

Allianz Australia Insurance Limited -
New Zealand Branch
Company number 3994759

Annual Report for the year ended 31
December 2020

Company Directory

As at 31 December 2020

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 2020 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:

Paula Jane Dwyer

Paula Dwyer was appointed to the Board of Allianz Australia as an independent non-executive director on 18 February 2019 and was appointed Chairman of the Board on 1 January 2020. Ms Dwyer has been a member of the Audit Committee, Risk Committee, Investment Committee, Nomination Committee and Human Resources & Remuneration Committee since 18 February 2019, and was appointed Chairman of the Investment Committee and Nomination Committee on 4 February 2020. Ms Dwyer was a member of the Conduct, Culture & Reputation Committee from 18 February 2019, and Chairman of that Committee effective 4 February 2020, until its dissolution on 1 January 2021. Ms Dwyer became a member of the Technology Committee on 19 August 2020.

Career Summary:

Ms Dwyer is Chairman and non-executive director of the Australia and New Zealand Banking Group Limited and Lion Pty Limited, and member of the Kirin Holdings International Advisory Board and the Australian Government Takeovers Panel. She is also Chairman of the Kin Group Advisory Board.

Ms Dwyer was formerly Chairman and non-executive director of Tabcorp Holdings Limited and Healthscope Limited, Deputy Chairman and non-executive director of Leighton Holdings Limited and non-executive director of Suncorp Group Limited, Astro Japan Property Group Limited, Fosters Group Limited, Promina Group Limited, David Jones Limited and RACV Limited; 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 Panel; Deputy Director of Emergency Services Superannuation, VicSuper and Government Superannuation Office and the Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute.

Ms Dwyer is a chartered accountant with strong financial and commercial experience and an executive career in investment management and investment banking. She has 20 years of experience as a Chairman and non-executive director.

Richard Denis Feledy

Richard Feledy was appointed Managing Director of Allianz Australia on 1 January 2018. Mr Feledy is a member of the Investment Committee, and is an Invitee of the Audit Committee, Risk Committee, Human Resources & Remuneration Committee, Technology Committee and Nomination Committees. Mr Feledy was an invitee of the Conduct, Culture & Reputation Committee until its dissolution on 1 January 2021

Career Summary:

Mr Feledy is Director of the Insurance Council of Australia.

Mr Feledy has over 30 years’ experience in the insurance industry, with extensive experience in sales, relationship management, portfolio management, pricing, product framework development and management reporting. Mr Feledy held senior roles within FAI Insurance and HIH Insurance before joining Allianz Australia in 2000.

Mr Feledy was Chief Technical Officer of Allianz Australia from 2010 to 2017 and Deputy Managing Director from 8 May 2017 to 31 December 2017

Directors' Report (continued)

Directors (continued)

Patrick Newton James Allaway

Patrick Allaway was appointed to the Board of Allianz Australia as an independent non-executive director on 1 July 2020. Mr Allaway has been a member and Chairman of the Audit Committee, and member of the Risk Committee and Investment Committee since 1 July 2020. Mr Allaway was a member of the Human Resources & Remuneration Committee and Nomination Committee from 1 July 2020 until 1 January 2021, and a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 1 January 2021. Mr Allaway was a member of the Technology Committee from 19 August 2020 until 1 January 2021, and was reappointed to this Committee on 1 March 2021.

Career Summary:

Mr Allaway is Chairman of the Bank of Queensland Limited and a non-executive director of Dexu Funds Management Limited, Nine Entertainment Co. Limited and Chairman of Saltbush Capital Markets Pty Limited.

Mr Allaway was formerly non-executive director of Macquarie Goodman Industrial Trust, Metcash Limited, Fairfax Media, Woolworths South Africa, David Jones Limited, Country Road Group, and Domain Limited. Mr Allaway was the former Managing Director of SBC Capital Markets and Treasury.

Mr Allaway has had over 30 years' experience in the global financial industry, across capital markets and corporate advisory and 16 years' non-executive director experience across property, retail, media and finance.

Richard Mark Hutchinson

Mark Hutchinson was appointed to the Board of Allianz Australia as an independent non-executive director on 1 July 2020. Mr Hutchinson has been a member of the Audit Committee, Investment Committee and Human Resources & Remuneration Committee since 1 July 2020 and a member of the Technology Committee since 19 August 2020. Mr Hutchinson was a member of the Risk Committee and Nomination Committee from 1 July 2020 until 1 January 2021 and was a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 1 January 2021.

Career Summary:

Mr Hutchinson is non-executive director of BlueScope Steel Limited and Mission Australia and is a Senior Partner of Chasnay Capital Partners Ltd (Hong Kong).

Mr Hutchinson was formerly President and Chief Executive Officer General Electric Europe, President and Chief Executive Officer General Electric China, and President of GE Capital Real Estate International. He previously held financial services roles at Barclays Capital Asia Ltd in Australia and Hong Kong.

Mr Hutchinson brings a global perspective and has extensive experience in companies which have used technology to undertake transformational change.

Vickki Anne McFadden

Vickki McFadden was appointed to the Board of Allianz Australia as independent non-executive director on 1 July 2020. Ms McFadden has been a member and Chairman of the Risk Committee, and member of the Audit Committee since 1 July 2020. Ms McFadden was a member of the Human Resources & Remuneration Committee from 1 July 2020 until 1 January 2021, and was reappointed to this Committee on 15 February 2021. Ms McFadden was a member of the Investment Committee and Nomination Committee from 1 July 2020 until 1 January 2021 and was a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 1 January 2021. Ms McFadden was a member of the Technology Committee from 19 August 2020 until 1 March 2021.

Career Summary:

Ms McFadden is Chairman of The GPT Group and a non-executive director of Newcrest Mining Limited.

Ms McFadden was formerly Chairman of Eftpos Australia Payments Limited and Skilled Group Limited, and a non-executive director of Tabcorp Holdings Limited, Myer Family Investments Pty Limited and Leighton Holdings Limited. Ms McFadden was also former President of the Takeovers Panel and member of the Advisory Board & Executive Committee of the UNSW School of Business and Managing Director of Investment Banking at Merrill Lynch Australia.

Ms McFadden has extensive experience gained in investment banking, corporate finance and corporate law and previous board positions.

Directors' Report (continued)

Directors (continued)

Jane Frances McAloon

Jane McAloon was appointed to the Board of Allianz Australia as independent non-executive director on 1 July 2020. Ms McAloon has been a member and Chairman of the Human Resources & Remuneration Committee, and member of the Risk Committee and Nomination Committee since 1 July 2020. Ms McAloon was a member of the Audit Committee and Investment Committee from 1 July 2020 until 1 January 2021 and member of the Technology Committee from 19 August 2020 to 1 January 2021. Ms McAloon was a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 1 January 2021.

