Allianz Australia Insurance Limited - New Zealand Branch
Company number 3994759

Financial Statements for the year ended 31 December 2016

Allianz

Directors' Declaration

In the opinion of the Directors of Allianz Australia Insurance Limited - New Zealand Branch ("the NZ Branch"):

(a) The financial statements and notes, set out on pages 2 to 37, are in accordance with the Financial Reporting Act 2013, including:

(i) fairly presenting Allianz Australia Insurance Limited - New Zealand Branch's ("the NZ Branch") financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and

(ii) complying with New Zealand generally accepted accounting practice; and

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

(c) The Directors draw attention to Note 1 to the financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

J.S. Curtis
Director

N.C. Peiris
Director

Sydney

29 March 2017

Directors' Declaration

In the opinion of the Directors of Allianz Australia Insurance Limited - New Zealand Branch ("the NZ Branch"):

(a) The financial statements and notes, set out on pages 2 to 37, are in accordance with the Financial Reporting Act 2013, including:

(i) fairly presenting Allianz Australia Insurance Limited - New Zealand Branch's ("the NZ Branch") financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and

(ii) complying with New Zealand generally accepted accounting practice; and

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

(c) The Directors draw attention to Note 1 to the financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

J.S. Curtis
Director

N.C. Peiris
Director

Sydney

29 March 2017

Company Directory
As at 31 December 2016

Company number	**3994759**
IRD	**109-941-972**
Nature of business	**Provision of general insurance services**
Registered Office	**Level 11, Tower 1, 205 Queens Street, Auckland 1010, New Zealand**

Directors' Information

The Directors present their report together with the financial statements of Allianz Australia Insurance Limited – New Zealand Branch ("the NZ Branch") for the year ended 31 December 2016 and the auditor's report thereon. The NZ Branch is the New Zealand branch of the Australian company, Allianz Australia Insurance Limited ("the Company").

Directors

The Directors of the Company at any time during or since the end of the financial year are:

J.S. Curtis

- Appointed a non-executive director on 7 June 2002
- Chair of the Allianz Australia Board
- Chair of the Allianz Australia Investment Committee
- Member of the Allianz Australia Risk, Audit and Human Resources & Remuneration Committees

Career summary:

- Wormald International Limited (1978 – 1987) - Commenced as General Counsel and during this period became a main board director and responsible as Chief Executive at various times for the Group's operations in over 35 countries in Europe, Australia, Asia, North America and the Middle East.
- Since 1987 has held various non-executive directorships including Deputy Chairman of Westpac Banking Corporation (2008 – 2014); Chairman/Director, St George Bank (1997-2008), Director, Perpetual Trustees Australia Limited (1995 – 2004), Chairman Merrill Lynch Australia Advisory Board and Member of International Advisory Board to Merrill Lynch Inc (2006-2009), amongst others.

A.G. Theis

- Appointed a non-executive director on 1 September 2015
- Member of the Allianz Australia Risk, Audit, Investment and Human Resources & Remuneration Committees

Career summary:

- Joined Allianz in 1986 and has held various posts including Member of the Board of Management of Allianz Versicherungs (2001-2004), Chief Executive Officer of Allianz Global Risks (2004-2006) and Chief Executive Officer of Allianz Global Corporate & Specialty (2006-2015), and is a Member of the Allianz SE Board of Management.

M. Diekmann

- Appointed a non-executive director on 1 January 2015 and resigned on 31 December 2016
- Member of the Allianz Australia Risk, Audit, Investment and Human Resources & Remuneration Committees

Career summary:

- Joined Allianz in 1988 and has held various posts including Member of the Board of Management of Allianz SE (1998-2003) and Chairman of the Board of Management and CEO of Allianz SE (2003-2015). Resigned from that role in May 2015.
- Currently holds various non-executive roles, including Vice Chairman of the Supervisory Board of BASF SE, Vice Chairman of the Supervisory Board of Fresenius SE & Co. KGaA, Vice Chairman of the Supervisory Board of Linde AG, Member of the Supervisory Board of Siemens AG, Vice Chairman of International Business Leaders Advisory Council for the Mayor of Shanghai (IBLAC), Member of the Temasek European Advisory Panel, Member of the International Advisory Group of Linklaters LLP, Member of the Hong Kong-Europe Business Council and is a Member of the Board of Trustees of Siemens Foundation.

Directors' Report (continued)

B. Bovermann

- Appointed a non-executive director on 29 May 2006 for former non-executive Director, C.B.Booth, and resigned from this role on 31 December 2014. Appointed a non-executive Director on 3 September 2015 as alternate for A.G. Theis.
- Member of the Allianz Australia Investment, Human Resources & Remuneration, Audit and Risk Committees as an alternate for A.G. Theis

Career Summary:

- Joined Allianz in 1986 and has held various non-executive posts with Allianz worldwide.
- Currently holds various non-executive roles including non-executive Member of the Board of Allianz Ireland, non-executive Member of the Board of Allianz UK, Member of the Supervisory Board of Euler Hermes S.A. and Chair of the Supervisory Board of Euler Hermes Europe S.A.

P.M. Mann

- Appointed a non-executive director on 1 November 2013
- Chair of the Allianz Australia Audit and Risk Committees
- Member of the Allianz Australia Investment and HR & Remuneration Committees

Career summary:

- Peat Marwick Mitchell, Sydney (1984-1987), KPMG London, Audit Services (1987-1991), KPMG London, Forensic Accounting (1991-1995) and KPMG Australia Partner, Forensic Accounting (1995-2000).
- Currently holds non-executive roles, including as a director of Ridley Corporation Limited, Event Hospitality and Entertainment and Bellamy's Australia Limited.

K.M. McKenzie

- Appointed a non-executive director on 1 January 2012
- Chair of the Allianz Australia Human Resources & Remuneration Committee
- Member of the Allianz Australia Audit, Risk and Investment Committees

Career summary:

- Senior positions in the public sector including as Deputy Director- General at the NSW Cabinet Office, General Manager of Workcover Authority NSW, Director-General at both Department of Industrial Relations and NSW Department of Commerce, and a number of senior roles at Telstra including Group Managing Director of Innovation, Products and Marketing and Chief Operating Officer 2013-2016 and currently Chief Executive Officer of Chorus Limited

T.R. Towell

- Appointed a non-executive director on 1 July 2013
- Member of Allianz Australia Investment, Audit, Risk and Human Resources & Remuneration Committees

Career summary:

- Over 40 years experience in the insurance industry, with extensive experience at senior management level, including General Manager Operations South British United Group (SBU)/NZI Insurance, Group General Manager positions in Insurance and Information Technology for Suncorp Metway Group and General Manager of Suncorp General Insurance Limited.
- Managing Director Allianz Australia 1999-2013.

N.C. Peiris

- Appointed an Managing Director on 1 January 2013
- Member of the Allianz Australia Investment Committee

Career summary:

- Group Financial Controller at FAI Insurance, joined Allianz in 2000 as General Manager Finance, Chief Financial Officer (2002-2008), Chief General Manager of the Retail Distribution Division (2009-2012) and Chief Executive Officer of Allianz Australia Life Insurance Limited (2009-2012), Managing Director of Allianz Australia Limited from 2013, and Director of the Insurance Council of Australia.

Directors' Report (continued)

Shareholder information

Allianz Australia Limited owns 100% of the ordinary shares of Allianz Australia Insurance Limited.

Other information

Bankers	Westpac
Auditors	KPMG Australia, Level 38, Tower Three 300 Barangaroo Avenue Sydney, NSW, 2000 Australia

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
PREMIUM REVENUE			
Premium revenue	8	160,445	173,394
Outward reinsurance expense	8	(77,659)	(79,328)
Total premium revenue		**82,786**	**94,066**
UNDERWRITING EXPENSES			
Claims expense			
Claims expense	10	(160,081)	(94,225)
Reinsurance and other recoveries revenue	10	73,141	28,081
Total claims expense	**10**	**(86,940)**	**(66,144)**
Other underwriting expenses			
Acquisition costs		(25,185)	(29,003)
Total other underwriting expenses		**(25,185)**	**(29,003)**
Underwriting result		**(29,339)**	**(1,081)**
Other income and expenses			
Investment & other income	9	3,548	5,379
Other expenses		(407)	(478)
Total other income and expenses		**3,141**	**4,901**
(Loss)/profit before income tax		**(26,198)**	**3,820**
Income tax (benefit)/expense	11(a)	7,335	(1,070)
(Loss)/profit after income tax		**(18,863)**	**2,750**
Total comprehensive (loss)/income for the year attributable to Head Office		**(18,863)**	**2,750**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 37.

