

Allianz Australia Insurance Limited
- New Zealand Branch
ABN 15 000 122 850

Financial Statements for year ended
31 December 2013

Directors' Declaration



In the opinion of the Directors of Allianz Australia Insurance Limited - New Zealand Branch:

- (a) The financial statements and notes, set out on pages 3 to 43, are in accordance with the Financial Reporting Act 1993, including:
 - (i) giving a true and fair view of Allianz Australia Insurance Limited - New Zealand Branch's (the NZ Branch) financial position as at 31 December 2013 and of their 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 Allianz Australia Insurance Limited - New Zealand 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:

For and behalf of the Board:

J.S. Curtis
Director

7 March 2014

N.C. Peris
Director

Company Directory

As at 31 December 2013



Company number	3994759
IRD number	109-941-972
Nature of business	Provision of general insurance services.
Registered Office	Level 1, Grant Thornton Building, 152 Fanshawe Street, Auckland, New Zealand.

Directors' information

The Directors present their report together with the consolidated financial statements of Allianz Australia Limited (the Company) and its controlled entities (the Consolidated Entity) for the financial year ended 31 December 2013 and the auditor's report thereon.

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 22 July 1992. Chairman of Allianz Australia Limited and also currently Chair of the Allianz Australia Investment Committee, member of its Human Resources and Remuneration Committee and member of its Audit Risk Management Committee. Currently Director and Deputy Chairman of Westpac Banking Corporation.

N.C. Peiris

Appointed an executive director and Managing Director on 1 January 2013 and has 21 years experience in the insurance industry. Previously with Coopers & Lybrand and Bird Cameron. Currently a member of the Allianz Australia Investment Committee.

T.R. Towell

Has 40 years experience in the insurance industry, including as Managing Director of Allianz Australia until he retired on 1 January 2013. Appointed an executive director on 26 November 1998 and resigned as director on 1 January 2013. He was appointed a non-executive director on 1 July 2013. Currently a member of the Allianz Australia Investment Committee and its Audit & Risk Management Committee.

C.B. Booth

Appointed a non-executive director on 1 January 2006. Currently a member of the Allianz Australia Investment Committee, its Human Resources & Remuneration Committee and its Audit & Risk Management Committee. Has 39 years experience in the Insurance Industry. Member of the Board of Management of Allianz SE.

B. Bovermann (as alternate for C.B. Booth)

Appointed a non-executive director on 29 May 2006. Currently an alternate member of the Allianz Australia Investment Committee, its Human Resources & Remuneration Committee and its Audit & Risk Management Committee. Has 26 years experience in the insurance industry.

R.A.F. England

Appointed a non-executive director on 1 February 2005. Has 8 years experience in that role and also currently the Chair of the Allianz Australia Audit & Risk Management Committee. Previously a partner and then executive consultant to Ernst & Young, specialising in insolvency.

P.M. Mann

Appointed a non-executive director on 1 November 2013, and a member of the Allianz Australia Audit & Risk Management Committee and its Investment Committee. Previously a partner at KPMG, specialising in forensic accounting.

K.M. McKenzie

Appointed a non-executive director on 1 January 2012, and a member of the Allianz Australia Human Resources & Remuneration Committee and its Investment Committee. Currently the Group Managing Director of Innovation, Products and Marketing with Telstra.

Company Directory (Continued)

As at 31 December 2013



Directors information (continued)

R.J. Webster

Appointed a non-executive director on 1 March 1997 and resigned 1 January 2014. Has 16 years experience in that role and previously the Chair of the Allianz Australia Resources & Remuneration Committee. He is also a Senior Client Partner of Korn Ferry International and Head of its Financial Services Team. Previously a member of the New South Wales Legislative Assembly and the Legislative Council.

Shareholders

Allianz Australia Limited owns 100% of the Ordinary shares of Allianz Australia Insurance Limited (the Company).

Bankers

Westpac

Auditors

KPMG
10 Shelley Street
Sydney
Australia

Income Statement

For the year ended 31 December 2013

	Note	2013 \$000
GENERAL INSURANCE		
Premium revenue	9	143,141
Outwards reinsurance expense	9	(53,147)
Net earned premium revenue		89,994
Claims expense	11	(52,991)
Reinsurance and other recoveries revenue	11	3,045
Net claims incurred	11 & 20 (d)	(49,946)
Acquisition costs		(13,805)
Other underwriting expenses		(8,585)
Underwriting expenses		(22,390)
Underwriting result		17,658
Investment income	10	1,469
Other expenses		(1,987)
Profit before income tax		17,140
Income tax expense	12	(5,040)
Profit after income tax		12,100

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 11 to 43.

Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 \$000
Profit for the year	12,100
Other comprehensive income	-
Income tax on other comprehensive income	-
Other comprehensive income for the year, net of income tax	-
Total comprehensive income for the year	12,100

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 11 to 43.

Statement of Changes in Head Office Account
For the year ended 31 December 2013

	2013 \$000
At 1 January	-
Profit for the year	12,100
Other comprehensive income	-
Total comprehensive income	12,100
Transfer to Head Office	-
At 31 December	12,100

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 11 to 43.

Statement of Financial Position

As at 31 December 2013

	Note	2013 \$'000
Current assets		
Cash and cash equivalents	13	89,728
Receivables	14 (a)	73,746
Reinsurance and other recoveries receivable	15	87,867
Deferred acquisition costs	17	11,645
Other assets	18	16,568
Total current assets		279,554
Non-current assets		
Reinsurance and other recoveries receivables	15	39,596
Financial assets at fair value through profit and loss	16 (a)	19,142
Total non-current assets		58,738
Total assets		338,292
Current liabilities		
Outstanding claims liabilities	20 (a)	125,755
Unearned premium liabilities	21	68,820
Accounts payable and accruals	19	80,899
Total current liabilities		275,474
Non-current liabilities		
Outstanding claims liabilities	20 (a)	47,480
Deferred tax liabilities	12	3,237
Total non-current liabilities		50,717
Total liabilities		326,192
Head office account		12,100
Total Head office account		12,100
Total Head office account and Liabilities		338,292

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 11 to 43.

Statement of Cash Flow
For the year ended 31 December 2013

	Note	2013 \$000
Cash flows from operating activities		
Premiums received		164,022
Outwards reinsurance paid		(60,728)
Claims paid		(166,930)
Reinsurance and other recoveries received		120,896
Acquisition costs paid		(29,254)
Other expenses paid		(15,699)
Income taxes paid		(1,803)
Interest received		1,469
Net cash inflow/(outflow) from operating activities	25 (b)	11,973
Cash flows from investing activities		
Payments from trading of Investments		(8,528)
Acquisition of net assets at fair value from Allianz New Zealand Ltd, net of cash acquired		86,284
Proceeds from investments		-
Net cash inflow/(outflow) from investing activities		77,755
Cash flows from financing activities		
Dividends paid		-
Net cash inflow/(outflow) from financing activities		-
Net increase in cash and cash equivalents		89,728
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year	25 (a)	89,728

The statement of cash flow is to be read in conjunction with the notes to the financial statements set out on pages 11 to 43.

Notes to the Financial Statements

For the year ended 31 December 2013

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Notes to the Financial Statements

For the year ended 31 December 2013

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 the current year, unless otherwise stated. Allianz Australia Insurance Limited - New Zealand Branch (the "NZ Branch") is the New Zealand branch of the Australian company, Allianz Australia Insurance Limited (the "Company"). The financial statements as at and for the year ended 31 December 2013 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 1, Grant Thornton Building, 152 Fanshawe 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.

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

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

The general purpose financial statements were authorised by the Board of Directors for issue on the date of this report.

On 1 January 2013 the insurance assets of \$371,565,827 and the insurance liabilities of \$371,565,827 were transferred from Allianz New Zealand Limited to Allianz Australia Insurance Ltd for a consideration of \$450,000 incurred by the Company. Since 1 January 2013 Allianz Australia Insurance Ltd (AAIL) has operated as a branch, the general insurance business previously undertaken by Allianz New Zealand Limited. As and from 1 January 2013 Allianz New Zealand Limited has operated as a service company providing services to AAIL and provides out management and administrative services to related companies.

(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). The NZ Branch has prepared its financial statements for the year ended 31 December 2013 on the basis of full disclosure under NZ IFRS. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Insurance (Prudential Supervision) Act 2010. They also comply with the International Financial Reporting Standards (IFRS). The NZ Branch is classified as an issuer for the purpose of the Financial Reporting Act 1993.

The Company was granted a full licence on 1 January 2013 by the Reserve Bank of New Zealand as required by 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. They were available for early adoption at 1 January 2013 and are mandatory as from 1 January 2015 but have not been applied in preparing this financial report.

NZ IFRS 9 *Financial Instruments* (issued November 2009 for financial assets, subsequently amended in December 2010 for financial liabilities) – 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 13/NZ IAS 39 (i.e. amortised cost and fair value through profit or loss) are retained. However, entities that designate 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). The Standard is not expected to have a material impact on the NZ Branch.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Basis of Measurement

The financial statements are presented in New Zealand Dollars (NZD) unless otherwise stated, which is the functional currency of the entity and comprise the income statement, statement of comprehensive income, statement of changes in equity, statement of financial position, 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) Rounding

The financial statements are rounded to the nearest dollars (\$'000) unless stated otherwise.

(v) Reporting period

The reporting period is from 1 January 2013 to 31 December 2013. The NZ Branch commenced operations on 1 January 2013. Hence no comparatives have been presented.

(vi) 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 NZ Branch'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 5. The NZ Branch 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.

(b) Premium revenue recognition

Direct and inwards insurance premiums comprise amounts charged to policyholders or other insurers and include fire service levies, but exclude stamp duties, 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) Provision for 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 unearned portion of outwards reinsurance premium is treated at the statement of financial position date as a prepayment.

(d) 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

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Claims

Claims expense and the liability for outstanding claims are recognised in respect of direct insurance, discontinued insurance (run-off), including asbestos and inwards reinsurance business. The liability 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.

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 2013 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 analyses of past numbers of claims and amounts of claim payments. 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 20(c).

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 7.

(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 fair value, except where collection is doubtful, 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, 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 receivable 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 daily pro-rata method 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.

The 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.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investments

All assets backing insurance liabilities are to be recorded at fair value with movements being recognised in the Statement of Comprehensive Income. Purchases and sales of financial assets are accounted for at settlement.

Refer to Note 1(r) 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. Deferred tax is provided in full using the liability method.

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.

(l) 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 included as part of current receivables and payables in the statement of financial position.

(m) Foreign currencies

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 the Income Statement.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revisions of Accounting Estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(o) Accounts payable and accruals

These amounts represent liabilities for goods and services provided to the Branch 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.

(p) 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.

(q) Cash and cash equivalents

Cash is defined as cash at bank, on hand, bank overdrafts and cash equivalents, with an original maturity of 90 days or less. Cash equivalents include highly liquid investments such as short term deposits & bank accepted bills of exchange.

(r) Assets backing general insurance liabilities

As part of its investment strategy, the Branch 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.

The Branch has determined that all financial assets (except for investments in controlled entities), investment properties and owner occupied property are held to back general insurance liabilities. This was determined on the basis of an analysis comparing the values of these assets to the insurance liabilities, factoring in the solvency requirements in the form of minimum capital requirements set by APRA as well as surplus targets set internally by ultimate Parent Entity Allianz SE.

Accordingly, these assets are measured at fair value in the Statement of Financial Position.

The following policies apply to assets held to back general insurance liabilities.

Financial assets

Financial assets are designated at fair value through profit or 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 Income Statement.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Assets backing general insurance liabilities (continued)

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 amount of cash assets and bank overdrafts approximate their fair values. For the purpose of the Statement of Cash Flow, cash includes cash on hand, deposits at call with banks and investments in money market instruments, net of bank overdrafts.
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges 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 Income Statement.
- Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Gains and losses are brought to account in the Income Statement.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates equivalent to the yields obtainable on comparable investments at reporting date.

Loans and advances are initially recognised at fair value. They are subsequently valued at fair value less any impairment losses outstanding at each reporting date. The Branch assesses at each reporting date whether there is any objective evidence of impairment of its loans and advances on an individual basis.

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 Branch commits to buy or sell the asset.

Receivables

Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

Amounts due from loans and advances are recognised at fair value less any impairment losses outstanding at each reporting date. At each reporting date, the Branch assesses whether there is any objective evidence of impairment of its loans and advances on an individual basis.

A provision for impairment of receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Income Statement.

(s) Provisions

A provision is recognised in the statement of financial position when the Branch 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

For the year ended 31 December 2013

2. CORPORATE GOVERNANCE STATEMENT

Allianz Australia Insurance Limited ("the Company") is incorporated in New South Wales, Australia. The company is 100% owned by Allianz Europe BV 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 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 three Board appointed committees, these being:

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

The Board approves a number of policies, including:

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

There are currently seven directors on the Board. The independent non-executive directors are Mr John Curtis (Chairman), Mr Richard England, Ms Kathryn McKenzie and Mrs Patria Mann. Mr Clement Booth, Dr Brigitte Bovermann (alternate director to Mr Booth) and Mr Terrence Towell are non-executive directors. Mr Niran Peiris is an executive director. Brief details of directors' qualifications and experience are set out in the Company Directory.

Notes to the Financial Statements

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: operational risk, credit risk, liquidity risk and market risk.

The Company's overall risk management, which applies to the NZ Branch, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Company's principal financial instruments, other than derivatives, comprise fixed income securities, floating rate notes, and 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 Company's exposure to operational risk, credit risk, liquidity risk and market risk are detailed below.

a) Operational risk

The principal operational risk the 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 Branch is to ensure that sufficient reserves are available to cover these liabilities.

The above 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 risks mitigation programme. Reinsurance ceded is placed on both a proportional and non proportional basis.

(b) Credit risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	Not rated	Total
	\$000	\$000	\$000	\$000	\$000	\$000
2013						
Cash and Cash Equivalents	-	89,728	-	-	-	89,728
Receivables	-	-	-	-	73,746	73,746
Reinsurance and other recoveries receivable	-	108,014	9,997	3,352	6,100	127,463
Financial assets at fair value through profit and loss	-	19,142	-	-	-	19,142

(c) 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 table below analyses the 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. Balances due within 12 months equal carrying balances, as the impact of discounting is not significant.

	Maturing In:					Total
	1 Year or Less	1 to 3 Years	3 to 5 Years	Over 5 Years	No Term	
As 31 December 2013	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets						
Cash and cash equivalents	89,728	-	-	-	-	89,728
Receivables	73,746	-	-	-	-	73,746
Reinsurance and other recoveries receivables	56,064	66,618	7,704	1,048	-	131,434
Financial assets designated at Fair Value through profit and loss	-	19,142	-	-	-	19,142
Total Financial Assets	219,538	85,760	7,704	1,048	-	314,050
Financial Liabilities						
Outstanding claims liabilities	127,231	45,611	3,075	2,287	-	178,204
Unearned premium liabilities	68,820	-	-	-	-	68,820
Accounts payable and accruals	80,899	-	-	-	-	80,899
Other current liabilities	-	35	-	-	-	35
Total Financial Liabilities	276,950	45,646	3,075	2,287	-	327,958

Notes to the Financial Statements

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

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

(i) Foreign currency risk exposures

The 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 Branch does not hold any securities that expose the Branch 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. 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 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.

