

**Allianz Australia Insurance Limited**

ABN 15 000 122 850

20 May 2019

New Zealand Companies Office  
Private Bag 92061  
Victoria Street West  
Auckland 1142  
New Zealand

Dear Registrar

**RE: Allianz Australia Insurance Limited (3994759)**

Attached, for registration, are copies of the following documents:

- Financial Statements for Allianz Australia Insurance Limited – New Zealand Branch (3994759) for the year ended December 2018 including the Independent auditor's report and the Actuary Report (s78); and
- Financial Statements for Allianz Australia Insurance Limited (ABN 15 000 122 850) for the year ended December 2018 including the Independent auditor's report and the Actuary Report (s78).

Allianz is relying on the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2016 for the 31 December 2018 reporting period.

Please contact Ms Suzannah Fletcher on +61 2 8258 6205 if you would like to discuss.

Yours faithfully



**Mathew Kaley**  
**Company Secretary**

Allianz Australia Insurance Limited -  
New Zealand Branch  
Company number 3994759

Financial Statements for the year  
ended 31 December 2018

# Company Directory

As at 31 December 2018

<b>Company number</b>	3994759
<b>IRD</b>	109-941-972
<b>Nature of business</b>	Provision of general insurance services
<b>Registered Office</b>	Level 11, Tower 1 205 Queen 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 2018 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 an independent non-executive director on 22 July 1992
- Chair of the Allianz Australia Board
- Chair of the Allianz Australia Investment Committee
- Member of the Allianz Australia Audit, Risk, Human Resources & Remuneration and Conduct, Culture & Reputation and Nomination Committees

#### *Career summary:*

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

P.J. Dwyer

- Appointed a non-executive director on 18 February 2019
- Member of the Allianz Australia Investment, Audit, Risk, Human Resources & Remuneration Conduct, Culture & Reputation and Nomination Committees

#### *Career summary:*

- Paula is the Chairman of Tabcorp Holdings Limited and Healthscope Limited, director of the ANZ Banking Group and Lion Pty Limited. Ms Dwyer is a member of the International Advisory Board of Kirin Holdings of Japan. Paula was a Takeover Panel member from 2008 – 2014 and reappointed in 2017. Paula is a Chartered Accountant with strong financial and commercial experience. Her executive career was in investment management and investment banking.
- Her past appointments include serving as Deputy Chairman of Leighton Holdings Limited and as a Director of Suncorp Group Limited, Astro Japan Property Group Limited, Fosters Limited, Healthscope Limited, Promina Group Limited, David Jones Limited and RACV Ltd, as a Member of the Victorian Casino and Gaming Authority and of the Victorian Gaming Commission, as a Deputy Director of Emergency Services Superannuation, VicSuper and Government Superannuation Office and as the Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute. A former member of the Business and Economics Board of the University of Melbourne and the ASIC External Advisory Board. Held director positions with Leighton Holdings Ltd, Suncorp Group Ltd, Astro Japan Property Group Ltd, Fosters Group Ltd, Promina Group Limited, David Jones Limited and RACV Ltd.
- Paula is a recipient of the University of Melbourne Faculty of Business and Economics Alumni of Distinction Leadership Award. Paula holds a Bachelor of Commerce Degree from the University of Melbourne (1982), is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australia.

## Directors' Report (continued)

### Directors (continued)

R. D. Feledy

- Appointed Managing Director on 1 January 2018
- Member of the Allianz Australia Investment Committee

#### *Career Summary:*

- Approximately 30 years in the insurance industry with extensive experience in sales, relationship management, portfolio management, pricing, product framework development, and management reporting.
- Held senior roles within FAI Insurance and HIH Insurance and joined Allianz in 2000 and was the Chief Technical Officer of Allianz Australia from 2010 to 2017 until his appointment as Deputy Managing Director on 8 May 2017 to 31 December 2017.
- Appointed Director of the Insurance Council of Australia from 1 January 2018.

P.M. Mann

- Appointed an independent non-executive director on 1 November 2013
- Chair of the Allianz Australia Audit and Risk Committees
- Member of the Allianz Australia Investment, HR & Remuneration and Conduct, Culture & Reputation Committees

#### *Career summary:*

- Peat Marwick Mitchell, Sydney (1984-1987), KPMG London, Audit Services (1987-1991), KPMG London, Forensic Accounting (1991-1995) and KPMG Australia Partner, Forensic Accounting (1995-2000). Held non-executive director roles at First State Super (2002-2015), Doctors Health Fund (2005-2013), Perpetual Superannuation Limited (2007-2016) and Bellamy's Australia Limited (2016-2017).
- Holds non-executive director roles on Ridley Corporation Limited, Event Hospitality and Entertainment Limited, and Allianz Australia Life Insurance Holdings Limited (from 18 September 2018).

K.M. McKenzie

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

#### *Career summary:*

- Held senior positions in the public sector including as Deputy Director - General at the NSW Cabinet Office, General Manager of Workcover Authority NSW, Director-General at both Department of Industrial Relations and NSW Department of Commerce, and a number of senior roles at Telstra, commencing in 2004, most recently as Chief Operating Officer for 3 years until September 2016 and previously Group Managing Director of Innovation, Products and Marketing.
- Currently Chief Executive Officer and Director of Chorus Limited and a Director of Chorus New Zealand Limited.

N.C. Peiris

- Appointed a non-executive director on 1 January 2018.
- Appointed Managing Director on 1 January 2013 and resigned on 31 December 2017.
- Member of the Allianz Australia Investment Committee as well as the Audit, Risk and Human Resources & Remuneration and Conduct, Culture & Reputation and Nomination Committees

#### *Career summary:*

- Over 25 years' experience in the insurance industry, including as Group Financial Controller at FAI Insurance before joining Allianz Australia in 2000 as General Manager – Finance. Appointed Chief Financial Officer (2002-2008), Chief General Manager of the Retail Distribution Division (2009-2012) and Chief Executive Officer of Allianz Australia Life Insurance Limited (2009-2012) and Director of the Insurance Council of Australia (2013-2017).
- Appointed Director of Allianz Australia Life Insurance Holdings Limited from 15 December 2017.
- Appointed to the Allianz SE Board of Management from 1 January 2018, responsible for Anglo Markets (including Australia), Global Insurance Lines, Africa and MENA.

## Directors' Report (continued)

### Directors (continued)

T.R. Towell

- Appointed a non-executive director on 1 July 2013
- Chair of the Allianz Australia Conduct, Culture & Reputation Committee
- Member of the Allianz Australia Investment, Audit, Risk, Human Resources & Remuneration and Nomination Committees.

#### *Career summary:*

- Over 40 years' experience in the insurance industry, with extensive experience at senior management level, including General Manager Operations South British United Group (SBU)/NZI Insurance, Group General Manager positions in Insurance and Information Technology for Suncorp Metway Group and General Manager of Suncorp General Insurance Limited.
- Managing Director of Allianz Australia Limited (1999-2013).
- Director of Insurance Council of Australia (1991-1995 and 1999-2012).

### Senior Executive Information

M.R. Guppy

- Appointed Chief Executive Officer on 6 March 2017
- Previously held roles within Allianz Australia, including as Manager, Corporate Northern and Corporate Manager - Western Australia.