Statement of Changes in Head Office Account
For the year ended 31 December 2016

	2016 $000	2015 $000
At 1 January	**21,860**	**19,110**
(Loss)/profit for the year	**(18,863)**	**2,750**
Total comprehensive income attributable to Head Office	**(18,863)**	**2,750**
At 31 December	**2,997**	**21,860**

The statement of changes in head office account is to be read in conjunction with the notes to the financial statements set out on pages 10 to 37.

Statement of Financial Position
As at 31 December 2016

	Note	2016 $000	2015 $000
Current assets			
Cash & cash equivalents	20	48,551	86,749
Receivables	12	32,948	61,349
Reinsurance and other recoveries receivable	15(d)	77,044	48,678
Deferred acquisition costs	14	14,553	13,233
Deferred reinsurance premiums		25,299	22,587
Financial assets at fair value through profit and loss	13	76,650	-
Total current assets		**275,045**	**232,596**
Non-current assets			
Reinsurance and other recoveries receivable	15(d)	16,716	17,488
Financial assets at fair value through profit and loss	13	-	23,389
Deferred tax asset	11(a)(iii)	2,755	-
Total non-current assets		**19,471**	**40,877**
Total assets		**294,516**	**273,473**
Current liabilities			
Outstanding claims	15(a)	126,496	90,207
Unearned premium liability	16	75,787	73,296
Accounts payable and accruals		61,563	52,093
Total current liabilities		**263,846**	**215,596**
Non-current liabilities			
Outstanding claims	15(a)	27,673	32,320
Deferred tax liability	11(a)(iii)	-	3,697
Total non-current liabilities		**27,673**	**36,017**
Total liabilities		**291,519**	**251,613**
Net assets		**2,997**	**21,860**
Total head office account		**2,997**	**21,860**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 37.

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Premiums received		179,485	202,046
Outwards reinsurance paid		(83,298)	(94,742)
Claims paid		(142,505)	(142,833)
Reinsurance and other recoveries received		54,024	78,299
Acquisition costs paid		(26,504)	(29,013)
Intercompany amounts received/(paid)		28,995	(33,711)
Income taxes paid		(1,470)	(1,060)
Interest received		3,594	4,525
Other expenses paid		2,607	(19,243)
Other income received		-	1,000
Net cash inflow/(outflow) from operating activities	**20(b)**	**14,928**	**(34,732)**
Cash flows from investing activities			
Proceeds/(payments) from trading investments		(53,124)	(4,906)
Net cash inflow/(outflow) from investing activities		**(53,124)**	**(4,906)**
Net increase/(decrease) in cash		**(38,196)**	**(39,638)**
Cash at the beginning of the year		86,749	126,387
Cash at the end of the year		**48,553**	**86,749**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 37.

Notes to the Financial Statements
Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements as at and for the year ended 31 December 2016 account for the financial results of the NZ Branch as an individual entity. The address of the NZ Branch's office in New Zealand is Level 11, Tower 1, 205 Queen's street, Auckland 1010, New Zealand.

The NZ Branch is a for-profit entity and its principal activity during the course of the reporting period was that of the provision of general insurance.

Allianz Australia Insurance Limited ("the Company") is incorporated in Australia, is a wholly owned controlled entity of Allianz Australia Limited ("the Parent entity"), and the ultimate parent entity is Allianz SE, incorporated in Germany.

The Company is a company domiciled in Australia. The Company's registered office is located at 2 Market Street, Sydney, NSW 2000.

The Company was granted a full insurance licence on 1 January 2013 by the Reserve Bank of New Zealand as required by the Insurance (Prudential Supervision) Act 2010.

The general purpose financial statements were authorised by the Board of Directors for issue on 29 March 2017.

(a) Basis of Preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards appropriate for Tier 1 for-profit entities. They also comply with the International Financial Reporting Standards ("IFRS").

As a result of being a licensed insurer, the company is deemed to be Financial Market Conduct representing entity under the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Financial Market Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

(ii) Changes in accounting standards

The following standards, amendments to standards and interpretations have been identified as those which may impact the NZ Branch in the period of initial application.

NZ IFRS 9 *Financial Instruments* was issued in November 2009 for financial assets, and was subsequently amended in December 2010 for financial liabilities. Whilst the Standard applies from 1 January 2018, the NZ Branch will apply the temporary exemption allowed by AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*, and will defer application of AASB 9 until 1 January 2021.

NZ IFRS 9 reduces the classification of financial assets to 3 measurement categories: amortised cost, fair value through profit or loss or fair value through comprehensive income. The classification criteria for financial liabilities contained in NZ IFRS 139 *Financial Instruments: Recognition and Measurement* (i.e. amortised cost and fair value through profit or loss) are retained. However, an entity that designates financial liabilities as being measured at fair value through profit or loss are no longer able to present gains/losses from deterioration/improvement in an entity's own credit rating in profit or loss. Instead, such gains or losses will be presented in other comprehensive income ("OCI"). Amounts recognised in OCI will not be permitted to be transferred to profit or loss (even if the entity's own debt is repurchased and a gain or loss is crystallised).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in accounting standards (continued)
NZ IFRS 15 *Revenue from Contracts with Customers* – the final standard has been issued and is effective for financial periods beginning on or after 1 January 2017. AASB 15 replaces existing revenue recognition standards including NZ IAS18 *Revenue*, and provides a new framework for the timing of revenue recognition based on the satisfaction of an entity's performance obligations, and the measurement of the amount to recognise. The standard applies a five-step process to support this new framework, and also requires additional disclosures. This includes the disaggregation of revenue from contracts with customers and other sources to depict the nature, amount, timing and uncertainty of each revenue stream. In addition, disclosure of the entity's performance obligations with respect to contracts with customers is required, and any significant judgements in relation to the application of this standard.

An initial assessment has concluded that the adoption of the Standard will not cause a material impact on the results of the NZ Branch.

NZ IFRS 16 *Leases* – the final standard has been issued and is effective for financial periods beginning on or after 1 January 2019 and is expected to be applied on that date. As the NZ Branch does not have any leases, the impact of this standard is not material.

As all leases are held by a related service company the key impact on the Branch's financial statements will be higher charges for lease costs in the earlier years of leases which are recharged from the related service company, with the total expense recharged for these leases remaining unchanged from current methods of measurements.

(iii) Basis of measurement
The financial statements are presented in New Zealand Dollars ("NZD") unless otherwise stated, which is the functional currency of the NZ Branch and comprise the statement of profit or loss and other comprehensive income, statement of changes in head office account, statement of financial position, statement of cash flows, summary of significant accounting policies and notes to the financial statements.

The financial statements are prepared on a historical cost basis, as modified by certain exceptions noted in the financial statements, with the principal exception being the measurement of financial assets designated at fair value through profit and loss and the measurement of the outstanding claims liability and related reinsurance recoveries as set out below.

(iv) Critical accounting estimates
The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the NZ Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or in areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 6 & 7.

(iv) Rounding
The financial statements are rounded to the nearest thousand dollars ($000) unless stated otherwise.

(vi) Reporting period
The reporting period is from 1 January 2016 to 31 December 2016.

(b) Premium revenue recognition
Insurance premiums comprise amounts charged to policyholders or other insurers, but exclude stamp duties, fire service levies, Goods and Services Tax ("GST") and other amounts collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium is earned from the date of attachment of risk.

Premiums on unclosed business are brought to account by reference to the previous period's premium processing delays with due allowance for any changes in the pattern of new business and renewals as at period end.

(c) Unearned premium
The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written over the period of risk from the dates of attachment.

Premium ceded to reinsurers is recognised as an expense from the attachment date in accordance with the pattern of incidence of risk. The deferred portion of outwards reinsurance premium is treated at the statement of financial position date as an asset.

Notes to the Financial Statements

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment revenue

Investment revenue includes income from investments and interest income from loans and receivables and is brought to account on an accrual basis, based on the effective interest rate method. Investment revenue includes all realised and unrealised gains and losses (refer Note 1 (j) below).

(e) Claims expense and outstanding claims liabilities

Claims expense for the period reflects claim payments made in the period and the movement in the liability for outstanding claims.

The liability for outstanding claims covers claims reported but not yet paid, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. IBNRs and settlement costs are calculated using statistics based on past experience and trends together with the assessment of likely future developments.

