

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

Financial Statements for year ended
31 December 2015

Directors' Declaration

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

- (a) The financial statements and notes, set out on pages 2 to 36, are in accordance with the Financial Reporting Act 2013, including:
 - (i) fairly presenting Allianz Australia Insurance Limited- New Zealand Branch's ("the NZ Branch") financial position as at 31 December 2015 and of its performance for the financial year ended on that date; and
 - (ii) complying with New Zealand generally accepted accounting practice; and
- (b) there are reasonable grounds to believe that the NZ Branch will be able to pay its debts as and when they become due and payable.
- (c) The Directors draw attention to Note 1 to the financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



J.S. Curtis
Director

Sydney



N.C. Peiris
Director

16 March 2016

Company Directory

As at 31 December 2015

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

Directors' Information

The Directors present their report together with the financial statements of Allianz Australia Insurance Limited – New Zealand Branch ("the NZ Branch") for the year ended 31 December 2015 and the auditor's report thereon. The NZ Branch is the New Zealand branch of the Australian company, Allianz Australia Insurance Limited ("the Company").

Directors

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

J.S. Curtis

Appointed a non-executive director on 7 June 2002. Chairman of Allianz Australia Limited and Allianz Australia Investment Committee, member of the Human Resources and Remuneration Committee, the Audit Committee and the Risk Committee.

A.G. Theis

Appointed a non-executive director on 1 September 2015. Currently a member of the Allianz Australia Investment Committee, the Human Resources & Remuneration Committee, the Audit Committee and the Risk Committee. Member of the Board of Management for Allianz SE. Global Insurance Lines & Anglo Markets. 29 years experience in the insurance industry.

M. Diekmann

Appointed a non-executive director on 1 January 2015. Currently a member of the Allianz Australia Investment Committee, the Human Resources & Remuneration Committee, the Audit Committee and the Risk Committee. Formerly Chairman of the Board of Management of Allianz SE. 28 years experience in the insurance industry.

B. Bovermann

Appointed a non-executive director on 29 May 2006 as alternate for C.B. Booth and resigned on 31 December 2014. Appointed as non-executive director on 19 January 2015 as alternate for M. Diekmann and an alternate member of the Allianz Australia Investment Committee, the Human Resources & Remuneration Committee, the Audit Committee and the Risk Committee. Appointed on 3 September 2015 as non executive director alternate for A.G. Theis. 28 years experience in the insurance industry.

P.M. Mann

Appointed a non-executive director on 1 November 2013. Currently the Chair of the Audit Committee and the Risk Committee and a member of the Allianz Australia Investment Committee. Currently a non-executive director of Perpetual Superannuation Limited, Ridley Corporation Limited and Event Hospitality & Entertainment Limited. Previously a partner at KPMG, specialising in forensic accounting.

K.M. McKenzie

Appointed a non-executive director on 1 January 2012. Currently the Chair of the Human Resources & Remuneration Committee and a member of the Allianz Australia Investment Committee. Currently the Chief Operations Officer with Telstra.

N.C. Peiris

Appointed an executive director of Allianz Australia Limited and Managing Director on 1 January 2013. Currently a member of the Allianz Australia Investment Committee and a standing invitee of the Human Resources & Remuneration Committee, the Audit Committee and the Risk Committee. 27 years experience in the insurance industry. Previously with Coopers & Lybrand and Bird Cameron.

Directors' Report (continued)

T.R. Towell

Appointed a non-executive director on 1 July 2013. Currently a member of the Allianz Australia Investment Committee, the Audit Committee and the Risk Committee. Over 40 years experience in the insurance industry, including as Managing Director of Allianz Australia Limited until he retired on 1 January 2013.

Shareholders

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

Bankers

Westpac

Auditors

KPMG
10 Shelley Street
Sydney
Australia

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
PREMIUM REVENUE			
Premium revenue	8	173,394	161,308
Outward reinsurance expense	8	(79,328)	(73,861)
Total premium revenue		94,066	87,447
UNDERWRITING EXPENSES			
Claims expense			
Claims expense	10	(94,225)	(94,133)
Reinsurance and other recoveries revenue	10	28,081	41,809
Total claims expense	10	(66,144)	(52,324)
Other underwriting expenses			
Acquisition costs		(22,580)	(21,217)
Other underwriting expenses		(6,423)	(6,765)
Total other underwriting expenses		(29,003)	(27,982)
Underwriting result		(1,081)	7,141
Other income and expenses			
Investment & other income	9	5,379	3,366
Other expenses		(478)	(637)
Total other income and expenses		4,901	2,729
Profit before income tax		3,820	9,870
Income tax expense	11(a)	(1,070)	(2,860)
Profit after income tax		2,750	7,010
Profit for the year		2,750	7,010
Total comprehensive income for the year attributable to Head Office		2,750	7,010

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 9 to 36.