### Shareholder information

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

### Other information

#### Bankers

Westpac Banking Corporation

#### Auditors

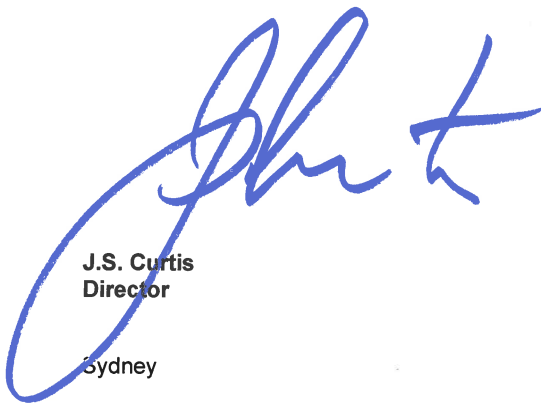
PwC Australia,  
One International Towers  
Barangaroo  
Sydney, NSW, 2000  
Australia

## Directors' Declaration

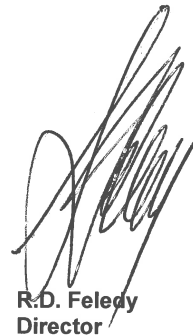
In the opinion of the Directors of Allianz Australia Insurance Limited - New Zealand Branch ("the NZ Branch"):

- (a) The financial statements and notes, set out on pages 5 to 38, 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 2018 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



**R.D. Feledy**  
Director

**28** March 2019

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 \$000	2017 \$000
Premium revenue	8	217,319	172,493
Outward reinsurance expense	8	(107,414)	(88,552)
<b>Total premium revenue</b>		<b>109,905</b>	<b>83,941</b>
Claims expense	10	(110,178)	(99,840)
Reinsurance and other recoveries revenue	10	55,167	45,736
<b>Total claims expense</b>	<b>10</b>	<b>(55,011)</b>	<b>(54,104)</b>
Acquisition costs		(33,932)	(29,837)
<b>Total underwriting expenses</b>		<b>(33,932)</b>	<b>(29,837)</b>
<b>Underwriting result</b>		<b>20,962</b>	<b>-</b>
<b>Other income and expenses</b>			
Investment income	9	2,713	2,451
Foreign exchange gains/(losses)		1,469	(1,683)
Other expenses		(2,440)	(438)
<b>Total other income and expenses</b>		<b>1,742</b>	<b>330</b>
<b>Profit before income tax</b>		<b>22,704</b>	<b>330</b>
Income tax (expense)	11(a)	(6,422)	(109)
<b>Profit/(loss) after income tax</b>		<b>16,282</b>	<b>221</b>
<b>Total comprehensive income for the year attributable to Head Office</b>		<b>16,282</b>	<b>221</b>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 38.

## Statement of Changes in Head Office Account

For the year ended 31 December 2018

	Head office transfers \$000	Retained earnings \$000	Total head office \$000
<b>At 1 January 2018</b>	<b>10,000</b>	<b>3,218</b>	<b>13,218</b>
Profit for the year	-	16,282	16,282
Head office transfer	13,648	-	13,648
<b>Total for the year</b>	<b>13,648</b>	<b>16,282</b>	<b>29,930</b>
<b>At 31 December 2018</b>	<b>23,648</b>	<b>19,500</b>	<b>43,148</b>

	Head office transfers \$000	Retained earnings \$000	Total head office \$000
<b>At 1 January 2017</b>	<b>-</b>	<b>2,997</b>	<b>2,997</b>
Profit for the year	-	221	221
Head office transfer	10,000	-	10,000
<b>Total for the year</b>	<b>10,000</b>	<b>221</b>	<b>10,221</b>
<b>At 31 December 2017</b>	<b>10,000</b>	<b>3,218</b>	<b>13,218</b>

The statement of changes in head office account is to be read in conjunction with the notes to the financial statements set out on pages 10 to 38.



## Statement of Financial Position

As at 31 December 2018

	Note	2018 \$000	2017 \$000
<b>Current assets</b>			
Cash & cash equivalents	20	63,293	44,535
Trade and other receivables	12	74,606	45,066
Reinsurance and other recoveries receivable	15(d)	46,903	53,628
Deferred acquisition costs	14	19,309	14,314
Deferred reinsurance premiums		15,290	32,802
Financial assets at fair value through profit or loss	13	86,409	66,887
<b>Total current assets</b>		<b>305,810</b>	<b>257,232</b>
<b>Non-current assets</b>			
Reinsurance and other recoveries receivable	15(d)	19,106	17,414
Financial assets at fair value through profit or loss	13	-	17,957
Deferred tax asset	11(c)	-	2,931
<b>Total non-current assets</b>		<b>19,106</b>	<b>38,302</b>
<b>Total assets</b>		<b>324,916</b>	<b>295,534</b>
<b>Current liabilities</b>			
Outstanding claims	15(a)	86,750	89,569
Unearned premium liability	16	83,397	77,933
Accounts payable and accruals		73,036	81,218
Provision for expected credit loss		3	-
<b>Total current liabilities</b>		<b>243,186</b>	<b>248,720</b>
<b>Non-current liabilities</b>			
Outstanding claims	15(a)	22,873	21,939
Unearned premium liability	16	10,490	11,657
Deferred tax liabilities	11(c)	5,219	-
<b>Total non-current liabilities</b>		<b>38,582</b>	<b>33,596</b>
<b>Total liabilities</b>		<b>281,768</b>	<b>282,316</b>
<b>Net assets</b>		<b>43,148</b>	<b>13,218</b>
<b>Total head office account</b>		<b>43,148</b>	<b>13,218</b>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 38.

## Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 \$000	2017 \$000
<b>Cash flows from operating activities</b>			
Premiums received		235,345	186,358
Outwards reinsurance paid		(93,783)	(91,235)
Claims paid		(124,916)	(155,355)
Reinsurance and other recoveries received		55,432	66,830
Acquisition costs paid		(38,928)	(29,598)
Intercompany amounts (paid)/received		(30,235)	25,982
Income taxes paid/(received)		3,241	(49)
Interest received		12,859	2,728
Other expenses paid		410	689
Foreign exchange gains/(losses)		1,470	(1,683)
<b>Net cash inflow from operating activities</b>	<b>20(b)</b>	<b>20,895</b>	<b>4,667</b>
<b>Cash flows from investing activities</b>			
Net (payments) from trading of investments		(2,137)	(8,683)
<b>Net cash (outflow) from investing activities</b>		<b>(2,137)</b>	<b>(8,683)</b>
<b>Net increase/(decrease) in cash</b>		<b>18,758</b>	<b>(4,016)</b>
Cash at the beginning of the year		44,535	48,551
<b>Cash at the end of the year</b>		<b>63,293</b>	<b>44,535</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 38.

## Notes to the Financial Statements

### Table of Contents

Note Number		Page Number
1.	Summary of significant accounting policies	10
2.	Corporate Governance Statement	15
3.	Financial risk management	16
4.	Capital management	19
5.	Insurance contracts – risk management policies and procedures	21
6.	Actuarial assumptions and methods	22
7.	Critical accounting judgements and estimates	27
8.	Premium revenue	27
9.	Investment and other income	28
10.	Net claims incurred	28
11.	Taxation	29
12.	Receivables	29
13.	Financial assets	30
14.	Deferred acquisition costs	31
15.	Outstanding claims	32
16.	Unearned premium liability	34
17.	Auditor's remuneration	34
18.	Key management personnel compensation	35
19.	Related party transactions	36
20.	Reconciliation of cash flows from operating activities	37
21.	Contingent liabilities	38
22.	Events subsequent to balance date	38

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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. These financial statements as at and for the year ended 31 December 2018 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 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.