Long-tail claims relate to classes of insurance business where notice of a claim may not be received for many years and claims may be outstanding for long periods before they are settled by the insurer; protracted legal proceedings may be involved to apportion liability and to establish the value of claims.

The provisions for outstanding claims at 31 December 2016 were established by the Directors based on estimates of the ultimate liabilities which were calculated by the Company's Appointed Actuary. The estimates of the ultimate liabilities were based on analysis of past numbers of claims and amounts of claim payments and expectations of future experience. The estimates include allowance for IBNR claims and for anticipated future inflation of claim costs, with an additional risk margin to allow for inherent uncertainty in the central estimates.

This risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries and increases the probability that the net liability is adequately provided for.

The details of the amount of risk margin applied and the process of determining the risk margin is set out in Note 6(f).

The outstanding liability is measured as the present value of the estimated ultimate future direct and indirect costs of settling claims. Details of the rates of anticipated future inflation of claim costs and discount applied are set out in Note 6.

(f) Receivables

Receivables include premiums receivable, unclosed premiums and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at fair value, except where collection is doubtful, when an impairment loss is recognised. Interest due is earned to provide a constant yield over the term of the loan. Unearned interest is included within unearned income. The unexpired portion of outwards reinsurance premium is included in deferred reinsurance.

(g) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(h) Outwards reinsurance

Premiums ceded to reinsurers are recognised as outwards reinsurance expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Deferred reinsurance is recognised in the Statement of Financial Position from the attachment date and amortised over the period of the contract on a daily pro-rata method basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Acquisition costs
Acquisition costs are incurred in obtaining and recording policies of insurance. They include commission or brokerage paid to agents or brokers for obtaining business for the insurer, selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection costs.

The portion of acquisition costs related to unearned premium revenue is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount, and are amortised in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.

The deferred acquisition costs are taken up to the extent that the related unearned premiums exceed the sum of the deferred acquisition cost and the present value of both future expected claims and settlement costs including an appropriate risk margin. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an additional unexpired risk liability is recognised.

(j) Investments
The carrying amounts for all assets backing insurance liabilities are equal to fair value with movements being recognised in the statement of profit or loss and other comprehensive income. Refer to Note 1(I) for further description of the accounting policies surrounding assets backing general insurance liabilities.

(k) Taxation
Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on the national income tax rate in New Zealand. An exception is made for certain temporary differences arising from the initial recognition of an asset or a 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 the accounting profit or loss or taxable profit or loss. The income tax expense or revenue attributable to amounts recognised directly in the head office account is also recognised directly in the head office account. The associated current or deferred tax balances are recognised in these accounts.

(I) Financial assets
The carrying amounts for assets backing insurance liabilities are equal to fair value with movements being recognised in the statement of profit or loss and other comprehensive income. The following policies apply to assets held to back general insurance liabilities.

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amount of cash assets and bank overdrafts approximate their fair values. For the purpose of the statement of cash flows, cash includes cash on hand and deposits at call with banks, net of bank overdrafts.

- Investment in Government bonds are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the instrument at the statement of financial position date. Gains and losses are brought to account in the statement of profit or loss and other comprehensive income.

- All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention (regular way transactions) are recognised at trade date, being the date on which the NZ Branch commits to buy or sell the asset.

2. CORPORATE GOVERNANCE STATEMENT

Allianz Australia Insurance Limited (the Company) is incorporated in New South Wales, Australia. The company is 100% owned by Allianz Australia Limited and its ultimate parent is Allianz SE.

The Board has adopted a Board Charter, which sets out a description of its key functions and responsibilities. The Charter requires the Board to:

- Establish the fundamental aims of the corporation, set performance goals, approve strategies and any changes to organisation structure and to approve the annual budget;
- Meet Board composition requirements and approve appointments to the Board;
- Approve the appointment, targets and remuneration of the Managing Director and their direct reports;
- Approve actuary and external auditor appointments;
- Consider and approve potential acquisitions;
- Consider and approve material policies;
- Monitor the Company's financial position against the budget and the strategic plan, consider the Financial Condition Report and approve the Company's annual financial statements;
- Oversee the Company's capital adequacy strategy and the Company's use of an internal model based method for calculating capital and approve any changes to the Internal Capital Adequacy Assessment Process;
- Oversee significant business risks, including maintaining a Risk Appetite Statement and appropriate risk management policies and procedures;
- Monitor compliance programs;
- Oversee the Company's work, health and safety policies; and
- Oversee human resources and remuneration, investment and audit and risk management issues through delegation to Board committees.

The Company has four Board appointed committees, these being;

- Human Resources and Remuneration Committee;
- Audit Committee;
- Risk Committee; and
- Investment Committee.

The Board approves a number of policies, including:

- Fit and Proper Policy;
- Remuneration Policy;
- Board Assessment Policy; and
- Outsourcing Policy.

The Directors of the Company at any time during or since the end of the financial year are as follows:

- Non-executive Directors: J.S. Curtis (Chairman), K.M. McKenzie, P.M. Mann, M. Diekmann, B. Bovermann (as alternate for A.G. Theis), A.G. Theis and T.R. Towell.
- Executive Director: N.C. Peiris (Managing Director)

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: insurance risk, operational risk, credit risk, liquidity risk and market risk. The Company's overall risk management, which applies to the NZ Branch, focuses on the management of the insurance risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The NZ Branch's principal financial instruments comprise fixed income securities, cash and short term deposits. The main purpose of these financial instruments is to back insurance liabilities as well as generating a return on the investments made by the shareholders.

The Company also enters into derivative transactions, principally bond futures and options, interest rate swaps and forward currency contracts. The main purpose is to manage financial risks associated with the Company's investment transactions and to achieve the desired market exposure in a cost efficient manner. Investments in derivatives are not used to gear the Company's investment portfolio, and are limited to the asset allocation limits for the underlying investment class. The Company's investment management is largely outsourced to several asset management companies. The Company, through its investment mandates, sets out the framework including specific limits for the management of the portfolios. The Company regularly monitors the compliance with its Risk Management Statement and Investment mandates.

The NZ Branch's exposure to insurance risk, operational risk, credit risk, liquidity risk and market risk are detailed below.

(a) Insurance risk

The principal insurance risk the NZ Branch faces under insurance contracts is that the actual claims and benefits payments or the timing thereof, differ from expectations. This is influenced by the frequency of the claims, severity of claims, actual benefits paid and subsequent development of long term claims. Therefore, the objective of the NZ Branch is to ensure that sufficient reserves are available to cover these liabilities.

The insurance risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance. The Company purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis.

(b) Operational risk

Structured risk assessment methodologies are used to identify operational risks to formulate control plans for each risk. This includes operational risk elements associated with failure of people, processes and systems and those affecting other material risks. The management of operational risk is broken down into separate operational risk classes to enable specific allocation of responsibility and ownership of particular areas. In this way identification and review of the key risks have been completed with the acceptable level of risk appetite and tolerance defined. With the continual reporting and monitoring of key risks they are assessed as to whether they are within acceptable levels and what action, if any, is required to reduce any excess risk.

(c) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their obligations. The NZ Branch's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The maximum exposure to credit risk is the fair value of individual financial assets. The NZ Branch may hold collateral to secure credit risk in some instances.

Investment credit risk is monitored as part of its investment management process. Exposure to individual third parties as well as the overall creditworthiness of the portfolio is monitored regularly as part of the review of the asset allocation, performance and compliance with investment mandates.

The Company maintains a Reinsurance Management Strategy ("REMS") as required by APRA Prudential Standards GPS230. The REMS is reviewed annually and approved by the Board. The approach to managing credit risk exposure is set out in the REMS and includes monitoring and controlling concentration limits for credit risk exposure to reinsurance counterparties.

The table below provides information regarding the credit risk exposure of the NZ Branch by classifying assets according to Standard & Poor's (S & P's) credit ratings of the counterparties. AAA is the highest possible rating.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)	AA+ AA AA- $000	A+ A A- $000	Not Rated $000	Total $000
2016				
Cash	48,551	-	-	48,551
Receivables	3,419	64	29,465	32,948
Reinsurance and other recoveries receivable	89,675	2,307	1,778	93,760
Financial assets at fair value through profit and loss	76,650	-	-	76,650
2015				
Cash	86,749	-	-	86,749
Receivables	11,940	-	49,409	61,349
Reinsurance and other recoveries receivable	62,847	1,030	2,289	66,166
Financial assets at fair value through profit and loss	23,389	-	-	23,389

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities that can be readily realised in order to fund the Company's operations.