Career Summary:

Ms McAloon is non-executive director of Viva Energy Limited, Energy Australia Limited, United Malt Group Limited and Home Consortium Limited. She is a member of Allens Linklaters Advisory Board, Chairman of Monash University Foundation and a director of Bravery Trust.

Ms McAloon was formerly non-executive director of Healthscope Limited, Port of Melbourne, Cogstate Limited and the Civil Aviation Safety Authority. Ms McAloon was also President Governance and Group Company Secretary at BHP Billiton and Executive Director Strategic Services and Group Company Secretary at AGL.

Ms McAloon has over 25 years of business, government and regulatory experience at senior executive and board levels.

Thomas Karl Heinz Naumann

Thomas Naumann was appointed to the Board of Allianz Australia as a non-executive director on 2 August 2019. Mr Naumann has been a member of the Audit Committee, Risk Committee, Investment Committee, Nomination Committee and Human Resources & Remuneration Committee since 2 August 2019. Mr Naumann was a member of the Technology Committee from 19 August 2020 until 1 January 2021 and a member of the Conduct, Culture & Reputation Committee from 2 August 2019 until its dissolution on 1 January 2021.

Career Summary:

Mr Naumann is Executive Vice President of Allianz SE and a non-executive director of Allianz S.p.A, Allianz Sigorta A.S. and Allianz Hayat ve Emeklilik A.S. Mr Naumann is a member of the Supervisory Board of Allianz Deutschland AG and non-executive director for Allianz Australia Life Insurance Limited and Allianz Australia Life Insurance Holdings Limited.

Ms Naumann has held senior positions in Allianz SE since 2007 and was previously an Executive Director for Allianz Asset Management AG, KG Allgemeine Leasing GmbH & Co. Gronwald and Dresdner Bank AG.

George David Sartorel

George Sartorel was appointed to the Board of Allianz Australia as a non-executive director on 14 August 2019. Mr Sartorel has been a member of the Nomination Committee and the Human Resources & Remuneration Committee since 14 August 2019. Mr Sartorel was a member of the Audit Committee, Risk Committee and Investment Committee from 14 August 2019 until 1 January 2021 and has been a member and Chairman of the Technology Committee since 19 August 2020. Mr Sartorel was a member of the Conduct, Culture & Reputation Committee from 14 August 2019 until its dissolution on 1 January 2021.

Career Summary:

Mr Sartorel has had an 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.

Mr Sartorel was formerly a Board Member for BIMA and a Member of the Financial Centre Advisory Panel for the Monetary Authority of Singapore.

Directors' Report (continued)

Directors (continued)

John Lindsay Arthur

John Arthur was appointed to the Board of Allianz Australia as an independent non-executive director on 14 August 2019 and resigned on 30 June 2020. Mr Arthur was a member of the Audit Committee, Risk Committee, Investment Committee, Nomination Committee, Human Resources & Remuneration Committee and Conduct, Culture & Reputation Committee from 14 August 2019 until 30 June 2020.

Career Summary:

Mr Arthur is Chairman of Sydney Metro and a non-executive director of ME Bank.

Mr Arthur was formerly Chief Executive Officer and Executive Chairman of Investa Property Group and a non-executive director of Investa Property Group, CSR Limited, Australian Funds Management Limited, Electronic Data Systems Pty Ltd and Rinker Group.

Kathryn Mary McKenzie

Kathryn McKenzie was appointed to the Allianz Australia Board as an independent non-executive director on 1 January 2012 and resigned on 30 June 2020. Ms McKenzie was Chairman of the Human Resources & Remuneration Committee and member of the Audit Committee, Risk Committee, Investment Committee, Nomination Committee and Conduct, Culture & Reputation Committee until 30 June 2020.

Career Summary:

Ms McKenzie is a non-executive director of Stockland Corporation Limited and Stockland Trust, NBN Co Limited and AMP Limited.

Ms McKenzie was formerly non-executive director of Telstra Ventures Pty Ltd, Telstra Foundation Ltd, Customer Services Pty Ltd, Foxtel Cable Television Pty Ltd and Foxtel Management Pty Ltd and was Chief Executive Officer of Chorus New Zealand Limited. Previously Ms McKenzie 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.

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.

Directors' Report (continued)

Directors' Meetings

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

Name	Board		Board APRA & ASIC Oversight Sub-Committee ⁶		Audit Committee		Risk Committee		HR & Rem Committee ¹		Investment Committee		CCR Committee ²		Technology Committee		Nominations Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
P.N.J. Allaway ³	10	10	-	-	3	3	2	2	3	3	1	1	2	2	2	2	-	-
J.L. Arthur ⁴	3	4	-	-	3	4	3	4	1	1	1 ⁵	2	1	2	-	-	-	-
P.J. Dwyer	15	15	2	2	7	7	6	6	4	4	3	3	4	4	2	2	-	-
R.D. Feledy	15	15	1	2	7*	7	6*	6	4*	4	3	3	4*	4	2*	2	-	-
R.M. Hutchinson ³	10	10	-	-	3	3	2	2	3	3	1	1	2	2	2	2	-	-
P.M. Mann ⁴	3	4	2	2	4	4	4	4	1	1	1 ⁵	2	1	2	-	-	-	-
J.F. McAloon ³	10	10	-	-	3	3	2	2	3	3	1	1	2	2	2	2	-	-
V.A. McFadden ³	10	10	-	-	3	3	2	2	3	3	1	1	2	2	2	2	-	-
K.M. McKenzie ⁴	4	4	-	-	4	4	4	4	1	1	1 ⁵	2	2	2	-	-	-	-
T.K.H. Naumann ⁴	15	15	2	2	7	7	6	6	4	4	3	3	4	4	2	2	-	-
G.D.Sartorel	15	15	-	-	7	7	6	6	4	4	2 ⁵	3	4	4	2	2	-	-

¹ Human Resources & Remuneration Committee.

² Conduct Culture & Reputation Committee.

³ J.F. McAloon, R.M. Hutchinson, V.A. McFadden and P.N.J. Allaway were appointed on 1 July 2020.

⁴ P.M. Mann, J.L. Arthur and K.M. McKenzie resigned on 30 June 2020.

⁵ Investment Committee held 2 June 2020 – attendees were delegates from the Committee

⁶ P.J Dwyer, R.D Feledy, P.M. Mann, T.K.H. Naumann members of Board APRA & ASIC Oversight Sub-Committee.

A Number of meetings attended.

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

* R.D. Feledy at the invitation of the Committee.

