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Allianz New Zealand Limited

Financial Statements for year ended
31 December 2010

NPC# 17
20 APR 2011

Allianz New Zealand Limited

Financial statements for the year ended 31 December 2010

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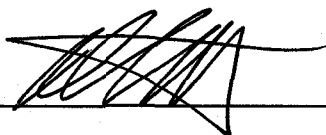
Allianz New Zealand Limited**Directors' Declaration**

The Board of Directors present their Annual Report including the financial statements of Allianz New Zealand Limited ("the Company") for the year ended 31 December 2010 and the auditor's report thereon, which were authorized for issue by Resolution of Directors on 16 March 2011.

The shareholders of the Company have exercised their rights under section 211 (3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of section 211 (1) of the Act.

The registered office and principal place of business is Level 1, Grant Thornton Building, 152 Fanshawe Street, Auckland 1140

For and behalf of the board:



David Hosking

29 march 2011



Bruce Watters



Independent Auditor's Report

To the Shareholder of Allianz New Zealand Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz New Zealand Limited ("the company") on pages 1 to 30. The financial statements comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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



Opinion

In our opinion the financial statements of Allianz New Zealand Limited on pages 1 to 30:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 31 December 2010 and of its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Allianz New Zealand Limited as far as appears from our examination of those records.

KPMG

KPMG

Sydney
27 March 2011

Statement of Comprehensive Income

For the year ended 31 December 2010

| | NOTE | 2010 \$'000 | 2009 \$'000 |
|---|------|----------------|----------------|
| Gross Written Premium | 7 | 108,755 | 98,801 |
| Reinsurance Premium Expense | 7 | (41,075) | (36,739) |
| Net Premiums Written | | 67,680 | 62,062 |
| Movement in Unearned Premium Liabilities | | (123) | (3,090) |
| Net Earned Premiums | 7 | 67,557 | 58,972 |
| Claims Expense | | (142,472) | (40,953) |
| Reinsurance and Other Recoveries | | 85,997 | 4,896 |
| Net Claims Incurred | 11 | (56,475) | (36,057) |
| Acquisition Costs | | (10,540) | (11,929) |
| Other Underwriting Expenses | | (7,805) | (7,910) |
| Underwriting Result | | (7,263) | 3,076 |
| Investment Income | 9 | 8,793 | 8,529 |
| Other income | | 118 | - |
| General and Administration Expenses | | (4,894) | (5,698) |
| Interest expense | | (905) | (502) |
| (Loss) / Profit Before Income Tax | 10 | (4,151) | 5,405 |
| Income Tax Benefit/(Expense) | 12 | 722 | (720) |
| (Loss) / Profit for the Year | | (3,429) | 4,685 |
| <i>Other Comprehensive Income</i> | | | |
| Foreign currency translation differences for foreign operations | | - | 719 |
| Income tax on other comprehensive income | | - | (216) |
| Total Comprehensive Income for the Year | | (3,429) | 5,188 |

The Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements set out on pages 9 to 30.

Statement of Financial Position

As at 31 December 2010

| | NOTE | 2010 \$'000 | 2009 \$'000 |
|--|------|----------------|----------------|
| Current Assets | | | |
| Cash and Cash Equivalents | 13 | 22,175 | 17,380 |
| Premium Debtors | | 28,613 | 21,390 |
| Reinsurance and Other Recoveries Receivables | 14 | 32,885 | 6,883 |
| Loans and Receivables | 15 | 50,483 | 38,873 |
| Financial Assets at Fair Value through Profit and Loss | 16 | 15,795 | 42,642 |
| Deferred Acquisition Costs | 17 | 5,468 | 2,000 |
| Other Receivables | 18 | 7,194 | 11,645 |
| Amounts Due from Related Parties | 25 | - | 60 |
| Deferred Reinsurance | 19 | 19,062 | 14,783 |
| Current Tax Receivable | | 364 | 1,980 |
| Total Current Assets | | 182,039 | 157,636 |
| Non-Current Assets | | | |
| Reinsurance and Other Recoveries Receivables | 14 | 46,279 | 20,112 |
| Financial Assets at Fair Value through Profit and Loss | 16 | 11,137 | 11,041 |
| Property, Plant and Equipment | 20 | 664 | 804 |
| Deferred Tax Asset | 12 | 715 | - |
| Total Non-Current Assets | | 58,795 | 31,957 |
| TOTAL ASSETS | | 240,834 | 189,593 |
| Current Liabilities | | | |
| Outstanding Claims Liabilities | 22 | 74,331 | 22,009 |
| Unearned Premium Liabilities | 23 | 55,795 | 52,401 |
| Amounts Due to Related Parties | 25 | 6,563 | 31,208 |
| Reinsurance Payable | | 8,952 | 13,037 |
| Other Current Liabilities | 21 | 2,758 | 3,298 |
| Total Current Liabilities | | 148,399 | 121,953 |
| Non-Current Liabilities | | | |
| Outstanding Claims Liabilities | 22 | 62,197 | 33,385 |
| Deferred Tax Liabilities | 12 | - | 565 |
| Other Non Current Liabilities | 21 | 80 | 103 |
| Total Non-Current Liabilities | | 62,277 | 34,053 |
| TOTAL LIABILITIES | | 210,676 | 156,006 |
| EQUITY | | 30,158 | 33,587 |
| TOTAL EQUITY AND LIABILITIES | | 240,834 | 189,593 |

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements set out on pages 9 to 30.

Statement of Changes in Equity

For the year ended 31 December 2010

| | Issued share capital | Retained Earnings | Foreign Currency Translation Reserve | Total Equity |
|---|-------------------------|----------------------|---|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2010 | | | | |
| At 1 January 2010 | 20,500 | 13,087 | - | 33,587 |
| Loss for the year | - | (3,429) | - | (3,429) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | (3,429) | - | (3,429) |
| Dividend paid during the year | - | - | - | - |
| Total transactions with owners | - | - | - | - |
| At 31 December 2010 | 20,500 | 9,658 | - | 30,158 |

| | Issued share capital | Retained Earnings | Foreign Currency Translation Reserve | Total Equity |
|---|-------------------------|----------------------|---|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2009 | | | | |
| At 1 January 2009 | 20,500 | 8,402 | (503) | 28,399 |
| Profit for the year | - | 4,685 | - | 4,685 |
| Other comprehensive income | - | - | 503 | 503 |
| Total comprehensive income for the year | - | 4,685 | 503 | 5,188 |
| Dividend paid during the year | - | - | - | - |
| Total transactions with owners | - | - | - | - |
| At 31 December 2009 | 20,500 | 13,087 | 0 | 33,587 |

The Statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements set out on pages 9 to 30.