These general purpose financial statements were authorised by the Board of Directors for issue on the date of this report. The Directors have the power to amend and reissue the general purpose financial report.

### (a) Basis of Preparation

#### (i) Statement of compliance

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

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

#### (ii) Changes in accounting standards

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

NZ IFRS 9 Financial Instruments became effective for financial periods beginning on or after 1 January 2018 and has been adopted on this date for the financial year ending 31 December 2018 onwards. The standard sets out the requirements for recognising and measuring financial assets and financial liabilities and replaces NZ IFRS 139 / IAS 39 Financial Instruments: *Recognition and Measurement*.

NZ IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics and will require new disclosures in particular for credit risk and expected credit losses. Financial assets are classified in accordance with the criteria set out in NZ IFRS 9, with receivables measured at amortised cost. NZ IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities, which continue to be classified as other financial liabilities.

The Company will take advantage of an exemption available in NZ IFRS 9, allowing it not to restate comparative information for prior periods with respect to classification and measurement, including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of NZ IFRS 9 will be recognised in retained earnings and reserves.

A new impairment model has been adopted, with consideration of the probability of default and loss given default on the Company's cash and cash equivalents, however the recognition of expected credit losses has not materially impacted the Company's results.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ii) Changes in accounting standards (continued)

The table below presents the impacts of adopting AASB 9:

	Value as at 31 December 2017 (\$)	Value as at 1 January 2018 (\$)	Provision for expected credit loss (\$)
<b>Financial assets</b>			
Cash and cash equivalents	44,607,445	44,607,445	(1,908)

NZ IFRS 15 *Revenue from Contracts with Customers* – the final standard has been issued and is effective for financial periods beginning on or after 1 January 2018. AASB 15 replaces existing revenue recognition standards including NZ IAS18 Revenue (noting that insurance contracts are not within its scope), and provides a new framework for the timing of revenue recognition based on the satisfaction of an entity's performance obligations, and the measurement of the amount to recognise. The standard applies a five-step process to support this new framework, and also requires additional disclosures. This includes the disaggregation of revenue from contracts with customers and other sources to depict the nature, amount, timing and uncertainty of each revenue stream. In addition, disclosure of the entity's performance obligations with respect to contracts with customers is required, and any significant judgements in relation to the application of this standard.

The NZ Branch has adopted NZ IFRS 15 on 1 January 2018 for the financial year ending 31 December 2018 onwards, and its adoption has not caused a material impact on the results of the NZ Branch.

NZ IFRS 16 *Leases*, issued in February 2016, is effective for financial periods beginning on or after 1 January 2019. The NZ Branch has applied NZ IFRS 16 on this date. The standard eliminates the previous classification of operating and finance leases for a lessee, and requires all leases that were previously considered 'off balance sheet' to be recognised in the consolidated statement of financial position, except for low value and short term leases. The standard requires a lease liability to be recognised, representing the present value of lease payments which is grossed up for interest expense and reduced over time for payments, along with a corresponding right-of-use asset representing the lease liability, other direct costs and incentives, which is to be depreciated on a straight line basis over the lease term.

The NZ Branch has assessed the impact of NZ IFRS 16 on its financial statements and the main impact identified is the recognition of new assets and liabilities in the consolidated statement of financial position relating to property, motor vehicle and other equipment leases and an acceleration in the recognition of expenses due to front-loaded interest expense in the initial period of the lease as mentioned below.

At the time of adoption of NZ IFRS 16, the NZ Branch will be applying this standard using the modified retrospective approach with no restatement of comparative information. Therefore the right-to-use asset will be recognised at an amount equal to lease liability measured using the present value of the remaining lease payments adjusted for the make-good provision and discounted using the incremental borrowing rate at the date of transition.

In addition, the NZ Branch has applied a practical expedient as permitted by the standard, being the exclusion of initial direct costs for the measurement of the right-of-use asset at 1 January 2019.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ii) Changes in accounting standards (continued)

<b>Lease liability recognised as at 1 January 2019</b>	<b>\$000</b>
Operating lease commitments as at 31 December 2018 as disclosed in Note 22	603
(Less) discounted using the branch's incremental borrowing rate	(16)
<b>Lease liability recognised as at 1 January 2019</b>	<b>587</b>
<b>Right-of-use asset recognised as at 1 January 2019</b>	<b>776</b>

The unfavourable impact on the statement of profit or loss and other comprehensive income for the year ended 31 December 2019 as a result of the adoption of NZ IFRS 16 *Leases*, in comparison to the previous standard applicable NZ IFRS 17 *Leases*, is estimated to be \$74,000.

NZ IFRS 17 *Insurance Contracts* was issued in August 2017, and is effective for financial periods beginning on or after 1 January 2021. It is noted that the International Accounting Standards Board has agreed to defer the application of the International equivalent of this Standard, IFRS 17 *Insurance Contracts* to 1 January 2022. The Company is awaiting confirmation from the New Zealand External Reporting Board, that it will also defer application of the local equivalent to 1 January 2022.

NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts* with new recognition, measurement and disclosure requirements. A detailed impact assessment is currently underway.

### (iii) Basis of measurement

The financial statements are presented in New Zealand Dollars ("NZD") unless otherwise stated, which is the functional currency of the NZ Branch and comprise the statement of profit or loss and other comprehensive income, statement of changes in head office account, statement of financial position, statement of cash flows, summary of significant accounting policies and notes to the financial statements. The financial statements are prepared on a historical cost basis, as modified by certain exceptions noted in the financial statements, with the principal exception being the measurement of financial assets designated at fair value through profit and loss and the measurement of the outstanding claims liability and related reinsurance recoveries as set out below.

### (iv) Critical accounting estimates

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

### (iv) Rounding

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

### (vi) Reporting period

The reporting period is from 1 January 2018 to 31 December 2018.

### (b) Premium revenue recognition

Insurance premiums comprise amounts charged to policyholders or other insurers, but exclude stamp duties, fire and emergency levy, 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.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Unearned premium

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written over the period of risk from the dates of attachment. Premium ceded to reinsurers is recognised as an expense from the attachment date in accordance with the pattern of incidence of risk. The deferred portion of outwards reinsurance premium is treated in 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 accrual basis, based on the effective interest rate method. Investment revenue includes all realised and unrealised gains and losses (refer Note 1(j)).

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

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

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

Long-tail claims relate to classes of insurance business where notice of a claim may not be received for many years or claims may be outstanding for long periods before they are settled. Often these long tail claims are associated with protracted legal proceedings to apportion liability and to establish the value of losses incurred.

The provisions for outstanding claims at 31 December 2018 and 2017 were established by the Directors based on estimates of the ultimate liability which were calculated by the Company's Appointed Actuary. The estimates of the ultimate liabilities were based on analysis of past numbers of claims and amounts of claim payments and expectations of future experience. The estimates include allowance for IBNR claims and for anticipated future inflation of claim costs, with an additional risk margin to allow for inherent uncertainty in the central estimates.