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 7 to 42, are in accordance with the Financial Reporting Act 2013, including:
 - (i) fairly presenting the NZ Branch's financial position as at 31 December 2020 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:



Paula.J. Dwyer
Director



R.D. Feledy
Director

Sydney
16 March 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Premium revenue	8	90,386	199,324
Outward reinsurance expense	8	(36,956)	(41,075)
Net premium revenue		53,430	158,249
Claims expense	10	(66,186)	(105,002)
Reinsurance and other recoveries revenue	10	19,172	19,331
Net claims expense		(47,014)	(85,671)
Acquisition costs		(16,685)	(57,193)
Total underwriting expenses		(16,685)	(57,193)
Underwriting result		(10,269)	15,385
Investment income	9	1,341	3,726
Foreign exchange (losses) / gains		(4,747)	323
Other expenses		(3,971)	(11,475)
Other income and expenses		(7,377)	(7,426)
(Loss) / profit before income tax		(17,646)	7,959
Income tax benefit / (expense)	11(a)	4,961	(2,158)
(Loss) / profit after income tax		(12,685)	5,801

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 12 to 43.

Statement of Changes in Head Office Account

For the year ended 31 December 2020

	Head office transfers \$000	Retained earnings \$000	Total head office account \$000
At 1 January 2020	23,648	25,301	48,949
Loss for the year	-	(12,685)	(12,685)
At 31 December 2020	23,648	12,616	36,264

	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
At 31 December 2019	23,648	25,301	48,949

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 12 to 43.

Statement of Financial Position

As at 31 December 2020

	Note	2020 \$000	2019 \$000
Assets			
Cash and cash equivalents	20	104,437	112,021
Trade and other receivables	12	70,746	51,829
Reinsurance and other recoveries receivable	15(d)	71,161	72,258
Deferred acquisition costs	14	69	12,704
Deferred reinsurance premiums		15,926	15,787
Financial assets at fair value through profit or loss	13	88,391	88,244
Right of use asset		220	458
Current tax asset		1,771	-
Deferred tax asset	11(c)	11	-
Total assets		352,732	353,301
Liabilities			
Accounts payable and accruals		180,796	120,884
Current tax liability		-	4,118
Unearned premium liability	16	23,736	67,473
Outstanding claims	15(a)	111,736	108,182
Provision for expected credit loss		1	5
Lease liability		199	407
Deferred tax liabilities	11(c)	-	3,283
Total liabilities		316,468	304,352
Net assets		36,264	48,949
Head office account		36,264	48,949
Total head office account and liabilities		36,264	48,949

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 12 to 43.

Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Cash flows from operating activities			
Premiums received		35,990	173,823
Outwards reinsurance paid		(35,605)	(44,177)
Claims paid		(57,872)	(99,348)
Reinsurance and other recoveries received		20,336	17,309
Acquisition costs paid		(4,051)	(50,587)
Intercompany amounts received		19,664	59,719
Income taxes received / (paid)		(4,221)	629
Interest received		2,391	4,113
Other expenses received / paid		21,425	(9,526)
Foreign exchange (losses) / gains		(4,747)	323
Net cash inflow/(outflow) from operating activities	20(b)	(6,690)	52,278
Cash flows from investing activities			
Net payments from trading of investments		(686)	(1,803)
Net cash outflow from investing activities		(686)	(1,803)
Cash flows from financing activities			
Principal elements of lease payments		(208)	(196)
Net cash outflow from financing activities		(208)	(196)
Net (decrease) / increase in cash and cash equivalents		(7,584)	50,279
Cash and cash equivalents at the beginning of the year		112,021	61,742
Cash and cash equivalents at the end of the year		104,437	112,021

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 12 to 43.

Notes to the Financial Statements

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Notes to the Financial Statements

For the year ended 31 December 2020

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 2020 account for the financial results of the Allianz Australia Insurance Limited - New Zealand Branch ("the NZ Branch") as an individual entity.

The NZ Branch's registered office 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, a company incorporated in Germany. The Company is a company domiciled in Australia. The Company's registered office is 2 Market Street, Sydney, NSW 2000.

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

The Company continues its withdrawal from the New Zealand market.

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 NZ Branch is deemed to be a Financial Markets Conduct ("FMC") reporting 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

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

Notes to the Financial Statements

For the year ended 31 December 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in accounting standards (continued)

(b) New standards and interpretations not yet adopted

As at the date of this financial report, there are several new or revised accounting standards published by the NZ IFRS that will be mandatory in future financial years. The new or revised accounting standards that are expected to have a significant impact on the financial report of the NZ Branch are set out below. The NZ Branch has not early adopted these accounting standards.

NZ IFRS 17 *Insurance Contracts* was issued in August 2017, and is effective for financial periods beginning on or after 1 January 2023. 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 2023. 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 2023. NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts* with new recognition, measurement and disclosure requirements. A detailed impact assessment is currently underway.

The Company has established a project team to assess and implement the requirements of NZ IFRS 17 and is currently performing a detailed impact assessment of the standard. Due to the complexity of the standard requirements, the recent changes to the standard and evolving global interpretation of the requirements, the impact of standard on the NZ Branch is still being determined.

(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 and 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 2020 to 31 December 2020.

(b) Premium revenue recognition

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

Premium on unclosed business is brought to account by reference to historical trends to account for business that has been written at the balance date, but not yet processed, 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 period 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 investing activities including interest income, and realised and unrealised gains and losses.

Notes to the Financial Statements

For the year ended 31 December 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Claims expense and outstanding claims liabilities

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

The liability covers claims reported but not yet paid, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. IBNRs and settlement costs are calculated using statistical techniques and actuarial assessment of 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 liability were based on analysis of past numbers of claims and amounts of claim payments. The estimates include allowance for IBNR claims and for anticipated future inflation of claim costs, with an additional risk margin to allow for inherent uncertainty in the estimation of the central estimate.

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 claims 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) Trade and other receivables

Trade and other receivables include premiums receivable, unclosed premiums, finance loans and other receivables provided to or due from third parties. Premiums receivable and other receivables are carried at cost, which is not materially different from fair value, except where collection is doubtful and an impairment loss is recognised. Amounts due from related parties are interest free and repayable at call.

(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 expense

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.

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

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

Notes to the Financial Statements

For the year ended 31 December 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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%.

(k) 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.

(l) Leases

The NZ Branch recognises a lease liability representing the present value of lease payments including any incentive receivable, which is grossed up for interest expense and reduced over time as payments are made, along with a corresponding right-of-use asset representing the lease liability, other direct costs, a provision for make-good charges and incentives, which is to be depreciated on a straight line basis over the lease term.

The lessee accounting model is not applied to short-term and low value leases. The NZ Branch recognises lease payments related to short term and low value leases as an expense on a straight line basis over the lease term.

Lease payments are adjusted each year based on the agreed rates, some rates are determined with reference to CPI. If a renewal option is exercised the lease payments in the renewal period will reflect the then market rate.

Notes to the Financial Statements

For the year ended 31 December 2020

2. CORPORATE GOVERNANCE STATEMENT

The NZ Branch is subject to the Company's corporate governance structure and requirements.