Notes to the Financial Statements

For the year ended 31 December 2010

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Notes to the Financial Statements

For the year ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Allianz New Zealand Limited (the "Company") is a company incorporated and domiciled in New Zealand. The address of the Company's registered office is Level 1, Grant Thornton Building, 152 Fanshawe Street, Auckland 1140, New Zealand.

The Company is a general insurer based in Auckland.

The financial statements of the Company are for the year ended 31 December 2010. The financial statements were authorised for issue by the directors on 16 March 2011.

(b) 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), applying the Framework for Differential Reporting for entities adopting the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and its interpretations as appropriate to profit-orientated entities that qualify for and apply differential reporting concessions.

The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 (the "Act") and its financial statements comply with that Act.

The Company qualifies for Differential Reporting exemptions as it has no public accountability, and only one shareholder. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted, with the exception of NZIAS 12 Income Taxes.

The financial statements are presented in New Zealand Dollars (NZD) and comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, summary of significant accounting policies and notes to the financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.

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.

(ii) 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or in areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. The Company makes estimates and assumptions in respect to certain key assets and liabilities. Estimates and judgments 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.

(c) Premium revenue recognition

Premium revenue, including that on unclosed business, is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract, except where time does not approximate the pattern of risk. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

(d) Provision for unearned premium

Unearned premiums are calculated by apportioning the premium revenue written in the year, including premiums rendered by instalments, over the period of risk from the date of attachment using the Daily Pro-rata method. Unearned premiums are recognized as a liability in the Statement of Financial Position.

(e) Investment revenue

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Receivables

Receivables include premiums receivable, loans and receivables, unclosed premiums and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at amortised cost, except where collection is doubtful, an impairment loss is recognised. Loans and receivables represent finance provided to external parties principally for insurance premiums and statutory charges and include interest due. 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 receivables

Reinsurance and other recoveries receivables on paid claims, reported claims not yet paid, incurred but not yet reported (IBNR), and incurred but not enough reported (IBNER) are initially recognised at fair value and are shown separately on the face of the Statement of Comprehensive Income. Recoveries receivables are assessed in a manner similar to the assessment of outstanding claims. Recoveries 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 pro rata basis.

(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.

A portion of acquisition costs related to unearned premium revenue is deferred in recognition that it represents a future benefit. Deferred acquisition costs 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

All assets backing insurance liabilities are to be recorded at fair value with movements being recognised in the Income statement.

Refer to Note 1(t) for further description of the accounting policies surrounding assets backing general insurance liabilities.

(k) Taxation

The income tax expense or revenue for the period is the total of the current period's taxable income based on the national income tax rate in New Zealand plus/minus prior years under/over provisions and plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves.

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.

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

The income tax expense or revenue attributable to amounts recognised directly in equity is also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Taxation (continued)

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of IRD is included as part of current receivables and payables in the statement of financial position.

(ii) Outstanding claims liability

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 and risk margin.

Outstanding claims are assessed by reviewing individual claims files and estimating IBNRs, IBNERs and claims handling costs based on past experience and trends. 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% (2009: 75%).

Outstanding claims are calculated gross of any 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 4.

(m) Foreign currencies

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in Statement of Comprehensive Income.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to New Zealand Dollars at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated to New Zealand dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the translation reserve. On disposal of foreign operations the translation amounts recognised in the reserve are transferred to the Statement of Comprehensive Income.

(n) Leased assets

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives received are recognised as a liability and then recognised in the Statement of Comprehensive Income over the lease term as an integral part of the total lease expense. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Property, Plant and Equipment

The cost of purchased property plant and equipment is the value of the consideration paid to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

(i) Depreciation

Depreciation is charged on a straight line basis so as to write off the cost of the property plant and equipment to their estimated residual value over their expected economic lives. The estimated economic lives are as follows:

| | |
|--|---------|
| Office Equipment, Furniture and Fittings | 5 years |
| Computer Equipment | 4 years |
| Leasehold Improvements | 8 years |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long term service benefits

A liability for long term service benefits is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market determined risk-adjusted discount rates with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(q) Accounts payable and accruals

These amounts represent liabilities for goods and services provided to the Company prior to the end of the reporting period and which are unpaid. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

(r) Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units"). Impairment losses are recognised in the Statement of Comprehensive Income.

(s) Cash and cash equivalents

Cash is defined as cash at bank, on hand, bank overdrafts and cash equivalents. Cash equivalents include highly liquid investments such as short term deposits, bank accepted bills of exchange and futures margin deposits.

(t) Assets backing general insurance liabilities

As part of its investment strategy, the Company actively manages its investment portfolio to ensure that certain investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities. Accordingly, these assets are measured at fair value in the Statement of Financial Position. The following policies apply to financial assets held to back general insurance liabilities.

Financial assets are designated at fair value through profit and loss. Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income.

Details of fair value for the different types of financial assets are listed below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value;
- Premium debtors are stated at amortised cost less impairment losses;
- Fixed interest securities listed on exchanges are initially recognised at fair value at acquisition date and the subsequent fair value measurement is taken as the quoted bid price of the instrument at balance date; and
- Reinsurance receivables are recognized separately on the face of the Statement of Comprehensive Income. Recoveries are measured as the present value of the expected receipts, calculated on the same basis as the liability for outstanding claims.
- Loans and receivables - Carrying value approximates fair value as loans and receivables are variable interest rate receivables. Interest due is earned to provide a constant yield over the term of the loan. Unearned interest is included within unearned income.

(u) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

2. Acquisition

On 1 July 2009 the Company acquired 100% of Hunter Premium Funding Limited NZ Branch operation ("HPF"). HPF provide premium funding services and was previously owned by Allianz Australia Limited. The Company purchased the following assets and liabilities for \$36,460,789. The purchase was funded by cash paid by the Company and a loan from Allianz Australia Insurance Limited: Cash \$13,216,021 and loan: \$23,244,768.

| | \$000's |
|---------------------------|----------------|
| Assets | |
| Cash and Cash Equivalents | 2,336 |
| Loan Control Account | 39,000 |
| Prepaid Commission | 328 |
| Prepayments | 168 |
| Total Assets | 41,832 |
| Liabilities | |
| Unearned Income | (870) |
| Loan Creditors | (4,082) |
| Accruals | (43) |
| Commission Creditors | (155) |
| Interest Payable | (221) |
| Total Liabilities | (5,371) |
| Total Net Assets | 36,461 |

The statement of comprehensive income for the year ended 31 December 2010 include the full 12 months trading results for the premium funding services, but the comparatives only include the 6 month results from the date of purchase.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Company's overall risk management program is based on the defined risk appetite of the Company. Further, the Company seeks to optimize the risk/return profile of its assets and liabilities taking into account market fluctuations. The Company does not invest in equities, but mostly fixed interest bank bills, government bonds and it holds a short term money market account. The Company regularly monitors the performance and compliance of the investment portfolio. The Company's exposure to credit risk, liquidity risk and market risk are detailed below:

(a) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their obligations. The Company'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 Company may hold collateral to secure credit risk in some instances.