The NZ Branch has in place arrangements to ensure adequate liquidity is maintained to fulfil its obligations, and avoid the need to unexpectedly liquidate investments to support operating cash flows. The procedures adopted include forecasting future cash requirements by identifying significant cash outflow obligations and allowing for the impact of possible but unexpected cash outflows. The cash position of the NZ Branch is monitored on a daily basis with set procedures. Service level agreements are maintained with several cash management providers.

The table below analyses the NZ Branch's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, unless otherwise stated. Balances due within 12 months equal carrying balances, as the impact of discounting is not significant.

	Maturing in:				
	1 year or less $000	**1 to 3 years $000**	**3 to 5 years $000**	**Over 5 years $000**	**Total $000**
As at 31 December 2016					
Outstanding claims (undiscounted)	127,323	22,620	3,509	3,040	156,492
Unearned premiums	75,787	-	-	-	75,787
Accounts payable and accruals	61,563	-	-	-	61,563
Total financial liabilities	**264,673**	**22,620**	**3,509**	**3,040**	**293,842**
As at 31 December 2015					
Outstanding claims (undiscounted)	90,886	28,123	3,416	2,890	125,315
Unearned premiums	73,296	-	-	-	73,296
Accounts payable and accruals	52,093	-	-	-	52,093
Total financial liabilities	**216,275**	**28,123**	**3,416**	**2,890**	**250,704**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)	Face value		Maximum Term		Weighted average Yield	
	2016	2015	2016	2015	2016	2015
	$000	$000	Years	Years	%	%
Government bonds	22,000	22,000	1	2	6	6

(e) Market risk

Market risk is the risk that changes in market pricing will affect the NZ Branch's income or carrying value of the Branch's financial assets.

(i) Foreign currency risk exposures

The NZ Branch is not exposed to any foreign currency risks as all financial assets and financial liabilities are held in New Zealand Dollars.

(ii) Price risk

The NZ Branch does not hold any securities that expose the NZ Branch to price risk, or commodity risk.

(iii) Interest rate risk

The exposure to interest rate risk results from the holding of financial assets in the normal course of business. Fixed interest rate assets create exposure to fair value interest rate risk which is market risk. Financial assets with floating interest rates create exposure to cash flow interest rate risk. The NZ Branch holds 2 portfolios of interest bearing securities and several banking facilities. Each of these is monitored daily.

(iv) Summarised sensitivity analysis

The following table summarises the impact of increases/decreases in interest rates on the NZ Branch's post-tax profit for the year and on profit. The analysis is based on the assumption that the movement in interest rates had increased/decreased by 1% with all other variables held constant and all the financial instruments moved in line with the index.

		Interest rate risk	
		-1%	1%
	Carrying Amount $000	Profit/Head Office Account $000	Profit/Head Office Account $000
2016			
Financial assets			
Cash	48,551	(350)	350
Bills of exchange and floating notes	53,799	387	(387)
Government bonds	22,851	165	(165)
Total financial assets	**125,201**	**202**	**(202)**
2015			
Cash	86,749	(624)	624
Government bonds	23,389	147	(147)
Total financial assets	**110,138**	**(477)**	**477**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair value estimation

The carrying value of cash and non-interest bearing monetary financial assets and financial liabilities of the Company approximates their net fair value.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

4. CAPITAL MANAGEMENT

(a) Capital management strategy risk

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the objective of providing an appropriate level of capital to protect policyholders' interests and satisfy regulators. Capital finances growth, capital expenditure and business plans and also providing a buffer against adverse outcomes from insurance and other activities and investment performance.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand ("RBNZ"). The company, Allianz Australia Insurance Limited was granted a license in 1 January 2013 by the RBNZ as required by the Insurance (Prudential Supervision) Act 2010.

The NZ Branch is regulated by the RBNZ. The entity has been granted exemptions from lodgement of half year interim financial statements and half yearly and yearly solvency returns. The entity's reporting obligations to the RBNZ have been satisfied by submissions to the RBNZ of the Company and Parent Company's returns as submitted to the Australian Prudential Regulation Authority (APRA).

Allianz Australia Insurance Limited is registered with APRA and is subject to its prudential standards. Capital calculations for regulatory purposes are based on the prospective accounting model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The prospective accounting model assesses future claims payments arising from future events insured under existing policies. This differs from the measurement of the outstanding claims liability on the statement of financial position which considers claims relating to events that occur only up to and including the end of the reporting period.

From 1 January 2013 regulatory capital for the Company has been determined with reference to Allianz Australia's internal model.

Consideration is given to the operational capital needs of the business. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of the Company whilst suitably protecting policyholders.

The capital objectives are achieved through dynamic management of the statement of financial position and capital mix, the use of a risk based capital adequacy framework that relies on explicit quantification of uncertainty (or risk), and the use of internal modelling techniques. The influence on capital needs of product mix, the reinsurance program, catastrophe exposure, investment strategy, profit margins and capital structure are all assessed through the internal capital model.

The NZ Branch is not rated by an external ratings agency but the Company has a Standard and Poors rating of AA-.

(b) Regulatory Capital Compliance

The entity's reporting obligations to the RBNZ have been satisfied by submissions to the RBNZ of the Company's APRA returns, in addition to submission to the RBNZ of the Parent Company's APRA returns. Set out below is the Company's APRA prescribed capital amount as at 31 December 2016.

4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance (continued)

	2016 AUD $000	2016 NZD $000
Statutory capital of Allianz Australia Insurance Limited		
Common equity tier 1 capital		
Ordinary Shares	1,571,307	1,631,771
Retained earnings	896,585	931,086
Disclosed reserves	5,262	5,464
Technical provision in excess of liability valuation (net of tax)	77,881	80,878
Regulatory adjustments for non allowable assets	(546,360)	(567,384)
Total tier 1 capital	**2,004,675**	**2,081,815**
Tier 2 capital	-	-
Total regulatory capital	**2,004,675**	**2,081,815**
Prescribed capital amount (PCA)		
Insurance risk	976,519	1,014,095
Insurance concentration risk charge	118,138	122,684
Diversified asset risk charge	421,076	437,279
Aggregation benefit	(266,752)	(277,017)
Operational risk charge	177,989	184,838
Adjustments to prescribed capital amount as approved by APRA	(85,279)	(88,561)
Prescribed capital amount	**1,341,691**	**1,393,318**
PCA multiple	1.49	1.49
CET1 multiple	1.49	1.49

	2015 AUD $000	2015 NZD $000
Statutory capital of Allianz Australia Insurance Limited		
Common equity tier 1 capital		
Ordinary shares	1,571,307	1,631,771
Retained earnings	709,612	754,169
Disclosed reserves	3,182	3,382
Technical provision in excess of liability valuation (net of tax)	65,778	69,908
Regulatory adjustments for non allowable assets	(538,337)	(572,139)
Total tier 1 capital	**1,811,542**	**1,887,091**
Tier 2 capital	-	-
Total regulatory capital	**1,811,542**	**1,887,091**
Prescribed capital amount		
Insurance risk	954,532	1,014,467
Insurance concentration risk charge	106,280	112,953
Diversified asset risk charge	399,258	424,327
Aggregation benefit	(254,191)	(270,152)
Operational risk charge	174,438	185,391
Adjustments to prescribed capital amount as approved by APRA	(49,630)	(52,746)
Prescribed capital amount	**1,330,687**	**1,414,240**
PCA multiple	1.36	1.36
CET1 multiple	1.36	1.36

5. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

(a) Risk management objectives and policies for mitigating insurance risk

Short-term variability is, to some extent, a feature of insurance business. The Company has an objective to manage insurance risk and reduce the resulting volatility of operating profits, and this is applied to the NZ Branch.

In accordance with CPS 220 *Risk Management* (CPS 220) and GPS 230 *Reinsurance Management (*GPS 230) issued by APRA, the Company has in place a sound and prudent Risk Management Framework ("RMF"). This RMF includes a Risk Management Strategy ("RMS") and a Reinsurance Management Strategy ("REMS").

The RMF provides a basis to ensure that the NZ Branch manages its risks in relation to its obligations to the Reserve Bank of New Zealand under s.73(1) and s.73(2) of the Insurance (Prudential Supervision) Ac 2010 ('the Act").

The RMF, RMS and REMS identify the policies, procedures, processes and controls that the Company utilises to address material risks, financial and non-financial, that are likely to face the organisation. Annually, the Board certifies to APRA that these strategies are appropriate and that it has satisfied itself as to the level of compliance with the RMS and REMS.