Statement of Changes in Head Office Account

For the year ended 31 December 2015

	2015 \$000	2014 \$000
At 1 January	19,110	12,100
Profit for the year	2,750	7,010
Total comprehensive income attributable to Head Office	2,750	7,010
At 31 December	21,860	19,110

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 9 to 36.

Statement of Financial Position

As at 31 December 2015

	Note	2015 \$000	2014 \$000
Current assets			
Cash & cash equivalents	20	86,749	126,387
Receivables	12	61,349	50,521
Reinsurance and other recoveries receivable		48,678	94,451
Deferred acquisition costs	14	13,233	13,223
Deferred reinsurance premiums		22,587	19,902
Total current assets		232,596	304,484
Non-current assets			
Reinsurance and other recoveries receivable		17,488	14,104
Financial assets at fair value through profit and loss	13(a)	23,389	18,629
Total non-current assets		40,877	32,733
Total assets		273,473	337,217
Current liabilities			
Outstanding claims	15(a)	90,207	131,010
Unearned premium liability	16	73,296	74,957
Accounts payable and accruals		52,093	86,958
Total current liabilities		215,596	292,925
Non-current liabilities			
Outstanding claims	15(a)	32,320	21,495
Deferred tax liability	11(a)(iii)	3,697	3,687
Total non-current liabilities		36,017	25,182
Total liabilities		251,613	318,107
Net assets		21,860	19,110
Total head office account		21,860	19,110
Total head office account and liabilities		273,473	337,217

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 36.

Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
Cash flows from operating activities			
Premiums received		202,046	197,882
Outwards reinsurance paid		(94,315)	(88,774)
Claims paid		(142,833)	(132,093)
Reinsurance and other recoveries received		78,299	84,251
Acquisition costs paid		(29,013)	(29,560)
Intercompany amounts (paid)/received		(33,711)	24,308
Payments to reinsurers		(427)	(14,732)
Other amounts (paid)		(19,243)	(6,092)
Income taxes paid		(1,060)	(2,410)
Interest received		4,525	3,703
Other income received		1,000	-
Net cash (outflow)/ inflow from operating activities	20(b)	(34,732)	36,483
Cash flows from investing activities			
(Payments)/proceeds from trading investments		(4,906)	176
Net cash (outflow)/inflow from investing activities		(4,906)	176
Net (decrease)/increase in cash		(39,638)	36,659
Cash at the beginning of the year		126,387	89,728
Cash at the end of the year		86,749	126,387

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 36.

Notes to the Financial Statements

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Notes to the Financial Statements

For the year ended 31 December 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements as at and for the year ended 31 December 2015 account for the financial results of the NZ Branch as an individual entity. The address of the NZ Branch's office in New Zealand is Level 11, Tower 1, 205 Queen's street, Auckland 1010, New Zealand.

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

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

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

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

The general purpose financial statements were authorised by the Board of Directors for issue on 16 March 2016.

(a) Basis of Preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial reporting Standards ("NZ IFRS") and other applicable financial reporting standards appropriate for profit oriented entities. The NZ Branch has prepared its financial statements for the year ended 31 December 2015 on the basis of full disclosure under NZ IFRS. As a result of being a licensed insurer, the company is deemed to be Financial Market Conduct representing entity under the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Financial Market Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010. They also comply with the International Financial Reporting Standards ("IFRS").

(ii) Changes in accounting standards

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

NZ IFRS 9 *Financial Instruments* (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. This Standard will be mandatory from 1 January 2018 and is expected to be adopted on that date.

Currently, the classification criteria for financial liabilities contained in NZ IFRS 39/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).

(iii) Basis of measurement

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (continued)

(iv) Rounding

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

(v) Reporting period

The reporting period is from 1 January 2015 to 31 December 2015.

(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 judgement or complexity, or in areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 7. 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.

(b) Premium revenue recognition

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

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

(c) 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 deferred portion of outwards reinsurance premium is treated at the statement of financial position date as an asset.

(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 Note 1(j) below)

(e) Claims

The liability for outstanding claims covers claims reported but not yet paid, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

IBNRs and settlement costs are calculated using statistics based on past experience and trends.

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 2015 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 and expectations of future experience. The estimates include allowance for IBNR claims and for anticipated future inflation of claim costs, with an additional risk margin to allow for inherent uncertainty in the central estimates.

Notes to the Financial Statements

For the year ended 31 December 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Claims (continued)

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

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

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

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

(f) Receivables

Receivables include premiums receivable, unclosed premiums and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at fair value, except where collection is doubtful, 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, 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 profit or loss and other 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.

(j) Investments

All assets backing insurance liabilities are to be recorded at fair value with movements being recognised in the statement of profit or loss and other comprehensive income. Purchases and sales of financial assets are accounted for at settlement.

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

(k) Taxation

Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on the national income tax rate in New Zealand. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either the accounting profit or loss or taxable profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Taxation (continued)

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

(l) 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 profit or loss and other comprehensive income.

