Allianz Australia Insurance Limited - New Zealand Branch
Company number 3994759

Annual Report for the year ended 31 December 2019

Allianz

Company Directory

As at 31 December 2019

Company number	3994759
IRD	109-941-972
Nature of business	Provision of general insurance services
Registered Office	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 2019 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. L. Arthur

- Appointed an independent non-executive director on 14 August 2019
- Member of the Allianz Australia Audit, Risk, Investment, Nomination, Human Resources & Remuneration and Conduct, Culture & Reputation Committees

Career Summary:

- Previously Chief Executive Officer and Executive Chair for Investa Property Group and a Non-Executive Director for Investa Property Group, CSR Limited, Australian Funds Management Limited, Electronic Data Systems Pty Ltd and Rinker Group
- Currently Chair for Sydney Metro and a Director for the Optus Advisory Committee

J.S. Curtis

- Appointed an independent non-executive director on 22 July 1992
- Chair of the Allianz Australia Board up until retirement on 31 December 2019
- Retired from the Allianz Australia Group and its Committees on 31 December 2019
- During the year Mr. Curtis was Chair of the Allianz Australia Nomination and Investment Committees and a Member of the Allianz Australia Audit, Risk, Human Resources & Remuneration and Conduct, Culture & Reputation 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); Chair/Director, St George Bank (1997-2008), Director, Perpetual Trustees Australia Limited (1995 – 2004), Chair 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 an independent non-executive director on 18 February 2019
- Appointed Chair of the Allianz Australia Board effective on 1 January 2020
- Appointed Chair of the Allianz Australia Investment, Conduct, Culture & Reputation and Nomination Committees effective 4 February 2020
- Member of the Allianz Australia Audit, Risk and Human Resources & Remuneration Committees

Company Directory Report (continued)

Company Directory (continued)

Career Summary:

- Chair of Tabcorp Holdings Limited and the Kin Group Advisory Board and a director of the ANZ Banking Group and Lion Pty Ltd, a member of the International Advisory Board of Kirin Holdings of Japan and the Australian Government Takeovers Panel, a chartered accountant with strong financial and commercial experience and an executive career in investment management and investment banking
- Past appointments include serving as Deputy Chair 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; a Member of the Victorian Casino and Gaming Authority, the Victorian Gaming Commission, the Business and Economics Board of the University of Melbourne and the ASIC External Advisory Board; a Deputy Director of Emergency Services Superannuation, VicSuper and Government Superannuation Office and the Deputy Chair of the Baker IDI Heart and Diabetes Research Institute

R.D. Feledy

- Appointed Managing Director on 1 January 2018
- Member of the Allianz Australia Investment, Audit, Risk and Conduct, Culture & Reputations Committees

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
- Richard held senior roles within FAI Insurance and HIH Insurance, before joining Allianz in 2000. He 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
- Director of the Insurance Council of Australia

P.M. Mann

- Appointed an independent non-executive director on 1 November 2013
- Chair of the Allianz Australia Audit Committee and Risk Committee
- Member of the Allianz Australia Investment, Nomination, Human Resources & 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, Bega Cheese Limited, Event Hospitality and Entertainment Limited, Allianz Australia Life Insurance Limited and Allianz Australia Life Insurance Holdings Limited

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:

- Current directorships are with Stockland Corporation Limited and Stockland Trust, and NBN Co Limited
- Most recently she held the position of Chief Executive Officer of Chorus New Zealand Limited
- Previously she 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. She was also a Director for Telstra Ventures Pty Ltd, Telstra Foundation Ltd, Customer Services Pty Ltd, Foxtel Cable Television Pty Ltd and Foxtel Management Pty Ltd
- Other current directorships are with MCK Consulting Pty Ltd and Westcroft Pty Ltd

Company Directory Report (continued)

Company Directory (continued)

T. K. H. Naumann

- Appointed a non-executive director on 2 August 2019
- Member of the Allianz Australia Audit, Risk, Investment, Nomination, Human Resources & Remuneration and Conduct, Culture & Reputation Committees

Career Summary:

- Held senior position in Allianz SE working as Head of Group Planning & Controlling
- Previously an Executive Director for Allianz Asset Management AG, KG Allgemeine Leasing GmbH & Co. Gronwald and Dresdner Bank AG
- Currently an Executive Vice President of Allianz SE and a Non-Executive Director for Allianz S.p.A, Allianz Sigorta A.S. and Allianz Hayat ve Emeklilik A.S
- Currently a non-executive director for Allianz Australia Life Insurance Limited and Allianz Australia Life Insurance Holdings Limited

N.C. Peiris

- Appointed a non-executive director on 1 January 2018 and resigned on 31 July 2019
- Appointed Managing Director on 1 January 2013 and resigned on 31 December 2017
- Member of the Allianz Australia Investment, Audit, Risk, Human Resources & Remuneration, Conduct, Culture & Reputation and Nomination Committees and resigned on 31 July 2019

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

G. D. Sartorel

- Appointed an non-executive director on 14 August 2019
- Member of the Allianz Australia Investment, Audit, Risk, Nomination, Human Resources & Remuneration and Conduct, Culture & Reputation Committees

Career Summary:

- Extensive career with Allianz globally, holding positions such as Chief Executive Officer of Allianz Italy S.p.A and Allianz Turkey, Regional Chief Executive Officer of Allianz Asia Pacific and Founder and Chairman of the Allianz Asia Advisory Council
- Previously a Board Member for BIMA and a Member of the Financial Centre Advisory Panel