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

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

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

### (f) Receivables

Receivables include premiums receivable, unclosed premiums and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at cost, which is not materially different to fair value, except where collection is doubtful, when an impairment loss is recognised.

### (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, with the risk margin for reinsurance recoveries calculated as the difference of the risk margin calculated on outstanding claims both gross and net of reinsurance recoveries.

### (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.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Acquisition costs

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

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

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

### (j) Investments

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

### (k) Taxation

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

The NZ Branch and Allianz New Zealand Limited constitute a group for tax purposes, which allows for the NZ Branch's tax losses to be offset against the taxable income of Allianz New Zealand Limited. The NZ Branch and Allianz New Zealand Limited must maintain a minimum of 66% commonality of ownership in order to be considered a group for tax purposes. The NZ Branch's tax losses can also be carried forward and offset against future taxable income of the NZ Branch subject to it maintaining shareholder continuity within the entity of at least 49%.

### (l) Financial assets

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

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



# Notes to the Financial Statements

For the year ended 31 December 2018

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

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

The Company has four Board appointed committees, these being:

- Human Resources and Remuneration Committee;
- Audit Committee;
- Risk Committee;
- Investment Committee;
- Conduct, Culture and Reputation Committee; and
- Nominations Committee.

The Board approves a number of policies, including:

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

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

- Non-executive Directors: J.S. Curtis (Chairman), P.J. Dwyer, P.M. Mann, K.M. McKenzie, N.C. Peiris and T.R. Towell.
- Executive Directors: R.D. Feledy (Managing Director).

# Notes to the Financial Statements

For the year ended 31 December 2018

## 3. FINANCIAL RISK MANAGEMENT

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

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

The Company also enters into derivative transactions, principally interest rate futures and options. 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 in size and exposure by contract with the asset managers. 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 underwriting risk, operational risk, tax risk, credit risk, liquidity risk and market risk are detailed below.

### (a) Underwriting risk

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

The underwriting 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 guidelines, as well as the use of reinsurance. The NZ Branch purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis.

### (b) Operational risk

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

### (c) Tax risk

Tax risk is the risk that the NZ Branch is paying or accounting for an incorrect amount of income and/ or indirect tax, or that the tax positions that the NZ Branch has adopted is inappropriate. The NZ Branch has governance structures, policies and procedures in place to support full compliance with taxation law, perform best practice tax planning, and ensure effective tax risk management.

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2018

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)	AA+ AA AA-	A+ A A-	Not Rated	Total
	\$000	\$000	\$000	\$000
<b>2018</b>				
Cash	63,293	-	-	63,293
Receivables	9,684	780	64,142	74,606
Reinsurance and other recoveries receivable	63,202	1,223	1,584	66,009
Financial assets at fair value through profit and loss	86,409	-	-	86,409
<b>2017</b>				
Cash	44,535	-	-	44,535
Receivables	5,330	62	39,674	45,066
Reinsurance and other recoveries receivable	63,795	5,694	1,553	71,042
Financial assets at fair value through profit and loss	84,844	-	-	84,844

### (d) Liquidity risk

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

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

The table below analyses the NZ Branch's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, unless otherwise stated.

	Maturing in:				Total
	1 year or less \$000	1 to 3 years \$000	3 to 5 years \$000	Over 5 years \$000	\$000
<b>As at 31 December 2018</b>					
Outstanding claims (undiscounted)	87,061	13,548	5,204	5,780	111,593
Unearned premiums	83,397	7,584	2,526	380	93,887
Accounts payable and accruals	73,036	-	-	-	73,036
<b>Total financial liabilities</b>	<b>243,494</b>	<b>21,132</b>	<b>7,730</b>	<b>6,160</b>	<b>278,516</b>
<b>As at 31 December 2017</b>					
Outstanding claims (undiscounted)	89,877	13,292	4,973	5,505	113,647
Unearned premiums	77,933	8,470	2,764	423	89,590
Accounts payable and accruals	81,218	-	-	-	81,218
<b>Total financial liabilities</b>	<b>249,028</b>	<b>21,762</b>	<b>7,737</b>	<b>5,928</b>	<b>284,455</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Liquidity risk (continued)

Additional information regarding the Entity's investment in government bonds is provided below:

	Face value		Maximum term		Weighted average yield	
	2018 \$000	2017 \$000	2018 Years	2017 Years	2018 %	2017 %
Government bonds	19,400	17,300	1	2	5	5

### (e) Market risk

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

#### (i) Foreign currency risk exposures

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

#### (ii) Price risk

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

#### (iii) Interest rate risk

The exposure to interest rate risk results from the holding of financial assets in the normal course of business. The investment management mandate allows for the use of interest rate derivatives to manage interest rate exposures with the most commonly used instruments being interest rate futures. 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 a scenario where interest rates had increased/decreased by a nominal amount of 1% at year end with all other variables held constant.

		-1%	1%
	Carrying Amount \$000	Profit/Head Office Account \$000	Profit/Head Office Account \$000
<b>2018</b>			
<b>Financial assets</b>			
Cash	63,293	(456)	456
Bills of exchange and floating notes	66,881	482	(482)
Government bonds	19,528	141	(141)
<b>Total financial assets</b>	<b>149,702</b>	<b>167</b>	<b>(167)</b>
<b>2017</b>			
Cash	44,535	(321)	321
Bills of exchange and floating notes	66,887	482	(482)
Government bonds	17,957	129	(129)
<b>Total financial assets</b>	<b>129,379</b>	<b>290</b>	<b>(290)</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (f) Fair value estimation

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

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

## 4. CAPITAL MANAGEMENT

### (a) Capital management strategy risk

The NZ Branch is regulated by the RBNZ. 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 also provides a buffer against adverse outcomes from insurance and other activities and investment performance.

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

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

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

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

Consideration is given to the operational capital needs of the business. The Company's capital objective is to target a capital multiple above the minimum regulatory requirement to ensure the ongoing strength and security of the Company whilst suitably protecting policyholders.

The capital objective is achieved through dynamic management of the statement of financial position and capital mix and the use of a risk based capital adequacy framework that relies on explicit quantification of uncertainty or risk and the use of internal modelling techniques. The Company performs stress and scenario analysis to assess the influence on capital needs of the Company's product mix, reinsurance program, catastrophe exposure, investment strategy, profit margin and capital structure. Management monitor the NZ Branch's financial position on a regular basis to ensure that it remains in a net asset position throughout the year.