(m) Assets backing general insurance liabilities

As part of its investment strategy, the NZ 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 NZ Branch has determined that all financial assets 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 Australian Prudential Regulation Authority 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 statement of profit or loss and other comprehensive income.

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

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amount of cash assets and bank overdrafts approximate their fair values. For the purpose of the statement of cash flows, cash includes cash on hand and deposits at call with banks, net of bank overdrafts.
- Investment in Government bonds are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the instrument at the statement of financial position date. Gains and losses are brought to account in the statement of profit or loss and other comprehensive income.
- All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention (regular way transactions) are recognised at trade date, being the date on which the NZ Branch commits to buy or sell the asset.

Notes to the Financial Statements

For the year ended 31 December 2015

2. CORPORATE GOVERNANCE STATEMENT

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

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

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

The Company has four Board appointed committees, these being;

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

The Board approves a number of policies, including:

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

There are currently eight Directors on the Board. The non executive Directors are J.S. Curtis (Chairman), K.M. McKenzie, P.M. Mann, M. Diekmann, B. Bovermann (as alternate for M. Diekmann & A.G. Theis), A.G. Theis and T.R. Towell. 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 2015

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

(a) Operational risk

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

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

Separate formal policies have been established and adopted in respect of strategic risk, reputation risk and compliance risk.

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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
2015						
Cash	-	86,749	-	-	-	86,749
Receivables	-	11,940	-	-	49,409	61,349
Reinsurance and other recoveries receivable	-	62,847	1,030	-	2,289	66,166
Financial assets at fair value through profit and loss	-	23,389	-	-	-	23,389
2014						
Cash	-	126,387	-	-	-	126,387
Receivables	-	8,503	668	-	41,350	50,521
Reinsurance & other recoveries receivable	-	98,940	6,397	332	2,886	108,555
Financial assets at fair value through profit and loss	-	18,629	-	-	-	18,629

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

	Maturing in:				Total
	1 year or less \$000	1 to 3 years \$000	3 to 5 years \$000	Over 5 years \$000	\$000
As at 31 December 2015					
Outstanding claims	90,886	28,123	3,416	2,890	125,315
Unearned premiums	73,296	-	-	-	73,296
Accounts payable and accruals	52,093	-	-	-	52,093
Total Financial Liabilities	216,275	28,123	3,416	2,890	250,704

As at 31 December 2014					
Outstanding claims	132,243	17,900	3,431	2,085	155,659
Unearned premiums	74,957	-	-	-	74,957
Accounts payable and accruals	86,958	-	-	-	86,958
Total Financial Liabilities	294,158	17,900	3,431	2,085	317,574

Notes to the Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

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

(i) Foreign currency risk exposures

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

(ii) Price risk

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

(iii) Interest rate risk

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

(iv) Summarised sensitivity analysis

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

		Interest rate risk	
		-1%	1%
	Carrying Amount \$000	Profit/Head Office Account \$000	Profit/Head Office Account \$000
2015			
Financial Assets			
Cash	86,749	(624)	624
Government bonds	23,389	147	(147)
Total Financial Assets	110,138	(477)	477
2014			
Cash	126,387	(910)	910
Government bonds	18,629	13	(13)
Total Financial Assets	145,016	(897)	897

(e) Fair value estimation

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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 ("RBNZ"). The company, Allianz Australia Insurance Limited was granted a license in 1 January 2013 by the RBNZ as required by the Insurance (Prudential Supervision) Act 2010.

The NZ Branch is regulated by the RBNZ. The entity has been granted exemptions from lodgement of half year interim financial statements and half 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 and Parent Company's returns submitted to the Australian Prudential Regulation Authority.

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

From 1 January 2013 regulatory capital for the Company has been determined 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-.

(b) Regulatory Capital Compliance

The entity's reporting obligations to the RBNZ have been satisfied by submissions to the RBNZ of the Company's APRA returns, in addition to submission to the RBNZ of the Parent Company's APRA returns. Set out below is the Company APRA prescribed capital amount as at 31 December 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory Capital Compliance (continued)