The Company has no significant concentrations of credit risk. Management limits fixed income credit risk by setting high requirements on the creditworthiness of debtors and by diversifying investments. It is the Company's practice not to place insurance with reinsurers valued below a Standard & Poors 'A minus' rating for short-tail and "A plus" for long-tail classes. The credit terms for the settlement of premiums in New Zealand is 80 days.

Loans and receivables from the HPF operations have a minimal credit risk associated given that payments from policy holders are received up front and any subsequent non payment results in cancellation of the policy.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to S&P's credit ratings of the counterparties. AAA is the highest possible rating. As at 31 December 2010 the Company holds no investments which were rated lower than BB+. Investments in unit trusts are classified by the Company as Not Rated. These credit ratings are grouped in accordance with the specifications outlined by the Australian Prudential Regulation Authority.

| | AAA | AA+ AA AA- | A+ A A- | BBB+ BBB BBB- Not rated | BB+ or Below | Total |
|---|-------|------------------|---------------|----------------------------------|-----------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| 2010 | | | | | | |
| Cash and Cash Equivalents | - | 22,175 | - | - | - | 22,175 |
| Premium Debtors | - | - | - | 28,613 | - | 28,613 |
| Reinsurance and other recoveries receivable | - | 73,896 | 3,359 | 1,909 | - | 79,164 |
| Investment in fixed interest securities | - | 15,795 | - | - | - | 15,795 |
| Investment in Government bonds | - | 11,137 | - | - | - | 11,137 |
| Loans and Receivables | - | - | - | 50,483 | - | 50,483 |
| Amounts due from Related Parties | - | - | - | - | - | - |
| Other receivables | - | - | - | 7,194 | - | 7,194 |
| Total | - | 123,003 | 3,359 | 88,199 | - | 214,561 |
| 2009 | | | | | | |
| Cash and Cash Equivalents | - | 17,380 | - | - | - | 17,380 |
| Premium Debtors | - | - | - | 21,390 | - | 21,390 |
| Reinsurance and other recoveries receivable | - | 19,220 | 3,644 | 4,050 | 81 | 26,995 |
| Investment in fixed interest securities | - | 42,642 | - | - | - | 42,642 |
| Investment in Government bonds | - | 11,041 | - | - | - | 11,041 |
| Loans and Receivables | - | - | - | 38,873 | - | 38,873 |
| Amounts due from Related Parties | - | - | - | 60 | - | 60 |
| Other receivables | - | - | - | 11,645 | - | 11,645 |
| Total | - | 90,283 | 3,644 | 76,018 | 81 | 170,026 |

As at 31 December 2010, there are no assets that are past due or impaired

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Company has processes in place to monitor and forecast the liquidity position. The Company aims to maintain sufficient funds at all times to meet the needs of the Company's operations. In addition to treasury cash held for working capital requirements the Company may hold additional liquid, short term money market securities as required to ensure there are sufficient funds available to meet obligations.

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

| At 31 December 2010 | Maturing in: | | | | | Total |
|---|----------------|---------------|----------|----------|----------|----------------|
| | 1 Year or | 1 to 3 | 3 to 5 | Over 5 | No Term | |
| | Less | Years | Years | Years | | |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 22,175 | - | - | - | - | 22,175 |
| Premium Debtors | 28,613 | - | - | - | - | 28,613 |
| Reinsurance and Other Recoveries Receivables | 33,867 | 52,460 | - | - | - | 86,327 |
| Loans and Receivables | 50,483 | - | - | - | - | 50,483 |
| Financial assets designated at Fair Value through P&L | 15,795 | 11,137 | - | - | - | 26,932 |
| Other receivables | 7,194 | - | - | - | - | 7,194 |
| Total Financial Assets | 158,127 | 63,597 | - | - | - | 221,724 |
| Financial Liabilities | | | | | | |
| Outstanding Claims Liabilities | 76,652 | 72,092 | - | - | - | 148,744 |
| Unearned Premium Liabilities | 55,795 | - | - | - | - | 55,795 |
| Amounts due to related parties | 6,563 | - | - | - | - | 6,563 |
| Reinsurance Payable | 8,952 | - | - | - | - | 8,952 |
| Other Liabilities | 2,758 | 80 | - | - | - | 2,838 |
| Total Financial Liabilities | 150,720 | 72,172 | - | - | - | 222,892 |

| At 31 December 2009 | Maturing in: | | | | | Total |
|---|----------------|---------------|----------|----------|----------|----------------|
| | 1 Year or | 1 to 3 | 3 to 5 | Over 5 | No Term | |
| | Less | Years | Years | Years | | |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 17,380 | - | - | - | - | 17,380 |
| Premium Debtors | 21,390 | - | - | - | - | 21,390 |
| Reinsurance and Other Recoveries Receivables | 7,155 | 24,112 | - | - | - | 31,267 |
| Loans and Receivables | 38,873 | - | - | - | - | 38,873 |
| Financial assets designated at Fair Value through P&L | 42,642 | 12,766 | - | - | - | 55,408 |
| Amounts due from related parties | 60 | - | - | - | - | 60 |
| Other receivables | 11,645 | - | - | - | - | 11,645 |
| Total Financial Assets | 139,145 | 36,878 | - | - | - | 176,023 |
| Financial Liabilities | | | | | | |
| Outstanding Claims Liabilities | 22,897 | 40,747 | - | - | - | 63,644 |
| Unearned Premium Liabilities | 52,401 | - | - | - | - | 52,401 |
| Amounts due to related parties | 31,208 | - | - | - | - | 31,208 |
| Reinsurance Payable | 13,037 | - | - | - | - | 13,037 |
| Other Liabilities | 3,298 | 103 | - | - | - | 3,401 |
| Total Financial Liabilities | 122,841 | 40,850 | - | - | - | 163,691 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

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

(i) Foreign currency risk exposures

The Company also has receivables, payables and reinsurance arrangements that are denominated in a currency other than the New Zealand Dollar (primarily USD). The Company does not have any mechanisms in place to cover the exposure to foreign currency risk, as the amounts involved are not significant. Reinsurance transactions are predominantly settled in the New Zealand Dollar and therefore the Company has minimal foreign currency risk exposure.