	Note	Carrying Amount	Interest Rate Risk	
			-1%	+1%
2013		\$000	\$000	\$000
Financial Assets - Interest bearing				
Cash and Cash Equivalents		89,728	(897)	897
Investment in Government bonds		19,142	106	(106)
Total Financial Assets		108,870	(791)	791
Financial Assets - Non interest bearing				
Accounts Payable and Accruals	19	80,899	(809)	809
Total Financial Liabilities		80,899	(809)	809
Net Financial Assets		27,971	18	(18)

Notes to the Financial Statements

For the year ended 31 December 2013

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 provides support in the face of 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. The parent company, Allianz Australia Insurance Limited was granted a license in the current year by the Reserve Bank of New Zealand as required by the Insurance (Prudential Supervision) Act 2010. As a result of being a licensed Insurer with effect from 1 January 2013 the Branch has been classified as an issuer under the Financial Reporting Act 1993 and in the current accounting period, no longer be able to take advantage of the differential reporting exemptions available under the Framework for Differential Reporting for entities applying New Zealand equivalents to IFRS.

Allianz Australia Insurance Limited is registered with APRA and subject to 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.

The Branch is regulated by the RBNZ. The entity has been granted exemptions to lodge half year interim financial statements and half year solvency returns, in addition to full year financial statements and year end solvency returns. 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 submissions to the RBNZ of the Parent Company's APRA returns.

From 1 January 2013 regulatory capital for the Company will be determined using the internal model based approach.

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 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.

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

Notes to the Financial Statements

For the year ended 31 December 2013

4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory Capital Compliance

The insurers within the Company have at all times during the years ended 31 December 2013 complied with the externally imposed capital requirements and accounting for expected dividends.

The Branch is regulated by the RBNZ. 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 submissions to the RBNZ of the Parent Company's APRA returns. Set out below is the Company APRA prescribed capital amount as at 31 December 2013.

	2013 AUD \$000	2013 NZD \$000
Statutory Capital		
Common Equity Tier 1 capital		
Ordinary Shares	1,571,307	1,708,011
Retained earnings	307,309	334,045
Disclosed earnings	1,637	1,779
Technical provision in excess of liability valuation (net of tax)	35,342	38,417
Regulatory adjustments for non allowable assets	(386,565)	(420,196)
Total Tier 1 capital	1,529,030	1,662,056
Total regulatory capital	1,529,030	1,662,056
Prescribed Capital Amount (PCA)		
Insurance risk	813,473	884,245
Insurance concentration risk charge	40,000	43,480
Diversified asset risk charge	345,818	375,904
Asset concentration risk charge	-	-
Aggregation benefit	(216,405)	(235,232)
Operating risk charge	148,094	160,978
Adjustments to PCA as approved by APRA	(113,098)	(122,938)
Total PCA	1,017,882	1,106,438
PCA multiple*	150%	150%
CET1 multiple	150%	150%

Notes to the Financial Statements

For the year ended 31 December 2013

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The NZ Branch makes estimates and assumptions in respect to 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 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%.

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 7.

(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 similar to the assessment of outstanding claims. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

6. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 2013, and have not been applied in preparing this financial report. None of these are expected to have a significant effect on the financial report of the NZ Branch, except for NZ IFRS 13/NZ IAS 39 Financial Instruments, which becomes mandatory for the NZ Branch's 2015 financial statements and may change the classification and measurement of financial assets. The NZ Branch does not plan to adopt this standard early and the extent of the impact has not been determined.

7. ACTUARIAL ASSUMPTIONS AND METHODS

(a) Actuarial information

Noeline Woolf of Allianz Australia is the Appointed Actuary for the Company and the NZ Branch. She 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 2013.

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 2013 are outlined below.

Notes to the Financial Statements

For the year ended 31 December 2013

7. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(b) Actuarial methods

The Branch 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

Domestic motor vehicle
Commercial motor vehicle
Householders
Commercial property
Pleasure craft
Personal accident
Aviation
Consumer credit
Other accident

Long-Tail Classes

Public and products liability
Professional indemnity

(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 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 past pattern of claims development.

Typically, the methods applied do not make specific allowance for inflation but are included implicitly 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 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.

	2013 Short Tail	2013 Long Tail
Average Weighted Term to Settlement	0.35	1.60
Claims Handling Expenses	5.50%	5.50%
Discount Rate	3.48%	4.01%
Inflation Rate	2.50%	3.50%
Superimposed Inflation Rate	N/A	N/A

Notes to the Financial Statements

For the year ended 31 December 2013

7. 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

Claims handling expenses were calculated by reference to past experience of claims handling costs as a percentage of past payments.

(iii) Discount Rate

Discount rates derived from market yields on New Zealand Government securities as at the balance date have been adopted for the 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 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 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 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 an opposing impact on the discounted claims expense.
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 and superimposed inflation rate	Expected future payments are inflated to take account of 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 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.

Notes to the Financial Statements

For the year ended 31 December 2013

7. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

d) Sensitivity Analysis – insurance contracts (continued)

(ii) Impact of changes in key variables

Variable	Movement in variable	Impact on Gross Profit/(Loss) ('000s)		Impact on Net Profit/(Loss) and Equity (000's)	
		Gross	Net	Gross	Net
Short Tail					
Average Weighted Term to Settlement	+0.5 year	2,893	700	2,025	490
	-0.5 year	-2,944	-713	-2,061	-499
Claims Handling Expenses	1%	-391	-391	-274	-274
	-1%	391	391	274	274
Discount Rate	+1% p.a.	1,011	138	708	97
	-1% p.a.	-1,032	-141	-723	-99
Inflation Rate	+1% p.a.	-2,091	-281	-1,463	-197
	-1% p.a.	48	10	34	7
Long Tail					
Average Weighted Term to Settlement	+0.5 year	408	164	285	115
	-0.5 year	-416	-167	-291	-117
Claims Handling Expenses	1%	-80	-80	-56	-56
	-1%	80	80	56	56
Discount Rate	+1% p.a.	341	127	239	89
	-1% p.a.	-360	-133	-252	-93
Inflation Rate	+1% p.a.	-696	-259	-487	-182
	-1% p.a.	60	18	42	13
Superimposed Inflation	+1% p.a.	-696	-259	-487	-182
	-1% p.a.	60	18	42	13

Notes to the Financial Statements

For the year ended 31 December 2013

8. 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 Prudential Standards GPS 220 *Risk Management* ("GPS 220") and GPS 230 *Reinsurance Management* issued by APRA, the Company has in place a sound and prudent Risk Management Framework ("RMF"). This RMF includes a RMS and the ReMS.

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, 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 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, subject to any limits or excesses, the policyholder against loss or damage to his or her own property, legal liability to others and 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 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.

Notes to the Financial Statements

For the year ended 31 December 2013

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

(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 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. 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 insurers 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.

9. PREMIUM REVENUE/NET EARNED PREMIUM

	2013
note	\$000
Gross written premium	141,449
Gross earned premium revenue	
Direct	143,141
Inwards reinsurance	-
Total gross earned premium revenue	143,141
Outwards reinsurance expense	(53,147)
Net earned premium	89,994

Notes to the Financial Statements

For the year ended 31 December 2013

10. INVESTMENT AND OTHER INCOME

	2013 \$000
Interest on Government stock	695
Other interest	2,296
Loss on revaluation of investments	(381)
Loss on investments held	(1,141)
Total Investment Income	1,469

11. NET CLAIMS INCURRED

	Current year \$000	Prior years \$000	Total \$000
2013			
Gross claims incurred - undiscounted	(104,269)	51,511	(52,758)
Discount movement	1,283	(1,516)	(233)
Gross claims incurred - discounted	(102,986)	49,995	(52,991)
Reinsurance and other recoveries revenue -			
Undiscounted	38,994	(36,352)	2,642
Discount movement	(763)	1,166	403
Reinsurance and other recoveries revenue discounted	38,231	(35,186)	3,045
Net claims incurred	(64,755)	14,809	(49,946)

Current period claims relate to risks borne in the current financial period. Prior period claims relate to reassessment of the risks borne in all previous reporting periods.

On a net undiscounted basis there is a release of \$15,159,000 in the current financial year. This is made up of release of the central estimate and the release of risk margins as the acquired portfolio's prior years' central estimate run off. On a discounted basis the release becomes \$14,809,000.

Notes to the Financial Statements

For the year ended 31 December 2013

12. TAXATION

	2013 \$000
(i) Recognised in the Income Statement	
Current Tax Expense	(1,803)
Movement in deferred tax balance recognised in the Income Statement	(3,237)
Total recognised income tax expense in the Income Statement	(5,040)
(ii) Reconciliation of effective tax rate	
Profit before tax	17,139
Income tax at 28%	(4,799)
Tax expense transferred from related entity for nil consideration	(241)
Total income tax expense in the Income Statement	(5,040)
(iii) Deferred Tax Asset/(Liability)	
Employee provisions	
Deferred acquisition costs	(11,665)
Provision for doubtful debts	38
Other Provisions	65
	(11,562)
Tax effect	(3,237)
Less: Deferred tax on carried forward losses	-
Deferred Tax Liability	(3,237)

Notes to the Financial Statements

For the year ended 31 December 2013

13. CASH AND CASH EQUIVALENTS

	Note	2013 \$000
Cash at bank and short term deposits	25 (a)	89,728

14. RECEIVABLES

Trade debtors (refer (i) below)		
Premiums receivable		35,937
Unclosed premiums		2,549
Reinsurance debtors		23,613
		62,099
Less Impairment losses		-
		62,099
Other receivables		7,467
Amounts due from related corporations (refer (b) below)	24 (f)	4,180
		11,647
Total Receivables - Current		73,746

(i) Trade debtors – premiums receivable are unsecured. Where collection of a trade debtor is doubtful, a provision for impairment is recognised. For further details of unclosed premiums, refer Note 1(b).

(b) Amounts due from related corporations

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

(c) Foreign currency and interest rate risk

New Zealand Dollar	73,746
	73,746

A summarised analysis of the sensitivity of receivables to interest rate risk can be found in Note 3(d)(iv).

Notes to the Financial Statements

For the year ended 31 December 2013

14. RECEIVABLES (CONTINUED)

(d) Fair values

	Carrying Amount	Net Fair Value
	2013	2013
	\$000	\$000
Premiums receivable	35,937	35,937
Unclosed premiums	2,549	2,549
Reinsurance debtors	23,613	23,613
Other receivables	11,647	11,647
	73,746	73,746

A summarised analysis of the sensitivity of receivables to interest rate risk can be found in Note 3(d)(iv).

(e) Credit risk

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables mentioned above. The Company holds Letters of Credit amounting to \$235,538,769 (AUD\$216,687,000) and a security deposit of \$362,710,160 (AUD\$33,368,000) as security for amounts due from Reinsurance Debtors and Reinsurance Recoveries Receivable, including NZ Branch balances. Refer to Note 3 for more information on the risk a management policy of the Company.

Notes to the Financial Statements

For the year ended 31 December 2013

15. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2013 \$000
Expected future recoveries (undiscounted)	131,433
Discount to present value (see [i] below)	(3,970)
Reinsurance and other recoveries receivable (after impairment losses)	127,463
Comprising:	
Current	87,867
Non-current	39,596
Reinsurance and other recoveries receivable	127,463

[i] Inflation, discount rates and expected term to settlement are set out in Note 7.

16. FINANCIAL ASSETS

(a) Financial assets at fair value through profit and loss account

(i) Non-Current at fair value through the profit and loss account

Investments in unrelated entities:	
Listed shares at market value	-
Unlisted investments at market value:	
Government bonds	19,142
Total Financial assets at fair value through profit and loss	19,142

(b) Foreign currency risk

The Branch is not exposed to foreign currency risk as all of its investments are denominated in New Zealand dollars.

Notes to the Financial Statements

For the year ended 31 December 2013

16. FINANCIAL ASSETS (CONTINUED)

(c) Fair values

	Carrying Amount	Net Fair Value
	2013	2013
	\$000	\$000
Government bonds	19,142	19,142
Other investments	-	-
	19,142	19,142

(d) Financial assets at fair value through profit and loss

(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).

2013	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial assets designated as fair value through profit and loss:				
Fixed interest securities	-	-	-	-
Government bonds	-	19,142	-	19,142
Total Financial assets at fair value through profit and loss	-	19,142	-	19,142

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 the 31 December 2013.

Notes to the Financial Statements

For the year ended 31 December 2013

17. DEFERRED ACQUISITION COSTS

	2013 \$000
(a) Deferred acquisition costs at 1 January	
Acquisition of New Zealand portfolio	4,781
Acquisition costs deferred	30,312
Amortisation charged to income	(29,528)
Release of premium deficiency prior year	9,419
Write down for premium deficiency current year	(3,339)
Total at 31 December	11,645
(b) Current year deficiency recognised in the income statement	3,339
(c) Calculation of current year deficiency	
Unearned premium liability relating to insurance contracts Issued	52,971
Related reinsurance asset	(4,519)
Related deferred acquisition costs	(15,308)
	33,144
Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts issued	33,212
Risk Margin	3,271
	36,483
Total current year deficiency recognised in the income statement	3,339

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 20 (c). As with outstanding claims, the overall risk margin is intended to achieve a probability of sufficiency (PoS) of 75%.

18. OTHER CURRENT ASSETS

	Note	
(a) Prepayments		
Reinsurance on unearned premium	18(b)	16,568
Total Other Current Assets		16,568
(b) Reinsurance on unearned premium as at 1 January		
Acquisition of New Zealand portfolio		16,908
Deferral of ceded premiums on contracts written in the period		56,016
Expense of ceded premiums on contracts written in current and prior periods		(53,147)
Unwind of reinsurance contract		(3,209)
Reinsurance on unearned premium as at 31 December		16,568

Notes to the Financial Statements

For the year ended 31 December 2013

19. ACCOUNTS PAYABLE AND ACCRUALS

	Note	2013 \$'000
Current		
GST		5,095
Sundry Creditors and Accruals		4,697
Amounts due to reinsurers		31,706
Amounts due to related parties	24 (f)	39,401
		80,899

20. OUTSTANDING CLAIMS

(a) Outstanding claims liability

Expected future claims payments (undiscounted) - central estimate	173,741
Risk margin applied (undiscounted)	2,137
Claims handling expenses	2,277
Discount to present value - central estimate	(4,873)
Discount to present value - risk margin	(47)
Liability for outstanding claims	173,235
Current	125,755
Non-current	47,480
	173,235

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes \$101 million 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. An allowance for made for claims incurred but not reported based on calculations made by the actuaries.

(c) 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.

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

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

	2013
Risk Margins applied:	%
Short-tail classes	4.6
Long-tail classes	4.6
Overall margin	4.6

Notes to the Financial Statements

For the year ended 31 December 2013

20. OUTSTANDING CLAIMS (CONTINUED)

(c) Actuarial assumptions

Refer to Note 7 for information on the various actuarial assumptions underlying the determination of outstanding claims liability.

(d) Net Claims Incurred

Current period claims relate to risks borne in the current financial period. Prior period claims relate to reassessment of the risks borne in all previous reporting periods.