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

### (b) Regulatory capital compliance

The entity's reporting obligations to the RBNZ have been satisfied by submissions to the RBNZ of the Company's APRA returns, in addition to submission to the RBNZ of the Parent Company's APRA returns. Set out below is the Company's APRA regulatory capital base and prescribed capital amount as well as the corresponding RBNZ terms as at 31 December 2018.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance (continued)		2018	2018
		AUD	NZD
		\$000	\$000
<b>Statutory capital of Allianz Australia Insurance Limited</b>			
<b>Common equity tier 1 capital</b>			
Ordinary shares		1,571,307	1,649,684
Retained earnings		1,028,189	1,079,475
Disclosed reserves		6,020	6,320
Technical provision in excess of liability valuation (net of tax)		36,950	38,793
Regulatory adjustments for non allowable assets		(530,401)	(556,857)
<b>Total common equity tier 1 capital</b>		<b>2,112,065</b>	<b>2,217,415</b>
<b>Total regulatory capital</b>		<b>2,112,065</b>	<b>2,217,415</b>
<b>Prescribed capital amount</b>			
Insurance risk charge		1,022,541	1,073,545
Insurance concentration risk charge		92,500	97,114
Diversified asset risk charge		447,043	469,342
Operational risk charge		189,530	198,984
Aggregation benefit		(280,463)	(294,452)
Adjustments to prescribed capital amount as approved by APRA		(66,590)	(69,912)
<b>Prescribed capital amount</b>		<b>1,404,561</b>	<b>1,474,621</b>
<b>Solvency margin</b>		<b>707,504</b>	<b>742,794</b>
<b>Capital adequacy multiple</b>		<b>1.50</b>	<b>1.50</b>
		2017	2017
		AUD	NZD
		\$000	\$000
<b>Statutory capital of Allianz Australia Insurance Limited</b>			
<b>Common equity tier 1 capital</b>			
Ordinary shares		1,571,307	1,728,061
Retained earnings		1,041,336	1,145,220
Disclosed reserves		1,869	2,055
Technical provision in excess of liability valuation (net of tax)		71,850	79,017
Regulatory adjustments for non allowable assets		(542,476)	(596,593)
<b>Total common equity tier 1 capital</b>		<b>2,143,886</b>	<b>2,357,760</b>
<b>Total regulatory capital</b>		<b>2,143,886</b>	<b>2,357,760</b>
<b>Prescribed capital amount</b>			
Insurance risk		986,939	1,085,396
Insurance concentration risk charge		126,360	138,966
Diversified asset risk charge		431,369	474,402
Operational risk charge		181,189	199,264
Aggregation benefit		(272,815)	(300,031)
Adjustments to prescribed capital amount as approved by APRA		(53,569)	(58,913)
<b>Prescribed capital amount</b>		<b>1,399,473</b>	<b>1,539,084</b>
<b>Solvency margin</b>		<b>744,413</b>	<b>818,676</b>
<b>Capital adequacy multiple</b>		<b>1.53</b>	<b>1.53</b>

## Notes to the Financial Statements

For the year ended 31 December 2018

### 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 to manage the level of capital that the Company requires, and this is applied to the NZ Branch.

In accordance with CPS 220 *Risk Management* (CPS 220) and GPS 230 *Reinsurance Management* (GPS 230) issued by APRA, the NZ Branch 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 NZ Branch 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 NZ Branch's exposure to large single claims and catastrophes. The NZ Branch purchases a combination of proportional and non-proportional reinsurance treaties and employs facultative reinsurance as necessary. 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 property, legal liability to others and business interruption arising from this damage. The return to shareholders arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred in administering this function.

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

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

#### (c) Concentrations of insurance risks

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the NZ Branch'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 NZ Branch 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 2018

## 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 reinsurance 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 NZ Branch'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

Brett Riley is the Appointed Actuary for the Company and the NZ Branch. He is a Fellow of the New Zealand Society of Actuaries (FNZSA). 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 2018.

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 2018 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  
Domestic buildings and contents  
Commercial property  
Pleasurecraft  
Marine and aviation  
Consumer credit  
Travel

#### Long-tail classes

Public and products liability  
Professional indemnity



# Notes to the Financial Statements

For the year ended 31 December 2018

## 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 judgement.

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.

	2018 Short-Tail	2018 Long-Tail	2017 Short-Tail	2017 Long-Tail
Average weighted term to settlement (years)	0.42	1.88	0.36	2.03
Claims handling expenses (net of reinsurance)	5.84%	26.84%	4.62%	30.56%
Discount rate	1.74%	1.87%	1.85%	2.12%
Inflation rate	N/A	3.50%	N/A	3.50%
Superimposed inflation rate	N/A	N/A	N/A	N/A

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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

An activity-based costing approach has been adopted, with loadings varying by class of business gross of reinsurance recoveries but net of non-reinsurance recoveries.

#### (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 and consideration of historical rates of inflation.

#### (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 based on past experience particularly in the longer term and industry superimposed inflation experience.

### (e) Sensitivity analysis – insurance contracts

#### (i) Summary

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

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

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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.

2018					
	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
<b>Short-tail</b>					
Average weighted term to settlement	+0.5 year	761	341	533	239
	-0.5 year	(550)	(287)	(385)	(201)
Claims handling expenses	+100 bps	(881)	(788)	(617)	(552)
	-100 bps	881	788	617	552
Discount rate	+100 bps p.a.	336	162	235	113
	-100 bps p. a.	(343)	(166)	(240)	(116)
Inflation rate	+100 bps p.a.	(346)	(167)	(242)	(117)
	-100 bps p. a.	345	166	242	116
	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
<b>Long-tail</b>					
Average weighted term to settlement	+0.5 year	184	34	129	24
	-0.5 year	(186)	(34)	(130)	(24)
Claims handling expenses	+100 bps	(180)	(33)	(126)	(23)
	-100 bps	180	33	126	23
Discount rate	+100 bps p.a.	666	66	466	46
	-100 bps p. a.	(712)	(69)	(498)	(48)
Inflation rate	+100 bps p.a.	(719)	(70)	(503)	(49)
	-100 bps p. a.	685	67	480	47
Superimposed inflation	+100 bps p.a.	(719)	(70)	(503)	(49)
	-100 bps p. a.	685	67	480	47

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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.

2017					
	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
<b>Short-tail</b>					
Average weighted term to settlement	+0.5 year	834	339	584	237
	-0.5 year	(581)	(245)	(407)	(171)
Claims handling expenses	+100 bps	(916)	(882)	(641)	(618)
	-100 bps	916	882	641	618
Discount rate	+100 bps p.a.	313	129	219	90
	-100 bps p. a.	(320)	(132)	(224)	(92)
Inflation rate	+100 bps p.a.	(322)	(133)	(226)	(93)
	-100 bps p. a.	322	133	226	93
	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 of RI	\$000 Net of RI	\$000 Gross of RI	\$000 Net of RI
<b>Long-Tail</b>					
Average Weighted Term to Settlement	+0.5 year	200	32	140	22
	-0.5 year	(202)	(32)	(141)	(23)
Claims Handling Expenses	+100 bps	(170)	(28)	(119)	(19)
	-100 bps	170	28	119	19
Discount Rate	+100 bps p.a.	636	59	445	41
	-100 bps p. a.	(678)	(62)	(475)	(43)
Inflation Rate	+100 bps p.a.	(687)	(62)	(481)	(44)
	-100 bps p. a.	656	61	459	42
Superimposed Inflation	+100 bps p.a.	(687)	(62)	(481)	(44)
	-100 bps p. a.	656	61	459	42

### (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.

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

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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.