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 seven Board appointed committees, these being:

- Human Resources and Remuneration Committee;
- Audit Committee;
- Risk Committee;
- Investment Committee;
- Conduct, Culture and Reputation Committee (discontinued since February 2021);
- Nominations Committee; and
- Technology 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 P.J. Dwyer, R.D.Feedy, T.K.H.Naumann, G.D.Sartorel, P.N.J Allaway, R.M.Hutchinson, J.F.McAloon, V.A.McFadden, J.L.Arthur, P.M.Mann, K.M.McKenzie.

T.K.H. Naumann represents the shareholder, Allianz SE, that resulted in him having significant influence over the financial and operating policies of the Company since his appointment on 2 August 2020.

Notes to the Financial Statements

For the year ended 31 December 2020

3. RISK MANAGEMENT

The NZ Branch's activities expose it to a variety of material risks, both financial and non-financial. Financial risks include insurance risk (compromising underwriting risk, pricing risk, reserving risk and reinsurance risk), credit risk and market risk and liquidity risk. Non-financial risks include: operational and compliance risk, strategic risk and conduct and reputational risk.

The Company's overall financial risk management, which applies to the NZ Branch, program focuses on the management of the underwriting 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 Branch's exposure to material risks are detailed below:

(a) Insurance risk

(i) 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 product classes 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.

(ii) Pricing risk

Pricing risk arises when the NZ Branch does not correctly price its products to cover costs and required profit margin and / or makes material errors in modelling. This includes errors in rate implementation and / or understatement of portfolio pricing targets leading to an inadequate return on capital. The NZ Branch manages pricing risk in accordance with its Pricing Risk Governance Framework.

(iii) Reserving risk

Reserving risk arises when the NZ Branch does not form a reliable estimation of insurance liabilities leading to losses upon recognition. This may occur due to errors in data and / or models used, failure to detect adverse trends in experience or incorrect assumption selection.

(iv) Reinsurance risk

The NZ Branch could be exposed to unexpected net losses due to inappropriate decisions made on reinsurance purchasing including excessive exposure to geographic accumulations, use of incorrect models, over-lining individual risks, inability to recover from Reinsurers through unclear cover definitions and/or inadequate treaty limits.

(b) Operational and compliance risk

Structured risk assessment methodologies are used to identify risks and, if necessary formulate mitigation plans for each risk. This includes operational risk which is loss from inadequate or failed internal processes, people and systems, or from external events. The management of operational risk is broken down into separate risk class categories to enable specific allocation of responsibility and ownership of particular risk areas where they arise. 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. The Company has also developed a methodology approved by senior management and the Board to monitor the maturity in which the NZ Branch manages non-financial risk.

Compliance risk arises where the NZ Branch fails to comply with relevant legislation, regulation and industry codes that could result in loss of operating licence, penalties or brand damage.

Notes to the Financial Statements

For the year ended 31 December 2020

3. RISK MANAGEMENT (CONTINUED)

(c) 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.

	AA+	AA	AA-	A+	A	A-	Not Rated	Total
	\$000			\$000			\$000	\$000
2020								
Cash and cash equivalents	104,437			-			-	104,437
Trade and other receivables	6,049			286			64,411	70,746
Reinsurance and other recoveries receivable	61,952			8,705			504	71,161
Financial assets at fair value through profit and loss	88,391						-	88,391
Total financial assets	260,829			8,991			64,915	334,735
2019								
Cash and cash equivalents	112,021	-					-	112,021
Trade and other receivables	4,935			839			46,055	51,829
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			50,068	324,352

(d) Strategic risk

Strategic risk includes the risk of inappropriate strategy or poor management decisions and failure to execute on the business strategy or unexpected change in franchise value. This risk also includes the risk of inappropriate planning or and/or execution of the NZ Branch's business plan or unexpected external changes that negatively impact the business plan.

(e) Conduct and reputational risk

Conduct and reputational risk includes the risk of inappropriate, unethical or unlawful behaviours and failure to maintain the NZ Branch's reputation with customers, business partners, regulators or employees resulting in a reduction in franchise value or restrictions on scope of operations.

Notes to the Financial Statements

For the year ended 31 December 2020

3. RISK MANAGEMENT (CONTINUED)

(f) Liquidity risk

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 established procedures.

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

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

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

	Maturing in:				Total \$000
	1 year or less \$000	1 to 3 years \$000	3 to 5 years \$000	Over 5 years \$000	
As at 31 December 2020					
Outstanding claims	85,712	16,957	4,108	5,373	112,150
Accounts payable and accruals	180,796	-	-	-	180,796
Lease liability	199	-	-	-	199
Total financial liabilities	266,707	16,957	4,108	5,373	293,145
As at 31 December 2019					
Outstanding claims	86,136	12,507	4,385	6,560	109,588
Accounts payable and accruals	120,884	-	-	-	120,884
Lease liability	207	200	-	-	407
Total financial liabilities	207,227	12,707	4,385	6,560	230,879

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

	Face value		Maximum term		Weighted average yield	
	2020 \$000	2019 \$000	2020 Years	2019 Years	2020 %	2019 %
Government bonds	20,000	21,200	0.37	1	0.34	3

Notes to the Financial Statements

For the year ended 31 December 2020

3. RISK MANAGEMENT (CONTINUED)

(g) Market risk

Market risk is the risk that changes in market pricing will affect the NZ Branch's income or carrying value of the NZ 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. 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
2020			
Financial assets			
Cash	104,437	(752)	752
Bills of exchange and floating notes	67,981	489	(489)
Government bonds	20,410	147	(147)
Total financial assets	192,828	(116)	116
2019			
Cash	112,021	(822)	822
Bills of exchange and floating notes	66,921	482	(482)
Government bonds	21,323	154	(154)
Total financial assets	200,265	(186)	186

(h) Fair value estimation

The carrying value of cash and non-interest bearing monetary financial assets and financial liabilities of the NZ Branch 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.

Notes to the Financial Statements

For the year ended 31 December 2020

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 Branch has been granted exemptions from lodgement of half year interim financial statements and half yearly and yearly solvency returns. The NZ Branch’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. In accordance with GPS 110 Capital Adequacy (“GPS 110”) issued by APRA, the Company has in place an Internal Capital Adequacy Assessment Process (“ICAAP”). The ICAAP outlines the policies and procedures in place to manage and maintain an adequate level of capital in line with the risks accepted and the Company’s risk appetite.

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the objective of providing an appropriate level of capital to protect policyholders’ interests and safety regulators. Capital finance growth and capital expenditure while providing a buffer against adverse outcomes from insurance and other activities and investment performance. 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.

Since 31 March 2010, APRA has also required that the capital calculations are made for the Level 2 Group. This Level 2 Group includes all entities within the Company. From 1 January 2013 regulatory capital for the Company has been determined with reference to an internal model based approach.