T.R. Towell

- Appointed a non-executive director on 1 July 2013
- Retired from the Allianz Australia Group and its Committees on 31 December 2019
- Chair of the Allianz Australia Conduct, Culture & Reputation Committee and a 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 6 to 40, are in accordance with the Financial Reporting Act 2013, including:

(i) fairly presenting the NZ Branch's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

(ii) complying with New Zealand generally accepted accounting practice

(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:

P.J Dwyer
Director

R.D. Feledy
Director

Sydney
30 March 2020

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 $000	2018 $000
Premium revenue	8	199,324	217,319
Outward reinsurance expense	8	(41,075)	(107,414)
Total premium revenue		**158,249**	**109,905**
Claims expense	10	(105,002)	(110,178)
Reinsurance and other recoveries revenue	10	19,331	55,167
Total claims expense	**10**	**(85,671)**	**(55,011)**
Acquisition costs		(57,193)	(33,932)
Total underwriting expenses		**(57,193)**	**(33,932)**
Underwriting result		**15,385**	**20,962**
Other income and expenses			
Investment income	9	3,726	2,713
Foreign exchange gains		323	1,469
Other expenses		(11,475)	(2,440)
Total other income and expenses		**(7,426)**	**1,742**
Profit before income tax		**7,959**	**22,704**
Income tax (expense)	11(a)	(2,158)	(6,422)
Profit after income tax		**5,801**	**16,282**

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 11 to 40.

Statement of Changes in Head Office Account

For the year ended 31 December 2019

	Head office transfers $000	Retained earnings $000	**Total head office account $000**
At 1 January 2019	**23,648**	**19,500**	**43,148**
Profit for the year	-	5,801	**5,801**
Total for the year	**-**	**5,801**	**5,801**
At 31 December 2019	**23,648**	**25,301**	**48,949**

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

The statement of changes in head office account is to be read in conjunction with the notes to the financial statements set out on pages 11 to 40.

Statement of Financial Position
As at 31 December 2019

	Note	2019 $000	2018 $000
Current assets			
Cash & cash equivalents	20	112,021	61,742
Trade and other receivables	12	46,808	76,157
Reinsurance and other recoveries receivable	15(d)	53,314	46,903
Deferred acquisition costs	14	12,704	19,309
Deferred reinsurance premiums		15,798	15,290
Financial assets at fair value through profit or loss	13	88,244	86,409
Right of use asset	21	239	-
Total current assets		**329,128**	**305,810**
Non-current assets			
Reinsurance and other recoveries receivable	15(d)	18,944	19,106
Right of use asset	21	219	-
Total non-current assets		**19,163**	**19,106**
Total assets		**348,291**	**324,916**
Current liabilities			
Outstanding claims	15(a)	85,801	86,750
Unearned premium liability	16	59,934	83,397
Accounts payable and accruals		115,874	73,036
Provision for expected credit loss		5	3
Income tax liability		4,118	-
Lease liability	21	208	-
Total current liabilities		**265,940**	**243,186**
Non-current liabilities			
Outstanding claims	15(a)	22,381	22,873
Unearned premium liability	16	7,539	10,490
Deferred tax liabilities	11(c)	3,283	5,219
Lease liability	21	199	-
Total non-current liabilities		**33,402**	**38,582**
Total liabilities		**299,342**	**281,768**
Net assets		**48,949**	**43,148**
Total head office account		**48,949**	**43,148**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 11 to 40.

Statement of Cash Flows
For the year ended 31 December 2019

	Note	2019 $000	2018 $000
Cash flows from operating activities			
Premiums received		173,823	235,345
Outwards reinsurance paid		(44,177)	(93,783)
Claims paid		(99,348)	(124,916)
Reinsurance and other recoveries received		17,309	55,432
Acquisition costs paid		(50,587)	(38,928)
Intercompany amounts received/(paid)		59,719	(29,827)
Income taxes paid		629	3,241
Interest received		4,113	12,859
Other expenses (paid)/received		(9,526)	410
Foreign exchange gains		323	1,470
Net cash inflow from operating activities	**20(b)**	**52,278**	**21,303**
Cash flows from investing activities			
Net (payments) from trading of investments		(1,803)	(2,137)
Net cash (outflow) from investing activities		**(1,803)**	**(2,137)**
Cash flows from financing activities			
Principal elements of lease payments		(196)	-
Net cash outflow from financing activities		**(196)**	**-**
Net increase/(decrease) in cash		**50,279**	**19,166**
Cash at the beginning of the year		61,742	42,576
Cash at the end of the year		**112,021**	**61,742**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 11 to 40.

Notes to the Financial Statements
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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 2019 account for the financial results of the Allianz Australia Insurance Limited's NZ Branch ("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.

(a) New and amended accounting standards adopted

NZ IFRS16 *Leases*, issued in February 2016, was effective for financial periods beginning on or after 1 January 2019. The NZ Branch applied NZ IFRS16 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 NZ Branch applied this standard using the modified retrospective approach whereby the right of use asset is set to equal to the lease liability plus the make good provision. There is no profit or loss impact on transition and no restatement of comparative information.