	2015 AUD \$000	2015 NZD \$000
Statutory Capital		
Common Equity Tier 1 capital		
Ordinary Shares	1,571,307	1,669,969
Retained earnings	709,613	754,170
Disclosed reserves	3,181	3,380
Technical provision in excess of liability valuation (net of tax)	65,778	69,908
Regulatory adjustments for non allowable assets	(538,337)	(572,139)
Total Tier 1 capital	1,811,542	1,925,288
Tier 2 Capital	-	-
Total regulatory capital	1,811,542	1,925,288
Prescribed Capital Amount (PCA)		
Insurance risk	954,532	1,014,467
Insurance concentration risk charge	106,280	112,953
Diversified asset risk charge	399,258	424,327
Aggregation benefit	(254,191)	(270,152)
Operational risk charge	174,438	185,391
Adjustments to PCA as approved by APRA	(49,630)	(52,745)
Total PCA	1,330,687	1,414,241
PCA multiple	1.36	1.36
CET1 multiple	1.36	1.36
	2014 AUD \$000	2014 NZD \$000
Statutory Capital		
Common Equity Tier 1 capital		
Ordinary Shares	1,571,307	1,645,221
Retained earnings	475,393	497,755
Disclosed reserves	3,802	3,981
Technical provision in excess of liability valuation (net of tax)	41,809	43,776
Regulatory adjustments for non allowable assets	(345,013)	(361,242)
Total Tier 1 capital	1,747,298	1,829,491
Tier 2 Capital	-	-
Total regulatory capital	1,747,298	1,829,491
Prescribed Capital Amount (PCA)		
Insurance risk	884,012	925,596
Insurance concentration risk charge	73,693	77,160
Diversified asset risk charge	371,701	389,186
Aggregation benefit	(234,987)	(246,041)
Operational risk charge	160,146	167,679
Adjustments to PCA as approved by APRA	(37,813)	(39,591)
Total PCA	1,216,752	1,273,989
PCA multiple	1.44	1.44
CET1 multiple	1.44	1.44

Notes to the Financial Statements

For the year ended 31 December 2015

5. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

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

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

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

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

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

(b) Terms and conditions of insurance contracts

Insurance indemnifies, 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.

(c) Concentration of insurance risks

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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

(d) Interest rate risk

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

(e) Credit risk

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

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

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

6. ACTUARIAL ASSUMPTIONS AND METHODS

(a) Actuarial information

Jonathan Perkins of Allianz Australia is the Appointed Actuary for the Company and the NZ Branch. He is a fellow of the Society of Actuaries of New Zealand. The outstanding claims reserve disclosed have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 4.1 "Valuations of General Insurance Claims". The effective date of the Appointed Actuary's advice is 31 December 2015.

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 2015 are outlined below.

(b) Actuarial methods

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

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

Short-tail classes

Domestic Motor Vehicle
Commercial Motor Vehicle
Householders
Commercial Property
Pleasure craft
Aviation
Consumer credit

Long-tail classes

Public and products liability
Professional indemnity

Notes to the Financial Statements

For the year ended 31 December 2015

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(b) Actuarial methods (continued)

(i) Short-tail classes

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

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

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

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

(ii) Long-tail classes

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

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

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

(c) Actuarial assumptions

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

	2015 Short-Tail	2015 Long-Tail	2014 Short-Tail	2014 Long-Tail
Average weighted term to settlement (years)	0.66	1.49	0.41	1.41
Claims handling expenses	6.00%	6.00%	6.00%	6.00%
Discount rate	2.67%	2.88%	3.46%	3.56%
Inflation rate	2.50%	3.50%	2.50%	3.50%
Superimposed inflation rate	N/A	N/A	N/A	N/A

Notes to the Financial Statements

For the year ended 31 December 2015

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(d) Process used to determine assumptions

(i) Average weighted term to settlement

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

(ii) Claims handling expenses

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 New Zealand portfolios respectively.

(iv) Inflation rate

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

(v) Superimposed inflation

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

(e) Sensitivity analysis – insurance contracts

(i) Summary

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

(ii) Impact of changes in key variables

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

2015					
	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000 Gross	\$000 Net	\$000 Gross	\$000 Net
Short-tail					
Average weighted term to settlement	+0.5 year	1,269	604	914	435
	-0.5 year	(1,286)	(612)	(926)	(441)
Claims handling expenses	1%	(436)	(436)	(314)	(314)
	-1%	436	436	314	314
Discount rate	+1% p.a.	584	293	421	211
	-1% p. a.	(599)	(301)	(431)	(217)
Inflation rate	+1% p.a.	(608)	(306)	(438)	(221)
	-1% p.a.	267	303	193	219
Long-tail					
	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000 Gross	\$000 Net	\$000 Gross	\$000 Net
Average weighted term to settlement	+0.5 year	238	95	171	68
	-0.5 year	(241)	(96)	(174)	(69)
Claims handling expenses	1%	(63)	(63)	(46)	(46)
	-1%	63	63	46	46
Discount rate	+1% p.a.	326	95	235	69
	-1% p. a.	(345)	(100)	(249)	(72)
Inflation rate	+1% p.a.	(352)	(102)	(254)	(73)
	-1% p.a.	117	99	84	71
Superimposed inflation	+1% p.a.	(352)	(102)	(254)	(73)
	-1% p.a.	117	99	84	71