Direct	49,946
Net Claims Incurred	49,946

(e) Reconciliation of movement in discounted outstanding claims liability

	2013		
	Gross \$000	Reinsurance \$000	Net \$000
Balance as at 1 January	-	-	-
Acquisition of New Zealand portfolio	265,401	(225,127)	40,274
Current year claims incurred	102,987	(38,222)	64,765
Change in previous years' claims	(49,994)	35,180	(14,814)
Current year claims paid/RI recovered	(53,555)	13,570	(39,984)
Previous year claims paid/RI recovered	(91,604)	82,022	(9,582)
Unwind of reinsurance contract	-	5,113	5,113
	173,235	(127,463)	45,772

Notes to the Financial Statements

For the year ended 31 December 2013

20. OUTSTANDING CLAIMS (CONTINUED)

(f) Claims development table

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

Accident year	(i) Gross										
	2004 and prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of cumulative claims:											
At the end of accident year	78,427	3,185	2,083	2,643	2,174	3,307	3,515	4,118	4,718	4,776	
One year later	80,010	1,147	1,469	1,504	2,019	1,639	2,917	1,192	4,517		
Two years later	79,639	2,060	813	1,148	36,573	1,649	1,037	1,761			
Three years later	82,266	1,956	689	1,983	36,013	1,132	1,974				
Four years later	85,430	1,844	704	1,917	40,285	1,466					
Five years later	82,555	1,579	883	1,819	2,322						
Six years later	82,817	1,490	758	2,038							
Seven years later	100,472	1,101	1,145								
Eight years later	97,539	1,499									
Nine years later	95,717										
Estimate of cumulative claims	95,717	1,499	1,145	2,038	2,322	1,466	1,974	1,761	4,517	4,776	117,216
Cumulative payments	88,878	1,090	689	1,889	1,649	852	922	526	818	701	97,804
Claims outstanding - undiscounted	6,840	409	476	339	673	614	1,052	1,235	3,699	4,075	19,411
Discount	411	17	20	16	31	33	57	69	214	601	1,470
Claims outstanding - discounted	6,429	391	456	323	641	581	996	1,166	3,485	3,474	17,941
Short tail classes											150,927
Risk Margins - discounted											2,090
Claims handling expenses											2,277
Total gross outstanding claims											173,235

In 2008 a large Public and Products Liability claim due to milk contamination of circa \$32m was subsequently declined.

Notes to the Financial Statements

For the year ended 31 December 2013

20. OUTSTANDING CLAIMS (CONTINUED)

(f) Claims development table (continued)

(ii) Net

Accident year	2004 and prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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	1,935	2,133	2,071	
One year later	51,424	1,090	887	1,330	1,714	1,613	1,931	2,155	2,556		
Two years later	51,919	2,033	748	1,018	1,029	1,205	919	893			
Three years later	53,695	1,931	630	1,863	1,267	1,205	895				
Four years later	53,701	1,819	637	1,725	1,089	1,015					
Five years later	58,061	1,275	799	1,837	1,023						
Six years later	54,412	1,257	768	1,717							
Seven years later	60,889	1,208	879								
Eight years later	59,075	1,273									
Nine years later	58,817										
Estimate of cumulative claims	58,817	1,273	879	1,717	1,023	1,015	895	893	2,556	2,071	71,140
Cumulative payments	56,136	1,053	589	1,510	985	831	755	482	772	536	63,650
Claims outstanding - undiscounted	2,680	220	290	207	38	185	140	411	1,784	1,535	7,490
Discount	143	13	17	12	2	11	8	24	104	147	480
Claims outstanding - discounted	2,538	207	273	195	36	174	132	387	1,681	1,388	7,010
Short tail classes											34,395
Risk Margins - discounted											2,090
Claims handling expenses											2,277
Total net outstanding claims											45,772

Notes to the Financial Statements

For the year ended 31 December 2013

21. UNEARNED PREMIUM LIABILITY

	2013 \$'000
Unearned Premium Liability at 1 January	-
Acquisition of New Zealand portfolio	70,642
Deferral of premiums on contracts written	141,319
Earning of premiums written in current and previous year	(143,141)
Unearned Premium Liability at at 31 December	68,820

22. AUDITOR'S REMUNERATION

	\$
Audit of the financial statements	65,000
	65,000

23. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Directors:

J.S. Curtis
C.B. Booth
B. Bovermann
R.A.F. England
K.M. McKenzie
N.C. Peiris
T.R. Towell
R.J. Webster
P.M. Mann

Non-Directors:

D. Hosking (Chief Financial Officer)
P. Kernaghan (Chief Market Manager)
D. Krawitz (Chief Operating Officer)
J. Poole (CGM – Sales and Distribution)
G. Townsend (Chief General Manager) - Resigned 31 December 2013
T. Dawson (GM Human Resources)
R. Feledy (Chief Technical Officer)
N. Scofield (GM – Corporate Affairs)
H. Silver (CGM – Workers Compensation) (appointed 16 September 2013)
S. Coles (Chief Information Officer)
B. Watters (Chief Executive Officer – NZ Branch)

Notes to the Financial Statements

For the year ended 31 December 2013

23. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

(a) Transactions with key management personnel

	2013 AUD \$'000	2013 NZD \$'000
The key management personnel compensation included in the income statement are as follows:		
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel.	14,054,550	15,277,295
Short term employee benefits	7,241,636	7,871,659
Post employment benefits	184,928	201,017
Share-based payments	2,518,666	2,737,790
Long term employee benefits	4,109,320	4,466,830

(b) Loans and other transactions with key management personnel

Refer to Note 24 for related party transactions concerning Directors.

With regards to non-Director key management personnel, entities within the Company sold insurance during the period within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees or customers.

24. 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 Branch and entities within the Allianz SE Group:

- (i) loans advances and repayments;
- (ii) fees for funds management;
- (iii) expenses incurred on their behalf and recharged
- (iv) expenses incurred on their behalf and recharged
- (v) transfer of insurance liabilities;
- (vi) fees for claims management;
- (ii) reinsurance arrangements; and

Fees and charges between the Company, including the NZ Branch, 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, N.C. Peiris, T.R. Towell, C.B. Booth, B. Bovermann (as alternate Director for C.B. Booth), R.A.F. England, K.M. McKenzie, R.J. Webster and P.M. Mann.

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 Company sold insurance to Directors of the Company and their Director-related entities during the period within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees.

Notes to the Financial Statements

For the year ended 31 December 2013

24. RELATED PARTY TRANSACTIONS (CONTINUED)

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.

	2013 \$000
(c)	
Management fees paid to:	
Allianz New Zealand Limited	970
PIMCO New Zealand Pty Limited	17

(d) The 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 Branch paid the following commissions to related parties during the year:

- \$1,191,192 to Primacy Underwriting Management Limited (formerly Agricola Underwriting Management Limited)
- \$446,887 to A.C.N 092 738 997 Pty Limited (formerly Primacy Underwriting Agency Pty Limited)
- \$848,620 to Euler Hermes Trade Credit Underwriting Agents Pty Limited.
- \$2,693,587 to Global Transport & Automotive Insurance Solutions Pty Limited.
- \$776,816 to Club Marine Limited.

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

	2013 \$000
Reinsurance premiums ceded	53,147
Reinsurance claims recovered	3,045

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

Allianz New Zealand Limited	(25,498)
Head Office	(12,536)
Club Marine Limited	(91)
Allianz Australia Services Limited	(1,276)
Primacy Underwriting Management Limited	4,180

Notes to the Financial Statements

For the year ended 31 December 2013

25. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2013 \$'000
(a) Cash reconciliation		
Cash at bank		91,968
Overdraft facility		(2,240)
	13	89,728
(b) Reconciliation of Profit after Income Tax to Net Cash Inflows from Operating Activities		
Profit for the year		12,100
Decrease in premium debtors		1,309
Decrease in unearned premium		(1,822)
Decrease in reinsurance and other recoveries		99,002
Decrease in deferred acquisition costs		(6,864)
Increase in deferred tax liability		3,237
Increase in creditors, borrowings and amounts owed to related companies		(3,164)
Decrease in outstanding claims		(92,166)
Decrease in prepayments		340
Net cash inflow from operating activities		11,973

26. CONTINGENT LIABILITIES

The Branch has no contingent liabilities at 31 December 2013.

27. EVENTS SUBSEQUENT TO BALANCE SHEET

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 Branch's operations, the results of those operations, or the Branch's state of affairs in future financial years.



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Australia Insurance Limited - New Zealand Branch ("the Branch") on pages 5 to 43. The financial statements comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows 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 Branch'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 Branch'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 Branch.



Opinion

In our opinion the financial statements of Allianz Australia Insurance Limited - New Zealand Branch on pages 5 to 43:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch as at 31 December 2013 and of its financial performance and cash flows 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 Australia Insurance Limited - New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

7 March 2014

COMPANY: ALLIANZ AUSTRALIA INSURANCE LIMITED (NZ BRANCH)

SUBMITTED BY: NOELINE WOOF, APPOINTED ACTUARY

TOPIC: ALLIANZ NEW ZEALAND BRANCH
APPOINTED ACTUARY REPORT
AT 31 DECEMBER 2013

Purpose

I have prepared this Appointed Actuary report as at 31 December 2013 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 2013 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 2013, as documented in the report titled "Allianz Australia Insurance Limited Valuation of New Zealand Outstanding Claims Liabilities as at 30 September 2013";

- A roll forward of the 30 September 2013 full valuation outstanding claims estimates to 31 December 2013. The results of this analysis summarized at the Allianz Australia Ltd level is documented in the "Insurance Liabilities: Summary of Reported Results as at 31 December 2013";
- A full analysis of premium liabilities for Allianz Australia Ltd including AAILNZ as at 31 December 2013, as documented in the report titled "Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2013"; and
- An analysis of risk margins, as documented in the report "Allianz Australia Limited Assessment of Risk Margins as at 31 December 2012".

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 2013 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 Appointed Actuary, Chief Actuary and Chief Risk Officer for Allianz Australia Limited, being the parent company of 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.



Noeline Woof, FNZS^oA, FIAA
Appointed Actuary to AAILNZ

Allianz Australia Insurance Limited
ABN 15 000 122 850

Financial Statements for year ended
31 December 2013

Directors' Report



The Directors present their report together with the financial statements of Allianz Australia Insurance Limited (the Company) for the year ended 31 December 2013 and the auditor's report thereon.

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. Chairman of Allianz Australia Limited and also currently Chair of the Allianz Australia Investment Committee, member of its Human Resources and Remuneration Committee and member of its Audit Risk Management Committee. Currently Director and Deputy Chairman of Westpac Banking Corporation.

N.C. Peiris

Appointed an executive director on 1 January 2013 and has 21 years experience in the insurance industry. Previously with Coopers & Lybrand and Bird Cameron. Currently a member of the Allianz Australia Investment Committee.

T.R. Towell

Has 40 years experience in the insurance industry, including as Managing Director of Allianz Australia Insurance Limited until he retired on 1 January 2013. Appointed an executive director on 29 May 2000 and resigned as director on 1 January 2013. He was appointed a non-executive director on 1 July 2013. Currently a member of the Allianz Australia Investment Committee and its Audit & Risk Management Committee.

C.B. Booth

Appointed a non-executive director on 1 January 2006. Currently a member of the Allianz Australia Investment Committee, its Human Resources & Remuneration Committee and its Audit & Risk Management Committee. Has 39 years experience in the insurance industry. Member of the Board of Management of Allianz SE.

B. Bovermann (as alternate for C.B. Booth)

Appointed a non-executive director on 29 May 2006. Currently an alternate member of the Allianz Australia Investment Committee, its Human Resources & Remuneration Committee and its Audit & Risk Management Committee. Has 26 years experience in the insurance industry.

R.A.F. England

Appointed a non-executive director on 1 February 2005. Has 8 years experience in that role and also currently the Chair of the Allianz Australia Audit & Risk Management Committee. Previously a partner and then executive consultant to Ernst & Young, specialising in insolvency.

P.M. Mann

Appointed a non-executive director on 1 November 2013, and a member of the Allianz Australia Audit & Risk Management Committee and its Investment Committee. Previously a partner at KPMG, specialising in forensic accounting.

K.M. McKenzie

Appointed a non-executive director on 1 January 2012, and a member of the Allianz Australia Human Resources & Remuneration Committee and its Investment Committee. Currently the Group Managing Director of Innovation, Products and Marketing with Telstra.

R.J. Webster

Appointed a non-executive director on 7 June 2002 and resigned on 1 January 2014. He was previously the Chair of the Allianz Australia Resources & Remuneration Committee. He is also a Senior Client Partner of Korn Ferry International and Head of its Financial Services Team. Previously a member of the New South Wales Legislative Assembly and the Legislative Council.

Company Secretaries

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

P. Kernaghan

Appointed Company Secretary on 13 December 2004. Currently Chief Market Manager of Allianz Australia Limited.

M. Kaley

Appointed Company Secretary on 7 December 2001 and has 20 years experience as a lawyer and 12 years experience in the insurance industry. Currently General Counsel of Allianz Australia Limited.

Directors' Report (continued)

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board Meeting		ARMC ¹		HR & Rem Comm. ²		Invest Comm. ³	
	A	B	A	B	A	B	A	B
J.S. Curtis	4	4	4	4	4	4	4	4
N.C. Peiris	4	4	4*	4	4*	4	4	4
C.B. Booth	2	4	2	4	2	4	2	4
B. Bovermann**	2	4	2	4	2	4	2	4
R.A.F. England	4	4	4	4	-	-	4	4
P.M. Mann***	1	1	1	1	-	-	1	1
K.M. McKenzie	4	4	-	-	4	4	4	4
T.R. Towell****	3	3	3	3	-	-	3	3
R.J. Webster*****	3	4	-	-	4	4	-	-

¹ Audit & Risk Management Committee

² Human Resources & Remuneration Committee

³ Investment Committee

A – Number of meetings attended.

B – Number of meetings held during the time the Director held office during the financial year.

* N.C. Peiris attended all meetings at the invitation of the Committee.

** B. Bovermann as an alternate Director for C.B. Booth.

*** P.M. Mann appointed 1 November 2013.

**** T.R. Towell appointed 1 July 2013.

***** R.J. Webster resigned 31 December 2013

Principal Activity

The principal activity of Allianz Australia Insurance Limited during the course of the reporting year was that of the provision of general insurance services. There have been no significant changes in activities during the year.

Significant Changes in the State of Affairs

On 1 January 2013 the Company acquired the portfolio of insurance business of Allianz New Zealand Limited for a consideration of \$450,000 in excess of net book value. The acquisition is not expected to have a material effect on the results of the Company. With that exception, in the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Events after Balance Date

There have been no matters or circumstances that have arisen in the interval between 31 December 2013 and the date of this report which, in the opinion of the Directors, have significantly affected, or may significantly affect in subsequent reporting periods, the operations of the Company, the results of those operations or the state of affairs of the Company except as otherwise disclosed in this report.

Directors' Report (continued)

Future developments

In the opinion of the Directors, further or specific information as to the other likely developments in the operations of the Company or the expected results of those operations in subsequent financial years would be likely to result in unreasonable prejudice to the Company and is omitted from this report.

Results

The profit after income tax of the Company attributable to members for the year ended 31 December 2013 amounted to \$309,986,000 (2012: \$357,630,000).

Dividends

During the reporting period, a dividend of \$180,000,000 was paid out of prior year's profits and a dividend of \$170,000,000 was paid out of the current year's profits. In total \$350,000,000 (2012: \$285,000,000) has been recognised in the current year financial statements. A dividend of \$120,000,000 has been declared and will be paid during the year ending 31 December 2014 out of profits earned in the year ended 31 December 2013 and will be recognised in subsequent financial statements.

Directors' Benefits

During the year ended 31 December 2013 and in the interval between 31 December 2013 and the date of this report, no Director has received, or has become entitled to receive, any benefit (other than a benefit included in the aggregate amount of emoluments paid or due and payable, to the Director, as included in Notes 31 and 32 of the financial statements) by reason of a contract made by the Company or any entity controlled by the Company or a body corporate that is related to the Company, with the Director or with an entity in which the Director has a substantial financial interest.

Some Directors are customers in relation to insurance products offered by the Company and/or its related entities which were purchased on terms and conditions no more favourable than those available on similar transactions to other employees.

Indemnification and Insurance of Officers

No amounts were paid by the Company by way of indemnification of any officer, against a liability incurred by that person within the scope of Section 199A of the Corporations Act 2001 during the year ended 31 December 2013.