In the balance sheet, right-of-use lease assets, lease liabilities and additional make good provision were recognised on 1 January 2019, increasing the NZ Branch's total assets and total liabilities respectively by $776,180. These were measured as the present value of future lease payments, discounted using the NZ Branch's incremental borrowing rate and other factors specific to each lease where relevant.

In applying NZ IFRS16 for the first time, the NZ Branch has used the following practical expedients permitted by the standard:
- relying on previous assessments on whether the lease is onerous as an alternative to performing an impairment review; it was not an onerous contract as at 1 January 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

No other standards effective in the period have resulted in a significant change the accounting policies of the NZ Branch.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Changes in accounting standards (continued)

(b) New standards and interpretations not yet adopted

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 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 2019 to 31 December 2019.

(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.

(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)).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investments

The carrying amounts for all assets backing insurance liabilities are recognised at 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 through profit or loss income.
- All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention (regular way transactions) are recognised at trade date, being the date on which the NZ Branch commits to buy or sell the asset.

2. CORPORATE GOVERNANCE STATEMENT

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

The Board 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 six 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:

- 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 (retired 31 December 2019), R.D. Feledy (appointed 1 January 2018), P.J. Dwyer (appointed 18 February 2019), P.M. Mann, K.M. McKenzie, N.C. Peiris (resigned 31 December 2019) and T.R. Towell (retired 31 December 2019).

  N.C. Peiris holds a position on the Allianz SE Board of Management that results in them having significant influence over the financial and operating policies of the Company.

  T.K.H. Naumann represents the shareholder, Allianz SE, that resulted in him having significant influence over the financial and operating policies of the Consolidated Entity since his appointment on 20 August 2019.

- Executive Directors: R.D. Feledy (Managing Director).

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit risk (continued)	AA+ AA AA-	A+ A A-	Not Rated	Total
	$000	$000	$000	$000
2019				
Cash and cash equivalents	112,021	-	-	112,021
Trade and other receivables	4,935	839	41,034	46,808
Reinsurance and other recoveries receivable	62,702	5,543	4,013	72,258
Financial assets at fair value through profit and loss	88,244	-	-	88,244
Total financial assets	**267,902**	**6,382**	**45,047**	**319,331**
2018				
Cash and cash equivalents	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
Total financial assets	**222,588**	**2,003**	**65,726**	**290,317**

(e) Liquidity risk

Prudent liquidity risk management requires 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:				
	1 year or less	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
As at 31 December 2019					
Outstanding claims (undiscounted)	86,136	12,507	4,385	6,560	109,588
Accounts payable and accruals	115,874	-	-	-	115,874
Lease liability	207	200	-	-	407
Total financial liabilities	**202,217**	**12,707**	**4,385**	**6,560**	**225,869**
As at 31 December 2018					
Outstanding claims (undiscounted)	87,062	13,548	5,204	5,780	111,594
Accounts payable and accruals	73,036	-	-	-	73,036
Total financial liabilities	**160,098**	**13,548**	**5,204**	**5,780**	**184,630**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

Additional information regarding NZ Branch's investment in government bonds is provided below:

	Face value		Maximum term		Weighted average yield	
	2019	2018	2019	2018	2019	2018
	$000	$000	Years	Years	%	%
Government bonds	21,200	19,400	1	2	3	6

(f) 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 significant foreign currency risks as predominantly 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
2019			
Financial assets			
Cash	114,116	(822)	822
Bills of exchange and floating notes	66,921	482	(482)
Government bonds	21,323	154	(154)
Total financial assets	**202,360**	**(186)**	**186**
2018			
Cash	63,293	(456)	456
Bills of exchange and floating notes	66,881	482	(482)
Government bonds	19,528	141	(141)
Total financial assets	**149,702**	**167**	**(167)**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) 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 Reserve Bank of New Zealand ("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 and capital expenditure while providing a buffer against adverse outcomes from insurance and other activities and investment performance.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the 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's 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 from 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 an internal capital 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 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 and Parent Company's APRA returns, to the RBNZ. 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 2019.

4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance (continued)	2019 AUD $000	2019 NZD $000
Statutory capital of Allianz Australia Insurance Limited		
Common equity tier 1 capital		
Ordinary shares	1,571,307	1,637,239
Retained earnings	1,261,322	1,314,247
Disclosed reserves	5,970	6,221
Technical provision in excess of liability valuation (net of tax)	43,414	45,236
Regulatory adjustments for non allowable assets	(523,560)	(545,529)
Total common equity tier 1 capital	**2,358,453**	**2,457,414**
Total regulatory capital	**2,358,453**	**2,457,414**
Prescribed capital amount		
Insurance risk charge	1,027,001	1,070,094
Insurance concentration risk charge	92,500	96,381
Diversified asset risk charge	518,630	540,392
Operational risk charge	199,511	207,882
Aggregation benefit	(313,554)	(326,712)
Adjustments to prescribed capital amount as approved by APRA	(88,087)	(91,783)
Prescribed capital amount	**1,436,001**	**1,496,254**
Solvency margin	**922,452**	**961,160**
Capital adequacy multiple	**1.64**	**1.64**
Additional capital requirement*	250,000	260,490
Adjusted capital adequacy multiple	**1.40**	**1.40**

*In August 2019 APRA imposed an additional capital requirement of $250m as a result of weaknesses identified through Allianz's self-assessment into governance, culture and accountability. The additional capital requirement will remain in place until remediation work is undertaken to strengthen risk management and close gaps identified by the self-assessment.