The risk margins are as follows:

<b>Risk margins applied</b>	<b>2018</b>	<b>2017</b>
Short-tail classes	4.0%	3.9%
Long-tail classes	5.0%	5.8%
Overall margin	4.1%	4.1%

## 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.

	2018	2017
	\$000	\$000

## 8. PREMIUM REVENUE

Gross written premium	221,616	186,296
Movement in unearned premium liability	(4,297)	(13,803)
<b>Gross earned premium revenue</b>	<b>217,319</b>	<b>172,493</b>
Outwards reinsurance expense	(107,414)	(88,552)
<b>Net earned premium</b>	<b>109,905</b>	<b>83,941</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

	2018 \$000	2017 \$000
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## 9. INVESTMENT AND OTHER INCOME

Interest on government bonds	909	966
Other interest	2,377	1,974
Unrealised (losses) on investments	(573)	(278)
Realised (losses) on investments	-	(211)
<b>Total investment and other income</b>	<b>2,713</b>	<b>2,451</b>

## 10. NET CLAIMS INCURRED

	Current year \$000	Prior years \$000	Total \$000
<b>2018</b>			
Gross claims incurred - undiscounted	(124,236)	14,123	(110,113)
Discount movement	778	(843)	(65)
Gross claims incurred - discounted	(123,458)	13,280	(110,178)
Reinsurance and other recoveries revenue - undiscounted	54,894	166	55,060
Discount movement	(504)	611	107
Reinsurance and other recoveries revenue discounted	54,390	777	55,167
<b>Net claims incurred</b>	<b>(69,068)</b>	<b>14,057</b>	<b>(55,011)</b>

<b>2017</b>			
Gross claims incurred - undiscounted	(106,296)	6,640	(99,656)
Discount movement	585	(769)	(184)
Gross claims incurred - discounted	(105,711)	5,871	(99,840)
Reinsurance and other recoveries revenue - undiscounted	45,057	792	45,849
Discount movement	(428)	315	(113)
Reinsurance and other recoveries revenue discounted	44,629	1,107	45,736
<b>Net claims incurred</b>	<b>(61,082)</b>	<b>6,978</b>	<b>(54,104)</b>

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

Current year claims are those which have occurred with a date of loss in the current financial period. Prior year claims relate to a reassessment of the ultimate cost of claims which occurred in all previous reporting periods. The strong prior year undiscounted releases are a result of benign claims experience. This is due to claims inflation (measured as wage inflation plus superimposed inflation) having been lower than assumed at 31 December 2017, lower assumed future wage inflation and favourable claims reporting and settlement experience for prior year claims in 2018. The cost of most long tail claims with a prior year impact relates to personal injury classes. These tend to rise in line with (or faster than) wage inflation. Future claims assumptions have also been changed in some cases in response to this favourable experience.

# Notes to the Financial Statements

For the year ended 31 December 2018

	2018 \$000	2017 \$000
<b>11. TAXATION</b>		
<b>(a) Income tax (expense)</b>		
Current tax (expense)	(4,974)	(152)
Movement in deferred acquisition costs balance recognised	(1,399)	59
Prior year adjustment	(49)	(16)
<b>Total recognised income tax (expense)/benefit</b>	<b>(6,422)</b>	<b>(109)</b>
<b>(b) Reconciliation of effective tax rate</b>		
Profit before tax	22,704	330
Income tax at 28%	(6,357)	(93)
Prior year adjustment	(49)	(16)
Non-deductible expenses	(16)	-
<b>Total income tax expense</b>	<b>(6,422)</b>	<b>(109)</b>
<b>(c) Deferred tax (liability)/asset</b>		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	(5,407)	(4,008)
Provision for doubtful debts	1	-
Tax losses	187	6,939
<b>Net deferred tax asset</b>	<b>(5,219)</b>	<b>2,931</b>

The NZ Branch considers the deferred tax asset recognised to be recoverable on the basis that it expects and is probable that it will produce profits in the future. In addition, the tax losses of the NZ Branch can be offset against any profits generated by Allianz New Zealand Limited, so long as the criteria as set out in Note 1(k) are met.

## 12. RECEIVABLES

### (a) Trade and other receivables

Premiums receivable	25,964	28,962
Unclosed premiums	3,921	4,880
Reinsurance debtors	10,478	5,403
Other receivables	33,638	3,703
Income tax benefit receivable	605	2,118
<b>Total trade and other receivables</b>	<b>74,606</b>	<b>45,066</b>

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

### (b) Amounts due from related entities

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

## Notes to the Financial Statements

For the year ended 31 December 2018

### 12. RECEIVABLES (CONTINUED)

#### (c) Impairment losses

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

	2018 \$000	2017 \$000
Not past due or impaired	61,455	38,676
0 to 3 months	10,888	5,321
3 to 6 months	1,319	1,019
Over 6 months	944	50
<b>Total receivables</b>	<b>74,606</b>	<b>45,066</b>

The trade and other receivables have not been impaired.

### 13. FINANCIAL ASSETS

#### Financial assets at fair value through profit and loss

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

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

The total bills of exchange and floating notes of \$66,881,000 (2017: \$66,887,000) and government bonds of \$19,528,000 are classified as Level 2 in the fair value hierarchy (2017: \$17,957,000).

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

Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. No investments have been categorised as level 1 or 3 as at 31 December 2018.



# Notes to the Financial Statements

For the year ended 31 December 2018

2018	2017
\$000	\$000

## 14. DEFERRED ACQUISITION COSTS

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

<b>(a) Deferred acquisition costs at 1 January</b>	14,314	14,553
Acquisition costs deferred	33,810	30,136
Amortisation charged to income	(30,122)	(28,577)
Release of premium deficiency prior year	2,365	567
Write down for premium deficiency current year	(1,058)	(2,365)
<b>Total at 31 December</b>	<b>19,309</b>	<b>14,314</b>

## (b) Calculation of current year deficiency

Net unearned premium liability relating to insurance contracts issued	78,597	56,788
Related reinsurance asset	(1,555)	(1,811)
Related deferred acquisition costs	(20,430)	(16,740)
	<b>56,612</b>	<b>38,237</b>
Net central estimate of present value of expected future cash flows arising from future claims on commercial lines insurance contracts	52,612	37,087
Risk margin	5,058	3,515
	<b>57,670</b>	<b>40,602</b>
<b>Total current year deficiency recognised in the statement of profit or loss and other comprehensive income</b>	<b>1,058</b>	<b>2,365</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

	2018 \$000	2017 \$000
<b>15. OUTSTANDING CLAIMS</b>		
<b>(a) Outstanding claims liability</b>		
Expected future claims payments (undiscounted) - central estimate	106,707	109,396
Risk margin applied (undiscounted)	1,789	1,742
Claims handling expenses	3,098	2,510
Discount to present value - central estimate	(1,958)	(2,128)
Discount to present value - risk margin	(13)	(12)
<b>Total outstanding claims liability</b>	<b>109,623</b>	<b>111,508</b>

## (b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes \$2.6 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 and claims development.

## (c) Kaikoura Earthquakes

The central estimate for the outstanding claims liability includes \$41.1 million relating to the Kaikoura earthquakes which occurred in November 2016. The estimate is based on information on individual reported claims plus an allowance for future claims and claims development.