Notes to the Financial Statements

For the year ended 31 December 2015

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

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

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

2014					
	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000	\$000	\$000	\$000
		Gross	Net	Gross	Net
Short-tail					
Average weighted term to settlement	+0.5 year	2,171	598	1,563	423
	-0.5 year	(2,208)	(598)	(1,590)	(430)
Claims handling expenses	1%	(329)	(329)	(237)	(237)
	-1%	329	329	237	237
Discount rate	+1% p.a.	528	137	380	98
	-1% p. a.	(539)	(140)	(388)	(101)
Inflation rate	+1% p.a.	(1,175)	(305)	(846)	(220)
	-1% p.a.	(55)	(15)	(39)	(11)
	Movement in variable	Impact on Profit/(Loss) before tax	Impact on Profit/(Loss) before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000	\$000	\$000	\$000
		Gross of RI	Net of RI	Gross of RI	Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	292	124	210	89
	-0.5 year	(297)	(126)	(214)	(91)
Claims Handling Expenses	1%	(67)	(67)	(48)	(48)
	-1%	67	67	48	48
Discount Rate	+1% p.a.	267	95	192	68
	-1% p. a.	(282)	(99)	(203)	(71)
Inflation Rate	+1% p.a.	(652)	(231)	(469)	(167)
	-1% p.a.	(53)	(21)	(38)	(15)
Superimposed Inflation	+1% p.a.	(652)	(231)	(469)	(167)
	-1% p.a.	(53)	(21)	(38)	(15)

(f) Risk margin

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

Notes to the Financial Statements

For the year ended 31 December 2015

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(f) Risk margin (continued)

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

	2015 %	2014 %
Risk Margins applied:		
Short-tail classes	5.0	4.5
Long-tail classes	5.0	4.5
Overall margin	5.0	4.5

7. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Gross outstanding claims provisions

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

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

A risk margin is added to the outstanding claims provision to increase the probability that the net liability is adequately provided to a sufficiency level deemed appropriate by the Directors, being 75%.

Outstanding claims are calculated gross of reinsurance and other recoveries. A separate estimate is made of the amounts that are recoverable from reinsurers and other third parties under insurance contracts.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 6.

(b) Reinsurance and other recoveries receivable

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

	2015 \$000	2014 \$000
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8. PREMIUM REVENUE

Gross written premium	171,733	167,445
Gross earned premium revenue	173,394	161,308
Outwards reinsurance expense	(79,328)	(73,861)
Net earned premium	94,066	87,447

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For the year ended 31 December 2015

	2015 \$000	2014 \$000
9. INVESTMENT INCOME		
Interest on government bonds	836	1110
Other interest	3,689	2,593
Unrealised losses on investments	(297)	(513)
Realised gains on investments	151	176
Other income	1,000	-
Total investment and other income	5,379	3,366

10. NET CLAIMS INCURRED

	Current year \$000	Prior years \$000	Total \$000
2015			
Gross claims incurred - undiscounted	(110,704)	16,846	(93,858)
Discount movement	1,146	(1,513)	(367)
Gross claims incurred - discounted	(109,558)	15,333	(94,225)
Reinsurance and other recoveries revenue - undiscounted	38,858	(11,350)	27,508
Discount movement	(464)	1,037	573
Reinsurance and other recoveries revenue discounted	38,394	(10,313)	28,081
Net claims incurred	(71,164)	5,020	(66,144)
2014			
Gross claims incurred - undiscounted	(99,751)	7,434	(92,317)
Discount movement	1,386	(3,202)	(1,816)
Gross claims incurred - discounted	(98,365)	4,232	(94,133)
Reinsurance and other recoveries revenue - undiscounted	43,242	(3,168)	40,074
Discount movement	(992)	2,727	1,735
Reinsurance and other recoveries revenue discounted	42,250	(441)	41,809
Net claims incurred	(56,115)	3,791	(52,324)

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. The 2015 and 2014 undiscounted prior year releases relate to lower than anticipated claims volume.

Notes to the Financial Statements

For the year ended 31 December 2015

	2015 \$000	2014 \$000
11. TAXATION		
(a) Income tax expense		
Current tax expense	(1,060)	(2,410)
Movement in deferred tax balance recognised	(10)	(450)
Total recognised income tax expense income tax expense	(1,070)	(2,860)
(ii) Reconciliation of effective tax rate		
Profit before tax	3,820	9,870
Income tax at 28%	(1,070)	(2,764)
Non-deductible expenses	-	3
Tax expense transferred from related entity for nil consideration	-	(99)
Total income tax expense	(1,070)	(2,860)
(iii) Deferred tax asset/(liability)		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	(3,705)	(3,702)
Provision for doubtful debts	8	11
Other provisions	-	4
Net deferred tax asset	(3,697)	(3,687)

12. RECEIVABLES

(a) Current

Trade debtors (refer to (i) below)		
Premiums receivable	25,473	29,136
Unclosed premiums	4,428	4,724
Reinsurance debtors	11,929	9,187
	41,830	43,047
Other receivables	19,519	7,474
Total Receivables - Current	61,349	50,521

(i) Trade debtors – premiums receivable are unsecured. Where collection of a trade debtor is doubtful, a provision for impairment is recognised. For 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.