	2018 AUD $000	2018 NZD $000
Statutory capital of Allianz Australia Insurance Limited		
Common equity tier 1 capital		
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)
Total common equity tier 1 capital	**2,112,065**	**2,217,415**
Total regulatory capital	**2,112,065**	**2,217,415**
Prescribed capital amount		
Insurance risk	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)
Prescribed capital amount	**1,404,561**	**1,474,621**
Solvency margin	**707,504**	**742,794**
Capital adequacy multiple	**1.50**	**1.50**

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 also 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, Allianz Australia Limited and it's controlled entities – (the "Consolidated Entity") 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.

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

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

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 the insured losses. 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 has processes in place to monitor its aggregate exposure position and to model the risk posed by exposure concentrations to the Statement of Financial Position. These processes ensure that exposures remain diversified and that reinsurance arrangements are adequate.

(d) Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Branch 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 NZ Branch 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 Company's policy is not to accept reinsurers with the following S&P (or equivalent A.M. Best) ratings:

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

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

6. ACTUARIAL ASSUMPTIONS AND METHODS

(a) Actuarial information

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 2019.

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 2019 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

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 claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER") 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.

	2019 Short-Tail	2019 Long-Tail	2018 Short-Tail	2018 Long-Tail
Average weighted term to settlement (years)	0.38	1.34	0.42	1.88
Claims handling expenses (net of reinsurance)	6.07%	4.94%	5.47%	4.99%
Discount rate	0.96%	1.27%	1.74%	1.87%
Economic inflation rate per annum	2.50%	3.50%	2.50%	3.50%

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) Economic 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.
Economic inflation rate	Expected future payments are inflated to take account of anticipated future inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

(ii) Impact of changes in key variables

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

2019

	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
Average weighted term to settlement	+0.5 year	426	157	298	110
	-0.5 year	(289)	(124)	(202)	(87)
Claims handling expenses	+100 bps	(854)	(776)	(597)	(543)
	-100 bps	854	776	597	543
Discount rate	+100 bps p.a.	305	123	213	86
	-100 bps p. a.	(310)	(125)	(217)	(88)
Economic inflation rate	+100 bps p.a.	(310)	(125)	(217)	(88)
	-100 bps p. a.	311	126	218	88

	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Long-tail					
Average weighted term to settlement	+0.5 year	145	20	102	14
	-0.5 year	(146)	(20)	(102)	(14)
Claims handling expenses	+100 bps	(199)	(28)	(139)	(20)
	-100 bps	199	28	139	20
Discount rate	+100 bps p.a.	634	40	443	28
	-100 bps p. a.	(678)	(42)	(475)	(30)
Economic inflation rate	+100 bps p.a.	(681)	(42)	(477)	(30)
	-100 bps p. a.	648	41	454	29

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.

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	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
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 before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross of RI	Net of RI	Gross of RI	Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	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

(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.

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 sufficiency.

The risk margins are as follows:

	Outstanding claims liability		Premium liabilities	
Risk margins applied	**2019**	**2018**	**2019**	**2018**
Short-tail classes	3.5%	4.0%	7.3%	9.6%
Long-tail classes	3.3%	5.0%	7.3%	9.6%
Overall margin	3.4%	4.1%	7.3%	9.6%

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, IBNR, 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 economic. 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.

	2019 $000	2018 $000
8. PREMIUM REVENUE		
Gross written premium	172,909	221,616
Movement in unearned premium liability	26,415	(4,297)
Gross earned premium revenue	**199,324**	**217,319**
Outwards reinsurance expense	(41,075)	(107,414)
Net earned premium	**158,249**	**109,905**

	2019 $000	2018 $000

9. INVESTMENT AND OTHER INCOME

	2019 $000	2018 $000
Interest on government bonds	672	909
Other interest	3,333	2,377
Unrealised losses on investments	(179)	(573)
Realised losses on investments	(100)	-
Total investment and other income	**3,726**	**2,713**

10. NET CLAIMS INCURRED

	Current year $000	Prior years $000	Total $000
2019			
Gross claims incurred - undiscounted	(117,412)	12,976	(104,436)
Discount movement	517	(1,083)	(566)
Gross claims incurred - discounted	(116,895)	11,893	(105,002)
Reinsurance and other recoveries revenue - undiscounted	18,837	(35)	18,802
Discount movement	(401)	930	529
Reinsurance and other recoveries revenue discounted	18,436	895	19,331
Net claims incurred	**(98,459)**	**12,788**	**(85,671)**
2018			
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
Net claims incurred	**(69,068)**	**14,057**	**(55,011)**

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 in 2019 from property classes due to favourable claims reporting and settlement. Future claims assumptions have also been changed in some cases in response to this favourable experience

	2019 $000	2018 $000

11. TAXATION

(a) Income tax expense

	2019 $000	2018 $000
Current tax expense	4,165	4,974
Movement in deferred acquisition costs balance recognised	(1,936)	1,399
Prior year adjustment	(71)	49
Total recognised income tax (expense)/benefit	**2,158**	**6,422**

(b) Reconciliation of effective tax rate

	2019 $000	2018 $000
Profit before tax	7,959	22,704
Income tax at 28%	2,229	6,357
Prior year adjustment	(71)	49
Non-deductible expenses	-	16
Total income tax expense	**2,158**	**6,422**

(c) Deferred tax (liability)/asset

The balance comprises temporary differences attributable to:

	2019 $000	2018 $000
Deferred acquisition costs	3,557	5,407
Others	(274)	(1)
Tax losses	-	(187)
Net deferred tax liability	**3,283**	**5,219**

The NZ Branch considers the deferred tax asset recognised to be recoverable on the basis that is 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

	2019 $000	2018 $000
Premiums receivable	13,932	25,964
Unclosed premiums	3,228	3,921
Reinsurance debtors	6,253	10,478
Other receivables	23,395	35,189
Income tax benefit receivable	-	605
Total trade and other receivables	**46,808**	**76,157**

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

(b) Amounts due from related entities

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

12. RECEIVABLES (CONTINUED)

(c) Impairment losses

No impairment loss is recognised as at the year end. The ageing of trade and other receivables at the reporting date that were not impaired as follows:

	2019	2018
	$000	$000
Not past due or impaired	36,276	61,455
0 to 3 months	6,423	10,888
3 to 6 months	953	1,319
Over 6 months	1,061	944
Total receivables	**44,713**	**74,606**

13. FINANCIAL ASSETS

(a) Investments

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

	2019	2018
	$000	$000
Bills of exchange and floating notes	66,921	66,881
Government bonds	21,323	19,528
Total Financial assets at fair value through profit and loss	**88,244**	**86,409**

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

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

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

Financial assets and derivatives designated at fair value through profit

	Level 1	Level 2	Level 3	Total
2019	**$000**	**$000**	**$000**	**$000**
Bills of exchange and floating rate notes	-	66,921	-	66,921
Government bonds	-	21,323	-	21,323
Total investments	**-**	**88,244**	**-**	**88,244**
Cash and cash equivalents	112,021	-	-	112,021
Total financial assets	**112,021**	**88,244**	**-**	**200,265**

FINANCIAL ASSETS (CONTINUED)

Financial assets and derivatives designated at fair value through profit

2018	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bills of exchange and floating rate notes	-	66,881	-	66,881
Government bonds	-	19,528	-	19,528
Total investments	**-**	**86,409**	**-**	**86,409**
Cash and cash equivalents	63,293	-	-	63,293
Total financial assets	**63,293**	**86,409**	**-**	**149,702**

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 3 as at 31 December 2019. Appropriateness of fair value hierarchy classification is reviewed annually.

	2019 $000	2018 $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%.

(a) Movement in Deferred acquisition costs at 1 January		
Deferred acquisition costs at 1 January	19,309	14,314
Acquisition costs deferred	51,382	33,810
Amortisation charged to income	(59,045)	(30,122)
Release of premium deficiency prior year	1,058	2,365
Write down for premium deficiency current year	-	(1,058)
Total as at 31 December	**12,704**	**19,309**

A liability adequacy test was performed as at 31 December 2019, no deficiency was identified. As at 2018 year end a deficiency of $1,056,158 was recognised.

	2019 $000	2018 $000

15. OUTSTANDING CLAIMS

(a) Outstanding claims liability

	2019 $000	2018 $000
Expected future claims payments (undiscounted) - central estimate	105,349	106,707
Risk margin applied (undiscounted)	1,260	1,789
Claims handling expenses	2,979	3,098
Discount to present value - central estimate	(1,397)	(1,958)
Discount to present value - risk margin	(9)	(13)
Total outstanding claims liability	**108,182**	**109,623**

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes $3.8 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 $37.9 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

	2019			2018		
	Gross $000	Recoveries $000	Net $000	Gross $000	Recoveries $000	Net $000
Balance as at 1 January	109,623	(66,009)	43,614	111,508	(71,042)	40,468
Current year claims incurred	116,894	(18,436)	98,458	123,458	(54,390)	69,068
Change in previous years' claims incurred	(11,892)	(895)	(12,787)	(13,280)	(777)	(14,057)
Current year claims paid	(78,991)	2,267	(76,724)	(90,777)	32,615	(58,162)
Change in prior year claims paid	(27,452)	10,815	(16,637)	(29,164)	19,844	(9,320)
Portfolio commutation				7,878	7,741	15,618
Balance as at 31 December	**108,182**	**(72,258)**	**35,924**	**109,623**	**(66,009)**	**43,615**

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	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimated cumulative claims:	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
End of accident year	128,631	4,118	4,718	4,776	5,197	3,514	3,479	3,779	5,021	6,578	
One year later	130,475	1,192	4,517	4,866	6,319	5,176	3,498	4,944	6,484		
Two years later	129,290	1,761	3,006	3,089	3,742	6,188	4,087	3,504			
Three years later	92,865	1,626	2,340	4,311	4,655	7,374	3,303				
Four years later	108,806	2,081	1,600	9,927	6,798	6,366					
Five years later	106,063	2,723	1,186	7,104	7,191						
Six years later	98,028	3,000	995	6,392							
Seven years later	96,942	2,706	978								
Eight Years later	96,871	2,694									
Nine Years later	96,320										
Estimate of cumulative claims cost	96,320	2,694	978	6,392	7,191	6,366	3,303	3,504	6,484	6,578	139,811
Cumulative payments	96,209	2,662	962	5,369	4,586	4,038	1,670	1,216	1,750	659	119,120
Cumulative outstanding undiscounted	111	32	16	1,023	2,606	2,328	1,633	2,288	4,734	5,919	20,691
Discount	5	2	1	52	130	120	83	116	237	333	1,079
Claims Outstanding - Discounted	**106**	**31**	**15**	**971**	**2,476**	**2,208**	**1,550**	**2,172**	**4,497**	**5,586**	**19,612**
Short Tail Classes											84,404
Claims Handling expenses											2,915
Total gross outstanding claims											106,931
Risk Margin											1,251
Total gross outstanding claims											**108,182**