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-.

Notes to the Financial Statements

For the year ended 31 December 2020

4. CAPITAL MANAGEMENT (CONTINUED)

(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. 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 2020.

	2020 AUD \$000	2020 NZD \$000
Statutory capital of Allianz Australia Insurance Limited		
Common equity tier 1 capital		
Ordinary shares	1,571,307	1,684,080
Retained earnings	1,227,913	1,316,040
Disclosed reserves	1,885	2,020
Technical provision in excess of liability valuation (net of tax)	87,699	93,993
Regulatory adjustments for non-allowable assets	(580,891)	(622,582)
Total common equity tier 1 capital	2,307,913	2,473,552
Total regulatory capital	2,307,913	2,473,552
Prescribed capital amount		
Insurance risk charge	1,056,844	1,132,694
Insurance concentration risk charge	81,256	87,088
Diversified asset risk charge	652,590	699,426
Operational risk charge	204,962	219,672
Aggregation benefit	(370,046)	(396,604)
Adjustments to prescribed capital amount as approved by APRA	(162,561)	(174,228)
Prescribed capital amount	1,463,045	1,568,048
Solvency margin	844,868	905,504
Capital adequacy multiple	1.58	1.58
Additional capital requirement*	150,000	160,766
Adjusted capital adequacy multiple	1.43	1.43

*In August 2019 APRA imposed an additional capital requirement of AUD \$250,000,000 as a result of weaknesses identified through Allianz's self-assessment into governance, culture and accountability. In December 2020 APRA reduced the additional capital requirement to AUD \$150,000,000 in acknowledgement of AAIL's progress in strengthening risk management and addressing the weakness identified by the self-assessment. The remaining additional capital requirement will remain in place until further remediation work is completed.

On 9 March 2021, the Company entered into a Court Enforceable Undertaking with APRA over the completion of the Company's Risk & Compliance Transformation Programs within agreed timeframes. The removal of the additional capital requirement of \$150,000,000 is subject to the satisfactory completion of these Transformation Programs.

Notes to the Financial Statements

For the year ended 31 December 2020

4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance

	2019	2019
	AUD	NZD
	\$000	\$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	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 AUD \$250,000,000 as a result of weaknesses identified through Allianz's self-assessment into governance, culture and accountability.

Notes to the Financial Statements

For the year ended 31 December 2020

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 its 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.

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 of the Company 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.

Notes to the Financial Statements

For the year ended 31 December 2020

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

(d) Interest rate risk

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

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

All reinsurance arrangements carry a downgrade clause providing the NZ Branch 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 NZ Branch 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 2020.

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 2020 are outlined below.

(b) Actuarial methods

The NZ Branch manages 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
 Pleasure craft
 Marine and aviation
 Consumer credit
 Travel

Long-tail classes

Public and products liability
 Professional indemnity

Notes to the Financial Statements

For the year ended 31 December 2020

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.

In March 2020 the World Health Organisation declared a pandemic following the outbreak of the infectious coronavirus disease 2019 ("COVID-19"). In addition to the standard methods, the impact of the COVID-19 pandemic on reserves was separately considered. Exposure based estimation techniques were used where appropriate to determine the ultimate cost of COVID-19 claims based on exposure and assumptions selected to reflect expected additional claims frequency, average claim sizes and loss ratios due to the pandemic. The NZ Branch does not have any significant exposures to pandemic losses, and at this stage, no material provisions have been made.

(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.

	2020 Short-Tail	2020 Long-Tail	2019 Short-Tail	2019 Long-Tail
Average weighted term to settlement (years)	0.54	1.42	0.38	1.34
Claims handling expenses (net of reinsurance)	3.6%	5.0%	6.1%	4.9%
Discount rate	0.20%	0.40%	0.96%	1.27%
Economic inflation rate per annum	2.5%	3.5%	2.5%	3.5%

Notes to the Financial Statements

For the year ended 31 December 2020

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 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.

Notes to the Financial Statements

For the year ended 31 December 2020

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.

2020					
	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000 Gross	\$000 Net	\$000 Gross	\$000 Net
Short-tail					
Average weighted term to settlement	+0.5 year	92	39	64	27
	-0.5 year	(75)	(39)	(52)	(27)
Claims handling expenses	+100 bps	(919)	(822)	(643)	(575)
	-100 bps	919	822	643	575
Discount rate	+100 bps p.a.	390	207	273	145
	-100 bps p. a.	(398)	(211)	(279)	(148)
Economic inflation rate	+100 bps p.a.	(395)	(210)	(276)	(147)
	-100 bps p. a.	395	209	276	147
	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000 Gross	\$000 Net	\$000 Gross	\$000 Net
Long-tail					
Average weighted term to settlement	+0.5 year	52	4	36	3
	-0.5 year	(52)	(4)	(36)	(3)
Claims handling expenses	+100 bps	(174)	(19)	(122)	(13)
	-100 bps	174	19	122	13
Discount rate	+100 bps p.a.	619	26	433	18
	-100 bps p. a.	(663)	(27)	(464)	(19)
Economic inflation rate	+100 bps p.a.	(661)	(27)	(462)	(19)
	-100 bps p. a.	628	26	440	18
Superimposed Inflation	+100 bps p.a.	(661)	(27)	(462)	(19)
	-100 bps p. a.	628	26	440	18

Notes to the Financial Statements

For the year ended 31 December 2020

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.

2019

	Movement in variable	Impact on Loss before tax	Impact on Loss before tax	Impact on Head Office Account	Impact on Head Office Account
		\$000 Gross	\$000 Net	\$000 Gross	\$000 Net
Short-tail					
Average weighted term to settlement	+0.5 year	426	157	298	110
	-0.5 year	(289)	(124)	(202)	(87)
Claims handling expenses	+100 bps	(854)	(777)	(598)	(544)
	-100 bps	854	777	598	544
Discount rate	+100 bps p.a.	305	124	214	87
	-100 bps p. a.	(311)	(126)	(218)	(88)
Inflation rate	+100 bps p.a.	(311)	(126)	(218)	(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 Gross of RI	\$000 Net of RI	\$000 Gross of RI	\$000 Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	145	19	101	13
	-0.5 year	(146)	(19)	(102)	(14)
Claims Handling Expenses	+100 bps	(199)	(29)	(139)	(20)
	-100 bps	199	29	139	20
Discount Rate	+100 bps p.a.	632	39	442	28
	-100 bps p. a.	(676)	(41)	(473)	(29)
Inflation Rate	+100 bps p.a.	(679)	(41)	(475)	(29)
	-100 bps p. a.	646	40	452	28
Superimposed Inflation	+100 bps p.a.	(679)	(41)	(475)	(29)
	-100 bps p. a.	646	40	452	28

Notes to the Financial Statements

For the year ended 31 December 2020

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(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.