During the reporting period, Allianz Australia Limited, the ultimate Australian Parent Entity, paid a premium under a contract to insure certain officers of the Company and related bodies corporate against liability.

Disclosure of the premium payable and a summary of the nature of liabilities covered by the insurance contract are prohibited by a confidentiality clause in the contract.

Environmental Regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Company has adequate systems in place for the management of the environmental requirements and it is not aware of any breach of those environmental requirements as they apply to the Company.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration under Section 307C of the Corporations Act 2001, in relation to the audit for the reporting period ended 31 December 2013 is attached on page 4 and forms part of the Directors' Report.

Directors' Report (continued)

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that class order, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors of Allianz Australia Insurance Limited.



J.S. Curtis
Director

Sydney

7 March 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Allianz Australia Insurance Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Scott Guse

Scott Guse
Partner

Sydney
7 March 2014

Income Statement

For the year ended 31 December 2013

	Note	2013 \$000	2012 \$000
PREMIUM REVENUE			
Premium revenue	7	3,755,412	3,368,361
Outward reinsurance expense	7	(688,097)	(643,639)
Total premium revenue		3,067,315	2,722,722
UNDERWRITING EXPENSES			
Claims expense			
Claims expense	9	(2,405,068)	(2,516,421)
Reinsurance and other recoveries revenue	9	384,840	604,400
Total claims expense	9	(2,020,228)	(1,912,021)
Other underwriting expenses			
Acquisition costs		(699,805)	(605,977)
Other underwriting expenses		(22,601)	(20,512)
Fire services levies		(86,081)	(112,710)
Total other underwriting expenses		(808,487)	(739,199)
Underwriting result		238,600	71,502
Other income and expenses			
Investment income	8	144,767	355,176
Other income	8	271,398	262,211
Other expenses		(213,608)	(179,184)
Total other income and expenses		202,557	438,203
Profit before income tax		441,157	509,705
Income tax expense	11(a)	(131,171)	(152,075)
Profit after income tax		309,986	357,630

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Statement of Comprehensive Income
For the year ended 31 December 2013

	2013 \$000	2012 \$000
Profit for the year	309,986	357,630
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Movement on foreign currency translation differences for foreign operations	1,637	-
Income tax on other comprehensive income	-	-
Other comprehensive income for the year, net of income tax	1,637	-
Total comprehensive income attributable to owners of the Company	311,623	357,630

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company			
	Issued share capital	Foreign currency translation reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000
At 1 January 2013	1,571,307	-	347,323	1,918,630
Net of income tax:				
Profit for the year	-	-	309,986	309,986
Other comprehensive income	-	1,637	-	1,637
Total comprehensive income	-	1,637	309,986	311,623
Dividends paid during the year	-	-	(350,000)	(350,000)
Total transactions with owners	-	-	(350,000)	(350,000)
At 31 December 2013	1,571,307	1,637	307,309	1,880,253

	Issued share capital	Foreign currency translation reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000
At 1 January 2012	1,571,307	-	274,693	1,846,000
Net of income tax:				
Profit for the year	-	-	357,630	357,630
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	357,630	357,630
Dividends paid during the year	-	-	(285,000)	(285,000)
Total transactions with owners	-	-	(285,000)	(285,000)
At 31 December 2012	1,571,307	-	347,323	1,918,630

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Statement of Financial Position

As at 31 December 2013

	Note	2013 \$000	2012 \$000
Current assets			
Cash and cash equivalents	13	1,286,520	1,184,119
Receivables	14	1,563,591	1,759,568
Reinsurance and other recoveries receivable	15	485,906	513,674
Financial assets at fair value through profit and loss	17(a)(i)	958,873	727,887
Derivative financial instruments	18	76	357
Deferred acquisition costs	20	453,647	403,255
Other current assets	21	307,421	263,266
Total current assets		5,036,034	4,852,106
Non-current assets			
Reinsurance and other recoveries receivable	15	704,260	695,471
Plant and equipment	22	34,164	32,959
Investments in controlled entities	16	96,916	98,279
Financial assets at fair value through profit and loss	17(a)(ii)	3,758,571	3,597,041
Intangible assets	23	277,573	277,573
Deferred tax assets	11(b)	46,299	-
Total non-current assets		4,917,783	4,701,323
Total assets		9,953,817	9,553,429
Current liabilities			
Accounts payable and accruals	24	453,474	370,339
Outstanding claims	25(a)	1,755,248	1,697,490
Financial liabilities	27(a)	7,406	16,913
Current tax liabilities	11(c)	94,122	51,488
Unearned premium liability	26	2,283,601	2,064,071
Total current liabilities		4,593,851	4,200,301
Non-current liabilities			
Outstanding claims	25(a)	3,458,863	3,415,432
Financial liabilities	27(b)	20,850	17,027
Deferred tax liability	11(b)	-	2,039
Total non-current liabilities		3,479,713	3,434,498
Total liabilities		8,073,564	7,634,799
Net assets		1,880,253	1,918,630

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Statement of Financial Position (continued)

As at 31 December 2013

	Note	2013 \$000	2012 \$000
Equity			
Contributed equity	28(a)	1,571,307	1,571,307
Reserves	29	1,637	-
Retained Earnings		307,309	347,323
Parent Entity interest		1,880,253	1,918,630
Total equity		1,880,253	1,918,630

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 \$000	2012 \$000
Cash flows from operating activities			
Premiums received		4,278,114	3,872,492
Outwards reinsurance paid		(696,947)	(586,612)
Claims paid		(2,358,179)	(2,571,116)
Reinsurance and other recoveries received		305,558	617,914
Acquisition costs paid		(789,486)	(715,356)
Other expenses paid		(333,833)	(494,778)
Workers' compensation fees received		189,008	190,998
Income taxes paid		(136,873)	(57,153)
Interest received		255,869	289,228
Rent (expenses)/received net of outgoings		-	(13)
Dividends received		8,276	4,103
Net cash inflow from operating activities	33(b)	721,527	549,707
Cash flows from investing activities			
(Payments) for plant and equipment		(14,111)	(9,419)
(Payments)/proceeds from trading of investments		(112,442)	132,827
Proceeds for financing and leasing loans		206,886	5,045
Proceeds from sale of investment property		-	9,060
Payment for purchase of subsidiary net of cash acquired		1,363	(7,128)
Net cash inflow from investing activities		81,696	130,385
Cash flows from financing activities			
Dividends paid		(350,000)	(285,000)
Net cash (outflow) from financing activities		(350,000)	(285,000)
Net increase in cash and cash equivalents		453,223	395,092
Cash and cash equivalents at the beginning of the year		1,722,351	1,327,208
Effect of exchange rate changes on cash held in foreign currencies		(9,073)	51
Cash and cash equivalents at the end of the year	33(a)	2,166,501	1,722,351

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 14 to 61.

Notes to the Financial Statements

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Notes to the Financial Statements

For the year ended 31 December 2013

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. Allianz Australia Insurance Limited is a company domiciled in Australia. The Company, incorporated in Australia, is a wholly owned controlled entity of Allianz Australia Limited (the Parent Company), and the ultimate Parent Entity is Allianz SE, incorporated in Germany. The financial statements as at and for the year ended 31 December 2013 account for the financial results of Allianz Australia Insurance Limited as an individual entity.

Certain items have been reclassified from the Company's prior year financial statements to conform with the current year's presentation.

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

The Company's Registered Office is:
2 Market Street
Sydney, New South Wales

The general purpose financial statements were authorised by the Board of Directors for issue on the date of this report.

(a) Basis of preparation

(i) Statement of compliance

The financial statements are a general purpose report which has been prepared in accordance with Australian Accounting Standards ('AASBs'). The financial statements of the Company also comply with International Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board ('IASB').

(ii) Changes in accounting standards

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They were available for early adoption at 31 December 2013 and are mandatory as from 1 January 2015 but have not been applied in preparing this financial report but are expected to be adopted on 1 January 2015.

AASB 9 Financial Instruments (issued November 2009 for financial assets, subsequently amended in December 2010 for financial liabilities) – 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 AASB 139/IAS 39 (i.e. amortised cost and fair value through profit or loss) are retained. However, entities that designate 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). The Standard is not expected to have a material impact on the Company.

The following standards became mandatory as from 1 January 2013 and have been applied in preparing this financial report. These changes have not had a significant financial impact.

AASB 10 Consolidated Financial Statements
AASB 11 Joint Arrangements
AASB 12 Disclosure of Interests in Other Entities
AASB 13 Fair Value Measurement

(iii) Basis of measurement

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and certain non current assets. Assets backing insurance liabilities are treated under AASB 1023 *General Insurance Contracts* and are recorded at fair value with movements being reflected via profit or loss.

(iv) Critical accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 4 and 5.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(v) Principles of consolidation

The Company has elected not to prepare consolidated financial statements in accordance with AASB 127 Consolidated and Separate Financial Statements, paragraph 10. The parent company, Allianz Australia Limited, prepares consolidated financial statements that comply with International Financial Reporting Standards (IFRS).

(vi) Functional and presentation currency

These financial statements are presented in Australian dollars which is the Company's functional currency.

(b) Premium revenue recognition

Direct insurance and inwards reinsurance premiums comprise amounts charged to policyholders or other insurers and include fire service levies, but exclude stamp duties, 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 revenues

(i) 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 unearned portion of outwards reinsurance premium is included in the statement of financial position with other current assets.

(ii) Unearned interest

Unearned interest revenue is included within unearned income and within accounts payable and accrual.

(d) Investment revenue

Investment revenue includes interest from investments and is brought to account on an accruals basis.

(e) Claims expense and outstanding claims liabilities

Claims expense and the liability for outstanding claims are recognised in respect of direct insurance, discontinued insurance (run-off), including asbestos and inwards reinsurance business. The liability 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.

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 2012 and 2013 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 analyses of past numbers of claims and amounts of claim payments. 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.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Claims expense and outstanding claims liabilities (continued)

The details of the amount of risk margin applied and the process of determining the risk margin is set out in Note 25(b).

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 5.

(f) Receivables

Receivables include premiums receivable, unclosed premiums, finance loans and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at amounts due, except where collection is doubtful, when an impairment loss is recognised. Finance loans 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.

(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 assessed in a manner similar to the assessment of outstanding claims. 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) 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 measured by the Company at the lower of cost and recoverable amount. 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.

(i) Fire Brigade & other charges

A liability for fire brigade and other charges is recognised on business written to the reporting date. Levies and charges payable by the Company are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(j) Investments

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

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

(k) Acquisition of assets

The acquisition method of accounting is used for all acquisitions of assets (including business combinations), regardless of whether equity instruments or other assets are acquired. Consideration transferred is determined as the fair value of the assets given up at the date of acquisition. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions. Where goodwill arises, it is brought to account in the basis described in Note 1(p).

At 1 January 2013 the Company acquired the portfolio of the insurance business of Allianz New Zealand Limited for a consideration of \$450,000 in excess of book value. The acquisition did not have a material effect on these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Taxation

Income tax

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

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the differences will not reverse in the foreseeable future.

Tax on financial arrangements

From 1 January 2011 the Company has applied to investment purchases the default method of taxation as specified by the Tax on Financial Arrangements (TOFA) Regime.

Tax consolidation legislation

The Company is a wholly owned controlled entity of Allianz Australia Limited. Allianz Australia Limited, "the head entity", and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

The current tax expense or benefit, and deferred tax assets and liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group's approach' by reference to the carrying amounts in the separate financial statements of each entity and the tax values under tax consolidation.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with members of the tax-consolidated group, entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group with respect to tax amounts. The tax funding arrangements require payments to or from the head entity equal to the current liability or asset assumed by the head entity. The results in the head entity recognising an intercompany receivable or payable equal to the tax liability or asset assumed. The intercompany receivable or payable is at call.

Contributions to fund the current liabilities are payable as specified by the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the Australian Tax Office.

The head entity, in conjunction with members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities of the tax-consolidated group should the head entity default on its tax payment obligations.

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 Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are valued inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of current receivables and payables in the statement of financial position.

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

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Plant and equipment

Plant and equipment are initially stated at cost and depreciated to nil residual value as outlined below:

(i) Leasehold improvements

The cost of improvements to leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvements to the Company, whichever is the shorter. Leasehold improvements are being amortised between one and twenty years.

(ii) Fixtures and fittings

The cost of fixtures and fittings is depreciated over the estimated useful life of the assets to the Company. Fixtures and fittings are being depreciated between six and twenty years.

(iii) Other plant and equipment

Depreciation on other plant and equipment is calculated on a straight line basis so as to write off the new cost of each item of plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of plant and equipment range from two years to twenty years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(n) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the foreign branch operations of the Company are measured using the currency of the primary economic environment in which the foreign branch operates (the functional currency).

(ii) Transactions and balance

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 the income statement.

(iii) Foreign statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are transferred to Australian dollars at foreign exchange rates at the statement of financial position date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve.

(iv) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the foreign currency translation reserve. They are released into the Income Statement upon disposal.

(o) Accounts payable & accruals

These amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets

Goodwill represents the excess of the fair value of the consideration transferred, plus the recognised amount of any non-controlling interests, plus the fair value of any existing equity interest in the acquired entity, over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill on acquisitions of controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Refer to Note 23 for further details.

(q) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are not 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 Income Statement with other expenses.

(r) Cash

For the purposes of the statements of cash flow, 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 and bank accepted bills of exchange that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Note 33(b) provides a reconciliation of cash flows from operating activities.

(s) Derivatives

As part of its investment strategy, the Company has entered into transactions involving various derivative financial instruments to gain or reduce exposure to relevant markets and currencies as well as to manage certain risks.

These derivatives do not meet the strict criteria for hedge accounting and changes in fair value are recognised immediately in the income statement and are included in investment income or expenses.

(t) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(u) 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.

The Company has determined that all financial assets (except for investments in controlled entities) are held to back general insurance liabilities. This was determined on the basis of an analysis comparing the values of these assets to the insurance liabilities, factoring in the solvency requirements in the form of regulatory capital requirements set by APRA as well as surplus targets set internally by ultimate Parent Entity Allianz SE.

Accordingly, these assets are measured at fair value in the Statement of Financial Position.

The following policies apply to assets held to back general insurance liabilities.

Notes to the Financial Statements

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Assets backing general insurance liabilities (continued)

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 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, deposits at call with banks and investments in money market instruments, net of bank overdrafts.
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges 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 Income Statement.
- Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Gains and losses are brought to account in the Income Statement.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates equivalent to the yields obtainable on comparable investments at reporting date.

Loans and advances are initially recognised at fair value. They are subsequently valued at fair value less any impairment losses outstanding at each reporting date. The Company assesses at each reporting date whether there is any objective evidence of impairment of its loans and advances on an individual basis.

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 Company commits to buy or sell the asset.

Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

Amounts due from loans and advances are recognised at fair value less any impairment losses outstanding at each reporting date. At each reporting date, the Company assesses whether there is any objective evidence of impairment of its loans and advances on an individual basis.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Income Statement.

(v) 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.

(w) Investments in controlled entities

These investments are measured in the Statement of Financial Position at cost model, less impairment losses, if any.

Refer to Note 16.

(x) Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Notes to the Financial Statements

For the year ended 31 December 2013

2. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: operational risk, credit risk, liquidity risk and market risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Company's principal financial instruments, other than derivatives, comprise fixed income securities, floating rate notes, and 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 (refer to Note 18), 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 Company's exposure to operational risk, credit risk, liquidity risk and market risk are detailed below:

(a) Operational risk

The principal operational risk the Company 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 Company is to ensure that sufficient reserves are available to cover these liabilities.

