Current estimate of incurred	628	1,291	5,547	3,553	3,581	6,720	3,536	4,352	4,465	3,760	37,433
Cumulative payments	628	1,245	5,499	2,633	2,611	4,365	2,117	1,874	737	16	21,725
Outstanding claims - undiscounted	-	46	48	920	970	2,355	1,419	2,478	3,728	3,744	15,708
Discount	-	(1)	(1)	(45)	(48)	(122)	(81)	(143)	(231)	(272)	(944)
Claim handling expense											1,033
Outstanding claims - discounted											15,797
Short tail outstanding claims											13,841
Total net											29,638

Notes to the financial statements
For the year ended 31 December 2022

	2022	2021
	$'000	$'000
20. Deferred tax liability		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for DAC write off and unexpired risk liability	2,889	(94)
Set-off of deferred tax assets pursuant to set-off provisions (Note 14)	(2,889)	94
Net deferred tax liability	-	-
Deferred tax liabilities movements		
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 8)	2,983	(237)
Set-off of deferred tax asset pursuant to set-off provisions (Note 14)	(2,983)	237
Closing balance at 31 December	-	-

21. Head office account

a) Head office current account

	2022	2021
Current account at the beginning of the year	85,811	85,811
Current account at the end of the year	85,811	85,811

b) Accumulated loss

	2022	2021
Accumulated losses at the beginning of the year	(33,216)	(44,122)
Profit attributable to the Company	22,778	10,906
Accumulated losses at the end of the year	(10,438)	(33,216)
Total head office account	75,373	52,595

Notes to the financial statements
For the year ended 31 December 2022

22. Cash flow statement reconciliation

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

	2022 $'000	2021 $'000
Profit from ordinary activities after income tax	22,778	10,906
Increase/(decrease) in bad and doubtful debts provisions	(86)	(132)
(Increase)/decrease in operating assets:		
Premium outstanding	(8,465)	852
Accrued interest, dividends & rents	(1,233)	162
Deferred acquisition costs	(6,734)	(1,340)
Reinsurance and other recoveries	(8,958)	2,722
Other receivables	(33)	(1,603)
Other assets	239	1,221
Deferred tax asset	(1,626)	-
Increase/(decrease) in operating liabilities:		
Unearned premiums	17,469	(1,475)
Claims outstanding	6,050	(999)
Other provisions & creditors	(701)	1,927
Net cash inflows from operating activities	18,700	12,241

23. Remuneration of auditors

	2022 $'000	2021 $'000
Remuneration for appointed auditors for the audit or review of the financial reports of the Branch - Statutory audit fees	64,018	62,488
	64,018	62,488

24. Related parties

(a) Directors

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

Geoffrey Edward Summerhayes
Paul John Bedbrook
Elaine Collins
John Francis Mulcahy
Matthew Reilly
Justin Sean Delaney
Mary Brigid Waldron
Nicolette Liesbeth Rubinsztein
Noel Edward Condon

(b) Key management personnel compensation

Key management personnel compensation for the years ended 31 December 2022 and 31 December 2021 is set out below expressed in New Zealand dollars.

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

	Notes	2022 $	2021 $
Short term employee benefits		2,187,743	1,686,066
Termination benefits		-	104,108
Share-based payments/benefits	(i)	1,123,377	1,133,246
		3,311,120	2,923,420

(i) Share based payments / benefits

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

Notes to the financial statements
For the year ended 31 December 2022

24. Related parties *(continued)*

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

	2022 $	2021 $
Current		
Ultimate Australian controlling entity	3,971,778	1,770,024
Other related entities	7,873,422	6,020,228
	11,845,200	7,790,253

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

	2022 $	2021 $
Current		
Ultimate Australian controlling entity	1,112,834	2,573,583
Other related entities	1,619,559	4,915,059
	2,732,393	7,488,642

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

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

	2022 $	2021 $
Reinsurance claims expense		
Other related entities	237,433	3,045,252
Reinsurance commission received		
Other related entities	2,428,650	2,584,612
Reinsurance premium expense		
Other related entities	18,207,961	19,333,938
Reinsurance recoverable on incurred claims		
Other related entities	14,288,946	8,558,465
Deferred outwards reinsurance expenses		
Other related entities	2,552,966	6,449,463
Payment of other expenses		
Ultimate Australian controlling entity	10,224,538	9,206,849
Other related entities	144,263	256,039

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

24. Related parties *(continued)*

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

(i) Head office

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

(ii) Controlling entities

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

25. Credit rating of insurer

During 2022, Standard & Poor's has affirmed the credit rating of the Company with an AA- credit rating. This rating was assigned on 20 September 2022.

26. Reinsurance programme

The reinsurance strategy in place to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy in 2022. It has the following characteristics:

- A maximum per risk net retention NZD equivalent to AUD 5m (2021: $5m) for Property, Marine, Liability and Motor TPPD (Third Party Property Damage), NZD equivalent to AUD 2.5m (2021: $2.5m) for Financial Lines, and NZD equivalent to AUD 1m (2021: $1m) for Engineering; and
- A maximum per catastrophe event retention of NZD equivalent to AUD 5m (2021: $5m).