Notes to the Financial Statements

For the year ended 31 December 2015

12. RECEIVABLES (CONTINUED)

(c) Impairment losses

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

	2015 \$'000	2014 \$'000
Not past due or impaired	61,119	50,277
Past due 0-30 days	197	160
Past due 31-90 days	9	70
Past due 91-120 days	1	14
Past due 121+ days	23	-
Total receivables	61,349	50,521

The trade and other receivables have not been impaired.

13. FINANCIAL ASSETS

(a) Fair values

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

	Carrying Amount		Net Fair Value	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Government bonds	23,389	18,629	23,389	18,629

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

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).

2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets designated at fair value through profit or loss:				
Government bonds	-	23,389	-	23,389
Total financial assets	-	23,389	-	23,389

2014

Financial assets designated at fair value through profit or loss:

Government bonds	-	18,629	-	18,629
Total financial assets	-	18,629	-	18,629

Notes to the Financial Statements

For the year ended 31 December 2015

13. FINANCIAL ASSETS (CONTINUED)

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

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. No investments have been categorised as level 1 or 3 as at 31 December 2015.

	2015	2014
	\$000	\$000

14. DEFERRED ACQUISITION COSTS

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

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

(a) Deferred acquisition costs at 1 January	13,223	11,645
Acquisition costs deferred	29,443	30,133
Amortisation charged to income	(30,897)	(28,564)
Release of premium deficiency prior year	3,330	3,339
Write down for premium deficiency current year	(1,866)	(3,330)
Total at 31 December	13,233	13,223

(b) Calculation of current year deficiency

Net unearned premium liability relating to insurance contracts issued	50,707	55,052
Related insurance asset	(1,788)	(3,898)
Related deferred acquisition costs	(15,161)	(16,600)
	33,758	34,554
Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts	32,728	34,172
Risk margin	2,896	3,712
	35,624	37,884
Total current year deficiency recognised in the statement of profit or loss and other comprehensive income	1,866	3,330

Notes to the Financial Statements

For the year ended 31 December 2015

	2015 \$000	2014 \$000
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15. OUTSTANDING CLAIMS

(a) Outstanding claims liability

Expected future claims payments (undiscounted) - central estimate	119,465	151,294
Risk margin applied (undiscounted)	2,752	1,935
Claims handling expenses	3,097	2,430
Discount to present value - central estimate	(2,734)	(3,115)
Discount to present value - risk margin	(53)	(39)
Total outstanding claims liability	122,527	152,505

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes \$28,530,177 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.

(c) Reconciliation of movement in discounted outstanding claims liability

	2015			2014		
	Gross \$000	Reinsurance \$000	Net \$000	Gross \$000	Reinsurance \$000	Net \$000
Balance as at 1 January	152,505	(108,555)	43,950	173,235	(127,463)	45,772
Current year claims incurred	109,558	(38,394)	71,164	98,365	(42,250)	56,115
Change in previous years' claims	(15,333)	10,313	(5,020)	(4,232)	441	(3,791)
Current year claims paid/RI recovered	(67,268)	23,824	(43,444)	(64,277)	21,944	(42,333)
Previous year claims paid/RI recovered	(56,935)	46,646	(10,289)	(50,586)	38,773	(11,813)
Balance as at 31 December	122,527	(66,166)	56,361	152,505	(108,555)	43,950

Notes to the Financial Statements

For the year ended 31 December 2015

15. OUTSTANDING CLAIMS (CONTINUED)

(d) Claims development table

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

Gross											
Accident year	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	83,695	2,643	2,174	3,307	3,515	4,118	4,718	4,776	5,197	3,479	
One year later	82,626	1,564	2,019	1,639	2,917	1,192	4,517	4,866	6,234		
Two years later	82,511	1,148	36,573	1,649	1,037	1,761	3,006	3,085			
Three years later	84,911	1,993	36,013	1,132	1,974	1,626	2,339				
Four years later	87,978	1,917	40,285	1,466	1,384	2,080					
Five years later	85,016	1,819	2,322	1,093	1,252						
Six years later	85,065	2,038	1,722	952							
Seven years later	102,717	1,890	1,728								
Eight Years later	100,172	1,958									
Nine Years later	94,498										
Estimate of cumulative claims	94,498	1,958	1,728	952	1,252	2,080	2,339	3,085	6,234	3,479	117,605
Cumulative payments	90,969	1,703	1,678	852	941	616	857	1,284	471	422	99,793
Claims outstanding - undiscounted	3,529	255	50	100	311	1,464	1,482	1,801	5,763	3,057	17,812
Effect of discounting	143	10	2	8	22	72	104	130	307	327	1,125
Claims outstanding - discounted	3,386	245	48	92	289	1,392	1,378	1,671	5,456	2,730	16,687
Short-tail classes											100,111
Risk margins - discounted											2,699
Claims handling expenses											3,030
Total gross outstanding claims	3,386	245	48	92	289	1,392	1,378	1,671	5,456	2,730	122,527