The above 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 risks mitigation programme. Reinsurance ceded is placed on both a proportional and non proportional basis.

(b) 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.

Bills of exchange which have been purchased at a discount to face value are carried on the Statement of Financial Position at an amount less than the amount recognised at maturity. Please also refer to note 14(f) & 17(b).

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

Notes to the Financial Statements

For the year ended 31 December 2013

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ or below	Not Rated	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2013							
Cash at bank	-	1,246,381	5,139	15,000	-	-	1,266,520
Trade debtors	-	-	-	-	-	877,765	877,765
Finance and leasing loans	-	-	-	-	-	466,825	466,825
Other receivables	31,868	129,516	2,542	477	-	54,598	219,001
Reinsurance & other recoveries receivable	538,755	606,262	30,835	375	3,249	10,690	1,190,166
Unlisted investments	3,447,471	977,272	239,234	-	-	17,625	4,681,602
2012							
Cash at bank	-	1,167,679	1,440	15,000	-	-	1,184,119
Trade debtors	-	-	-	-	-	792,949	792,949
Finance and leasing loans	-	-	-	-	-	673,710	673,710
Other receivables	28,836	153,576	2,663	1,654	-	108,180	292,909
Reinsurance & other recoveries receivable	620,699	545,537	34,145	168	614	7,982	1,209,145
Unlisted investments	3,379,330	638,724	182,712	-	-	99,249	4,300,015

(c) 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 table below analyses the Company's financial liabilities and net settled derivative financial instruments 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.

	Note	1 year or Less \$000	1 to 3 Years \$000	3 to 5 Years \$000	Over 5 Years \$000	No Term \$000	Total \$000
2013							
Financial liabilities							
Accounts payable and accruals	24	453,474	-	-	-	-	453,474
Unearned premiums	26	2,283,601	-	-	-	-	2,283,601
Outstanding claims	25(a)	1,771,113	1,727,986	974,232	1,423,152	-	5,896,483
Option liability for purchase of subsidiary	27	7,406	-	35	20,815	-	28,256
2012							
Financial liabilities							
Accounts payable and accruals	24	370,339	-	-	-	-	370,339
Unearned premiums	26	2,064,071	-	-	-	-	2,064,071
Outstanding claims	25(a)	1,617,077	1,670,316	985,456	1,434,495	-	5,707,344
Option liability for purchase of subsidiary	27	16,913	-	35	16,992	-	33,940

Notes to the Financial Statements

For the year ended 31 December 2013

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

(i) Foreign Currency Risk

The Company's exposure to foreign currency risk is as a result of the foreign branch operations and the investment in financial instruments denominated in foreign currency, cash holdings and loans receivable denominated in foreign currencies and insurance assets and liabilities held in the New Zealand Branch denominated in New Zealand dollars.

The sensitivity analysis below in Note 2(d)(iv) summarises the impact of increases and decreases in foreign currency exposures on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the movement in foreign currencies has increased or decreased by 10% with all other variables held constant and all the equity instruments moved in line with the index.

A summary of receivables denominated in foreign currency is presented in Note 14(d).

(ii) Price risk

The Company is exposed to price risk on its equity portfolios. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets at fair value through profit or loss. A summary of equity investments is presented in Note 17.

The sensitivity analysis below in Note 2(d)(iv) summarises the impact of increases and decreases in the equity index on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased or decreased by 10% with all other variables held constant and all the equity instruments moved in line with the index.

The Company is not exposed to commodity price risk.

(iii) Interest rate risk

The exposure to interest rate risk is primarily a result of investments in fixed income securities. Fixed interest rate assets create exposure to interest rate risk which is market risk. Some part of the investment management mandate allow for the use of interest rate derivatives to manage interest rate exposures with the most commonly used instruments being interest rate swap agreements and futures.

To manage its interest rate risk arising from investments in fixed income investments, the Company sets duration limits and monitors performance regularly. A summary of fixed income securities is presented in Note 17.

The sensitivity analysis below (iv) summarises the impact of increases and 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 or decreased by 1% with all other variables held constant and all the equity instruments moved in line with the index.

Notes to the Financial Statements

For the year ended 31 December 2013

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Company's financial assets and financial liabilities to interest rate risk, foreign exchange risk and price risk.

		Interest rate risk		Foreign exchange risk		Price risk	
		-1%	1%	-10%	10%	-10%	10%
	Carrying Amount \$000	Profit/Equity \$000	Profit/Equity \$000	Profit/Equity \$000	Profit/Equity \$000	Profit/Equity \$000	Profit/Equity \$000
2013							
Financial Assets							
Cash at bank and in hand	1,266,520	(12,665)	12,665	10,024	(8,202)	-	-
Trade debtors	877,765	-	-	5,389	(4,410)	-	-
Finance and leasing loans	466,825	(4,668)	4,668	4,394	(3,595)	-	-
Other receivables	219,001	-	-	117	(96)	-	-
Investments in shares	35,842	-	-	-	-	(3,584)	3,584
Derivatives	76	572	(572)	-	-	-	-
Unlisted investments	4,681,602	164,935	(164,873)	1,957	(1,601)	-	-
Financial liabilities							
Accounts payable and accruals	(453,474)	-	-	(4,712)	3,856	-	-
Net financial assets	7,094,157	148,174	(148,112)	17,169	(14,048)	(3,584)	3,584
2012							
Financial Assets							
Cash at bank and in hand	1,184,119	(11,841)	11,841	584	(478)	-	-
Trade debtors	792,949	-	-	-	-	-	-
Finance and leasing loans	673,710	(6,737)	6,737	3,575	(2,925)	-	-
Other receivables	292,909	-	-	-	-	-	-
Investments in shares	24,893	-	-	-	-	(2,489)	2,489
Derivatives	357	4,620	(4,618)	-	-	-	-
Unlisted investments	4,300,015	162,276	(162,212)	-	-	-	-
Financial liabilities							
Accounts payable and accruals	(370,339)	-	-	-	-	-	-
Net financial assets	6,898,613	148,318	(148,252)	4,159	(3,403)	(2,489)	2,489

(e) Fair value estimation

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

The net 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.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at reporting date (refer also to Note 17). For non-traded equity investments, the net fair value is an assessment based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment (refer also to Note 17).

Notes to the Financial Statements

For the year ended 31 December 2013

3. CAPITAL MANAGEMENT

(a) Capital management strategy

In accordance with General Prudential Standard (GPS) 110 Capital Adequacy issued by APRA, the Company has in place an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP outlines the policies and procedures in place to manage and maintain an adequate level of capital in line with the risks accepted and the Company's risk appetite.

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 provides support in the face of adverse outcomes from insurance and other activities and investment performance.

The Company is registered with APRA and subject to 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 using the internal model based approach. The resultant capital requirement will be subject to a minimum of 90% of the capital required under the prescribed approach.

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 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.

(b) Regulatory capital compliance

The insurers within the Company have at all times during the years ended 31 December 2013 and 31 December 2012 complied with the externally imposed capital requirements.

	2013
Statutory Capital	\$000
Common Equity Tier 1 capital	
Ordinary Shares	1,571,307
Retained earnings	307,309
Disclosed reserves	1,637
Technical provision in excess of liability valuation (net of tax)	35,342
Regulatory adjustments for non allowable assets	(386,565)
Total Tier 1 capital	1,529,030
Tier 2 Capital	-
Total regulatory capital	1,529,030
Prescribed Capital Amount (PCA)	
Insurance risk	813,473
Insurance concentration risk charge	40,000
Diversified asset risk charge	345,818
Aggregation benefit	(216,405)
Operational risk charge	148,084
Adjustments to PCA as approved by APRA	(113,098)
Total PCA	1,017,882
PCA multiple	150%
CET1 multiple	150%

Notes to the Financial Statements

For the year ended 31 December 2013

3. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance (continued)

Prior to 1 January 2013 the Company was subject to different regulatory reporting requirements, including Minimum Capital Requirement (MCR) and a different capital base calculation. The Company was above its minimum capital requirements throughout this period. The comparative position at 31 December 2012 is provided below.

Statutory Capital	2012
Tier 1 capital	\$'000
<i>Fundamental tier 1 capital</i>	
Ordinary shares	1,571,307
Retained earnings	167,323
Technical provision in excess of liability valuation	56,782
<i>Deductions from tier 1</i>	
Goodwill	341,235
Reinsurance contracts that do not meet the reinsurance documentation test	814
Total tier 1 capital	1,453,363
Total statutory capital	1,453,363
Minimum capital requirement (MCR)	
Insurance risk	835,243
Investment risk	167,155
Catastrophe concentration risk	30,000
Total MCR	1,032,398
MCR multiple*	1.41

* The MCR excluding the APRA required disclosure of expected dividends of \$180,000,000 is 1.58.

Notes to the Financial Statements

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 5.

(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 similar to 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.

5. 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. There are 35 classes of business that are valued separately using a range of actuarial methods.

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
Householders
Commercial Property
Pleasure craft
Crop

Long-tail classes

New South Wales Compulsory Third Party
Queensland Compulsory Third Party
Underwritten Workers' Compensation
Run-off Workers' Compensation
Public and Products Liability
Professional Indemnity

The methods used for the estimation of the outstanding claims estimates vary across classes depending upon available data, format of the data, appropriateness of the method to that class of business and the underlying type of claims.

The methods can be summarised into the following groups of portfolios.

Notes to the Financial Statements

For the year ended 31 December 2013

5. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(a) 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 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 past pattern of claims development.

Typically, the methods applied do not make specific allowance for inflation but are included implicitly 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 from methods that are based on claim numbers and average claims sizes or based on an initial expected loss ratios.

The Company's exposure to latent claims, mostly asbestos related diseases, is limited to exposure written under workers compensation business, mostly in NSW and Victoria. While these exposures ceased in the mid 1980s, as a result of the nationalisation of these schemes, the long latency period for asbestos related diseases means that claims may still be reported for many years. The outstanding claims are estimated using an exposure model. This model makes an assumption regarding the level of past exposure to asbestos of the underlying portfolio of risks covered by the Company. A distribution of the latency of the relevant diseases is made based on published medical research. The combination of these two elements produces an estimate of the future reporting pattern for new claims. Average claim sizes are then determined based on historical levels.

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.

(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.

	2013 Short-Tail	2013 Long-Tail	2012 Short-Tail	2012 Long-Tail
Average weighted term to settlement (years)	0.67	3.33	0.60	3.75
Claims handling expenses	5.50%	5.50%	5.50%	5.50%
Discount rate	2.91%	3.67%	2.77%	3.14%
Inflation rate	N/A	4.5% p.a.	N/A	4.5% p.a.
Superimposed inflation rate	N/A	0%-10%	N/A	0%-10%

Notes to the Financial Statements

For the year ended 31 December 2013

5. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(c) 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

Claims handling expenses were calculated by reference to past experience of claims handling costs as a percentage of past payments.

(iii) Discount rate

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

(d) 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 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 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 an opposing impact on the discounted claims expense.
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 and superimposed inflation rate	Expected future payments are inflated to take account of 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 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.

Notes to the Financial Statements

For the year ended 31 December 2013

5. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(d) Sensitivity analysis – insurance contracts (continued)

(II) Impact of changes in key variables

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

2013

Variable	Movement in variable	Impact on	Impact on	Impact on	Impact on
		Profit/(Loss)	Profit/(Loss)	Equity	Equity
		before tax	before tax		
		\$000	\$000	\$000	\$000
		Gross of RI	Net of RI	Gross of RI	Net of RI
Short-tail					
Average weighted term to settlement	+0.5 year	16,316	6,843	11,421	4,790
	-0.5 year	(16,592)	(6,941)	(11,615)	(4,859)
Claims handling expenses	1%	(4,559)	(4,559)	(3,191)	(3,191)
	-1%	4,559	4,559	3,191	3,191
Discount rate	+1% p.a.	9,594	3,045	6,716	2,132
	-1% p.a.	(11,952)	(3,382)	(8,366)	(2,368)
Inflation rate	+1% p.a.	(12,218)	(3,444)	(8,552)	(2,411)
	-1% p.a.	10,033	3,166	7,023	2,216

2013

	Movement in variable	Impact on	Impact on	Impact on	Impact on
		Profit/(Loss)	Profit/(Loss)	Equity	Equity
		before tax	before tax		
		\$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	75,291	63,302	52,704	44,311
	-0.5 year	(76,654)	(64,453)	(53,658)	(45,117)
Claims handling expenses	1%	(33,581)	(33,581)	(23,507)	(23,507)
	-1%	33,581	33,581	23,507	23,507
Discount rate	+1% p.a.	136,420	114,880	95,494	80,416
	-1% p.a.	(148,246)	(124,741)	(103,772)	(87,318)
Inflation rate	+1% p.a.	(152,312)	(128,194)	(106,619)	(89,735)
	-1% p.a.	142,499	120,010	99,749	84,007
Superimposed Inflation	+1% p.a.	(152,312)	(128,194)	(106,619)	(89,735)
	-1% p.a.	142,499	120,010	99,749	84,007

Notes to the Financial Statements

For the year ended 31 December 2013

5. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(d) Sensitivity analysis – Insurance contracts (continued)

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

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

2012

Variable	Movement in variable	Impact on Profit/(Loss) before tax \$000 Gross of RI	Impact on Profit/(Loss) before tax \$000 Net of RI	Impact on Equity \$000 Gross of RI	Impact on Equity \$000 Net of RI
Short-tail					
Average weighted term to settlement	+0.5 year	14,001	5,752	9,801	4,026
	-0.5 year	(14,211)	(5,831)	(9,948)	(4,082)
Claims handling expenses	1%	(4,020)	(4,020)	(2,814)	(2,814)
	-1%	4,020	4,020	2,814	2,814
Discount rate	+1% p.a.	10,770	2,441	7,539	1,709
	-1% p.a.	(11,550)	(2,527)	(8,085)	(1,768)
Inflation rate	+1% p.a.	(11,790)	(2,571)	(8,253)	(1,800)
	-1% p.a.	11,189	2,532	7,833	1,772

2012

2012

	Movement in variable	Impact on Profit/(Loss) before tax \$000 Gross of RI	Impact on Profit/(Loss) before tax \$000 Net of RI	Impact on Equity \$000 Gross of RI	Impact on Equity \$000 Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	63,662	53,432	44,564	37,403
	-0.5 year	(64,651)	(54,265)	(45,256)	(37,986)
Claims Handling Expenses	1%	(32,983)	(32,983)	(23,088)	(23,088)
	-1%	32,983	32,983	23,088	23,088
Discount Rate	+1% p.a.	143,331	121,071	100,332	84,750
	-1% p. a.	(156,573)	(132,481)	(109,601)	(92,737)
Inflation Rate	+1% p.a.	(160,052)	(135,448)	(112,036)	(94,814)
	-1% p.a.	148,983	125,858	(104,288)	88,101
Superimposed Inflation	+1% p.a.	(160,052)	(135,448)	(112,036)	(94,814)
	-1% p.a.	148,983	125,858	104,288	88,101

Notes to the Financial Statements

For the year ended 31 December 2013

6. 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.

In accordance with GPS 220 *Risk Management* (GPS 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 System (REMS).

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, 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 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, subject to any limits or excesses, the policyholder against loss or damage to his or her own property, legal liability to others and 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 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.

Notes to the Financial Statements

For the year ended 31 December 2013

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

(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 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. 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 insurers 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.