(ii) Price risk

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

(iv) Summarised sensitivity analysis

The following table summarises the impact of increases/decreases in interest rates on the Company's post-tax profit for the year and on equity. 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 equity instruments moved in line with the index.

| | | Interest Rate Risk | |
|---|--------------------------|------------------------|------------------------|
| | | -1% | 1% |
| 2010 | Carrying Amount \$000 | Profit/Equity \$000 | Profit/Equity \$000 |
| Financial Assets | | | |
| Cash and Cash Equivalents | 22,175 | (222) | 222 |
| Investment in fixed interest securities | 15,795 | (158) | 158 |
| Investment in Government bonds | 11,137 | 183 | (183) |
| Loans and receivables | 50,483 | (505) | 505 |
| Total Financial Assets | 99,590 | (702) | 702 |
| Financial Liabilities | | | |
| Amounts Due to Related Parties | 6,563 | (66) | 66 |
| Total Financial Liabilities | 6,563 | (66) | 66 |
| Net Financial Assets | 93,027 | (636) | 636 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iv) Summarised sensitivity analysis (continued)

| | Carrying Amount \$000 | Interest Rate Risk | |
|---|--------------------------|-------------------------------|------------------------------|
| | | -1% Profit/Equity \$000 | 1% Profit/Equity \$000 |
| 2009 | | | |
| Financial Assets | | | |
| Cash and Cash Equivalents | 17,380 | (174) | 174 |
| Investment in fixed interest securities | 42,642 | (426) | 426 |
| Investment in Government bonds | 11,041 | (110) | 110 |
| Loans and receivables | 38,873 | (389) | 389 |
| Total Financial Assets | 109,936 | (1,099) | 1,099 |
| Financial Liabilities | | | |
| Amounts Due to Related Parties | 31,208 | (312) | 312 |
| Total Financial Liabilities | 31,208 | (312) | 312 |
| Net Financial Assets | 78,728 | (787) | 787 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

4. ACTUARIAL ASSUMPTIONS AND METHODS

a) Actuarial methods

The Company writes a wide range of insurance risks including both short-tail classes and long-tail classes. Claims from short tail classes are typically settled within one year of being reported.

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 | Long Tail Classes |
|---------------------------|---|
| Domestic Motor Vehicle | Run-off Workers' Compensation (WC Runoff) |
| Commercial Motor Vehicle | Public and Products Liability |
| Householders | Professional Indemnity |
| Commercial Property | |
| Consumer Credit Insurance | |
| Motor Warranty | |

(i) Short Tail Classes

For short tail classes, the outstanding claims are typically heavily reliant on the level of case reserves with allowance for incurred but not reported (IBNR) and incurred but not enough reported (IBNER) claims based on the past pattern of claims development. The Projected Case Estimate method is used to calculate the outstanding claims central estimates for most classes. Claims inflation is implicitly allowed for in the Projected Case Estimate and Paid Chain Ladder methods. 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.

The Workers' Compensation business is in run-off and has no asbestos exposure. No business has been written in the Professional Indemnity class since 2007.

The Projected Case Estimate method is used for most classes. Claims arising from the leaky buildings peril are valued using an Average Cost Per Claim approach.

Claims inflation is implicitly allowed for in the Projected Case Estimate method. Claims inflation of 4% per annum is assumed for the Average Cost Per Claim method. Projected payments are discounted to allow for the time value of money.

b) 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.

| | 2010 Short Tail | 2010 Long Tail | 2009 Short Tail | 2009 Long Tail |
|---------------------------------------|-----------------|----------------|-----------------|----------------|
| Average Weighted Term to Settlement | 0.66 years | 3.26 years | 0.83 years | 4.12 years |
| Claims Handling Expenses ¹ | 5.5% | 5.5% | 5.5% | 5.5% |
| Discount Rate | 3.72% | 5.18% | 4.04% | 5.59% |
| Inflation Rate | N/A* | N/A | N/A | N/A |
| Superimposed Inflation Rate | N/A | N/A | N/A | N/A |

*N/A – not applicable

¹ Claims Handling Expense for WC Runoff is set at 20% for both 2009 and 2010

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

4. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

c) Sensitivity Analysis – insurance contracts

(i) Summary

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key variables. The actuarial valuations of the outstanding claims liability included in the reported results are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and equity of the Company. 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 equity to changes in these assumptions both gross and net of reinsurance.

| Variable | Impact of movement |
|-------------------------------------|---|
| Average weighted Term to Settlement | A decrease in the average term to settlement would lead to claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding decrease or increase on discounted claims expense respectively. |
| Claims Handling Expenses | An estimate for the internal costs 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 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 rate | Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of inflation would have a corresponding impact on claims expense, with particular reference to longer tail business. |

(ii) Impact of changes in key variables

| Variable | Movement in variable | Impact on Gross Profit/(Loss) \$'000 | | Impact on Net Profit/(Loss) and Equity \$'000 | |
|-------------------------------------|----------------------|---|------|--|------|
| | | Gross | Net | Gross | Net |
| Short Tail | | | | | |
| Average Weighted Term to Settlement | +0.5 year | -1,481 | -777 | -1,067 | -559 |
| | -0.5 year | 1,481 | 777 | 1,067 | 559 |
| Claims Handling Expenses | 1% | -399 | -399 | -287 | -287 |
| | -1% | 399 | 399 | 287 | 287 |
| Discount Rate | +1% p.a. | 545 | 283 | 393 | 204 |
| | -1% p.a. | -561 | -291 | -404 | -210 |
| Inflation Rate | +1% p.a. | -664 | -334 | -478 | -240 |
| | -1% p.a. | 652 | 328 | 469 | 236 |
| Long Tail | | | | | |
| Average Weighted Term to Settlement | +0.5 year | -1,837 | -390 | -1,322 | -281 |
| | -0.5 year | 1,837 | 390 | 1,322 | 281 |
| Claims Handling Expenses | 1% | -142 | -142 | -102 | -102 |
| | -1% | 142 | 142 | 102 | 102 |
| Discount Rate | +1% p.a. | 1,631 | 451 | 1,174 | 325 |
| | -1% p.a. | -1,756 | -493 | -1,264 | -355 |
| Inflation Rate | +1% p.a. | -1,806 | -461 | -1,300 | -332 |
| | -1% p.a. | 1,704 | 430 | 1,227 | 310 |
| Superimposed Inflation | +1% p.a. | N/A | N/A | N/A | N/A |
| | -1% p.a. | N/A | N/A | N/A | N/A |

Although no explicit inflation assumption was used in the estimation of future outstanding claims, an estimate of future cash flows by period was projected. For the inflation +1% p.a. sensitivity test, the value of each future cash flow was increased by 1% p.a. and the impact on the reserves was calculated.