Key aspects of the activities established to mitigate risks include the following:

- Actuarial models, using information from the management information systems, past experience and assessments of likely future developments are used to calculate premiums and monitor claims patterns.
- The underwriting approach seeks to ensure a balanced portfolio and is based on a large portfolio of diverse risks. A balance is maintained between long-tail and short-tail classes. This strategy is cascaded down to individual underwriters through detailed underwriting authorities. Independent underwriting reviews are carried out to ensure compliance with the strategy.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. The Company purchases a combination of proportional and non-proportional reinsurance treaties and employs facultative reinsurance in approved circumstances. When selecting a reinsurer only those companies that provide high security are considered.
- The mix of investments is linked to the nature and term of the insurance liabilities. The management of assets and liabilities is monitored to match as closely as possible the maturity dates of assets with the expected pattern of claim payments.

(b) Terms and conditions of insurance contracts

Insurance indemnifies the policyholder, subject to any limits or excesses, against loss or damage to his or her property, legal liability to others and the cost of business interruption arising from damage. The return to shareholders arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred in administering this function.

The risk on any policy will vary according to many factors such as nature of cover offered, location, safety measures in place, age of property etc. The terms and conditions attaching to insurance contracts take into account these variables, which affect the level of insurance risk accepted by the Company and the subsequent return.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial report.

(c) Concentration of insurance risks

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's assets. Such concentrations may arise from a single insurance contract or through a number of contracts that become related due to geographic proximity or exposure to a single cost event.

The Company monitors its aggregate position at the time of underwriting a risk and uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses. These stress and scenario tests are run to ensure that exposures remain diversified and/or that purchased excess of loss reinsurance is adequate.

5. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

(d) Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Company directly to interest rate risk. The insurance and reinsurance contracts are annually renewable and the conditions are negotiable. In addition, the matching of investment assets and liabilities reduces exposure to interest rate fluctuations.

(e) Credit risk

The Company is exposed to credit risk on insurance contracts as a result of exposure to individual reinsurers. The credit risk to reinsurers is managed through the global Allianz Group having a pre-determined policy on the appropriate rating a reinsurer must have to participate on the insurer's reinsurance programme. The Company's policy is not to accept reinsurers with the following S&P (or equivalent A.M. Best) ratings:

- Less than "A-" for short-tail classes.
- Less than "A+" for long-tail classes.

All reinsurance arrangements carry a downgrade clause providing the Company with the option to immediately replace any reinsurer with an S&P rating that falls below predetermined minimum levels. An exception to this may be made in relation to reinsurance counterparties that are part of the Allianz Group, for whom the downgrade clause is not always included. An exception may also be made in those instances when the Company obtains the permission of the Allianz Group Security Vetting Team to use a reinsurer which does not have an S&P or A.M. Best rating.

6. ACTUARIAL ASSUMPTIONS AND METHODS

(a) Actuarial information

Jonathan Perkins is the Appointed Actuary for the Company and the NZ Branch. He is a fellow of the Society of Actuaries of New Zealand. The outstanding claims reserve disclosed have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 4.1 "Valuations of General Insurance Claims". The effective date of the Appointed Actuary's advice is 31 December 2016.

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability, and there were no qualifications contained in the actuarial advice. The key assumptions used in the compilation of the reserves as at 31 December 2016 are outlined below.

(b) Actuarial methods

The NZ Branch writes a wide range of insurance risks including both short-tail classes and long-tail classes.

The most significant classes of business, as determined by the size of the outstanding claims liability and divided between short-tail and long-tail are:

Short-tail classes
Domestic motor vehicle
Commercial motor vehicle
Building and contents
Commercial property
Pleasurecraft
Marine and aviation
Consumer credit

Long-tail classes
Public and products liability
Professional indemnity

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(b) Actuarial methods (continued)

(i) Short-tail classes

These portfolios contain claims that are typically reported and settled within one year of being incurred. At least two actuarial methods are used to estimate the outstanding claims with the final estimate being based on actuarial advice.

For these classes, the outstanding claims are typically heavily reliant on the level of case reserves with allowance for IBNR and IBNER claims based on the expected pattern of claims development.

Typically, the methods applied do not make specific allowance for inflation but are implicitly reflected in other assumptions. However for some methods, claims inflation is then incorporated into the resulting projected payments, allowing for general economic inflation.

Projected payments are discounted to allow for the time value of money.

(ii) Long-tail classes

These portfolios contain claims that are typically reported and settled more than one year after being incurred. A range of actuarial methods are used with at least two different methods being applied to most portfolios.

Apart from latent claims, for recent accident years, the estimates of outstanding claims are derived principally from methods that are based on claim numbers and average claims sizes or based on an initial expected loss ratios.

Claims inflation is incorporated into the resulting projected payments for each portfolio, to allow for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent. Some methods applied do not make specific allowance for inflation but are included implicitly in other assumptions. Projected payments are discounted to allow for the time value of money.

(c) Actuarial assumptions

Disclosure of all assumptions is impractical due to the large number of separate portfolio valuations carried out. The following actuarial assumptions have been made in determining the outstanding claims liabilities and are generally common across portfolios.

	2016 Short-Tail	2016 Long-Tail	2015 Short-Tail	2015 Long-Tail
Average weighted term to settlement (years)	0.44	1.98	0.66	1.49
Claims handling expenses (net of reinsurance)	4.43%	21.59%	6.00%	6.00%
Discount rate	1.84%	2.52%	2.67%	2.88%
Inflation rate	2.50%	3.50%	2.50%	3.50%
Superimposed inflation rate	N/A	N/A	N/A	N/A

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(d) Process used to determine assumptions

(i) Average weighted term to settlement

The average weighted term to settlement is based on historic payment patterns.

(ii) Claims handling expenses

Historically, claims handling expenses have been calculated by reference to experience of claims handling costs as a percentage of past payments. Following a review of the assumption by the Appointed Actuary, an activity-based costing approach has been adopted as at 31 December 2016, with loadings varying by class of business gross of reinsurance recoveries but net of non-reinsurance recoveries. This has led to a reduction in the rate applied. For business fronted for Allianz Global Corporate & Specialty, the associated claims handling expenses are recoverable under the quota share reinsurance treaty.

(iii) Discount rate

Discount rates derived from market yields on New Zealand Government securities as at the balance date have been adopted for New Zealand portfolios respectively.

(iv) Inflation rate

Economic inflation assumptions are set by reference to current economic indicators.

(v) Superimposed inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wage inflation. An allowance for superimposed inflation was made for each underlying model, where appropriate, after considering both superimposed inflation present in the portfolio and industry superimposed inflation trends.

(e) Sensitivity analysis – insurance contracts

(i) Summary

The Company and NZ Branch conduct sensitivity analyses to quantify the exposure to risk of changes in the key variables. The actuarial valuations of outstanding claims included in the reported results are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and the Head Office account of the NZ Branch. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and Head Office account to changes in these assumptions both gross and net of reinsurance.

Variable	Impact of movement
Average weighted term to settlement	Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated. An increase or decrease in the average weighted term would have an opposing impact on the discounted claims expense.
Claims handling expenses	An estimate for the internal cost of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumptions would have a corresponding impact on discounted claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. The payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Inflation and superimposed inflation rate	Expected future payments are inflated to take account of anticipated future inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase in claim inflation will increase the provision for outstanding claims. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

(ii) Impact of changes in key variables

The table below summarises the sensitivity of the profit/(loss) and the head office account to changes in key variables.

2016

	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
Average weighted term to settlement	+0.5 year	1,288	506	902	354
	-0.5 year	(1,137)	(457)	(796)	(320)
Claims handling expenses	1%	(1,356)	(1,130)	(949)	(791)
	-1%	1,356	1,130	949	791
Discount rate	+1% p.a.	587	243	411	170
	-1% p. a.	(597)	(247)	(418)	(173)
Inflation rate	+1% p.a.	(603)	(249)	(422)	(174)
	-1% p.a.	604	250	423	175

	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Long-tail					
Average weighted term to settlement	+0.5 year	208	54	146	38
	-0.5 year	(211)	(55)	(148)	(38)
Claims handling expenses	1%	(150)	(47)	(105)	(33)
	-1%	150	47	105	33
Discount rate	+1% p.a.	412	82	288	57
	-1% p. a.	(438)	(86)	(306)	(60)
Inflation rate	+1% p.a.	(445)	(87)	(312)	(61)
	-1% p.a.	427	85	299	59
Superimposed inflation	+1% p.a.	(445)	(87)	(312)	(61)
	-1% p.a.	427	85	299	59

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

(ii) Impact of changes in key variables (continued)

The table below summarises the sensitivity of the profit/(loss) and the head office account to changes in key variables.