	2013 \$000	2012 \$000
7. PREMIUM REVENUE		
Gross written premium	3,914,568	3,637,243
Gross earned premium revenue		
Direct	3,666,604	3,284,675
Inwards reinsurance	88,808	81,686
Total gross earned premium revenue	3,755,412	3,366,361
Outwards reinsurance expense	(688,097)	(643,639)
Net earned premium	3,067,315	2,722,722

Notes to the Financial Statements
For the year ended 31 December 2013

	2013 \$000	2012 \$000
8. INVESTMENT AND OTHER INCOME		
Investment Income		
Dividends	8,276	4,103
Interest	261,504	286,583
	269,780	290,686
Rentals (net of outgoings)		
Rental income	-	218
Operating expenses	-	(230)
	-	(12)
Changes in market value of investments		
Unrealised (losses)/gains	(108,801)	62,039
Realised (losses)/gains	(12,012)	9,095
	(120,813)	71,134
Investment expenses	(4,200)	(6,632)
Total investment income	144,767	355,176
Other income		
Finance revenue	82,390	71,213
Service fee revenue	189,008	190,998
Total other income	271,398	262,211

Notes to the Financial Statements

For the year ended 31 December 2013

9. NET CLAIMS INCURRED

	Note	Current year \$000	Prior years \$000	Total \$000
2013				
Gross claims incurred - undiscounted		3,019,941	(531,641)	2,488,300
Discount movement		(165,277)	82,045	(83,232)
Gross claims incurred - discounted		2,854,664	(449,596)	2,405,068
Reinsurance and other recoveries revenue - undiscounted		(639,601)	244,601	(395,000)
Discount movement		27,930	(17,770)	10,160
Reinsurance and other recoveries revenue discounted		(611,671)	226,831	(384,840)
Net claims incurred	25(d)	2,242,993	(222,765)	2,020,228
2012				
Gross claims incurred - undiscounted		2,762,823	(276,895)	2,485,928
Discount movement		(127,768)	158,261	30,493
Gross claims incurred - discounted		2,635,055	(118,634)	2,516,421
Reinsurance and other recoveries revenue - undiscounted		(623,588)	15,848	(607,740)
Discount movement		21,107	(17,767)	3,340
Reinsurance and other recoveries revenue discounted		(602,481)	(1,919)	(604,400)
Net claims incurred	25(d)	2,032,574	(120,553)	1,912,021

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 reassessment of the risks borne in all previous reporting periods.

On a net undiscounted basis there is a release of \$287,040,000 being \$25,993,000 higher than the release made in the previous year. This is made up of release of the central estimate and the release of risk margins as the prior years' central estimate run off. On a discounted basis the release becomes \$222,765,000 compared to \$120,553,000 made in the previous year.

10. PROFIT FOR THE YEAR BEFORE INCOME TAX EXPENSE

Profit before income tax is arrived at after (crediting)/charging the following specific items:

	2013 \$000	2012 \$000
Depreciation of plant and equipment	3,595	7,952
Amortisation of leasehold improvements	2,331	2,543
Loss on sale of plant and equipment	1,018	514
Trade debtors written off	751	550
Loan funds written off	6,929	933
Impairment (reversals)	(2,965)	(3,762)
Foreign exchange loss	(954)	101
Dividends received/receivable - unrelated corporations	(1,704)	(1,315)
Interest received/receivable - unrelated entities	(261,504)	(258,245)

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$000	2012 \$000
11. TAXATION		
(a) Income tax expense		
(i) Analysis of income tax expense		
Current tax	180,808	131,827
Deferred tax	(49,637)	20,248
Income tax expense attributable to profit from continuing operations	131,171	152,075
Deferred income tax (revenue)/expense included in income tax expense:		
(Increase)/decrease in deferred tax assets (Note 11(b))	(49,637)	20,248
(ii) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	441,157	509,705
Tax at the rate of 30% (2012: 30%)	132,347	152,912
Non allowable expenses	900	-
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Sundry items	(2,076)	(837)
Income tax expense	131,171	152,075
(b) Deferred tax assets/(liabilities)		
The balance comprises temporary differences attributable to:		
Impairment loss - receivables	1,873	2,630
Fixed assets	4,228	5,806
Claims administration expenses	56,999	56,148
Financial assets at fair value	(22,740)	(70,223)
New Zealand deferred acquisition costs	(3,170)	-
Other provisions not currently deductible	9,109	3,600
Net deferred tax assets/(liabilities)	46,299	(2,039)

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$000	2012 \$000
11. TAXATION (CONTINUED)		
(b) Deferred tax assets/(liabilities) (continued)		
Movements		
Opening balance at 1 January	(2,039)	19,429
Credited/charged to the income tax statement (note 11(a)(i))	49,637	(20,248)
Under provided in prior years	(1,299)	(1,220)
	46,299	(2,039)

(c) Current tax

The current tax liability for the Company is \$94,122,000 (2012: \$51,488,000). This liability is for the amount of taxes payable in respect of the current and prior periods.

As described in Note 1(l) the Company has, in relation to tax consolidation legislation, elected to adopt the stand alone option. Thus, each member within the tax consolidation Group assumes the current tax liability (asset) applicable to that entity.

12. DIVIDENDS

(a) Dividend franking account

With effect from 1 January 2004, Allianz Australia Limited and its Australian controlled entities (including Allianz Australia Insurance Limited) became a Consolidated Group for income tax purposes.

As a member of the Consolidated Group for income tax purposes, the Company does not operate a dividend franking account. The dividend franking account is held by the head entity, Allianz Australia Limited.

(b) Dividends paid during the year

	<u>Cents per Share</u>	<u>Total Amount</u> \$000	<u>Date Paid</u>
Final 2012 Ordinary Dividend	6.219	180,000	1 March 2013
Interim 2013 Ordinary Dividend	2.419	70,000	28 June 2013
Interim 2013 Ordinary Dividend	3.455	100,000	30 November 2013

Notes to the Financial Statements

For the year ended 31 December 2013

12. DIVIDENDS (CONTINUED)

(c) Dividends not recognised at year end

Since the end of the reporting period the Directors have declared the following dividend:

	<u>Cents per Share</u>	<u>Total Amount</u> <u>\$000</u>
Final 2013 Ordinary dividend	4.146	120,000

The financial effect of the final 2013 dividend has not been brought to account in the financial statements for the year ended 31 December 2013 and will be recognised in the financial statements for 2014.

13. CASH AND CASH EQUIVALENTS

	Note	2013 \$000	2012 \$000
Cash at bank and short term deposits	33(a)	1,266,520	1,184,119

14. RECEIVABLES

(a) Current

Trade debtors (refer (i) below)			
Premiums receivable		667,669	618,880
Unclosed premiums		139,808	132,036
Reinsurance debtors		74,873	49,583
		882,350	800,499
Less: Impairment losses		(4,585)	(7,550)
		877,765	792,949
Finance loans (refer (ii) below)		485,121	691,179
Less: Unearned income		(17,079)	(16,252)
		468,042	674,927
Less: Impairment losses		(1,217)	(1,217)
		466,825	673,710
Outstanding settlements - investments		-	150
Other receivables		92,378	113,256
Amounts due from related corporations (refer (b) below)	32(f)	126,623	179,503
		219,001	292,809
Total receivables - current		1,563,591	1,759,568

Notes to the Financial Statements

For the year ended 31 December 2013

14. RECEIVABLES (CONTINUED)

(a) Current (continued)

Receivables are carried at amounts that are not materially different to fair value, except where collection is doubtful and an impairment loss is recognised.

- (i) Trade debtors – premiums receivable are unsecured. Where collection of a trade debtor is doubtful, a provision for impairment is recognised. For further details of unclosed premiums, refer Note 1(b).
- (ii) Hunter Premium Funding Limited provides finance to external parties for insurance premiums and statutory charges. Allianz Finance Pty Limited provides funding to external parties for working capital purposes. These loans, shown as finance, are carried at their recoverable amount with due allowance made for impairment losses. As at reporting date, the average term to maturity of these loans is 11 months (2012: 11 months) after reporting date and the average interest rate applicable is 18.61% (2012: 18.62%). Interest is brought to account in the period it is earned. In cases where interest has been received in advance, any amounts not yet earned are included in unearned income.

(b) Amounts due from related corporations

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

(c) Ageing of receivables

As at 31 December 2013 receivables of the Company with a nominal value of \$5,802,000 (2012: \$8,767,000) were impaired. The amount of the provision for impairment was \$5,802,000 (2012: \$8,767,000).

The ageing of these receivables is as follow:

	2013 \$000	2012 \$000
0 to 3 months	5,506	8,557
3 to 6 months	185	80
over 6 months	111	130
	5,802	8,767

As at 31 December 2013, receivables of the Company with a value of \$9,667,000 (2012: \$14,296,000) were past due but not impaired. The ageing analysis of these receivables is as follows:

0 to 3 months	8,755	11,948
3 to 6 months	829	2,052
Over 6 months	83	296
	9,667	14,296

Movements in the provision for impairment of receivables are as follows:

Opening balance at 1 January	8,767	12,529
Provision for impairment recognised during the year	25	-
Receivables written off during the year as uncollectible	-	(1,018)
Unused amount reversed	(2,990)	(2,744)
	5,802	8,767

Notes to the Financial Statements

For the year ended 31 December 2013

14. RECEIVABLES (CONTINUED)

(c) Ageing of receivables (continued)

The creation and release of the provision for impaired receivables has been included in other expenses in the income statement. Amounts charged to the provision account are written off when there is no expectation of recovering debt.

The other classes within receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(d) Foreign currency and interest rate risk

	2013 \$000	2012 \$000
Australian Dollar	1,524,047	1,727,397
New Zealand Dollar	39,544	32,171
	1,563,591	1,759,568

A summarised analysis of the sensitivity of receivables to foreign exchange and interest rate risk can be found in Note 2.

(e) Fair values

The carrying values and fair values of receivables at reporting date are:

	Carrying Amount		Net Fair Value	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Premiums receivable	664,555	615,791	664,555	615,791
Unclosed premiums	139,808	132,036	139,808	132,036
Reinsurance debtors	73,402	45,123	73,402	45,123
Finance and leasing loans	466,825	673,710	466,825	673,710
Outstanding settlements - investments	-	150	-	150
Other receivables	219,001	292,758	219,001	292,758
	1,563,591	1,759,568	1,563,591	1,759,568

A summarised analysis of the sensitivity of receivables to foreign exchange and interest rate risk can be found in Note 2(d)(iv).

(f) Credit risk

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables mentioned above. The Company holds Letters of Credit amounting to \$216,687,000 (2012: \$131,222,000) and a security deposit of \$33,368,000 (2012: \$11,496,000) as security for amounts due from reinsurance debtors and reinsurance recoveries receivable. Refer to note 2 for more information on the risk a management policy of the Company.

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$000	2012 \$000
15. REINSURANCE AND OTHER RECOVERIES RECEIVABLE		
Expected future recoveries (undiscounted)	1,319,183	1,324,336
Discount to present value (see [i] below)	(129,017)	(115,191)
Reinsurance and other recoveries receivable (after impairment losses)	1,190,166	1,209,145
Comprising:		
Current	485,906	513,674
Non-current	704,260	695,471
Reinsurance and other recoveries receivable	1,190,166	1,209,145

[i] Inflation, discount rates and expected term to settlement are set out in Note 5.

16. INVESTMENTS IN CONTROLLED ENTITIES

Investments in controlled entities at fair value through the profit and loss account*	96,916	98,279
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* Methods and assumptions applied in determining the fair value of each class of assets is disclosed in Note 2.

Notes to the Financial Statements

For the year ended 31 December 2013

16. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Investments in controlled entities at fair value through the profit and loss account (continued)

Controlled Entities	Activity	Country of Incorporation	Equity Holding	Investments at cost	
				2013 \$000	2012 \$000
Allianz Australia Advantage Ltd	Non-trading	Australia	100%	-	-
Allianz Australia Workers' Compensation (NSW) Ltd	Insurance Fund Manager	Australia	100%	500	500
Allianz Australia Workers' Compensation (VIC) Ltd	Insurance Fund Manager	Australia	100%	4,234	4,234
Allianz Australia Workers' Compensation (SA) Ltd [1]	Non Trading	Australia	100%	-	500
Allianz Australia Claim Services Ltd	Non Trading	Australia	100%	6,991	6,991
Club Marine Limited [2]	Insurance Agency	Australia	100%	2,182	2,182
Hunter Premium Funding Ltd	Insurance Premium Funding	Australia	100%	-	-
Allianz Finance Pty Ltd	Non Trading	Australia	100%	-	-
FAI Allianz Limited	Non Trading	Australia	100%	-	-
CIC Allianz Insurance Ltd	Insurance	Australia	100%	9,642	9,642
Global Transport and Automotive Insurance Solutions Pty Ltd [3]	Insurance Agency	Australia	73.1%	33,578	34,441
Primacy Holdings Pty Limited [6]	Holding Company	Australia	100%	16,966	16,966
Primacy Underwriting Management Pty Ltd [7]	Insurance Agency	Australia	100%	-	-
Primacy Underwriting Management Ltd [8]	Insurance Agency	New Zealand	100%	-	-
ACN 092 738 997 Pty Ltd [9]	Non Trading	Australia	100%	13,681	13,681
Ken Tame and Associates Pty Ltd [4]	Insurance Agency	Australia	69%	9,042	9,042
Allianz Marine and Transit Underwriting Agency Pty Ltd [5]	Insurance Agency	Australia	65%	100	100
Total				96,916	98,279

Group structure:

[1] Allianz Workers Compensation (SA) Pty Ltd was deregistered on 11 December 2013

[2] Club Marine Limited was purchased from Allianz Australia Limited at net book value on 30 November 2012

There is an option to purchase the following:

[3] The 7.9% share in Global Transport and Automotive Insurance Solutions Pty Ltd which became effective from May 2011 and this option was revalued at 31 December 2013. A further 19% share becomes effective in January 2019 and will be valid for 3 years from that date

[4] The 31% share in Ken Tame and Associates Pty Ltd which becomes effective in December 2020 and will be valid for 2 years and 6 months from that date

[5] The 35% share in Allianz Marine and Transit Underwriting Agency Pty Ltd which becomes effective in January 2017 and will be valid for 5 years from that date

Name changes:

[6] Primacy Holdings Pty Limited was formerly known as Agricola Holdings Pty Limited

[7] Primacy Underwriting Management Pty Limited was formerly known as Agricola Underwriting Management Pty Limited

[8] Primacy Underwriting Management Limited was formerly known as Agricola Underwriting Management Limited

[9] ACN 092 738 997 Limited was formerly known as Primacy Underwriting Agency Pty Limited

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$000	2012 \$000
17. FINANCIAL ASSETS		
(a) Financial assets at fair value through the profit and loss account		
(i) Current at fair value through the profit and loss account		
Listed investments at market value:		
Shares in unrelated entities	35,842	24,893
Unlisted investments at market value:		
Bills of exchange and floating rate notes	899,981	538,232
Fixed interest securities	23,050	46,416
Bank issued government backed bonds	-	118,326
Total financial assets at fair value through the profit and loss account - current	958,873	727,867
(ii) Non-Current at fair value through the profit and loss account		
Unlisted investments at market value:		
Mortgage backed securities	185,429	162,091
Fixed interest securities	304,507	243,919
Bank issued government backed bonds	-	185,007
National and semi-government bonds	3,281,010	2,998,399
Loans and other	125	126
Shares in unrelated entities	7,500	7,500
Total financial assets at fair value through profit and loss - non-current	3,758,571	3,597,041
Total financial assets at fair value through profit and loss	4,717,444	4,324,908

Notes to the Financial Statements

For the year ended 31 December 2013

17. FINANCIAL ASSETS (CONTINUED)

(b) Credit risk

The following disclosures relate to both current and non-current financial assets.