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

27. Capital management

(a) Regulatory Capital

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

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

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

Notes to the financial statements
For the year ended 31 December 2022

27. Capital management *(continued)*

	Company 2022 AUD $'000	Company 2021 AUD $'000
Eligible Tier 1 capital		
Paid-up ordinary shares	97,065	97,065
General reserves	7,103	7,221
Retained earnings brought forward	369,876	314,287
Current year's earnings	44,659	84,589
Excess technical provision - net of tax	92,187	85,682
Total	610,890	588,844
Less: deductions from Tier 1 capital	(19,167)	(16,574)
Total capital base	591,723	572,270
Insurance Risk Capital Charge	205,266	185,446
Asset Risk Charge	211,794	216,472
Operational Risk Charge	62,255	38,022
Insurance Concentration Risk Charge	17,500	17,500
Less: Aggregation Benefit	(97,880)	(94,426)
Prescribed capital amount (PCA)	398,935	363,014
Capital in excess of PCA (Solvency Margin)	192,788	209,256
PCA coverage	1.48	1.58

The Company does not have any Tier 2 capital.

28. Events occurring after reporting date

Auckland, North Island, New Zealand experienced heavy rain and flash flooding from 27 January 2023 to 2 February 2023. At the time of preparing the Financial Report, the incurred losses from this event are still developing. Our current estimate of the Branch's gross ultimate claims cost is around NZ$30m. After reinsurance, the net ultimate claims cost to the Branch from this weather event is expected to be around NZ$5.4m. In addition, the region was also impacted by Cyclone Gabrielle from the 13 to 15 February followed by a 6.1 magnitude earthquake near Wellington on the 15 February. The impact to ZAIL of the cyclone and earthquake is not expected to be material.

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Directors Declaration
For the year ended 31 December 2022

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 42 are in accordance with the *Companies Act 1993*, including:

   (i) complying with Accounting Standards, the *Companies Act 1993* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Branch's financial position as at 31 December 2022 and of its performance, as represented by the results of its operations, changes in Head Office Account and its cash flows, for the financial year ended on that date; and

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

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

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

G E Summerhayes	N L Rubinsztein
Chairman	Director

Sydney
22 March 2023

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the New Zealand Branch ("the Branch") of Zurich Australian Insurance Limited ("the Company") which comprise the balance sheet of the Branch as at 31 December 2022, and the statement of comprehensive income, statement of changes in head office account and cash flow statement for the year then ended of the Branch, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, the Branch.

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

Key audit matter

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of Outstanding Claim Liability

Why significant	How our audit addressed the key audit matter
At 31 December 2022, the Branch recorded an Outstanding Claims liability amount of $55.6m. The valuation of the Outstanding Claims liability involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims. The Branch's actuarial specialist calculated the liability by considering different classes of business and the relevant model and assumptions applicable to each class. We considered this to be a key audit matter because of the: ▸ financial significance of the outstanding claims liability ▸ degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the outstanding claim liability include: – discount rates – assumed rates of inflation – assumptions in relation to future claims handling expenses	Our audit procedures included the following: ▸ with the assistance of our actuarial specialist we: – assessed the qualifications, competence and objectivity of the Branch's appointed actuary – obtained an understanding of the work of the Branch's actuary and evaluated the appropriateness of their work, including their models – assessed the valuation methods and approach used by the Branch's actuary against the requirements of accounting standards and consistency with industry practice and the underlying claims exposure – assessed the assumption setting process, including data for completeness on the Branch's obligations to policyholders/ beneficiaries and claims payment information used as inputs into the valuation models – reviewed the results of the experience investigations carried out by the Branch's actuary, to determine how they inform the

- assumptions as to the timing and amount of reported claim payments
- assumptions in relation to the number and size of claims incurred but not reported
- allowance for risk in estimating future cash flows through the inclusion of a risk margin

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

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

key assumptions adopted and performed independent valuation projections on key valuation classes

- assessed the reasonableness of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liability

- assessed the adequacy of Outstanding Claims Liability disclosures included in the Notes to the financial statements against the requirements of the New Zealand equivalent to International Financial Reporting Standard, *Insurance Contracts* (NZ IFRS 4).

Information other than the financial statements and auditor's report

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

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

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Ernst & Young

David Jewell
Sydney
22 March 2023

Zurich Australian Insurance Limited

(New Zealand Branch)

Section 78 Report for the year ending 31 December 2022

Zurich Australian
Insurance Limited
ABN 13 000 296 640
Finance

Author	Garth Brooker, BComm BSc FIAA
Version	Final
Version Date	16 March 2023

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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 2022. The audited 2022 ZAIL annual financial statements are separately provided with this report.

Compliance

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

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

Reliance and Limitations

This report is based on the audited accounts for ZAIL (NZ Branch) for the year ending 31 December 2022 and reliance has also been placed upon information supplied by the management and staff of ZAIL.

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

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

Conclusion

I confirm I have reviewed the unearned premium, liability adequacy test, net outstanding claims liability, reinsurance and other recovery asset(s) disclosed in the 2021 ZAIL (NZ Branch) annual financial statements. For the deferred acquisition costs and deferred fee revenue, I have discussed with ZAIL's Financial Accounting Reporting team on the source of information, methodology, and control processes between the Ledger and source systems to ensure the veracity of the information at 31 December 2022.

In my opinion and from an actuarial perspective,

- the actuarial information (as specified in Section 77 of the Act) contained in the 2022 ZAIL (NZ Branch) annual financial statements has been appropriately included in those statements; and
- the actuarial information (as specified in Section 77 of the Act) used in the preparation of the 2022 ZAIL (NZ Branch) annual financial statements has been used appropriately; and
- in accordance with the S59 exemption, ZAIL has an adequate solvency margin (as measured by APRA's capital prudential requirement) as of 31 December 2022.