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	
	2020	2019	2020	2019
Short-tail classes	3.2%	3.5%	6.1%	7.3%
Long-tail classes	3.2%	3.3%	6.1%	7.3%
Overall margin	3.2%	3.4%	6.1%	7.3%

7. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the NZ Branch's financial statements requires management to make estimates and assumptions that affect reported amounts. 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 as follows:

- Outstanding claims and reinsurance and other recoveries receivable (Note 15)
- Investment valuation methodologies (Note 13).

Notes to the Financial Statements

For the year ended 31 December 2020

8. PREMIUM REVENUE

	2020 \$000	2019 \$000
Gross written premium	46,649	172,909
Movement in unearned premium liability	43,737	26,415
Gross earned premium revenue	90,386	199,324
Outwards reinsurance expense	(36,956)	(41,075)
Net earned premium	53,430	158,249

9. INVESTMENT AND OTHER INCOME

Interest on government bonds	1,032	672
Other interest	1,253	3,333
Unrealised losses on investments	(821)	(179)
Realised losses on investments	(123)	(100)
Total investment and other income	1,341	3,726

10. NET CLAIMS INCURRED

	Current year \$000	Prior years \$000	Total \$000
2020			
Gross claims incurred - undiscounted	(78,227)	13,031	(65,196)
Discount movement	132	(1,122)	(990)
Gross claims incurred - discounted	(78,095)	11,909	(66,186)
Reinsurance and other recoveries revenue - undiscounted	21,916	(3,435)	18,481
Discount movement	(93)	784	691
Reinsurance and other recoveries revenue discounted	21,823	(2,651)	19,172
Net claims incurred	(56,272)	9,258	(47,014)

Notes to the Financial Statements

For the year ended 31 December 2020

10. NET CLAIMS INCURRED (CONTINUED)

	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)

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 prior year undiscounted releases are a result of claims inflation (wage inflation and superimposed inflation) having been lower than assumed at 31 December 2019 as well as favourable settlement experience, which was only partially offset by increases in claims provisions as a result of increased claims from COVID-19. The cost of most long tail claims with a prior year impact relates to personal injury classes.

11. TAXATION

	2020 \$000	2019 \$000
(a) Income tax expense		
Current tax (Benefit) / expense	(1,648)	4,165
Movement in deferred acquisition costs	(3,293)	(1,936)
Prior year adjustment	(20)	(71)
Total recognised income tax (benefit) / expense	(4,961)	2,158
(b) Reconciliation of effective tax rate		
(Loss)/profit before tax	(17,647)	7,959
Income tax at 28%	4,941	(2,229)
Prior year adjustment	20	71
Total income tax benefit/(expense)	4,961	(2,158)

Notes to the Financial Statements

For the year ended 31 December 2020

11. TAXATION (CONTINUED)

	2020	2019
	\$000	\$000

(c) Deferred tax liability / (asset)

The balance comprises temporary differences attributable to:

Deferred acquisition costs	(19)	(3,557)
Others	30	274
Net deferred tax liability/(asset)	11	(3,283)

12. TRADE AND OTHER RECEIVABLES

	2020	2019
	\$000	\$000
(a) Trade and other receivables		
Premiums receivable	27,893	30,912
Unclosed premiums	1,992	3,228
Reinsurance debtors	6,325	6,253
Other receivables	34,536	11,436
To be received within 12 months	70,746	51,829
Total trade and other receivables	70,746	51,829

Premiums receivable are unsecured. Where collection of a trade receivable 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.

(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:

	2020	2019
	\$000	\$000
Not past due or impaired	60,149	43,392
0 to 3 months	9,179	6,423
3 to 6 months	-	953
Over 6 months	1,418	1,061
Total receivables	70,746	51,829

Notes to the Financial Statements

For the year ended 31 December 2020

13. FINANCIAL ASSETS

(a) Investments

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

	2020	2019
	\$000	\$000
Bills of exchange and floating notes	67,981	66,921
Government bonds	20,410	21,323
Total financial assets at fair value through profit and loss	88,391	88,244

(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).

The fair value of fixed interest securities including government bonds, have historically been measured using the bid price of the instrument at the statement of financial position date. In the period fair value measurement was changed to the mid-price of the instrument at the statement of financial position, this resulted in a one off pre-tax impact of \$5,862 in the current period. Impact on future reporting periods is expected to be insignificant.

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
2020				
Bills of exchange and floating rate notes	-	67,981	-	67,981
Government bonds	-	20,410	-	20,410
Total investments	-	88,391	-	88,391
Cash and cash equivalents	104,437	-	-	104,437
Total financial assets	104,437	88,391	-	192,828
2019				
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

Notes to the Financial Statements

For the year ended 31 December 2020

13. FINANCIAL ASSETS (CONTINUED)

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

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

Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. No investments have been categorised as Level 3 as at 31 December 2020. The appropriateness of fair value hierarchy classification is reviewed annually.

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%.

	2020	2019
	\$000	\$000
Movement in deferred acquisition costs at 1 January		
Deferred acquisition costs at 1 January	12,704	19,309
Acquisition costs deferred	5,023	51,382
Amortisation charged to income	(17,658)	(59,045)
Release of premium deficiency prior year	-	1,058
Total as at 31 December	69	12,704

A liability adequacy test was performed as at 31 December 2020, and no deficiency was identified (2019: Nil)

Notes to the Financial Statements

For the year ended 31 December 2020

15. OUTSTANDING CLAIMS

	2020	2019
(a) Outstanding claims liability	\$000	\$000
Expected future claims payments (undiscounted) - central estimate	108,481	105,349
Risk margin applied (undiscounted)	1,363	1,260
Claims handling expenses	2,309	2,979
Discount to present value - central estimate	(418)	(1,397)
Discount to present value - risk margin	1	(9)
Total outstanding claims liability	111,736	108,182

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes \$1.6 million in 2020 (2019: \$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 \$35.7 million in 2020 (2019: \$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

	2020			2019		
	Gross \$000	Recoveries \$000	Net \$000	Gross \$000	Recoveries \$000	Net \$000
Balance as at 1 January	108,182	(72,258)	35,924	109,623	(66,009)	43,614
Current year claims incurred	78,094	(21,823)	56,271	116,894	(18,436)	98,458
Change in previous years' claims incurred	(11,908)	2,650	(9,258)	(11,892)	(895)	(12,787)
Current year claims paid	(29,469)	2,982	(26,487)	(78,991)	2,267	(76,724)
Change in prior year claims paid	(33,163)	17,288	(15,877)	(27,452)	10,815	(16,637)
Balance as at 31 December	111,736	(71,161)	40,573	108,182	(72,258)	35,924