2015

	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
Average weighted term to settlement	+0.5 year	1,269	604	914	435
	-0.5 year	(1,286)	(612)	(926)	(441)
Claims handling expenses	1%	(436)	(436)	(314)	(314)
	-1%	436	436	314	314
Discount rate	+1% p.a.	584	293	421	211
	-1% p. a.	(599)	(301)	(431)	(217)
Inflation rate	+1% p.a.	(608)	(306)	(438)	(221)
	-1% p.a.	267	303	193	219

	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross of RI	Net of RI	Gross of RI	Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	238	95	171	68
	-0.5 year	(241)	(96)	(174)	(69)
Claims Handling Expenses	1%	(63)	(63)	(46)	(46)
	-1%	63	63	46	46
Discount Rate	+1% p.a.	326	95	235	69
	-1% p. a.	(345)	(100)	(249)	(72)
Inflation Rate	+1% p.a.	(352)	(102)	(254)	(73)
	-1% p.a.	117	99	84	71
Superimposed Inflation	+1% p.a.	(352)	(102)	(254)	(73)
	-1% p.a.	117	99	84	71

(f) Risk margin

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

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(f) Risk margin (continued)

The assumptions regarding uncertainty for each class were applied to the central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

	2016	2015
	%	%
Risk Margins applied:		
Short-tail classes	4.6	5.0
Long-tail classes	4.6	5.0
Overall margin	4.6	5.0

7. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The NZ 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 and judgements are applied are described below.

(a) Gross outstanding claims provisions

Claims expense and a liability for outstanding claims are recognised as losses occur. The liability for outstanding claims includes the costs of claims reported but yet to be paid, claims incurred but not yet reported ("IBNR"), claims incurred but not enough reported ("IBNER") and the anticipated direct expenses to be incurred in settling claims.

Outstanding claims are assessed by reviewing individual claim files and estimating IBNRs, IBNERs and claims handling costs based on management expectations as to future claim payments. Outstanding claims are the cost of settling claims including allowance for expected future normal and superimposed inflation. The estimated cash flows are discounted to present value using risk free discount rates. Outstanding claims on all classes are subject to actuarial assessment.

A risk margin is added to the outstanding claims provision to increase the probability that the net liability is adequately provided to a sufficiency level deemed appropriate by the Directors, being 75%.
Outstanding claims are calculated gross of reinsurance and other recoveries. A separate estimate is made of the amounts that are recoverable from reinsurers and other third parties under insurance contracts. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 6.

(b) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNRs and IBNERs are recognised as revenue. Recoveries receivable are estimated in a manner consistent with the assessment of outstanding claims. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

	2016	2015
	$000	$000

8. PREMIUM REVENUE

	2016 $000	2015 $000
Gross written premium	162,935	171,733
Movement in unearned premium liability	(2,490)	1,661
Gross earned premium revenue	**160,445**	**173,394**
Outwards reinsurance expense	(77,659)	(79,328)
Net earned premium	**82,786**	**94,066**

	2016 $000	2015 $000

9. INVESTMENT INCOME

	2016 $000	2015 $000
Interest on government bonds	1,320	836
Other interest	2,092	3,689
Unrealised losses on investments	(539)	(297)
Realised gains on investments	675	151
Other income	-	1,000
Total investment and other income	**3,548**	**5,379**

10. NET CLAIMS INCURRED

	Current year $000	Prior years $000	Total $000
2016			
Gross claims incurred - undiscounted	(175,761)	16,144	(159,617)
Discount movement	1,329	(1,793)	(464)
Gross claims incurred - discounted	(174,432)	14,351	(160,081)
Reinsurance and other recoveries revenue - undiscounted	78,722	(5,509)	73,213
Discount movement	(797)	725	(72)
Reinsurance and other recoveries revenue discounted	77,925	(4,784)	73,141
Net claims incurred	**(96,507)**	**9,567**	**(86,940)**
2015			
Gross claims incurred - undiscounted	(110,704)	16,846	(93,858)
Discount movement	1,386	(1,513)	(367)
Gross claims incurred - discounted	(109,318)	15,333	(94,225)
Reinsurance and other recoveries revenue - undiscounted	38,858	(11,350)	27,508
Discount movement	(464)	1,037	573
Reinsurance and other recoveries revenue discounted	38,394	(10,313)	28,081
Net claims incurred	**(71,164)**	**5,020**	**(66,144)**

Explanation of material movements in net claims Incurred for risks borne in prior reporting periods

Current period claims relate to risks borne in the current financial period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods. The strong prior year undiscounted releases are a result of a benign claims experience, primarily driven by claims inflation having been lower than previously assumed. In addition, future claims inflation assumptions have been revised to more closely reflect the current economic circumstances.

	2016 $000	2015 $000

11. TAXATION

(a) Income tax benefit/(expense)

Current tax benefit/(expense)	7,705	(1,060)
Movement in deferred tax balance recognised	(370)	(10)
Total recognised income tax benefit/(expense)	**7,335**	**(1,070)**

(ii) Reconciliation of effective tax rate

(Loss)/profit before tax	(26,198)	3,820
Income tax at 28%	7,335	(1,070)
Total income tax expense	**7,335**	**(1,070)**

(iii) Deferred tax asset/(liability)

The balance comprises temporary differences attributable to:

Deferred acquisition costs	(4,075)	(3,705)
Provision for doubtful debts	8	8
Tax losses	6,822	-
Net deferred tax asset/(liability)	**2,755**	**(3,697)**

12. RECEIVABLES

(a) Current

Trade debtors		
Premiums receivable	20,137	25,473
Unclosed premiums	3,994	4,428
Reinsurance debtors	3,472	11,929
Other receivables	2,990	19,519
Income tax benefit receivable	2,355	-
Total receivables - current	**32,948**	**61,349**

Premiums receivable are unsecured. Where collection of a trade debtor is doubtful, a provision for impairment is recognised.

(b) Amounts due from related entities

Receivables from related entities are interest free and repayable at call.

12. RECEIVABLES (CONTINUED)

(c) Impairment losses

The ageing of trade and other receivables at the reporting date that were not impaired was as follows:

	2016 $000	2015 $000
Not past due or impaired	32,622	61,119
0 to 3 months	253	206
3 to 6 months	-	1
Over 6 months	73	23
Total receivables	**32,948**	**61,349**

The trade and other receivables have not been impaired.

13. FINANCIAL ASSETS

Financial assets at fair value through profit and loss

Determination of fair value hierarchy: The below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs.

The total bills of exchange and floating notes of $53,799,000 and government bonds of $22,851,000 are classified as Level 2 in the fair value hierarchy (2015: $23,389,000).

Within the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions; assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers are valued using the vendors' proprietary models whereby the assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. No investments have been categorised as level 1 or 3 as at 31 December 2016.

	2016 $000	2015 $000

14. DEFERRED ACQUISITION COSTS

The liability test (LAT) is carried out for portfolios of contracts within New Zealand that are subject to broadly similar risks that are managed together as a single portfolio.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 6 (f). As with outstanding claims, the overall risk margin is intended to achieve a probability of sufficiency (PoS) of 75%.

	2016 $000	2015 $000
(a) Deferred acquisition costs at 1 January	13,233	13,223
Acquisition costs deferred	26,885	29,443
Amortisation charged to income	(26,865)	(30,897)
Release of premium deficiency prior year	1,867	3,330
Write down for premium deficiency current year	(567)	(1,866)
Total at 31 December	**14,553**	**13,233**

(b) Calculation of current year deficiency

	2016 $000	2015 $000
Net unearned premium liability relating to insurance contracts issued	50,488	50,707
Related insurance asset	(1,680)	(1,788)
Related deferred acquisition costs	(15,183)	(15,161)
	33,625	**33,758**
Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts	31,214	32,728
Risk margin	2,978	2,896
	34,192	35,624
Total current year deficiency recognised in the statement of profit or loss and other comprehensive income	**567**	**1,866**

	2016 $000	2015 $000

15. OUTSTANDING CLAIMS

(a) Outstanding claims liability

	2016 $000	2015 $000
Expected future claims payments (undiscounted) - central estimate	150,611	119,465
Risk margin applied (undiscounted)	2,801	2,752
Claims handling expenses	3,081	3,097
Discount to present value - central estimate	(2,297)	(2,734)
Discount to present value - risk margin	(27)	(53)
Total outstanding claims liability	**154,169**	**122,527**

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes $14,848,978 relating to the Christchurch earthquakes which occurred in 2010 and 2011. The estimate is based on information on individual reported claims plus an allowance for future claims and claims development.