15. OUTSTANDING CLAIMS (CONTINUED)

(e) Claims development table (continued)

Net

Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimated cumulative claims:	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
End of accident year	62,379	1,935	2,133	2,071	1,281	1,027	756	983	1,472	1,302	
One year later	62,285	2,155	2,556	3,141	2,542	2,264	1,866	1,945	1,752		
Two years later	63,185	893	1,161	892	351	697	624	894			
Three years later	61,087	809	1,068	785	451	958	708				
Four years later	67,176	1,611	860	751	407	872					
Five years later	65,561	2,471	925	745	401						
Six years later	63,602	2,942	928	734							
Seven years later	62,988	2,659	915								
Eight Years later	62,963	2,658									
Nine Years later	62,367										
Estimate of Cumulative Claims Cost	62,367	2,658	915	734	401	872	708	894	1,752	1,302	72,604
Cumulative payments	62,263	2,614	896	707	392	758	628	805	407	256	69,727
Claims outstanding - undiscounted	104	44	19	27	8	113	81	89	1,346	1,046	2,877
Discount	11	5	2	3	1	12	8	9	138	12	199
Claims outstanding discount	93	40	17	24	8	102	72	80	1,208	1,034	2,678
Short Tail Classes											30,046
Claims Handling Expenses											1,949
Total Net Outstanding Claims											34,673
Risk Margin											1,251
Total net outstanding claims											**35,924**

	2019 $000	2018 $000
16. UNEARNED PREMIUM LIABILITY		
Unearned premium liability as at 1 January	93,887	89,590
Deferral of premiums on contracts written in the period	172,908	221,616
Premiums earned during the year	(199,322)	(217,319)
Unearned premium liability as at 31 December	**67,473**	**93,887**

17. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms.
Comparative information has been restated to include amounts paid in the current financial period of $3,055 relating to services provided by the auditor for the finalisation of reports for the period ended 31 December 2018.

	2019 $	2018 $
Audit of the financial statements	51,473	57,104

18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Name	Position	Term as KMP	
Directors			
J.L. Arthur	Director		Appointed 14 August 2019
J.S. Curtis	Chair of the Board	Full Year	Resigned 31 December 2019
P.J. Dwyer[1]	Chair of the Board (Appointed 1 January 2020)		Appointed 18 February 2019
R.D. Feledy	Managing Director	Full Year	
P.M. Mann	Director	Full Year	
K.M. McKenzie	Director	Full Year	
T.K.H. Naumann	Director		Appointed 20 August 2019
N.C. Peiris	Director		Resigned 31 July 2019
G.D. Sartorel	Director		Appointed 14 August 2019
T.R. Towell	Director	Full Year	Resigned 31 December 2019
Senior Executives			
N. Adams	Chief Market Manager	Full Year	
L. Callahan	Chief Risk Officer	Full Year	
T. Dawson	Chief Human Resources Officer		Resigned 17 October 2019
V. Drakousis	Chief Human Resources Officer		Appointed 29 April 2019
B. Dunne	Chief Customer Service Officer		Appointed 10 June 2019
M. Guppy	Chief Executive Officer – New Zealand	Full Year	
D. Hosking	Chief General Manager – Broker & Agency	Full Year	
D. Krawitz[2]	Chief Operating and Transformation Officer	Full Year	
M. Raumer	Chief Financial Officer	Full Year	
H. Silver	Chief General Manager – Corporate, Governance and Conduct	Full Year	
D. Walker	Chief Technical Officer		4 September 2019
M. Winter	Chief General Manager – Retail Distribution	Full Year	

[1] P.J. Dwyer was previously Director, appointed 18 February 2019, before being appointed to her current role on 1 January 2020.
[2] D. Krawitz was previously the Chief Operating Officer before being appointed to his current role on 10 June 2019.

(a) Transactions with key management personnel

	2019 $ AUD	2019 $ NZD	2018 $ AUD	2018 $ NZD
Short term employee benefits	6,599,553	6,966,764	5,915,242	6,387,842
Post employment benefits	257,100	271,405	223,054	240,874
Long term employee benefits	1,381,535	1,458,406	1,285,493	1,388,198
Share-based payments	1,683,074	1,776,723	1,439,050	1,554,023
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel	**9,921,262**	**10,473,298**	**8,862,839**	**9,570,937**

Three positions disclosed in 2018 were determined to no longer be key management personnel. A total of $1,852,581 AUD and $1,944,987 NZD was recognised in 2018 in relation to these positions.

(b) Loans and other transactions with key management personnel

Refer to Note 19 for related party transactions concerning Directors.

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

19. RELATED PARTY TRANSACTIONS

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

The following types of transactions have arisen between the NZ Branch and entities within the Allianz SE Group:
(i) loans advances and repayments;
(ii) fees for funds management;
(iii) commissions;
(iv) outsourced services;
(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 (resigned 31 December 2019), R.D. Feledy (appointed 1 January 2018), P.J. Dwyer (appointed 18 February 2019), P.M. Mann, K.M. McKenzie, N.C. Peiris (retired 31 December 2019) and T.R. Towell (resigned 31 December 2019).