David Koob, Allianz Australia Limited internal actuary is the actuary for the Company. He is a Fellow of Institute of Actuaries of Australia. The outstanding claims reserve disclosed have been calculated in accordance with New Zealand Society of Actuaries Professional Standard No. 4. The effective date of the actuary's report is 31 December 2010. The 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

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.

The Company has a sound and prudent Risk Management Framework ("RMF"). This RMF includes a Risk Management Strategy ("RMS") and a Reinsurance Management Strategy ("ReMS"), and is based on the requirements of our parent company, Allianz Australia (the Group) to comply with Australian Prudential Standards GPS 220, "Risk Management for General Insurers" and GPS 230, "Reinsurance Arrangements for General Insurers" issued by the Australian Prudential Regulation Authority ("APRA").

The RMF, RMS and ReMS identify the policies, procedures, processes and controls that the Group utilises to address material risks, financial and non-financial, that are likely to face the Company.

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

- Actuarial models, using information from management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- The underwriting approach seeks diversity 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 has 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.
- In order to limit concentrations of credit risk in purchasing reinsurance, the Company has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.

b) Terms and conditions of insurance contracts

Insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to his or her own property and business interruption arising from this 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 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.

c) Concentrations 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 small number of contracts that become related due to geographic proximity or exposure to a single event.

The Company monitors its aggregate position at the time of underwriting a risk and regularly 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 excess loss reinsurance, which has been bought, is adequate.

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.

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 insurers reinsurance programme. It is the Company's practice not to place insurance with reinsurers valued below a Standard & Poors "A-" rating for short-tail and "A+" for long-tail classes.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

6. CAPITAL MANAGEMENT STRATEGY

Currently there are no externally imposed restrictions on Allianz NZ in terms of minimum capital. The Company's capital management strategy is based on the Parent Company's (Allianz Australia Insurance Limited) capital management strategy.

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 for capital needs 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 internal modelling.

7. NET EARNED PREMIUMS

| | 2010 \$'000 | 2009 \$'000 |
|-------------------------------|----------------|----------------|
| Gross written premium | 108,755 | 98,801 |
| Movement in unearned premiums | (123) | (3,090) |
| Premium revenue | 108,632 | 95,711 |
| Outwards reinsurance premiums | (41,075) | (36,739) |
| Net Earned Premiums | 67,557 | 58,972 |

8. OPERATING INCOME

| | Note | 2010 \$'000 | 2009 \$'000 |
|-----------------------|------|----------------|----------------|
| Premium revenue | | 108,755 | 98,801 |
| Investment income | 9 | 8,793 | 8,529 |
| Income from associate | | 118 | - |
| | | 117,666 | 107,330 |

9. INVESTMENT INCOME

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Interest on Government stock | 668 | 926 |
| Interest Income - Loans and Receivables | 6,800 | 3,316 |
| Other interest | 1,627 | 5,436 |
| Unrealised Gain/(Loss) on revaluation of investments | 96 | (177) |
| Realised Gain/(Loss) on investments held for sale | (605) | (1,697) |
| Realised Gain/(Loss) on financial assets at fair value through Profit and Loss | (7) | (250) |
| Other income | 214 | 975 |
| | 8,793 | 8,529 |

10. AUDITOR'S REMUNERATION

| | 2010 | 2009 |
|-------------------------------|---------------|---------------|
| Audit | | |
| Audit of financial statements | 83,000 | 83,000 |
| Other audit related services | 7,000 | 7,000 |
| | 90,000 | 90,000 |

Other audit related services include fees for work on the Trust Deed, Insurance Companies Deposit Act and Solvency Statement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

11 NET CLAIMS INCURRED

| | 2010 | | | 2009 | | |
|----------------------------|-----------------|--------------|-----------------|-----------------|--------------|-----------------|
| | Current Year | Prior Year | Total | Current Year | Prior Year | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Gross claims incurred | (110,559) | (35,575) | (146,134) | (57,788) | 16,931 | (40,857) |
| Reinsurance recoveries | 53,032 | 35,817 | 88,849 | 11,261 | (6,365) | 4,896 |
| Discount movement | 1,283 | (473) | 810 | 616 | (712) | (96) |
| Net Claims Incurred | (56,244) | (231) | (56,475) | (45,911) | 9,854 | (36,057) |

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years. The majority of the 2010 prior year gross claims incurred relates to a large movement in an AGCS claim. This has no net impact. There were also significant prior year movements in incurred claims from the leaky buildings peril, these have roughly been offset by reductions in other classes. 2010 current year claims incurred are significantly higher than 2009 due to the Christchurch earthquake.

12 INCOME TAX (BENEFIT)/EXPENSE

| | 2010 | 2009 |
|---|----------------|--------------|
| | \$'000 | \$'000 |
| (i) Recognised in the Statement of Comprehensive Income | | |
| Current Tax Benefit/(Expense) | | |
| Current Year | - | - |
| Movement in deferred tax balance recognised in the Statement of Comprehensive Income | 722 | (720) |
| Total recognised income tax benefit/(expense) in the Statement of Comprehensive Income | 722 | (720) |
| (ii) Reconciliation of effective tax rate | | |
| (Loss) / Profit before tax | (4,151) | 5,405 |
| Income tax at 30% | 1,245 | (1,621) |
| Non-deductible expenses | (209) | 150 |
| Effect of 2011 tax rate reduction to 28% on deferred tax balances | (110) | - |
| Prior year unrecognised tax losses utilised | - | 1,446 |
| Prior period adjustment | (204) | (695) |
| Total income tax benefit/(expense) in the Statement of Comprehensive Income | 722 | (720) |
| (iii) Deferred Tax Liability/(Asset) | | |
| Employee provisions | 254 | 147 |
| Deferred acquisition costs | (5,468) | (2,567) |
| Provision for Doubtful Debts | 442 | 377 |
| Lease incentive liability | 80 | 103 |
| Accounting carrying value of fixed assets | (677) | (796) |
| Provision for Audit fees | 90 | - |
| Tax base of fixed assets | 1,109 | 853 |
| | (4,170) | (1,883) |
| Tax effect | (1,168) | (565) |
| Less: Deferred tax on carried forward losses | 1,883 | - |
| Deferred Tax Asset/(Liability) | 715 | (565) |

The 2009 period adjustment relates primarily to the closing balance of the claims administration expense reserve. This was treated as deductible in the 31 December 2008 tax return due to a law change after the statutory accounts were prepared.