(c) Kaikoura Earthquakes

The central estimate for the outstanding claims liability includes $71,730,671 relating to the Kaikoura earthquakes which occurred in November 2016. The estimate is based on information on individual reported claims plus an allowance for future claims and claims development.

(d) Reconciliation of movement in discounted outstanding claims liability

	2016			2015		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance as at 1 January	122,527	(66,166)	56,361	152,505	(108,555)	43,950
Current year claims incurred	174,432	(77,925)	96,507	109,558	(38,394)	71,164
Change in previous years' claims	(14,351)	4,784	(9,567)	(15,333)	10,313	(5,020)
Current year claims paid/RI recovered	(67,975)	24,189	(43,786)	(67,268)	23,824	(43,444)
Previous year claims paid/RI recovered	(60,464)	21,358	(39,106)	(56,935)	46,646	(10,289)
Balance as at 31 December	**154,169**	**(93,760)**	**60,409**	**122,527**	**(66,166)**	**56,361**

Notes to the Financial Statements
For the year ended 31 December 2016

15. OUTSTANDING CLAIMS (CONTINUED)

(e) Claims development table

The following tables show the development of gross and net discounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

Gross

Accident year	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimated cumulative claims:	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
End of accident year	86,338	2,174	3,307	3,515	4,118	4,718	4,776	5,197	3,514	3,479	
One year later	84,190	2,019	1,639	2,917	1,192	4,517	4,866	6,319	5,176		
Two years later	83,659	36,573	1,649	1,037	1,761	3,006	3,089	3,742			
Three years later	86,904	36,013	1,132	1,974	1,626	2,340	4,311				
Four years later	89,895	40,285	1,466	1,384	2,081	1,600					
Five years later	86,835	2,322	1,093	1,252	2,723						
Six years later	87,103	1,722	952	1,023							
Seven years later	104,607	1,728	874								
Eight Years later	102,130	1,694									
Nine Years later	94,437										
Estimate of cumulative claims	94,437	1,694	874	1,023	2,723	1,600	4,311	3,742	5,176	3,479	119,059
Cumulative payments	92,686	1,680	852	941	2,305	946	1,628	645	773	539	102,995
Claims outstanding - undiscounted	1,751	15	22	82	418	655	2,683	3,098	4,403	2,940	16,067
Effect of discounting	73	1	1	7	22	44	230	173	295	356	1,202
Claims outstanding - discounted	1,678	14	21	75	396	610	2,453	2,924	4,108	2,584	14,865
Short-tail classes											133,531
Risk margins - discounted											2,773
Claims handling expenses											3,000
Total gross outstanding claims											**154,169**

In 2010 (in relation to 2008 accident year) a large Public and Products Liability claim due to milk contamination of circa $32m was reserved for, however was subsequently declined in 2013.

15. OUTSTANDING CLAIMS (CONTINUED)

(e) Claims development table (continued)

Net

Accident year	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimated cumulative claims:	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
End of accident year	57,567	1,795	2,325	1,618	1,935	2,133	2,071	1,281	1,027	756	
One year later	54,731	1,714	1,613	1,931	2,155	2,556	3,141	2,542	2,264		
Two years later	55,718	1,029	1,205	919	893	1,161	892	351			
Three years later	58,119	1,267	1,205	895	809	1,068	785				
Four years later	57,882	1,089	1,015	794	1,611	860					
Five years later	59,972	1,023	820	787	2,471						
Six years later	58,154	977	856	775							
Seven years later	64,586	1,024	847								
Eight Years later	62,894	1,003									
Nine Years later	60,977										
Estimate of cumulative claims	60,977	1,003	847	775	2,471	860	785	351	2,264	756	71,089
Cumulative payments	59,638	993	831	761	2,279	881	707	387	556	465	67,498
Claims outstanding - undiscounted	1,339	10	16	14	192	(21)	78	(36)	1,708	291	3,591
Effect of discounting	63	-	1	-	9	(3)	1	(5)	76	15	157
Claims outstanding - discounted	1,276	10	15	14	183	(18)	77	(31)	1,632	276	3,434
Short-tail classes											51,201
Risk margins - discounted											2,774
Claims handling expenses											3,000
Total net outstanding claims	**1,276**	**10**	**15**	**14**	**183**	**(18)**	**77**	**(31)**	**1,632**	**276**	**60,409**

16. UNEARNED PREMIUM LIABILITY

	2016 $000	2015 $000
Unearned premium liability as at 1 January	73,296	74,957
Deferral of premiums on contracts written in the period	162,937	171,733
Earning of premiums written in current and previous periods	(160,446)	(173,394)
Unearned premium liability as at 31 December	**75,787**	**73,296**

17. AUDITOR'S REMUNERATION

	2016 $	2015 $
Audit of the financial statements	54,600	57,200

18. KEY MANAGEMENT PERSONNEL COMPENSATION

The following were key management personnel of the Company during or since the end of the reporting period:

Name	Position	Term as KMP
Directors		
J.S. Curtis	Chairman of the Board	Full Year
B. Bovermann	Director	Full Year
M. Diekmann	Director	Resigned 31 December 2016
P.M. Mann	Director	Full Year
K.M. McKenzie	Director	Full Year
N.C. Peiris	Managing Director	Full Year
T.R. Towell	Director	Full Year
A.G. Theis	Director	Full Year
Senior Executives:		
L. Callahan	Acting Chief Market Manager	Appointed 25 November 2016
S. Coles	Chief Information Officer	Resigned 6 May 2016
T. Dawson	Chief Human Resources Officer	Full Year
R. Feledy	Chief Technical Officer	Full Year
D. Hosking	Chief General Manager – Broker & Agency	Full Year
P. Kernaghan	Chief Market Manager	Resigned 15 October 2015
D. Krawitz	Chief Operating Officer	Full Year
J. Myler	Chief Market Manager	Resigned 21 November 2016
M. Raumer	Chief Financial Officer	Full Year
H. Silver	Chief General Manager– Workers' Compensation	Full Year
M. Winter	Chief General Manager – Retail Distribution	Full Year
T. Ruedesheim	Chief Information Officer	Appointed 9 May 2016
E. Elisara	Chief Executive Officer New Zealand	Resigned 10 February 2017
M. Guppy	Chief Executive Officer New Zealand	Appointed 6 March 2017
M. Kaley	Company Secretary and General Counsel	Full Year
N. Scofield	General Manager – Corporate Affairs	Full Year
N. Woof	Chief Actuary & Chief Risk Officer	Full Year

(a) Transactions with key management personnel

	2016 $ AUD	2016 $ NZD	2015 $ AUD	2015 $ NZD
Short term employee benefits	7,665,621	7,960,594	6,863,761	7,294,737
Post employment benefits	248,730	258,301	252,975	268,859
Long term employee benefits	1,090,893	1,132,871	1,113,970	1,183,916
Termination benefits	-	-	272,297	289,395
Share-based payments	1,431,148	1,486,219	1,520,611	1,616,090
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel	**10,436,392**	**10,837,985**	**10,023,614**	**10,652,997**

(b) Loans and other transactions with key management personnel

Refer to Note 19 for related party transactions concerning Directors.

The Company sold insurance to key management personnel during the period within normal employee or customer relationships on terms and conditions no more favourable than those available on similar transactions to other employees.

19. RELATED PARTY TRANSACTIONS

(a) Allianz Australia Insurance Limited – New Zealand Branch is part of Allianz Australia Insurance Limited. The immediate parent entity of Allianz Australia Insurance Limited is Allianz Australia Limited and the ultimate parent entity of Allianz Australia Insurance Limited is Allianz SE – a company incorporated in Germany.

The following types of transactions have arisen between the Company and entities within the Allianz SE Group:
(i) loans advances and repayments;
(ii) fees for funds management;
(iii) transfer of insurance liabilities;
(iv) fees for claims management;
(v) reinsurance arrangements; and
(vi) equity compensation schemes.

Fees and charges between the Company and those entities in the Allianz SE Group are based on normal commercial terms and conditions.

(b) The names of each person holding the position of Director of Allianz Australia Insurance Limited during or since the end of the reporting period are J.S. Curtis, B. Bovermann (as alternate Director for A.G. Theis) M. Diekmann (resigned 31 December 2016), P.M. Mann, K.M. McKenzie, N.C. Peiris, A.G. Theis and T.R. Towell.