Notes to the Financial Statements

For the year ended 31 December 2020

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	2011 and prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	134,593	4,718	4,776	5,197	3,514	3,479	3,779	5,021	6,578	3,939	
One year later	130,482	4,517	4,866	6,319	5,176	3,498	4,944	6,484	7,093		
Two years later	94,626	3,006	3,089	3,742	6,188	4,087	3,504	5,449			
Three years later	110,432	2,340	4,311	4,655	7,374	3,303	2,572				
Four years later	108,145	1,600	9,927	6,798	6,366	2,808					
Five years later	100,751	1,186	7,104	7,191	6,031						
Six years later	99,943	995	6,392	7,100							
Seven years later	99,577	978	5,988								
Eight Years later	99,014	990									
Nine Years later	99,137										
Estimate of cumulative claims cost	99,137	990	5,988	7,100	6,031	2,808	2,572	5,449	7,093	3,939	141,107
Cumulative payments	98,871	980	5,371	6,471	4,077	1,729	1,254	1,958	1,816	888	123,415
Cumulative outstanding undiscounted	266	10	617	629	1,954	1,079	1,318	3,491	5,277	3,051	17,692
Discount	4	-	13	15	47	25	29	78	113	78	402
Claims Outstanding - Discounted	262	9	604	614	1,907	1,054	1,290	3,413	5,164	2,974	17,291
Short tail classes											90,794
Claims handling expenses											2,285
Risk margin											1,366
Total gross outstanding claims											111,736

Notes to the Financial Statements

For the year ended 31 December 2020

15. OUTSTANDING CLAIMS (CONTINUED)

(e) Claims development table (continued)

Net	2011 and prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Accident year											
Estimated cumulative claims:	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of accident year	64,220	2,133	2,071	1,281	1,027	756	983	1,472	1,302	656	
One year later	65,340	2,556	3,141	2,542	2,264	1,866	1,945	1,752	992		
Two years later	61,981	1,161	892	351	697	624	894	795			
Three years later	67,985	1,068	785	451	958	708	920				
Four years later	67,172	860	751	407	872	656					
Five years later	66,074	925	745	401	808						
Six years later	65,930	928	734	397							
Seven years later	65,621	915	720								
Eight Years later	65,026	921									
Nine Years later	65,113										
Estimate of cumulative claims cost	65,113	921	720	397	808	656	920	795	992	656	71,978
Cumulative payments	64,877	913	707	392	758	628	837	549	348	210	70,219
Claims outstanding - undiscounted	235	8	13	5	50	28	83	247	644	446	1,759
Discount	8	-	-	-	2	1	3	8	22	-	44
Claims outstanding - discounted	227	8	12	5	48	27	80	238	622	446	1,713
Short tail classes											36,124
Claims handling expenses											1,374
Risk margin											1,362
Total net outstanding claims											40,573

16. UNEARNED PREMIUM LIABILITY

	2020	2019
	\$	\$
Unearned premium liability as at 1 January	67,473	93,887
Deferral of premiums on contracts written in the period	46,649	172,909
Premiums earned during the year	(90,386)	(199,323)
Unearned premium liability as at 31 December	23,736	67,473

Notes to the Financial Statements

For the year ended 31 December 2020

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.

	2020	2019
	\$	\$
Audit of the financial statements	52,945	51,473
Taxation services	12,500	12,500
Total auditor's remuneration	65,445	63,973

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		
P.N.J Allaway	Director	Appointed on 1 July 2020
P.J. Dwyer	Chair of the Board	Full year
R.D. Feledy	Managing Director	Full year
R.M. Hutchinson	Director	Appointed on 1 July 2020
J.F. McAloon	Director	Appointed on 1 July 2020
T.K.H. Naumann	Director	Full year
G.D. Sartorel	Director	Full year
J.L. Arthur	Director	Resigned on 30 June 2020
P.M. Mann	Director	Resigned on 30 June 2020
K.M. McKenzie	Director	Resigned on 30 June 2020
Senior Executives		
N. Adams	Chief Market Manager	Resigned on 31 December 2020
L. Callahan	Chief Risk Officer	Resigned on 31 March 2020
V. Drakousis	Chief Human Resources Officer	Full year
B. Dunne	Chief Customer Service Officer	Full year
J. Fitzpatrick	Chief Technical Officer	Appointed 3 August 2020
M. Guppy	Chief Executive Officer – New Zealand	Full year
D. Hosking	Chief General Manager – Broker & Agency	Resigned on 31 December 2020
J. Mitchell	Chief General Manager - Worker's Compensation	Appointed on 30 March 2020
D. Krawitz	Chief Operating and Transformation Officer	Full year
T. Laybutt	Chief Risk Officer	Appointed on 11 May 2020
M. Raumer	Chief Financial Officer	Full year
H. Silver	Chief General Manager – Corporate Governance and Conduct	Full year
M. Winter	Chief General Manager – Retail Distribution ¹	Full year

¹ M. Winter was appointed to his current role, Chief General Manager - Consumer on 1 January 2021.

Notes to the Financial Statements

For the year ended 31 December 2020

18. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

(a) Transactions with key management personnel	2020	2020	2019	2019
	\$ AUD	\$ NZD	\$ AUD	\$ NZD
Short term employee benefits	7,417,678	7,870,860	6,599,553	6,966,764
Post-employment benefits	274,959	291,772	257,100	271,405
Long term employee benefits	81,620	86,609	1,381,535	1,458,506
Share-based payments	1,608,336	1,706,654	1,683,074	1,776,723
Termination benefits	929,728	986,563	-	-
Total benefits paid, payable or otherwise provided by the Company in relation to the key management personnel	10,312,321	10,942,458	9,921,262	10,473,398

(b) Loans and other transactions with key management personnel

Refer to Note 19 for related party transactions concerning Directors.

19. RELATED PARTY TRANSACTIONS

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.

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 R.D. Feledy, P.J. Dwyer, P.M. Mann, K.M. McKenzie, J.L.Arthur, G.D Sartorel, P.N.J Allaway, (R.M.Hutchinson, J.F McAloon, T.K.H Naumann.

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

Notes to the Financial Statements

For the year ended 31 December 2020

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Management fees paid to:	2020 \$	2019 \$
Allianz New Zealand Limited	267,500	615,563
PIMCO Australia Pty Limited	70,709	55,274

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.