N.C. Peiris holds a position on the Allianz SE Board of Management that results in them having significant influence over the financial and operating policies of the Company.

T.K.H. Naumann represents the shareholder, Allianz SE, that resulted in him having significant influence over the financial and operating policies of the Consolidated Entity since his appointment on 2 August 2019.

(c)	2019 $	2018 $
Management fees paid to:		
Allianz New Zealand Limited	615,563	532,896
PIMCO Australia Pty Limited	55,274	37,504

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	25,966,216	24,945,251
Primacy Underwriting Management Limited	1,254,379	1,174,012
Euler Hermes Trade Credit Underwriting Agency Pty Limited	1,720,790	1,905,618

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:

	2019 $	2018 $
Reinsurance premiums ceded (paid)	41,074,839	107,414,179
Reinsurance claims recoverable (received)	19,331,232	55,167,136

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

Head Office - Allianz Australia Insurance Limited	(48,949,098)	(43,147,957)
Allianz Australia Insurance Limited	(62,036,326)	(54,135,288)
Allianz New Zealand Limited	(56,631,705)	(4,584,132)
Club Marine Limited	(2,708,131)	(1,929,242)
Allianz Australia Services Pty Ltd	(10,838,178)	(9,449,017)
AWP Services New Zealand Ltd	13,608,249	
Net amount due to related parties	**(167,555,189)**	**(122,694,654)**

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2019 $000	2018 $000
(a) Cash reconciliation		
Cash and cash equivalents in the statement of cash flows	**112,021**	**61,742**

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

	2019 $000	2018 $000
Profit for the year	5,801	16,282
Non-cash movements:		
Unrealised losses on revaluation	179	573
Expected credit loss recognised under AASB 9	2	1
Depreciation of right of use asset	207	-
(Increase) in make good provision	(166)	-
(Increase) in right of use assets	(603)	-
Change in assets and liabilities:		
Decrease/(increase) in premiums receivable and unclosed premiums	12,725	3,957
(Decrease)/Increase in unearned premium	(26,415)	4,297
Decrease/(Increase) in deferred acquisition costs	6,606	(4,995)
Increase/ (decrease) in reinsurance and other recoveries receivable	(2,024)	(42)
Decrease in tax assets and liabilities	(1,331)	9,663
Increase in creditors, borrowings and amounts owed to related companies	48,429	9,274
(Decrease) in outstanding claims	(1,441)	(1,884)
(Decrease)/increase in reinsurance premium payable	(2,595)	13,488
Increase in prepayments	(507)	-
Increase in income tax provision	4,118	-
Increase/(decrease) in sundry payables	(2,602)	216
(Increase)/Decrease in other receivables	11,795	(29,527)
Increase/ Decrease in financial investments	100	-
Net cash inflow from operating activities	**52,278**	**21,303**

21. LEASES

	2019 $000	2018 $000
(a) Right-of-use assets		
Balance at 1 January	776	-
Disposals	(76)	
Depreciation charge for the year	239	-
Balance at 31 December	**458**	**-**

There were no additions to the right-of-use assets during 2019.

(b) Lease liabilities		
Amounts recognised in statement of financial position		
Maturity analysis - contractual undiscounted cash flows		
Less than one year	213	-
One to five years	201	-
More than five years	-	-
Total undiscounted lease liabilities at 31 December	**414**	**-**
Discount on lease liabilities	(7)	
Total undiscounted lease liabilities at 31 December	407	

(c) Amounts recognised in statement of profit or loss		
Interest on lease liabilities	9	-
Expenses relating to short-term leases	-	-
Depreciation charge of right of use assets	239	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	73	-

(d) Amounts recognised in the statement of cash flows		
Total cash outflow for leases	279	-

The lease disclosed relates to the NZ Branch's office property. There is no option to renew.

A right of use asset is calculated as the amount of lease liability adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease liability is the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application

The lease payments are discounted using the Branch's incremental borrowing rate, determined by reference to the corporate bond yields with similar credit ratings as the Branch. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.9%.

The Branch is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. There are no restrictions imposed by the leases relating to dividends, and any further leasing is subject to approval by the lessor.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

22. 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.

23. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no matters or circumstances that have arisen in the interval between 31 December 2019 and the date of this report which, in the opinion of the Directors, have significantly affected, or may significantly affect in subsequent reporting years, the operations of the Branch, the result of those operations or the state of affairs of the Branch except as disclosed below or as otherwise disclosed in this report.

COVID-19

COVID-19 has emerged as a risk in the interval between 31 December 2019 and the date of this report. This risk has the potential to impact the Branch in the following ways:

- Investment performance due to falling interest rates. In the short term this will lead to an increase in unrealised and realised gains but future investment returns may be constrained;
- Increased operational risk and costs as the Branch responds to the emerging events, including the availability of staff and premises; and
- Insurance portfolio risk with increased claims experience in portfolios that respond to such events.

At the date of this report an estimate of the financial effect of this event cannot be made.

Independent auditor's report

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

We have audited the financial statements, which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cashflows 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 accompanying 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 2019, 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).

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: $1.6 million, which represents approximately 1% of 2-year average of gross earned premium.

We used gross earned premiums as it is a major factor in measuring performance for insurance companies and is considered to be a stable measure. Due to a decrease in gross earned premium in the current year arising from a change in business strategy, we chose a 2-year average.