A number of Directors of the Company, or their Director-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

(c)	2016 $	2015 $
Management fees paid to:		
Allianz New Zealand Limited	380,337	429,146
PIMCO Australia Pty Limited	50,237	45,773

The terms and conditions of the transactions with Directors and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arms' length basis.

(d) The NZ Branch underwrites policies of insurance sourced by other entities subject to common control which act as underwriting agencies and insurance brokers. Commission for these transactions is paid at commercial rates. The NZ Branch paid the following commissions to related parties during the year.

	2016 $	2015 $
Outgoings		
Primacy Underwriting Management Limited	1,302,855	1,410,811
Euler Hermes Trade Credit Underwriting Agency Pty Limited	1,241,088	939,833
Global Transport & Automotive Insurance Solutions Pty Limited	2,405,603	2,745,567
Club Marine Limited	896,229	901,455

19. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) During the year the NZ Branch entered into reinsurance transactions with related parties within the Allianz SE Group. The following transactions were recorded:

	2016 $	2015 $
Reinsurance premiums ceded	77,658,870	79,328,437
Reinsurance claims recovered	73,141,354	28,081,002

(f) Amounts due (to)/from related parties

Allianz New Zealand Limited	8,724,636	2,292,728
Head Office	(51,978,198)	(35,216,494)
Club Marine Limited	(775,507)	(438,904)
Allianz Australia Services Limited	(5,842,314)	(3,856,655)
Primacy Underwriting Management Limited (NZ)	6,569,212	11,401,521
Net amount due to related parties	**(43,302,171)**	**(25,817,804)**

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2016 $000	2015 $000
(a) Cash reconciliation		
Cash and cash equivalents in the statement of cash flows	**102,350**	**86,749**

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

(Loss)/profit for the year	(18,863)	2,750
Non-cash movements:		
Realised (gain) on investments	(675)	(151)
Unrealised loss on revaluation	539	297
Change in assets and liabilities:		
Decrease in premium debtors	5,769	3,959
Increase/(decrease) in unearned premium	2,491	(1,661)
(Increase) in deferred acquisition costs	(1,320)	(10)
(Increase)/decrease in reinsurance and other recoveries receivable	(19,137)	39,647
(Decrease)/increase in tax assets and liabilities	(8,806)	10
Increase/(decrease) in creditors, borrowings and amounts owed to related companies	12,651	(33,711)
(Increase) in reinsurance paid	(3,250)	(427)
Increase/(decrease) in outstanding claims	31,642	(29,978)
(Increase) in deferred reinsurance premium	(2,712)	(2,685)
Increase/(decrease) in sundry payables	70	(728)
(Increase) in other receivables	16,529	(12,044)
Net cash inflow/(outflow) from operating activities	**14,928**	**(34,732)**

21. CONTINGENT LIABILITIES

Members of the Company are engaged in normal commercial disputes and actions, which individually are not considered material but which if taken together may have a material impact on the Company. The Directors, supported by appropriate professional and legal advice, consider the possibility of a material consequence to the Company, arising from these disputes or actions, to be remote.

The Directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

22. EVENTS SUBSEQUENT TO BALANCE DATE

There has not been any significant event or circumstance that has arisen since the end of the reporting period that has significantly affected or may significantly affect the NZ Branch's operations, the results of those operations, or the NZ Branch's state of affairs in future financial years.

Independent Auditor's Report

To the shareholder of Allianz Australia Insurance Limited - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Allianz Australia Insurance Limited - New Zealand Branch (the branch) on pages 5 to 37:

i. present fairly in all material respects the branch's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2016;

— the statement of Profit or Loss and other comprehensive income, statement of changes in head office account and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

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

Other Information

The Directors, on behalf of the branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Director's Report. Our opinion on the financial statements does not cover any 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 in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent 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 shareholder as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Director for the financial statements

The Director, on behalf of the branch, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

— 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 Independent 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 ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

KPMG
Sydney

29 March 2017

BOARD REPORT
MARCH 2017

COMPANY:	**ALLIANZ AUSTRALIA INSURANCE LIMITED (NZ BRANCH)**
SUBMITTED BY:	**JONATHAN PERKINS, APPOINTED ACTUARY**
TOPIC:	**ALLIANZ AUSTRALIA INSURANCE LIMITED NEW ZEALAND BRANCH APPOINTED ACTUARY REPORT AT 31 DECEMBER 2016**

PURPOSE

I have prepared this Appointed Actuary report as at 31 December 2016 for the Board of Allianz Australia Insurance Limited (**AAIL**) in my capacity as Appointed Actuary to AAIL and its New Zealand Branch (**AAILNZ**).

This report is required under Section 77 of the New Zealand Insurance (Prudential Supervision) Act 2010, which requires that the licensed insurer "*ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer…. is reviewed by the appointed actuary*".

This report has been prepared with the intention of complying with Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010, which outlines the key requirements of the Appointed Actuary Review. As per instructions from the Reserve Bank of New Zealand, this report is not intended to comprise an Insurance Liability Valuation Report of AAILNZ and as such does not comply with the relevant requirements outlined in PS4 of the New Zealand Society of Actuaries.

SUPPORTING ANALYSES

As Appointed Actuary to AAILNZ, I am responsible for the preparation of actuarial information which feeds into the AAILNZ financial statements. The actuarial information provided to support the 31 December 2016 AAILNZ financial statements ("**Financial Statements**") is the result of the following work performed by the Finance Actuarial team:

- A full analysis of outstanding claims for AAILNZ using data as at 30 September 2016, as documented in the report titled "Allianz Australia Insurance Limited Valuation of New Zealand Outstanding Claims Liabilities as at 30 September 2016";
- A roll forward of the 30 September 2016 full valuation outstanding claims estimates to 31 December 2016. The results of this analysis summarized at the Allianz Australia Ltd level is documented in the "Liability Valuation Report 31 December 2016 Reported Results";
- A full analysis of premium liabilities for Allianz Australia Ltd including AAILNZ as at 31 December 2016, as documented in the report titled "Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2016"; and

- An analysis of risk margins, as documented in the report "Allianz Australia Limited Assessment of Risk Margins as at 31 December 2015".

WORK UNDERTAKEN FOR REVIEW

In preparing this report, I have reconciled the actuarial items shown in the Financial Statements against information provided by my team as a result of performance of the actuarial analysis described above. The financial controlling team assisted in my review of the Financial Statements by preparing full reconciliation (including an email trail) between information provided by my team and its subsequent inclusion in the Financial Statements.

In addition, my team has performed a review of the 31 December 2016 Allianz Australia Insurance Limited APRA return to ensure that the actuarial information had been correctly reflected in that return and that the solvency calculations did not appear unreasonable. This includes (in accordance with paragraph 4.1.1 of AAILNZ's License to Carry on Insurance Business in New Zealand) the unearned premium liability and the liability adequacy test, the Net Outstanding Claims Liability, reinsurance and any other recovery assets and any deferred acquisition cost or deferred revenue fee (Solvency Standard Actuarial Information).

ACCESS TO INFORMATION, RESTRICTIONS / LIMITATIONS

In my capacity as Appointed Actuary I already have direct access to all information required for the review required. Where I have requested additional information, this has been provided. No restrictions or limitations were placed upon me in the provision of this report.

STATEMENT OF RELATIONSHIP

I am Appointed Actuary for AAILNZ. I am also the Group Actuary for Allianz Australia Ltd, being the parent company of AAIL, and Appointed Actuary for AAIL. As a senior officer at Allianz, I participate in the Allianz Australia Ltd performance incentive scheme. These are my only interests with respect to AAILNZ.

OPINION

I have reviewed the Financial Statements, the calculation of the APRA Prescribed Capital Requirement and the actuarial information (as defined in section 77(4) of the Insurance (Prudential Supervision) Act 2010, including the Solvency Standard Actuarial Information ("**Actuarial Information**"). In my opinion:

- the Actuarial Information contained in the Financial Statements has been appropriately included in those statements;

- the Actuarial Information used in the preparation of the Financial Statements has been used appropriately;

- AAIL is maintaining as at the balance date, the solvency margin that applies under the condition imposed under section 21(2)(b) of the New Zealand Insurance (Prudential Supervision) Act 2010.

Jonathan Perkins, FNZSoA, FIAA, FIA
Appointed Actuary to AAILNZ
17 March 2017