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 / (received) the following commissions to related parties during the year:

AWP Services New Zealand Limited	(1,416,069)	25,966,216
Primacy Underwriting Management Limited	1,170,076	1,254,379
Euler Hermes Trade Credit Underwriting Agency Pty Limited	2,055,982	1,720,790

During the year the NZ Branch entered into reinsurance transactions with related parties within the Allianz SE Group. The following transactions were recorded:

Reinsurance premiums ceded (paid)	36,956,313	41,074,839
Reinsurance claims recoverable (received)	19,172,453	19,331,232

Amounts due (to) / from related parties

Head Office - Allianz Australia Insurance Limited	(36,538,756)	(48,949,098)
Allianz Australia Insurance Limited	(136,775,337)	(62,036,326)
Allianz New Zealand Limited	5,440,311	(56,631,705)
Club Marine Limited	(2,708,131)	(2,708,131)
Allianz Australia Services Pty Limited	(11,830,840)	(10,838,178)
AWP Services New Zealand Ltd	17,233,025	13,608,249
Net amount due to related parties	(165,179,728)	(167,555,189)

Notes to the Financial Statements

For the year ended 31 December 2020

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2020	2019
	\$000	\$000
(a) Cash reconciliation		
Cash and cash equivalents in the statement of cash flows	104,437	112,021
(b) Reconciliation of profit after income tax to net cash inflows from operating activities		
(Loss) / profit for the year	(12,685)	5,801
Non-cash movements:		
Unrealised losses on revaluation	754	179
Expected credit loss recognised under NZ IFRS 9	(1)	2
Depreciation of right of use asset	105	207
(Increase) in make good provision	-	(166)
(Increase) / decrease in right of use assets	239	(603)
Change in assets and liabilities:		
Decrease in premiums receivable and unclosed premiums	4,255	12,725
Decrease in unearned premium	(43,737)	(26,415)
Decrease in deferred acquisition costs	12,635	6,606
Decrease / (increase) in reinsurance and other recoveries receivable	1,168	(2,024)
Decrease in tax assets and liabilities	(3,293)	(1,331)
Increase in prepayments	(139)	(507)
Decrease in other receivables	(23,245)	11,795
(Increase) / decrease in financial assets at fair value	(147)	100
Increase in creditors, borrowings and amounts owed to related companies	41,391	48,429
Increase / (decrease) in outstanding claims	3,554	(1,441)
Increase / (decrease) in reinsurance premium payable	1,490	(2,595)
Increase / (decrease) in income tax provision	(5,889)	4,118
Increase / (decrease) in sundry payables	16,855	(2,602)
Net cash outflow from operating activities	(6,690)	52,278

21. CONTINGENT LIABILITIES

Members of the NZ Branch 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 NZ Branch. 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.

Notes to the Financial Statements

For the year ended 31 December 2020

22. EVENTS SUBSEQUENT TO BALANCE DATE

On 9 March 2021, the Company entered into a Court Enforceable Undertaking with APRA over the completion of the Company's Risk & Compliance Transformation Programs within agreed timeframes. The removal of the additional capital requirement of \$150,000,000 is subject to the satisfactory completion of these Transformation Programs.

There have been no other significant events or circumstances that have arisen since the end of the reporting period that have significantly affected or may significantly affect the NZ Branch's operations, the results of those operations, or the NZ Branch's state of affairs in future financial years.



Independent auditor's report

To the Directors of Allianz Australia Insurance Limited

We have audited the financial statements, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Allianz Australia Insurance Limited - New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, 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 Branch 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 Branch.

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Our audit approach

Overview



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

Overall materiality: \$3.1 million, which represents approximately 1% of total assets.

We chose total assets as the benchmark because, in our view, given the Branch is primarily in run off, it is the benchmark that is most appropriate for the requirements of the users, and is a generally accepted benchmark. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted asset-related thresholds.

We have determined that there is one key audit matter and we have communicated this to the Directors of Allianz Australia Insurance Limited :

- Valuation of outstanding claims

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 Branch, the accounting processes and controls, and the industry in which the Branch operates.

Key audit matters

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



Key audit matter

How our audit addressed the key audit matter

Valuation of outstanding claims

(2020: \$111m, 2019 \$108m)

The valuation of outstanding claims liability was a key audit matter because of the complexity involved in the estimation process, the significant judgements that the Branch made in determining the balance and the inherent uncertainty in estimating the expected future payments for claims incurred, including those not yet reported.

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.

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 Branch 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 key 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.

We tested historical claims, a key input into the actuarial estimates, by selecting a sample of claims case estimates and settlements.

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
- Testing the discount applied. This included comparing the rates applied to external market data and the payment patterns to historical information.
- 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 Branch, 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 Branch'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 Branch 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 Allianz Australia Insurance Limited's Directors. 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 Allianz Australia Insurance Limited's Directors 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
16 March 2021

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 2020. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 16 March 2021 and an unqualified opinion was issued.

Scott Hadfield

Scott Hadfield

Allianz Australia Insurance Limited (NZ Branch)

Meeting Date: 16 March 2021

Division: Finance

Submitted By: Brett Riley

Reviewed By: Paul Harvey

For Approval

For Discussion

For Noting

SUBJECT: AAIL (NZ Branch) Appointed Actuary Report at 31 December 2020

1. PURPOSE

I have prepared this Appointed Actuary report as at 31 December 2020 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 PS 30 issued by the New Zealand Society of Actuaries.

2. SUPPORTING ANALYSES

As Appointed Actuary to AAIL, I am responsible for the preparation of actuarial information which feeds into the AAIL financial statements. The actuarial information provided to support the 31 December 2020 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 2020, as documented in the report titled “Allianz Australia Limited Valuation of Outstanding Claims Liabilities as at 30 September 2020”;
- A roll forward of the 30 September 2020 full valuation outstanding claims estimates to 31 December 2020. The results of this analysis summarised at the Allianz Australia Limited level are documented in the Board report “Liability Roll-Forward Report – 31 December 2020”;
- A full analysis of premium liabilities as at 31 December 2020, as documented in the report “Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2020”; and
- An analysis of risk margins, as documented in the report “Allianz Australia Limited Assessment of Risk Margins as at 31 December 2019”.

3. WORK UNDERTAKEN FOR THIS 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 a full reconciliation 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 2020 Allianz Australia Insurance Limited APRA return to ensure that the actuarial information had been correctly reflected in that return and that the solvency calculations did not appear unreasonable. This includes (in accordance with paragraph 4.1.1 of AAILNZ's License to Carry on Insurance Business in New Zealand) the unearned premium liability and the liability adequacy test, the net outstanding claims liability, reinsurance and any other recovery assets and any deferred acquisition cost or deferred revenue fee (Solvency Standard Actuarial Information).

4. ACCESS TO INFORMATION, RESTRICTIONS / LIMITATIONS

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

5. STATEMENT OF RELATIONSHIP

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

6. OPINION

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

- the Actuarial Information contained in the Financial Statements has been appropriately included in those statements;
- the Actuarial Information used in the preparation of the Financial Statements has been used appropriately; 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.

7. RECOMMENDATION

It is recommended that the Board consider and note the information in this paper.



Prepared by:
Brett Riley FIAA FNZSA CERA
Appointed Actuary to AAILNZ
24 February 2021