- (i) Bills of exchange and floating rate notes are generally subject to credit risk in the event of default by the acceptor. The bills have a face value of \$902,000,000 (2012: \$516,000,000) and mature at various dates up to 9 years (2012: 5 years) following reporting date. The weighted average interest rate is 2.83% (2012: 3.2%).
- (ii) Discounted securities and other fixed interest securities are generally subject to credit risk in the event of default by the issuer. Issuers of the securities held include banks, government utilities and other corporations. The securities have a face value of \$315,500,000 (2012: \$398,650,000) and mature at various dates up to 10 years following reporting date (2012: 8 years). The weighted average interest rate is 5.91% (2012: 6.04%).
- (iii) National and semi-government bonds, particularly those issued by the Commonwealth of Australia and the New Zealand Government, are generally considered by financial markets to be relatively risk free as they are subject to credit risk only in the event of default by the issuer. The total face value of these bonds is \$3,065,780,000 (2012: \$2,696,680,000) and they mature at various dates over 16 years (2012: 17 years) following reporting date. The weighted average interest rate is 5.91% (2012: 5.58%).
- (iv) Bank issued bonds backed by the Commonwealth of Australia are generally considered by financial markets to be relatively risk free as they are subject to credit risk only in the event of default by the issuer. There were no bonds held at 31 December 2013 which were backed by the Commonwealth of Australia. The face value of these bonds as at 31 December 2012 was \$299,500,000 and they were to mature at various dates over 3 years following reporting date. The weighted average interest rate was 4.55%.
- (v) Mortgage backed securities, loans and other securities are subject to credit risk in the event of default by the issuers who comprise securitisers and other corporations. The face value of these securities is \$620,200,000 (2012: \$686,200,000) and they mature at various dates over 32 years (2012: 32 years) following reporting date. The weighted average interest rate is 3.86 % (2012: 4.29%).

(c) Foreign currency risk

The Company's exposure to foreign currency risk on financial assets is limited to that on New Zealand Government securities denominated in New Zealand dollars which at 31 December 2013 had a fair value of \$ 17,609,719 (2012: Nil).

(d) Fair values

The carrying values and valuation of financial assets at reporting date are as follows:

	Carrying Amount		Net Fair Value	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Bills of exchange and floating rate notes	899,981	538,232	899,981	538,232
Investment in shares	43,467	32,518	43,467	32,518
Other investments	3,773,996	3,754,158	3,773,996	3,754,158
	4,717,444	4,324,908	4,717,444	4,324,908

For an analysis of the sensitivity of financial assets at fair value through profit or loss to foreign exchange and price risk refer to Note 2.

Notes to the Financial Statements

For the year ended 31 December 2013

17. FINANCIAL ASSETS (CONTINUED)

(a) Determination of fair value hierarchy

The table below analyses financial instruments carried at fair value 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).

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
2013				
Financial assets				
Derivative financial instruments:				
Other market related contracts	-	76	-	76
Financial assets designated at fair value through profit or loss:				
Equity securities	35,842	7,625	-	43,467
Government bonds	-	3,261,010	-	3,261,010
Corporate bonds	-	1,412,967	-	1,412,967
Total financial assets	35,842	4,681,678	-	4,717,520

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
2012				
Financial assets				
Derivative financial instruments:				
Other market related contracts	-	357	-	357
Financial assets designated at fair value through profit or loss:				
Equity securities	24,893	7,625	-	32,518
Government bonds	-	2,998,399	-	2,998,399
Corporate bonds	-	1,293,991	-	1,293,991
Total financial assets	24,893	4,300,372	-	4,325,265

Notes to the Financial Statements

For the year ended 31 December 2013

17. FINANCIAL ASSETS (CONTINUED)

(e) Determination of fair value hierarchy (continued)

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.

Transfers between Level 1, 2 and 3

During the years ended 31 December 2012 and 31 December 2013 there have been no transfers from Level 1 to Level 2, no transfers from Level 2 to Level 1 and no Level 3 financial instruments were held.

	2013 \$000	2012 \$000
18. DERIVATIVE FINANCIAL INSTRUMENTS		
Current assets		
Other market related contracts - bond futures	76	357

(a) Derivative financial instruments

As part of its investment strategy, the Company may enter into transactions involving various derivative financial instruments to gain or reduce exposure to relevant markets and currencies as well as to manage certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in the specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or other variable.

Derivative instruments require no initial net investment or an initial net investment that is smaller than would be required for physical contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions may include a wide assortment of instruments, such as forward currency contracts, futures, options and interest rate swaps. Derivatives are considered part of the investment process. The use of derivatives is an essential part of the Company's investment portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multi-faceted and may include:

- Hedging to protect assets of the Company against fluctuations in market value or to reduce volatility.
- A substitution for trading of physical securities.
- Adjusting asset exposures within the parameters set in the investment strategies and adjusting the duration of fixed interest portfolios or the weighted average maturity of the cash portfolio.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio.

Notes to the Financial Statements

For the year ended 31 December 2013

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Instruments used by the Company

The Company may hold the following derivative instruments:

(i) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are settled daily with the exchange.

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

Foreign exchange futures are contractual obligations to receive or pay a net amount based on changes in exchange rates at a future date at a specified price, established in an organised financial market.

(ii) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Company are 'over the counter' (OTC) style instruments.

(iii) Forward foreign exchange contracts

Forward foreign exchange contracts are primarily used by the Company to hedge against foreign currency exchange rate risks on its non-Australian Dollar denominated trading securities. The Company agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of the reporting period. The Company recognises a gain or loss equal to the change in fair value at the end of the reporting period.

(iv) Swaps

A swap is an agreement between two parties to exchange their obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period. The fair value of swaps is the estimated amount that the entity would receive or pay to terminate the swap at the Statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The Company invests in various types of swaps including interest rate swaps, total return swaps and credit default swaps.

(c) Outstanding notional contracts on derivatives are as follows:

	Notional Contract	Fair Value	
		Assets	Liabilities
	\$000	\$000	\$000
2013			
Other market related contracts - bond futures	6,820	76	-
2012			
Other market related contracts - bond futures	59,193	357	-

(d) Interest rate and foreign exchange risk

For an analysis of the sensitivity of derivatives to interest rate and foreign exchange risk refer to Note 2.

Notes to the Financial Statements

For the year ended 31 December 2013

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk

Credit risk is the risk that a counterparty to a transaction will fail to perform its obligations under the contract, either at maturity, or at any time prior to maturity. Credit risk arises on derivative instruments with unrealised gains. At end of the reporting period \$76,000 is receivable by the Company from derivative instruments (2012: \$357,000).

The Company is exposed to credit risk on purchased derivatives to the extent of their carrying amount, which is their fair value.

19. INVESTMENT PROPERTIES

	2013 \$000	2012 \$000
Balance at 1 January	-	8,965
Sales	-	(8,965)
Balance at 31 December	-	-

20. DEFERRED ACQUISITION COSTS

(a) Deferred acquisition costs at 1 January	403,255	329,353
Acquisition of New Zealand portfolio	3,800	-
Acquisition costs deferred	745,989	676,379
Amortisation charged to income	(698,957)	(613,938)
Release of premium deficiency prior year	10,075	21,536
Release of New Zealand premium deficiency prior year	7,485	-
Write down for premium deficiency current year	(18,000)	(10,075)
Total at 31 December	453,647	403,255
 (b) Current year deficiency recognised in the income statement	 (18,000)	 (10,075)

Notes to the Financial Statements

For the year ended 31 December 2013

20. DEFERRED ACQUISITION COSTS (CONTINUED)

		\$000	\$000	\$000
(c)	Calculation of deficiency	2013	Commercial New Zealand	Total
	Unearned premium liability relating to insurance contracts issued	402,257	48,732	450,989
	Related reinsurance asset	(32,274)	(4,158)	(36,432)
	Related deferred acquisition costs	(83,593)	(14,083)	(97,676)
		286,390	30,491	316,881
	Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts issued	260,090	30,554	290,644
	Risk Margin	41,228	3,009	44,237
		301,318	33,563	334,881
	Total deficiency recognised in the income statement	14,928	3,072	18,000

	Calculation of deficiency	2012		
	Unearned premium liability relating to insurance contracts issued	392,466	-	392,466
	Related reinsurance asset	(33,924)	-	(33,924)
	Related deferred acquisition costs	(79,261)	-	(79,261)
		279,281	-	279,281
	Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts issued	252,467	-	252,467
	Risk margin	36,889	-	36,889
		289,356	-	289,356
	Total deficiency recognised in the income statement	10,075	-	10,075

For the purposes of the Liability Adequacy Test, the present value of the expected future cash flows of future claims including the risk margin for the Company is \$1,450,200,000 (2012: \$1,314,500,000) comprising the discounted central estimate of \$1,286,400,000 (2012: \$1,164,800,000) and a risk margin of \$163,800,000 (2012: \$149,700,000) with an overall probability of adequacy for the outstanding claims liability of 75% (2012: 75%).

	Note	2013 \$000	2012 \$000
21. OTHER CURRENT ASSETS			
(a)			
Prepayments		94,923	100,946
Reinsurance on unearned premium	21(b)	212,498	162,320
Total other current assets		307,421	263,266
(b)			
Reinsurance on unearned premium at 1 January		162,320	166,994
Acquisition of New Zealand portfolio		10,736	-
Deferral of ceded premiums on contracts written in the period		726,488	638,965
Expense of ceded premiums on contracts written in current and prior periods		(688,097)	(643,639)
Foreign currency exchange difference		1,051	-
Reinsurance on unearned premium as at 31 December		212,498	162,320

Notes to the Financial Statements

For the year ended 31 December 2013

22. PLANT AND EQUIPMENT

	Office, computer & other equipment	Leasehold Improvements	Total
Cost	\$000	\$000	\$000
Balance at 1 January 2012	54,887	34,217	89,104
Additions	8,755	538	9,293
Disposals	(716)	-	(716)
Balance at 31 December 2012	62,926	34,755	97,681
Additions	25,693	760	26,453
Disposals	(19,171)	(3,375)	(22,546)
Balance at 31 December 2013	69,448	32,140	101,588
Amortisation & impairment losses			
Balance at 1 January 2012	30,296	23,931	54,227
Additions	8,273	2,543	10,816
Disposals	(321)	-	(321)
Balance at 31 December 2012	38,248	26,474	64,722
Additions	9,550	2,331	11,881
Disposals	(5,954)	(3,225)	(9,179)
Balance at 31 December 2013	41,844	25,580	67,424
Carrying amount at 2012	24,678	8,281	32,959
Carrying amount at 2013	27,604	6,560	34,164

Notes to the Financial Statements

For the year ended 31 December 2013

23. INTANGIBLE ASSETS

Goodwill

	2013	2012
Cost	\$000	\$000
Balance at 1 January	325,000	325,000
Balance at 31 December	325,000	325,000
Amortisation & Impairment losses		
Balance at 1 January	47,427	47,427
Balance at 31 December	47,427	47,427
Carrying amount 31 December	277,573	277,573

Impairment tests for cash generating units containing goodwill

The value of the goodwill pertains to the acquisition of a new and renewal book of business in 2001. Goodwill is assessed annually for impairment.

The value of the acquisition of the book of renewal rights includes rights to the use of relevant brands. The portfolios purchased in 2001 enabled the Company to significantly increase its scale in a number of classes and involved the physical transfer of a large number of staff to continue to manage the business. The approach to valuing this portfolio has been to consider the value of the policies transferred as well as future policies written following the increase in scale and use of brands.

This business represents a significant portion of the business of the company and is currently profitable and is expected to be profitable into the future.

Notes to the Financial Statements

For the year ended 31 December 2013

23. INTANGIBLE ASSETS (CONTINUED)

Impairment tests for cash generating units containing goodwill (continued)

An estimate of the value of the goodwill of the acquisition of the renewal rights has been carried out by the Appointed Actuary. The methodology and assumptions approved by the Appointed Actuary are outlined below:

For the acquisition of the renewal rights the methodology used has been to project the performance of this business, split by class of business (cash generating units), taking into account the recent experience, management forecast for three years and expected long term profitability.

The recoverable amounts of the cash generating units are based on the value in use methodology.

The approach for this valuation is to:

- Discount the profit for the business to 31 December 2013.
- Discount the projected incremental capital requirements for the business each year into the future. The opening capital is treated as a capital injection.
- The opening balance of the outstanding claims and unearned premiums is included in the estimate as these represent the liabilities accumulated so far from the acquisition.
- The value of the asset is the difference between the present value of the future profits and the present value of capital injections.
- The projections are based on 3 year management forecasts, with subsequent cash flow projections extrapolated using the actuarial assumptions set out below.
- The required rate of return used is 7.5% after tax (2012: 7.5% after tax).
- The capital allocated is on the same basis as the current pricing basis.
- The discount rate used is 3.5% (2012: 3%).
- The growth rate used is 3.0% (2012: 3.0%).
- Investment income return of 3.5% for technical reserves (2012: 3.0%) and 3.5% for shareholders' funds (2012: 3.0%).

The outcome of these projections is that the values are significantly above the carrying values in the accounts. Sensitivity of the calculated values has been investigated by varying the key assumptions. None of the scenarios presented a value below the carrying value.

Thus the goodwill balance is recoverable and not impaired.

24. ACCOUNTS PAYABLE AND ACCRUALS

	2013 \$000	2012 \$000
Current		
Accounts payable and accruals	232,951	188,226
Amounts due to reinsurers	220,523	182,113
	453,474	370,339

Current accounts payable and borrowings are unsecured and are usually paid within 30 days of recognition.

For analysis of the sensitivity of accounts payable and accrual to foreign currency risk refer to Note 2.

Notes to the Financial Statements

For the year ended 31 December 2013

25. OUTSTANDING CLAIMS

	2013 \$000	2012 \$000
(a) Outstanding claims liability		
Expected future claims payments (undiscounted) – central estimate	5,523,038	5,344,952
Risk margin applied (undiscounted)	373,445	362,392
Discount to present value - central estimate	(635,569)	(553,352)
Discount to present value - risk margin	(46,803)	(41,070)
Outstanding claims liability	5,214,111	5,112,922
Current	1,755,248	1,697,490
Non-current	3,458,863	3,415,432
Outstanding claims liability	5,214,111	5,112,922

(b) 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.

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

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

	2013 %	2012 %
Risk Margins applied:		
Short-tail classes	2.7	2.7
Long-tail classes	9.7	9.8
Overall margin	8.8	9.0

(c) Actuarial assumptions

Refer to Note 5 for information on the various actuarial assumptions underlying the determination of outstanding claims liability.

(d) Net claims incurred

Direct	1,949,098	1,835,731
Inwards reinsurance business	71,130	76,290
Net claims incurred	2,020,228	1,912,021

Notes to the Financial Statements

For the year ended 31 December 2013

25. OUTSTANDING CLAIMS (CONTINUED)

(e) Reconciliation of movement in discounted outstanding claims liability

	2013			2012		
	Gross \$000	Reinsurance \$000	Net \$000	Gross \$000	Reinsurance \$000	Net \$000
Balance as at 1 January	5,112,922	(1,209,145)	3,903,777	5,028,953	(1,215,899)	3,813,054
Acquisition of New Zealand portfolio	206,546	(174,565)	31,981	-	-	-
Current year claims incurred	2,854,666	(611,670)	2,242,996	2,635,056	(602,482)	2,032,574
Change in previous years' claims	(449,597)	226,831	(222,766)	(118,635)	(1,918)	(120,553)
Current year claims paid/RI recovered	(1,172,427)	223,562	(948,865)	(1,037,421)	239,362	(798,059)
Previous year claims paid/RI recovered	(1,365,895)	375,041	(990,854)	(1,382,714)	358,328	(1,024,386)
Policies in force pre discount adjustment	(1,871)	1,886	15	(21,316)	13,190	(8,126)
Claims covered by warranty	2,379	-	2,379	9,143	389	9,532
External portion of joint venture claims costs	(213)	(105)	(318)	(144)	(115)	(259)
Foreign currency exchange difference	27,601	(22,001)	5,600	-	-	-
Outstanding claims liability	5,214,111	(1,190,166)	4,023,945	5,112,922	(1,209,145)	3,903,777

(f) Claims development table

The following table shows the development of gross and net discounted outstanding claims relative to the ultimate expected claims for the five most recent underwriting years; the claims relating to the New Zealand portfolio acquired on 1 January 2013 have been allocated to the original underwriting years.