The Company is confident that the current year tax losses are due to catastrophic events and that next year the Company will return to a profit making position and is anticipated to continue to make profits in the foreseeable future. Given this, the Company has recognised deferred tax asset attaching to carried forward losses.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

13 Cash and Cash Equivalents

| | 2010 \$'000 | 2009 \$'000 |
|---------------------------|----------------|----------------|
| Cash and Cash Equivalents | 22,175 | 17,380 |

The Company has a Letter of Credit Facility available of US\$823,317 in relation to Allianz Global Corporate & Specialty contracts placed in the USA, and a Payroll Letter of Credit facility available of \$150,000. As at 31 December 2010, there are no outstanding amounts in respect of either facility.

14 REINSURANCE AND OTHER RECOVERIES RECEIVABLES

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Current | | |
| Recoveries (undiscounted) | 33,924 | 7,155 |
| Discount to present value | (1,039) | (272) |
| Current reinsurance and other recoveries receivables | 32,885 | 6,883 |
| Non-current | | |
| Recoveries (undiscounted) | 52,709 | 24,111 |
| Discount to present value | (6,430) | (3,999) |
| Non-current reinsurance and other recoveries receivables | 46,279 | 20,112 |
| Total reinsurance and other recoveries receivables | 79,164 | 26,995 |

15 LOANS AND RECEIVABLES

| | 2010 \$'000 | 2009 \$'000 |
|------------------------------------|----------------|----------------|
| Loans and receivables | 52,309 | 40,355 |
| Less: Unearned income | (1,519) | (1,240) |
| | 50,790 | 39,115 |
| Less: Impairment loss | (307) | (242) |
| Total Loans and Receivables | 50,483 | 38,873 |

16 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

The analysis of financial assets and liabilities into their categories and classes are set out in the following table:

| 2010 | Total \$000 | Loans and Receivables \$000 | Fair Value through Profit and Loss \$000 |
|--|------------------------|---|--|
| Financial Assets | | | |
| Cash and Cash Equivalents | 22,175 | 22,175 | - |
| Premium Debtors | 28,613 | 28,613 | - |
| Reinsurance and other Recoveries Receivables | 79,164 | 79,164 | - |
| Investment in fixed interest securities | 15,795 | - | 15,795 |
| Investment in Government bonds | 11,137 | - | 11,137 |
| Other receivables | 7,194 | 7,194 | - |
| Loans and receivables | 50,483 | 50,483 | - |
| | 214,561 | 187,629 | 26,932 |
| | | | |
| | Total \$000 | Fair Value through Profit and Loss \$000 | Financial liabilities at amortised cost \$000 |
| Financial Liabilities | | | |
| Reinsurance Payable | 8,952 | - | 8,952 |
| Amounts Due to Related Parties | 6,563 | - | 6,563 |
| Outstanding Claims Liability | 136,528 | 136,528 | - |
| Other Liabilities | 2,838 | - | 2,838 |
| | 154,881 | 136,528 | 18,353 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

16 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)

| 2009 | Total \$000 | Loans and Receivables \$000 | Fair Value through Profit and Loss \$000 |
|--|------------------------|---|--|
| Financial Assets | | | |
| Cash and Cash Equivalents | 17,380 | 17,380 | - |
| Premium Debtors | 21,390 | 21,390 | - |
| Reinsurance and other Recoveries Receivables | 26,995 | 26,995 | - |
| Amounts due from Related Parties | 60 | 60 | - |
| Investment in fixed interest securities | 42,642 | - | 42,642 |
| Investment in Government bonds | 11,041 | - | 11,041 |
| Other receivables | 11,645 | 11,645 | - |
| Loans and receivables | 38,873 | 38,873 | - |
| | 170,026 | 116,343 | 53,683 |
| | Total \$000 | Fair Value through Profit and Loss \$000 | Financial liabilities at amortised cost \$000 |
| Financial Liabilities | | | |
| Reinsurance Payable | 13,037 | - | 13,037 |
| Amounts Due to Related Parties | 31,208 | - | 31,208 |
| Outstanding Claims Liability | 55,394 | 55,394 | - |
| Other Liabilities | 3,401 | - | 3,401 |
| | 103,040 | 55,394 | 47,646 |

Included within Government Bonds is \$600,000 held with Public Trust as an insurance security deposit.

(i) Determination of fair value hierarchy

The table 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).

| 2010 | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|--|------------------|------------------|------------------|----------------|
| Financial assets designated at fair value through profit or loss: | | | | |
| Fixed interest securities | - | 15,795 | - | 15,795 |
| Government bonds | - | 11,137 | - | 11,137 |
| Total financial assets | - | 26,932 | - | 26,932 |

Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Within the Level 2 category are financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions; assets and liabilities 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 3 as at the 31 December 2010.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

17 DEFERRED ACQUISITION COSTS

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Balance at 1 January | 2,000 | 2,311 |
| Acquisition costs deferred | 21,247 | 20,641 |
| Amortisation charged to income | (21,050) | (20,732) |
| Write down for premium deficiency | 3,271 | (220) |
| Balance at 31 December | 5,468 | 2,000 |
| Calculation of deficiency | | |
| Unearned premium liability | 55,795 | 52,401 |
| Related reinsurance asset | (21,974) | (19,571) |
| Related deferred acquisition costs | (11,220) | (11,023) |
| | 22,601 | 21,807 |
| Net central estimate of present value of expected future cashflows arising from future claims | 23,480 | 24,552 |
| Risk margin | 4,873 | 6,278 |
| | 28,353 | 30,830 |
| Total deficiency recognised in the Income Statement | (5,752) | (9,023) |

The liability adequacy 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 22. As with outstanding claims, the overall risk margin is intended to achieve a probability of sufficiency (PoS) of 75% (2009: 75%).

18 OTHER RECEIVABLES

| | 2010 \$'000 | 2009 \$'000 |
|--------------------------------|----------------|----------------|
| Sundry Debtors & Prepayments | 5,035 | 11,645 |
| Reinsurance Debtors | 2,159 | - |
| Total Other Receivables | 7,194 | 11,645 |

Sundry debtors & prepayments for 2009 include an amount of \$6,178,950 in connection with the sale of our investment in Pacific MMI. As at December 2009, the Company sold its shares in Pacific MMI Insurance Limited. The purchase and sale agreement was signed on 21 December 2009. On 7 January 2010, the Company received funds for the sale of 11,500,000 Kina equivalent to \$5,520,000 New Zealand Dollars at an exchange rate of 0.4800.

Foreign currency loss recognised upon settlement was \$1,243,107 and is included in Statement of Comprehensive Income for the period ended 31 December 2010. The associated Foreign Currency Translation Reserve balance of \$503,000 was reclassified to the Statement of Comprehensive Income as at 31 December 2009.