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

Notes to the Financial Statements

For the year ended 31 December 2015

15. OUTSTANDING CLAIMS (CONTINUED)

(d) Claims development table (continued)

Net Accident year	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	55,738	1,829	1,795	2,325	1,618	1,935	2,133	2,071	1,281	1,027	
One year later	53,401	1,330	1,714	1,613	1,931	2,155	2,556	3,141	2,542		
Two years later	54,701	1,018	1,029	1,205	919	893	1,161	893			
Three years later	56,256	1,863	1,267	1,205	895	809	1,068				
Four years later	56,127	1,725	1,089	1,015	794	1,611					
Five years later	58,135	1,837	1,023	820	787						
Six years later	56,437	1,717	977	856							
Seven years later	62,976	1,610	1,024								
Eight Years later	61,212	1,682									
Nine Years later	60,205										
Estimate of cumulative claims	60,205	1,682	1,024	856	787	1,611	1,068	893	2,542	1,027	71,695
Cumulative payments	58,112	1,514	992	831	761	571	792	705	361	345	64,984
Claims outstanding - undiscounted	2,093	168	32	25	26	1,040	276	188	2,181	682	6,711
Effect of discounting	83	7	1	1	1	41	11	7	87	50	289
Claims outstanding - discounted	2,010	161	31	24	25	999	265	181	2,094	632	6,422
Short-tail classes											44,210
Risk margins - discounted											2,699
Claims handling expenses											3,030
Total net outstanding claims	2,010	161	31	24	25	999	265	181	2,094	632	56,361
									2015		2014
									\$000		\$000

16. UNEARNED PREMIUM LIABILITY

Unearned premium liability as at 1 January	74,957	68,820
Deferral of premiums on contracts written in the period	171,733	167,445
Earning of premiums written in current and previous periods	(173,394)	(161,308)
Unearned premium liability as at 31 December	73,296	74,957

17. AUDITOR'S REMUNERATION

	2015	2014
	\$	\$
Audit of the financial statements	57,200	57,200

Notes to the Financial Statements

For the year ended 31 December 2015

18. 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

B. Bovermann (reappointed 19 January 2015)

M. Diekmann (appointed 1 January 2015)

P.M. Mann

K.M. McKenzie

N.C. Peiris

A.G. Theis (appointed 1 September 2015)

T.R. Towell

Non-Directors:

S. Coles (Chief Information Officer)

T. Dawson (Group Manager Human Resources)

E. Elisara (Chief Executive Officer New Zealand)

R. Feledy (Chief Technical Officer)

D. Hosking (Chief General Manager – Broker & Agency)

P. Kernaghan (Chief Market Manager)(resigned 19 October 2015)

D. Krawitz (Chief Operating Officer)

J. Myler (Chief Marketing Manager)(appointed 1 February 2016)

M. Raumer (Chief Financial Officer)

H. Silver (Chief General Manager – Workers' Compensation)

N. Scofield (General Manager – Corporate Affairs)

M. Winter (Chief General Manager – Retail Distribution)

(a) Transactions with key management personnel

	2015 \$ AUD	2015 \$ NZD	2014 \$ AUD	2014 \$ NZD
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel	8,730,331	9,278,498	10,248,760	10,248,760
Short term employee benefits	5,872,874	6,241,632	6,887,895	7,211,902
Post employment benefits	218,221	231,923	176,460	184,761
Termination benefits	272,297	289,394	-	-
Share-based payments	1,252,969	1,331,633	1,721,253	1,802,221
Long term employee benefits	1,113,970	1,183,916	1,462,152	1,531,979

(b) Loans and other transactions with key management personnel

Refer to Note 19 for related party transactions concerning Directors.

With regard to non-Directors key management personnel, entities within the Consolidated Entity sold insurance during the period within normal employee or customer relationships on terms and conditions no more favourable than those available on similar transactions to other employees.

Notes to the Financial Statements

For the year ended 31 December 2015

19. RELATED PARTY TRANSACTIONS

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

The following types of transactions have arisen between the Company and entities within the Allianz SE Group:

- (i) loans advances and repayments;
- (ii) fees for funds management;
- (iii) transfer of insurance liabilities;
- (iv) fees for claims management;
- (v) reinsurance arrangements; and
- (vi) equity compensation schemes.

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

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

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

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.