## (d) Reconciliation of movement in discounted outstanding claims liability

	2018			2017		
	Gross \$000	Reinsurance \$000	Net \$000	Gross \$000	Reinsurance \$000	Net \$000
Balance as at 1 January	111,508	(71,042)	40,468	154,169	(93,760)	60,409
Current year claims incurred	123,458	(54,390)	69,068	105,712	(44,629)	61,083
Change in previous years' claims	(13,280)	(777)	(14,057)	(5,872)	(1,107)	(6,979)
Current year claims paid/RI recovered	(90,777)	32,615	(58,162)	(72,534)	27,892	(44,642)
Previous year claims paid/RI recovered	(29,164)	19,844	(9,320)	(69,967)	40,564	(29,403)
Portfolio commutation	7,878	7,741	15,618	-	-	-
<b>Balance as at 31 December</b>	<b>109,623</b>	<b>(66,009)</b>	<b>43,615</b>	<b>111,508</b>	<b>(71,040)</b>	<b>40,468</b>

## Notes to the Financial Statements

For the year ended 31 December 2018

### 15. OUTSTANDING CLAIMS (CONTINUED)

#### (e) Claims development table

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

#### Gross

Accident year	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	88,985	3,515	4,118	4,718	4,776	5,197	3,514	3,479	3,779	5,021	
One year later	125,115	2,917	1,192	4,517	4,866	6,319	5,176	3,498	4,944		
Two years later	127,558	1,037	1,761	3,006	3,089	3,742	6,188	4,087			
Three years later	128,253	1,974	1,626	2,340	4,311	4,655	7,374				
Four years later	90,891	1,384	2,081	1,600	9,927	6,798					
Five years later	107,422	1,252	2,723	1,186	7,104						
Six years later	104,811	1,023	3,000	995							
Seven years later	97,005	964	2,706								
Eight Years later	95,978	967									
Nine Years later	95,904										
Estimate of cumulative claims	95,904	967	2,706	995	7,104	6,798	7,374	4,087	4,944	5,021	135,900
Cumulative payments	95,268	941	2,627	962	5,369	4,220	4,006	1,622	1,106	511	116,632
Claims outstanding - undiscounted	636	26	79	33	1,735	2,578	3,368	2,465	3,838	4,510	19,268
Effect of discounting	16	2	2	1	147	112	296	209	247	361	1,393
Claims outstanding - discounted	620	24	77	32	1,588	2,466	3,072	2,256	3,591	4,149	17,875
Short-tail classes											86,960
Risk margins - discounted											1,777
Claims handling expenses											3,011
<b>Total gross outstanding claims</b>											<b>109,623</b>

## Notes to the Financial Statements

For the year ended 31 December 2018

### 15. OUTSTANDING CLAIMS (CONTINUED)

#### (e) Claims development table (continued)

Net	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Accident year											
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	59,757	1,618	1,935	2,133	2,071	1,281	1,027	756	983	1,472	
One year later	60,761	1,931	2,155	2,556	3,141	2,542	2,264	1,866	1,945		
Two years later	60,354	919	893	1,161	892	351	697	624			
Three years later	62,266	895	809	1,068	785	451	958				
Four years later	60,192	794	1,611	860	751	407					
Five years later	66,382	787	2,471	925	745						
Six years later	64,774	775	2,942	928							
Seven years later	62,827	775	2,659								
Eight Years later	62,213	772									
Nine Years later	62,191										
Estimate of cumulative claims	62,191	772	2,659	928	745	407	958	624	1,945	1,472	72,701
Cumulative payments	61,502	761	2,572	896	707	392	758	576	781	305	69,250
Claims outstanding - undiscounted	689	11	87	32	38	15	200	48	1,164	1,167	3,451
Effect of discounting	21	-	3	1	1	-	6	1	35	53	121
Claims outstanding - discounted	668	11	84	31	37	15	194	47	1,129	1,114	3,330
Short-tail classes											36,359
Risk margins - discounted											1,776
Claims handling expenses											2,150
<b>Total net outstanding claims</b>											<b>43,615</b>

2018  
\$000

2017  
\$000

### 16. UNEARNED PREMIUM LIABILITY

Unearned premium liability as at 1 January	89,590	75,787
Deferral of premiums on contracts written in the period	221,616	186,296
Earning of premiums written in current and previous periods	(217,319)	(172,493)
<b>Unearned premium liability as at 31 December</b>	<b>93,887</b>	<b>89,590</b>

### 17. AUDITOR'S REMUNERATION

During the financial year, the Branch appointed PricewaterhouseCoopers ("PwC") as its external auditor, replacing KPMG following a tender process. Audit and non-audit fees disclosed below for 2017 relate to amounts paid to KPMG whilst it was the auditor, and fees disclosed for 2018 relate to PwC's engagement as external auditor.

	2018	2017
	\$	\$
Audit of the financial statements	54,049	56,680

# Notes to the Financial Statements

For the year ended 31 December 2018

## 18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Name	Position	Term as KMP
<b>Directors</b>		
J.S. Curtis	Chairman of the Board	Full Year
R.D. Feledy	Managing Director	Full Year
P.J. Dwyer	Director	Appointed 18 February 2019
P.M. Mann	Director	Full Year
K.M. McKenzie	Director	Full Year
N.C. Peiris	Director	Full Year
T.R. Towell	Director	Full Year
<b>Senior Executives</b>		
N. Adams	Chief Market Manager	Full Year
M. Allchurch	Group General Counsel	Appointed 18 March 2019
L. Callahan	Chief Risk Officer	Full Year
T. Dawson	Chief Human Resources Officer	Full Year
M. Guppy	Chief Executive Officer – New Zealand	Full Year
D. Hosking	Chief General Manager – Broker & Agency	Full Year
M. Kaley	Company Secretary and General Counsel	Full Year
D. Krawitz	Chief Operating Officer	Full Year
M. Raumer	Chief Financial Officer	Full Year
T. Ruedesheim	Chief Information Officer	Full Year
N. Scofield	General Manager – Corporate Affairs	Full Year
H. Silver <sup>1</sup>	Chief General Manager – Corporate Governance and Conduct	Full Year
D. Walker	Chief Technical Officer	Full Year
M. Winter	Chief General Manager – Retail Distribution	Full Year
M. Wood	Chief Information Officer	Appointed 18 March 2019

<sup>1</sup> H. Silver was previously the Chief General Manager – Workers' Compensation before being appointed to her current role on 16 August 2018.

### (a) Transactions with key management personnel

	2018 \$ AUD	2018 \$ NZD	2017 \$ AUD	2017 \$ NZD
Short term employee benefits	7,758,125	8,145,100	7,681,005	8,287,584
Post employment benefits	290,973	305,486	324,554	350,185
Long term employee benefits	1,342,147	1,409,093	1,270,601	1,370,529
Share-based payments	1,577,557	1,656,245	1,623,617	1,751,836
<b>Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel</b>	<b>10,968,802</b>	<b>11,515,924</b>	<b>10,899,777</b>	<b>11,760,134</b>

### (b) Loans and other transactions with key management personnel

Refer to Note 19 for related party transactions concerning Directors.

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

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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 NZ Branch 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 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, R.D. Feledy (appointed 1 January 2018), P.J. Dwyer (appointed 18 February 2019), P.M. Mann, K.M. McKenzie, N.C. Peiris and T.R. Towell. The Directors of the Company hold positions in other entities within the Allianz Australia Group that result in them having control or significant influence over the financial and operating policies of the Company.

	2018	2017
(c)	\$	\$
Management fees paid to:		
Allianz New Zealand Limited	532,896	537,170
PIMCO Australia Pty Limited	37,504	41,799

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.