(i) Gross

Accident year	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Estimated cumulative claims:											
End of accident year	5,432,032	911,833	911,144	890,943	902,443	928,270	917,453	984,762	1,069,793	1,180,867	-
One year later	5,168,789	842,239	852,790	930,502	809,098	878,047	857,794	946,792	1,059,500	-	-
Two years later	5,162,260	818,109	930,502	828,069	834,137	812,948	804,528	894,505	-	-	-
Three years later	4,897,026	738,346	828,069	744,143	793,893	833,862	774,887	-	-	-	-
Four years later	4,813,950	707,205	744,143	672,043	766,627	789,803	-	-	-	-	-
Five years later	4,689,907	654,452	672,043	633,110	716,781	-	-	-	-	-	-
Six years later	4,610,626	648,835	633,110	615,667	-	-	-	-	-	-	-
Seven years later	4,528,146	635,199	626,979	-	-	-	-	-	-	-	-
Eight Years later	4,636,314	628,332	-	-	-	-	-	-	-	-	-
Nine Years later	4,595,526	-	-	-	-	-	-	-	-	-	-
Estimate of cumulative claims	4,595,526	628,332	626,979	615,667	716,781	789,803	774,887	894,505	1,059,500	1,180,867	11,862,847
Cumulative payments	3,941,986	573,484	529,288	520,660	525,092	502,925	398,723	312,344	192,946	66,198	7,563,646
Claims outstanding - undiscounted	653,540	54,848	97,691	95,007	191,689	286,878	376,164	582,161	866,554	1,114,669	4,319,201
Effect of discounting	163,376	5,839	9,706	10,353	19,756	29,436	38,231	60,483	91,366	139,156	567,702
Claims outstanding - discounted	490,164	49,009	87,985	84,654	171,933	257,442	337,933	521,678	775,188	975,513	3,751,499
Short-tail classes	-	-	-	-	-	-	-	-	-	-	943,209
Risk margins - discounted	-	-	-	-	-	-	-	-	-	-	326,642
Claims handling expenses	-	-	-	-	-	-	-	-	-	-	192,761
Total gross outstanding claims	490,164	49,009	87,985	84,654	171,933	257,442	337,933	521,678	775,188	975,513	5,214,111

Notes to the Financial Statements

For the year ended 31 December 2013

25. OUTSTANDING CLAIMS (CONTINUED)

(f) Claims development table (continued)

(ii) Net

Accident year	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000

Estimate of cumulative claims:

End of accident year	4,246,243	7,499,579	789,083	775,325	746,298	768,449	780,480	835,205	892,315	983,948	-
One year later	4,140,883	659,841	735,865	763,105	751,949	727,625	714,354	795,045	888,791	-	-
Two years later	4,146,997	681,776	700,918	681,576	678,524	661,400	685,984	757,484	-	-	-
Three years later	3,977,718	617,536	662,375	610,790	647,549	662,196	667,141	-	-	-	-
Four years later	3,950,941	613,645	621,315	649,561	640,430	627,713	-	-	-	-	-
Five years later	3,814,014	674,474	599,498	529,190	626,551	-	-	-	-	-	-
Six years later	3,772,791	568,226	582,391	513,524	-	-	-	-	-	-	-
Seven years later	3,757,051	555,715	562,596	-	-	-	-	-	-	-	-
Eight Years later	3,887,178	549,076	-	-	-	-	-	-	-	-	-
Nine Years later	3,862,234	-	-	-	-	-	-	-	-	-	-
Estimate of cumulative claims	3,862,234	549,076	562,596	513,524	626,551	627,713	667,141	757,484	888,791	983,948	10,039,058
Cumulative payments	3,321,030	502,484	480,309	432,828	470,234	426,864	359,091	276,513	178,406	63,484	6,511,243
Claims outstanding - undiscounted	541,204	46,592	82,287	80,696	156,317	200,849	308,050	480,971	710,385	920,464	3,527,815
Effect of discounting	134,383	5,054	8,319	9,094	16,615	20,663	32,040	51,138	76,581	113,500	467,387
Claims outstanding - discounted	406,821	41,538	73,968	71,602	139,702	180,186	276,010	429,833	633,804	806,964	3,060,428
Short-tail classes	-	-	-	-	-	-	-	-	-	-	444,114
Risk margins - discounted	-	-	-	-	-	-	-	-	-	-	326,642
Claims handling expenses	-	-	-	-	-	-	-	-	-	-	192,761
Total net outstanding claims	406,821	41,538	73,968	71,602	139,702	180,186	276,010	429,833	633,804	806,964	4,023,945

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$000	2012 \$000
26. UNEARNED PREMIUM LIABILITY		
Unearned premium liability as at 1 January	2,064,071	1,793,189
Acquisition of New Zealand portfolio	53,437	-
Deferral of premiums on contracts written in the period	3,914,568	3,637,243
Earning of premiums written in current and previous periods	(3,755,412)	(3,366,361)
Foreign currency exchange difference	6,937	-
Unearned premium liability as at 31 December	2,283,601	2,064,071

27. FINANCIAL LIABILITIES

Financial liability for purchase of non-controlling interests in subsidiaries

(a) Current	7,406	16,913
(b) Non-current	20,850	17,027

The financial liability for purchase of non-controlling interests in subsidiaries includes the following:

- 1) 7.9% share in Global Transport and Automotive Insurance Solutions Pty Ltd became effective May 2011 and was revalued at 31 December 2013. A further 19% share becomes effective in January 2019 and will be valid for 3 years from that date.
- 2) 31% interest in Ken Tame & Associates Pty Ltd. This agreement becomes effective in December 2020 and will be valid for 2 years and 6 months from that date.
- 3) 35% interest in Allianz Marine & Transit Underwriting Agency Pty Ltd. This agreement becomes effective in January 2017 and will be valid for 5 years from that date.

28. CONTRIBUTED EQUITY
(a) Issued capital and paid up share capital

2,894,292 ordinary shares fully paid (2012: 2,894,292 ordinary shares).	1,571,307	1,571,307
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Notes to the Financial Statements

For the year ended 31 December 2013

28. CONTRIBUTED EQUITY (CONTINUED)

(b) Movements in the ordinary share capital of the Company during the year were as follows:

Date	Details	Number of Shares	Paid-up Capital \$000
1 January 2013	Opening balance	2,894,292	1,571,307
31 December 2013	Closing balance	2,894,292	1,571,307

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidation.

29. RESERVES

	2013 \$000	2012 \$000
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(a) Composition

Foreign currency translation reserve	1,637	-
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(b) Movements during the year

Foreign currency translation reserve

Opening balance	-	-
Adjustment arising from the translation of overseas entities' financial statements	1,637	-
Closing balance	1,637	-

Nature and purpose of reserves

Foreign Currency Reserve

The foreign currency translation reserve records the foreign exchange differences arising from the translation of the financial statements of foreign operations. Refer to accounting policy Note 1(n).

	\$	\$
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30. AUDITOR'S REMUNERATION

Audit of the financial statements	574,000	522,000
Other regulatory and assurance services	659,800	616,800
	1,233,800	1,138,800

Notes to the Financial Statements

For the year ended 31 December 2013

31. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Directors:

J.S. Curtis
C.B. Booth
B. Bovermann
R.A.F. England
P.M. Mann
K.M. McKenzie
N.C. Peiris
T.R. Towell
R.J. Webster

Non-Directors:

D. Hosking (Chief Financial Officer)
P. Kernaghan (Chief Market Manager)
D. Krawitz (Chief Operating Officer)
J. Poole (CGM – Sales and Distribution)
G. Townsend (Chief GM) (resigned 31 December 2013)
T. Dawson (GM Human Resources)
R. Feledy (Chief Technical Officer)
H. Silver (CGM – Workers' Compensation) (appointed 16 September 2013)
S. Coles (Chief Information Officer)
N. Scofield (GM – Corporate Affairs)
B Watters (CEO New Zealand)

(a) Transactions with key management personnel

	2013	2012
	\$	\$
The key management personnel compensation included in the income statement are as follows:		
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel	14,165,140	8,168,606
Short term employee benefits	7,278,439	6,009,222
Long term employee benefits	4,109,320	-
Post employment benefits	187,754	144,232
Share-based payments	2,589,627	2,015,152

Remuneration for staff is paid by Allianz Australia Services Pty Limited, a subsidiary of Allianz Australia Limited, and recharged to relevant Group companies in accordance with a service agreement based on estimated time spent.

(b) Loans and other transactions with key management personnel

Refer to Note 32 for related party transactions concerning Directors.

With regards to non-Director key management personnel, entities within the Company sold insurance during the period within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees.

Notes to the Financial Statements

For the year ended 31 December 2013

32. RELATED PARTY TRANSACTIONS

(a) 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, N.C. Peirls, T.R. Towell, C.B. Booth, B. Bovermann (as alternate Director for C.B. Booth), R.A.F. England, P.M. Mann, K.M. McKenzie and R.J. Webster.

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 Company sold insurance to Directors of the Company and their Director-related entities during the period within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees.

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.

	2013	2012
(c)	\$000	\$000
Management fees paid to/(from):		
Allianz Australia Services Pty Limited	554,816	494,460
PIMCO Australia Pty Limited	2,038	1,868
Allianz Australia Life Insurance Limited	(852)	(1,143)
Profit Share owing to Allianz Australia Partnership Services Limited	1,840	3,466

Notes to the Financial Statements

For the year ended 31 December 2013

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) The Company 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 Company paid the following commissions to related parties during the year:

- \$21,907,160 to Club Marine Limited (2012: \$21,081,576).
- \$2,441,803 to Euler Hermes Trade Credit Underwriting Agents Pty Limited (2012: \$2,239,751).
- \$317,943 to Euler Hermes Trade Credit Limited (2012: \$503,259).
- \$16,860,993 to CIC Allianz Insurance Limited (2012: \$16,636,510).
- \$5,743,509 to Primacy Underwriting Management Pty Limited (formerly Agricola Underwriting Management Pty Limited) (2012: \$4,897,325).
- \$1,029,526 to Primacy Underwriting Management Limited (formerly Agricola Underwriting Management Limited) (2012: \$935,091).
- \$5,353,360 to ACN 092 738 997 Pty Limited (formerly Primacy Underwriting Agency Pty Limited) (2012: \$3,927,156).
- \$40,647,316 to Global Transport & Automotive Insurance Solutions Pty Limited (2012: \$34,669,003).
- \$6,375,155 to Allianz Marine & Transit Underwriting Agency Pty Limited (2012: 3,408,448).
- \$3,489,983 to Ken Tame & Associates Pty Limited (2012: \$3,256,772).

The Company also received commission income from Euler Hermes Kreditversicherungs – AG, Germany of \$5,936,779 (2012: \$5,285,206).

(e) During the year the Company entered into reinsurance transactions with related parties within the Allianz SE Group. The following transactions were recorded through the Income Statement:

	2013 \$000	2012 \$000
Reinsurance premiums ceded	586,249	547,157
Reinsurance claims recovered	265,066	79,286
Commissions received	121,071	106,335
Net amounts due from Allianz SE Group related parties	547,326	397,677

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

ACN 092 738 997 Pty Limited	37,175	21,358
Allianz Finance Pty Limited	(16,156)	12,752
Allianz Australia Limited	(48,154)	(46,009)
Allianz Australia Life Insurance Limited	(399)	3,509
Allianz New Zealand Limited	(16,375)	38,789
Allianz Marine & Transit Pty Limited	(2,037)	(2,068)
Allianz Marine Partnership Services Pty Limited	(15,227)	(8,763)
Allianz Australia Services Pty Limited	151,961	122,988
CIC Allianz Insurance Limited	(43,903)	(38,584)
Club Marine Limited	(3,063)	10,813
Euler Hermes Australia Pty Limited	(85)	-
Global Transport & Automotive Insurance Solutions Pty Limited	48,068	43,841
Ken Tame & Associates Pty Limited	1,654	4,401
Primacy Holdings Pty Limited	9,177	9,977
Primacy Underwriting Management Pty Limited	22,124	6,499
Primacy Underwriting Management Limited (NZ)	1,863	-
Net amount due from related parties	126,623	179,503

Notes to the Financial Statements

For the year ended 31 December 2013

33. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		2013 \$000	2012 \$000
(a) Cash reconciliation			
Cash at bank	13	1,266,520	1,184,119
Bank accepted bills of exchange, floating rate notes and bank issued government backed bonds	17(d)	899,981	538,232
		2,166,501	1,722,351
(b) Reconciliation of Profit after Income Tax to Net Cash Inflows from Operating Activities			
Profit for the year		309,986	357,630
Non-cash Movements:			
Net exchange difference		9,599	(84)
Depreciation and amortisation		11,887	10,823
Impairment (recoveries)		(2,965)	(3,762)
Unrealised loss/(gain) on revaluation		108,801	(62,039)
Loss on disposal of plant and equipment		1,019	514
Increase in premium debtors		(58,732)	(90,908)
Increase in unearned premium		219,530	270,882
(Increase) in reinsurance and other recoveries		(19,933)	(58,845)
(Increase) in deferred acquisition costs		(50,392)	(73,902)
(Increase)/decrease in reinsurance and other recoveries receivable		(6,311)	5,786
(Increase)/decrease in deferred tax assets		(48,336)	21,468
Increase in income tax provision		42,634	73,454
Realised gain/(loss) on investments		12,012	(9,095)
Increase in creditors, borrowings and amounts owed to related companies		124,913	32,600
(Increase) in other operating assets		(44,156)	(15,244)
Increase in outstanding claims		101,189	83,968
Decrease in prepayments		10,782	6,461
Net cash inflow from operating activities		721,527	549,707

34. OPERATING LEASES

The Company has a contract for naming rights to a building at a cost of \$2 million per year with annual CPI increases and an option to renew on similar terms.

35. CONTINGENT LIABILITIES

The Company is 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.

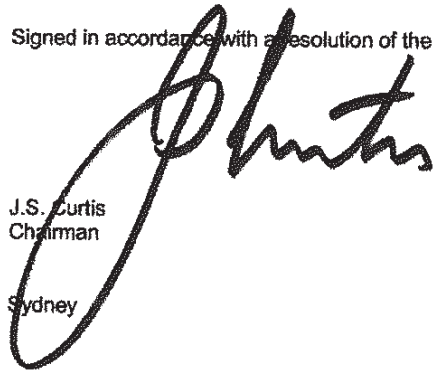
The Directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

Directors' Declaration

In the opinion of the Directors of Allianz Australia Insurance Limited (the Company):

- (a) The financial statements and notes, set out on pages 6 to 61, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (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
Chairman

Sydney

7 March 2014



Independent auditor's report to the members of Allianz Australia Insurance Limited

Report on the financial report

We have audited the accompanying financial report of Allianz Australia Insurance Limited (the Company), which comprises the statement of financial position as at 31 December 2013, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(a) (i), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.



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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Allianz Australia Insurance Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a) (i).

KPMG

KPMG

Scott Guse
Partner

Sydney
7 March 2014