	2015 \$	2014 \$
(c)		
Management fees paid to:		
Allianz New Zealand Limited	429,146	573,802
PIMCO Australia Pty Limited	45,773	42,564

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

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

	2015 \$	2014 \$
Outgoings		
Primacy Underwriting Management Limited	1,410,811	1,473,236
Euler Hermes Trade Credit Underwriting Agency Pty Limited	939,833	823,742
Global Transport & Automotive Insurance Solutions Pty Limited	2,745,567	2,762,212
Club Marine Limited	901,455	870,727

Notes to the Financial Statements

For the year ended 31 December 2015

19. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2015 \$	2014 \$
Reinsurance premiums ceded	79,328,437	73,861,924
Reinsurance claims recovered	28,081,002	41,809,811

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

Allianz New Zealand Limited	2,292,728	(25,078,501)
Head Office	(35,216,494)	(31,701,511)
Club Marine Limited	(438,904)	(257,198)
Allianz Australia Services Limited	(3,856,655)	(2,489,767)
Primacy Underwriting Management Limited (NZ)	11,401,521	-
Net amount due to related parties	(25,817,804)	(59,526,977)

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2015 \$000	2014 \$000
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(a) Cash reconciliation

Cash and cash equivalents in the statement of cash flows	86,749	126,387
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(b) Reconciliation of profit after income tax to net cash inflows from operating activities

Profit for the year	2,750	7,010
Decrease in premium debtors	3,959	4,626
(Decrease)/increase in unearned premium	(1,661)	6,137
(Increase) in deferred acquisition costs	(10)	(1,578)
Decrease in reinsurance and other recoveries receivable	39,647	33,334
Increase in deferred tax liability	10	450
(Decrease)/increase in creditors, borrowings and amounts owed to related companies	(33,711)	24,308
(Increase) in reinsurance paid	(427)	(14,732)
Realised (gain) on investments	(151)	(176)
Unrealised loss on revaluation	297	513
(Decrease) in outstanding claims	(29,978)	(20,730)
(Increase) in deferred reinsurance premium	(2,685)	(3,334)
(Increase)/decrease in other receivables	(12,772)	655
Net cash (outflow)/inflow from operating activities	(34,732)	36,483

21. CONTINGENT LIABILITIES

The NZ Branch has no contingent liabilities at 31 December 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

22. EVENTS SUBSEQUENT TO BALANCE DATE

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

Independent auditor's report

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

We have audited the accompanying financial statements of Allianz Australia Insurance Limited - New Zealand Branch ("the branch") on pages 4 to 36. The financial statements comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, statement of changes in head office account and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the financial statements

The Directors of Allianz Australia Insurance Limited ("the Company") are responsible on behalf of the branch for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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) and International Standards on Auditing. 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 and fair presentation of the financial statements 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.



Our firm has not provided any other services to the branch. Subject to certain restrictions, partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditor of the branch. The firm has no other relationship with, or interest in, the branch.

Opinion

In our opinion, the financial statements on pages 4 to 36 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Allianz Australia Insurance Limited - New Zealand Branch as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

16 March 2016
Sydney

COMPANY:	ALLIANZ AUSTRALIA INSURANCE LIMITED (NZ BRANCH)
SUBMITTED BY:	JONATHAN PERKINS, APPOINTED ACTUARY
TOPIC:	ALLIANZ AUSTRALIA INSURANCE LIMITED NEW ZEALAND BRANCH APPOINTED ACTUARY REPORT AT 31 DECEMBER 2015

Purpose

I have prepared this Appointed Actuary report as at 31 December 2015 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 2015 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 2015, as documented in the report titled “Allianz Australia Insurance Limited Valuation of New Zealand Outstanding Claims Liabilities as at 30 September 2015”;

- A roll forward of the 30 September 2015 full valuation outstanding claims estimates to 31 December 2015. The results of this analysis summarized at the Allianz Australia Ltd level is documented in the "AAL General Insurance Liabilities: 31 December 2015 Reported Results";
- A full analysis of premium liabilities for Allianz Australia Ltd including AAILNZ as at 31 December 2015, as documented in the report titled "Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2015"; and
- An analysis of risk margins, as documented in the report "Allianz Australia Limited Assessment of Risk Margins as at 1 January 2015".

Work Undertaken for Review

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

In addition, my team has performed a review of the 31 December 2015 Allianz Australia Insurance Limited APRA return to ensure that the actuarial information had been correctly reflected in that return and that the solvency calculations did not appear unreasonable. This includes (in accordance with paragraph 4.1.1 of AAILNZ's License to Carry on Insurance Business in New Zealand) the unearned premium liability and the liability adequacy test, the Net Outstanding Claims Liability, reinsurance and any other recovery assets and any deferred acquisition cost or deferred revenue fee (Solvency Standard Actuarial Information).

Access to Information, Restrictions / Limitations

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

Statement of Relationship

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

Opinion

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

- the Actuarial Information contained in the Financial Statements has been appropriately included in those statements;
- the Actuarial Information used in the preparation of the Financial Statements has been used appropriately;
- AAIL is maintaining as at the balance date, the solvency margin that applies under the condition imposed under section 21(2)(b) of the New Zealand Insurance (Prudential Supervision) Act 2010.



Jonathan Perkins, FNZSoA, FIAA, FIA
Appointed Actuary to AAILNZ

15 March 2016