Commission paid to:		
AWP Services New Zealand Limited	24,945,251	15,671,746
Primacy Underwriting Management Limited	1,174,012	1,153,140
Euler Hermes Trade Credit Underwriting Agency Pty Limited	1,905,618	1,501,302
Global Transport & Automotive Insurance Solutions Pty Limited	2,654,190	2,730,886
Club Marine Limited	1,057,163	1,008,886

# Notes to the Financial Statements

For the year ended 31 December 2018

## 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:

	2018 \$	2017 \$
Reinsurance premiums ceded (paid)	107,414,179	88,551,803
Reinsurance claims recovered (received)	55,167,136	45,735,870

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

Head Office	(54,135,288)	(42,478,626)
Allianz New Zealand Limited	(4,584,132)	(10,778,682)
Club Marine Limited	(1,929,242)	(1,361,519)
Allianz Australia Services Pty Ltd	(9,449,018)	(8,060,774)
Primacy Underwriting Management Limited (NZ)	-	52
<b>Net amount due to related parties</b>	<b>(70,097,680)</b>	<b>(62,679,549)</b>

## 20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2018 \$000	2017 \$000
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### (a) Cash reconciliation

<b>Cash and cash equivalents in the statement of cash flows</b>	<b>63,293</b>	<b>44,535</b>
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### (b) Reconciliation of profit after income tax to net cash inflows from operating activities

Profit for the year	16,282	221
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#### Non-cash movements:

Realised losses on investments	-	211
Unrealised losses on revaluation	573	278
Expected credit loss recognised under AASB 9	1	-

#### Change in assets and liabilities:

Decrease/(increase) in premiums receivable and unclosed premiums	3,957	(9,711)
Increase in unearned premium	4,297	13,803
(Increase)/decrease in deferred acquisition costs	(4,995)	239
(Increase)/decrease in reinsurance and other recoveries receivable	(42)	20,787
Increase in tax assets and liabilities	9,663	61
Increase in creditors, borrowings and amounts owed to related companies	9,274	26,484
(Decrease) in outstanding claims	(1,884)	(42,661)
Decrease/(increase) in reinsurance premium payable	13,488	(2,826)
Increase/(decrease) in sundry payables	216	(1,506)
(Increase) in other receivables	(29,935)	(713)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>20,895</b>	<b>4,667</b>

## **Notes to the Financial Statements**

For the year ended 31 December 2018

### **21. CONTINGENT LIABILITIES**

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

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

### **22. EVENTS SUBSEQUENT TO BALANCE DATE**

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



## *Independent auditor's report*

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

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in head office account;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the financial statements of Allianz Australia Insurance Limited – New Zealand Branch (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

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

## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$1,629,895, which represents approximately 1% of the Company's gross earned premiums.

We chose gross earned premiums as it is a major factor in measuring performance for insurance companies and is considered to be a stable measure. It is also a key driver of profit (which is another generally expected benchmark for materiality). We used a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

We have determined that there is one two key audit matter and we have communicated this to the audit committee:

- Valuation of the outstanding claims liability

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

## Key audit matter

## How our audit addressed the key audit matter

### *Valuation of the outstanding claims liability (Note 6 & 15a) \$109.6m*

The estimation of outstanding claims involves significant judgement given the size of the liability and the inherent uncertainty in estimating the expected future payments for claims incurred.

The two key elements to this are the gross discounted central estimate and risk margin, both considered below.

The valuation of the outstanding claims liability was a key audit matter due to the higher level of estimation and judgement required in determining the appropriateness of the assumptions used in valuing the liability.

#### *Gross discounted central estimate*

Valuation of the liability involves complex and subjective judgements on a number of areas, including:

- Future events, internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate
- Estimation of payments for claims incurred but not reported at the reporting date given there is generally less clarity on this information
- Estimation of the period over which claims are expected to settle, impacting the estimation of expected future payments.

#### *Risk margins*

A risk margin, relating to the inherent uncertainty in the estimation of the present value of expected future payments, is determined by making judgements on the variability of the book of business. Management will consider the Probability of Adequacy in determining the appropriate risk margin.

Probability of Adequacy (PoA) is a measure of the estimated overall sufficiency of reserves including a risk margin in light of that variability.

Our audit procedures included evaluating the design effectiveness and implementation of relevant key actuarial controls, including the reconciliation of data inputs to both the GL and historical data.

Historical claims data was a key input to the actuarial estimates. Accordingly, we tested a sample of claims back to supporting documentation.

To evaluate the methodologies and assumptions utilised, we, together with PwC actuarial experts:

- developed an understanding of and evaluated the actuarial practices for the gross discounted central estimate and risk margin
- Evaluated whether actuarial methodologies were consistent with those in the industry and in prior years.
- Assessed the reasonableness of key actuarial assumptions by comparing them with our expectations based on experience, current trends and benchmarks.
- Assessed the approach to setting the risk margin in light of the requirements of New Zealand Accounting Standards.

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### *Information other than the financial statements and auditor's report*

Management are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, the directors have advised that no other information will be included in the annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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### *Responsibilities of Management for the financial statements*

Management is responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

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### *Who we report to*

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



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The engagement partner on the audit resulting in this independent auditor's report is Scott Hadfield. Scott Hadfield is a registered Auditor with the Australian Securities and Investments Commission and supervised by the Australian Prudential Regulation Authority.

For and on behalf of:

*PricewaterhouseCoopers*

Chartered Accountants  
28 March 2019

Sydney

**COMPANY:** **ALLIANZ AUSTRALIA INSURANCE LIMITED  
(NZ BRANCH)**

**SUBMITTED BY:** **BRETT RILEY**

**TOPIC:** **ALLIANZ AUSTRALIA INSURANCE LIMITED  
(NEW ZEALAND BRANCH) APPOINTED  
ACTUARY REPORT AT 31 DECEMBER 2018**

**PURPOSE:** **INFORMATION**

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## **1. PURPOSE**

I have prepared this Appointed Actuary report as at 31 December 2018 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 for AAIL. As such, it does not comply with the relevant requirements outlined in PS4 issued by the New Zealand Society of Actuaries.

## **2. SUPPORTING ANALYSES**

As Appointed Actuary to AAIL, I am responsible for the preparation of actuarial information which feeds into the AAIL financial statements. The actuarial information provided to support the 31 December 2018 financial statements (“**Financial Statements**”) is the result of the following work performed by the Finance Actuarial team:

- A full analysis of outstanding claims for AAIL using data as at 30 September 2018, as documented in the report titled “Allianz Australia Limited Valuation of Outstanding Claims Liabilities as at 30 September 2018”;
- A roll forward of the 30 September 2018 full valuation outstanding claims estimates to 31 December 2018. The results of this analysis summarised at the Allianz Australia Limited level are documented in the file “Liability Valuation Report 31 December 2018 Reported Results”;
- A full analysis of premium liabilities as at 31 December 2018, as documented in the report “Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2018”; and



- An analysis of risk margins, as documented in the report “Allianz Australia Limited Assessment of Risk Margins as at 31 December 2017”.

### 3. 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 Control 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 2018 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).

### 4. 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.

### 5. STATEMENT OF RELATIONSHIP

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

### 6. 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.



**Brett Riley FNZSA FIAA CERA**  
**Appointed Actuary to AAILNZ**

**6 March 2019**