19 DEFERRED REINSURANCE

| | 2010 \$'000 | 2009 \$'000 |
|-------------------------------|----------------|----------------|
| Balance at 1 January | 14,783 | 9,464 |
| Reinsurance Premium Written | 41,075 | 36,739 |
| Reinsurance Premium Expensed | (36,796) | (31,420) |
| Balance at 31 December | 19,062 | 14,783 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

20 PROPERTY, PLANT AND EQUIPMENT

| | 2010 | | | 2009 | | |
|--|--------------|-------------------|----------------|--------------|-------------------|----------------|
| | Cost | Accumulated Dep'n | Net Book Value | Cost | Accumulated Dep'n | Net Book Value |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Office Equipment, Furniture and Fittings | 24 | (13) | 11 | 18 | (10) | 8 |
| Leasehold Improvements | 1,141 | (488) | 653 | 1,141 | (345) | 796 |
| Computer Equipment | 24 | (24) | - | 24 | (24) | - |
| Total Fixed Assets | 1,189 | (525) | 664 | 1,183 | (379) | 804 |

Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

| | Office Equipment, Furniture and Fittings \$'000 | Leasehold Improvements \$'000 | Computer Equipment \$'000 |
|--|---|-------------------------------------|---------------------------------|
| Carrying amount at the beginning of the year | 8 | 796 | - |
| Additions | 6 | - | - |
| Depreciation | (3) | (143) | - |
| Carrying amount at the end of the year | <u>11</u> | <u>653</u> | <u>-</u> |

21 OTHER LIABILITIES

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Current Liabilities | | |
| Sundry Creditors and Accruals | 2,481 | 3,129 |
| Employee Entitlements | 255 | 147 |
| Lease Incentive | 22 | 22 |
| Total Other Current Liabilities | <u>2,758</u> | <u>3,298</u> |
| Non Current Liabilities | | |
| Lease Incentive | 80 | 103 |
| Total Other Non Current Liabilities | <u>80</u> | <u>103</u> |

22 OUTSTANDING CLAIMS LIABILITY

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Central Estimate | 136,538 | 57,581 |
| Risk Margin | 8,888 | 4,113 |
| Claims handling costs | 3,318 | 1,950 |
| | <u>148,744</u> | <u>63,644</u> |
| Discount to present value | (12,216) | (8,250) |
| Gross Outstanding Claims Liability | <u>136,528</u> | <u>55,394</u> |
| Current | 74,331 | 22,009 |
| Non-Current | 62,197 | 33,385 |
| Liability for outstanding claims | <u>136,528</u> | <u>55,394</u> |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

22 OUTSTANDING CLAIMS LIABILITIES (continued)

a) Risk Margin

A liability for outstanding claims is recognised being the central estimate of the present value of the expected future payments for claims incurred plus an additional explicit risk margin.

The risk margin percentage adopted in determining the net outstanding claims liability in 2010 is 16.7% (31 December 2009: 15%). The risk margin is determined on a basis that reflects the Company's business, regard being had for the robustness of the valuation models, the reliability and volume of available data, past experience of the Company and the characteristics of the classes of business written. This process allowed for the benefit of diversification by allowing for correlations of less than 100% between classes of business.

The probability of adequacy intended to be achieved through the adoption of the risk margin is 75% (2009: 75%).

b) Expected term to settlement

The weighted average expected term to settlement from the balance date is disclosed in Note 4 (b) above.

c) Claims Development Table

The following table shows the development of gross and net of reinsurance discounted outstanding claims relative to the ultimate expected claims for the five most recent underwriting years

(i) Gross

| Accident year | 2004 and prior \$'000 | 2005 \$'000 | 2006 \$'000 | 2007 \$'000 | 2008 \$'000 | 2009 \$'000 | 2010 \$'000 | Total \$'000 |
|--|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Estimate of cumulative claims: | | | | | | | | |
| At the end of accident year | 80,986 | 3,185 | 2,083 | 2,643 | 2,174 | 3,307 | 3,515 | |
| One year later | 79,925 | 1,147 | 1,469 | 1,564 | 2,019 | 1,639 | | |
| Two years later | 82,582 | 2,060 | 813 | 1,148 | 36,573 | | | |
| Three years later | 85,437 | 1,956 | 689 | 1,993 | | | | |
| Four years later | 82,592 | 1,844 | 704 | | | | | |
| Five years later | 81,876 | 1,579 | | | | | | |
| Six years later | 100,926 | | | | | | | |
| Estimate of cumulative claims | 100,926 | 1,579 | 704 | 1,993 | 36,573 | 1,638 | 3,515 | 146,928 |
| Cumulative payments | 73,434 | 934 | 631 | 1,142 | 1,314 | 701 | 382 | 78,538 |
| Claims outstanding - undiscounted | 27,492 | 21 | 73 | 851 | 35,259 | 937 | 3,133 | 68,390 |
| Discount | 5,653 | 88 | 9 | 99 | 2,906 | 175 | 371 | 9,301 |
| Claims outstanding - discounted | 21,839 | 67 | 64 | 752 | 32,353 | 762 | 2,762 | 59,089 |
| Short tail classes | | | | | | | | 66,296 |
| Risk margins - discounted | | | | | | | | 8,225 |
| Claims handling expenses | | | | | | | | 2,917 |
| Total gross outstanding claims | | | | | | | | 136,528 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

22 OUTSTANDING CLAIMS LIABILITIES (continued)

c) Claims Development Table (continued)

(ii) Net

| Accident year | 2004 and prior \$'000 | 2005 \$'000 | 2006 \$'000 | 2007 \$'000 | 2008 \$'000 | 2009 \$'000 | 2010 \$'000 | Total \$'000 |
|--|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Estimate of cumulative claims: | | | | | | | | |
| At the end of accident year | 52,681 | 1,668 | 1,389 | 1,829 | 1,795 | 2,325 | 1,618 | |
| One year later | 51,424 | 1,090 | 887 | 1,330 | 1,714 | 1,613 | | |
| Two years later | 51,919 | 2,033 | 748 | 1,018 | 1,029 | | | |
| Three years later | 53,695 | 1,931 | 630 | 1,863 | | | | |
| Four years later | 53,701 | 1,819 | 637 | | | | | |
| Five years later | 56,061 | 1,275 | | | | | | |
| Six years later | 63,332 | | | | | | | |
| Estimate of cumulative claims | 63,332 | 1,275 | 637 | 1,863 | 1,029 | 1,613 | 1,618 | 71,367 |
| Cumulative payments | 52,037 | 909 | 565 | 1,039 | 943 | 701 | 328 | 56,523 |
| Claims outstanding - undiscounted | 11,295 | 366 | 72 | 824 | 86 | 912 | 1,290 | 14,844 |
| Discount | 2,230 | 55 | 9 | 99 | 6 | 172 | 172 | 2,744 |
| Claims outstanding - discounted | 9,065 | 311 | 63 | 725 | 80 | 740 | 1,117 | 12,100 |
| Short tail classes | | | | | | | | 34,682 |
| Risk margins - discounted | | | | | | | | 7,797 |
| Claims handling expenses | | | | | | | | 2,785 |
| Total net outstanding claims | | | | | | | | 57,364 |