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 key audit matter:

- 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of the outstanding claims liability The liability for outstanding claims involves estimating the expected future payments for claims incurred during the year or in prior periods. The liability for outstanding claims is estimated by the Appointed Actuary as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. A risk margin is therefore applied to reflect the uncertainty in the estimate. The valuation of the outstanding claims liability was a key audit matter due to the higher level of estimation and judgement required by the Company 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. The Company 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 included evaluating the design of the relevant controls and assessing whether a sample of these controls operated effectively throughout the year including the reconciliation of data inputs to both the General Ledger and historical data. To evaluate the methodologies and assumptions utilised, together with PwC actuarial experts, we developed an understanding of the actuarial practices, gross discounted central estimate and risk margin. This included: • Evaluating whether the actuarial methodologies were consistent with industry practice and prior years. • Assessing key actuarial assumptions, including claims ratios and relevant economic factors by comparing them with our expectations based on experience, current trends and industry benchmarks. • Assessing the approach to setting the risk margin in light of the requirements of New Zealand Accounting Standards.

Information other than the financial statements and auditor's report

The Directors 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, express any form of assurance conclusion on the other information.

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. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are 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 the Directors determine 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, the Directors are 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Who we report to

This report is made solely to the Company's shareholder. 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 shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Scott Hadfield.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 March 2020

Sydney

I, Scott Hadfield, am currently a member of CA ANZ and my membership number is 276681.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Allianz Australia Insurance Limited - New Zealand Branch for the year ended 31 December 2019. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 30 March 2020 and an unqualified opinion was issued.

S Hadfield

Scott Hadfield

ALLIANZ AUSTRALIA INSURANCE LIMITED (NZ BRANCH)

BOARD REPORT
5 MARCH 2020

DIVISION:	**FINANCE**	**STRATEGIC**	☐
SUBMITTED BY:	**BRETT RILEY**	**FINANCIAL**	☒
REVIEWED BY:	**PAUL HARVEY**	**REGULATORY**	☒
		GOVERNANCE	☐

TOPIC:	**ALLIANZ AUSTRALIA INSURANCE LIMITED (NEW ZEALAND BRANCH) APPOINTED ACTUARY REPORT AT 31 DECEMBER 2019**
PURPOSE:	**NOTING**

PURPOSE (INCLUDING STRATEGIC ALIGNEMENT)

I have prepared this Appointed Actuary report as at 31 December 2019 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, under which each insurer must "*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 to comply 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 (RBNZ), 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.

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 2019 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 2019, as documented in the report titled "Allianz Australia Limited Valuation of Outstanding Claims Liabilities as at 30 September 2019;
- A roll forward of the 30 September 2019 full valuation outstanding claims estimates to 31 December 2019. The results of this analysis summarised at the Allianz Australia Limited level are documented in the Board report "31 December 2019 Reported Liabilities";

- A full analysis of premium liabilities as at 31 December 2019, as documented in the report "Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2019"; and

- An analysis of risk margins, as documented in the report "Allianz Australia Limited Assessment of Risk Margins as at 31 December 2018".

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 resulting from 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 2019 Allianz Australia Insurance Limited APRA return to ensure that the actuarial information had been correctly reflected in that return and that the solvency calculations did not appear unreasonable. This includes (in accordance with paragraph 4.1.1 of AAILNZ's License to Carry on Insurance Business in New Zealand) the unearned premium liability and the liability adequacy test, the Net Outstanding Claims Liability, reinsurance and any other recovery assets and any deferred acquisition cost or deferred revenue fee (Solvency Standard Actuarial Information).

ACCESS TO INFORMATION, RESTRICTIONS / LIMITATIONS

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

STATEMENT OF RELATIONSHIP

I am 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.

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; and

- 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.

FINANCIAL AND RESOURCE CONSIDERATIONS

There are no new financial considerations to bring to the Board's attention. The outstanding claims provision remains one of the largest balance sheet items for AAL, AAIL and CIC. However it has been determined consistently with prior roll-forwards and with professional and prudential standards. There are no balance sheet implications arising from this roll-forward. We have made suitable provision for recent catastrophe events.

Appropriate actuarial information has been used in the preparation of AAIL's financial statements.

There are no other material financial and resource implications arising from this paper. The Finance Actuarial and Finance Control teams had appropriate resources to prepare the year end actuarial estimates and review the financial statements.

RISK CONSIDERATIONS

While significant work has been carried out to ensure the actuarial data has been reviewed and reconciled correctly, there may be undetected errors in the data. The controls over the data and work carried out include technical reviews by operationally independent staff and internal peer reviews. With these controls in place, I am confident that material undetected errors are unlikely.

CULTURE / ETHICS / IMPACT TO CUSTOMERS

There is no direct customer impact from this review. Nevertheless, a robust review process minimises operational and regulatory risk, which is a positive outcome for customers.

The work was prepared to comply with all laws and regulations, including ARPA and RBNZ prudential standards and actuarial professional standards. The work included the application of effective controls to minimise the risks described above as far as possible. The work aligns to Allianz Australia's organisation values, purpose and strategy. It supports sound ethics and a healthy risk culture.

Brett Riley FNZSA FIAA CERA
Appointed Actuary to AAILNZ
26 February 2020

CLASSIFICATION: PUBLIC