(iii) Reconciliation of movement in discounted outstanding claims liabilities:

| | 2010 | | | 2009 | | |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Balance as at 1 January | 55,394 | (27,103) | 28,291 | 75,348 | (38,898) | 36,450 |
| Current year claims incurred | 111,303 | (55,059) | 56,244 | 58,097 | (12,186) | 45,911 |
| Change in previous years' claims | 37,227 | (36,996) | 231 | (14,809) | 4,955 | (9,854) |
| Current year claims paid/RI recovered | (36,973) | 22,174 | (14,799) | (37,227) | 5,088 | (32,139) |
| Previous year claims paid/RI recovered | (30,423) | 17,820 | (12,603) | (26,015) | 13,938 | (12,077) |
| Foreign currency translations | - | - | - | - | - | - |
| Balance as at 31 December | 136,528 | (79,164) | 57,364 | 55,394 | (27,103) | 28,291 |

23 UNEARNED PREMIUM LIABILITIES

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Unearned Premium Liability at 1 January | 52,401 | 45,492 |
| Deferral of premiums on contracts written | 108,755 | 98,801 |
| Earning of premiums written in current and previous year | (105,361) | (91,892) |
| Unearned Premium Liability at 31 December | 55,795 | 52,401 |

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

24 PAID IN SHARE CAPITAL

| | 2010 \$'000 | 2009 \$'000 |
|---------------------------|----------------|----------------|
| Balance at 1 January | 20,500 | 20,500 |
| Balance as at 31 December | 20,500 | 20,500 |

The company has 21,377,256 (2009: 21,377,256) ordinary fully paid shares. All shares have equal voting rights.

25 RELATED PARTIES

- (i) The key management personnel of the Company consisted of the Directors of the Company.
- (ii) The names of each person holding the position of Director of the Company during or since the end of the reporting period are David Hosking, Jonathan Poole, Terrence Towell, Garry Townsend and Bruce Watters.
- (iii) The Company is a wholly owned controlled entity of Allianz Australia Limited. The Ultimate parent is Allianz SE, incorporated in Germany.
- (iv) 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.

The terms and conditions of the transactions with Directors and their director-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 arm's length basis.

- (v) The relationship between Allianz New Zealand Ltd and its related parties above is summarised in the table below:

| Related Party | Relationship to Allianz New Zealand Ltd |
|--|--|
| Allianz Australia Limited | Parent company of Allianz New Zealand Ltd, a company incorporated in Australia. |
| Allianz Australia Insurance Limited | 100% owned subsidiary of Allianz Australia Ltd. |
| Club Marine Limited | 100% owned subsidiary of Allianz Australia Ltd. |
| Allianz Australia Claim Services Limited | 100% owned subsidiary of Allianz Australia Ltd. |
| Euler Hermes Trade Credit Ltd | 100% owned subsidiary of Euler Hermes Kreditversicherungs S.A., a 100% owned subsidiary of Euler Hermes S.A., a member of the Allianz SE Group |
| Primacy Underwriting Agency Pty Limited | 70% owned subsidiary of Allianz Australia Ltd. |
| Agricola Underwriting Management Limited | 70% owned subsidiary of Allianz Australia Ltd. |
| Allianz SE | Ultimate parent entity of Allianz Australia Limited |

- (vi) The following types of transactions have arisen between the Company and related entities:

- (a) Loan advances
- (b) Loan repayments
- (c) Fees for funds management
- (d) Expenses incurred on their behalf and recharged
- (e) Expenses incurred on our behalf and recharged
- (f) Assumption of insurance liabilities and receipt of matching assets
- (g) Fees for claims management and
- (h) Reinsurance arrangements

The amounts are unsecured and repayable on demand. The terms and conditions of the transactions with related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related parties on an arm's length basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 RELATED PARTIES (continued)

(vii) Balances with related parties as at 31 December 2010

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Amounts due from Related Parties | | |
| Amount due from Euler Hermes Trade Credit | - | 60 |
| Total Amounts due from Related Parties | - | 60 |
| Amounts due to Related Parties | | |
| Amount due to Allianz Australia Limited | 6,597 | 30,979 |
| Amount due to Club Marine Limited | 212 | 134 |
| Amount due to Euler Hermes Trade Credit | - | 95 |
| Total Amounts due to Related Parties | 6,809 | 31,208 |

26 CONTINGENT LIABILITIES

The Company has no contingent liabilities at 31 December 2010 (31 December 2009: Nil).

27 CAPITAL COMMITMENTS

The Company has no commitments for future capital expenditure at 31 December 2010 (31 December 2009: Nil).

28 OPERATING LEASE COMMITMENTS

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Obligations payable after balance date on non cancellable operating leases are as follows: | | |
| Not later than one year | 665 | 545 |
| Later than one year and not later than 5 years | 2,667 | 1,842 |
| Later than 5 years | - | - |
| Total Lease Commitments | 3,332 | 2,387 |

The Company leases premises, motor vehicles, plant and equipment. Operating leases held over properties give the Company the right to renew the lease subject to a re-determination of the lease rental. There are no renewal options, or options to purchase in respect of operating leases of motor vehicles and plant and equipment.

29 INSURER FINANCIAL STRENGTH RATING

In terms of the Insurance Companies (Rating and Inspection) Act 1994 the Company undergoes an annual financial strength rating. The rating reviews are performed by Standard and Poor's (Australia) Pty Limited. At the date of this report, the rating assigned to the Company was A. This rating represents a strong financial security.

30 SOLVENCY

The Company's policy is to retain a level of share capital and reserves which enables it to maintain a solvency margin sufficient to retain an A financial strength rating.

31 REINSURANCE PROGRAMME

The Company's reinsurance programme includes substantial provision for catastrophic reinsurance, which provides reinsurance cover for earthquake and other catastrophic risks. The reinsurance programme arrangements for risks other than catastrophic reinsurance are designed to ensure that no single event or series of events will strain the Company's equity. The catastrophic retention is \$10 million, whilst catastrophic cover is purchased to \$4.1 billion.

32 EVENTS SUBSEQUENT TO BALANCE DATE

On 22 February 2011 an earthquake of the magnitude 6.3 occurred in the city of Christchurch, New Zealand. The net claims cost of this event to Allianz New Zealand Limited expected to be \$10 million.