Allianz Australia Insurance Limited - New Zealand Branch
Company number 3994759

Annual Report for the year ended 31 December 2021

Company Directory
As at 31 December 2021

Company number	3994759
IRD	109-941-972
Nature of business	Provision of general insurance services
Registered Office	C/- Bell Gully Level 21, Vero Center 48 Shortland Street, Auckland 1140 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 2021 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 Insurance Limited 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 became a member of the Technology Committee on 19 August 2020.

Career Summary:
Ms Dwyer has over 20 years' experience as an independent Chairman and non-executive director and is presently a non-executive director of Lion Pty Ltd and Lion Global Craft Beverages Pty Ltd and is Chairman and director of Elenium Automation Pty Ltd. She is also a member of the Australian Government Takeovers Panel and the Melbourne Cricket Club, as well as Chairman of the Kin Group Advisory Board.

Ms Dwyer was formerly Chairman and non-executive director of a number of listed public companies including Tabcorp Holdings Ltd, Healthscope Ltd, Leighton Holdings Ltd, Suncorp Group Ltd and the Australia and New Zealand Banking Group Ltd. She was formerly a member of the Business and Economics Board of the University of Melbourne, the ASIC External Advisory Panel and Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute.

Ms Dwyer is a chartered accountant with an executive career in corporate advisory, mergers and acquisitions and investment banking.

Richard Denis Feledy
Richard Feledy was appointed Managing Director of Allianz Australia Insurance Limited 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 31 December 2020.

Career Summary:
Mr Feledy is a non-executive director of the Insurance Council of Australia and executive director of Allianz Australia Services Pty Limited and Allianz Australia General Insurance Services Limited.

Mr Feledy joined Allianz in 2001 as part of the HIH acquisition and has over 30 years' experience in the insurance industry, with extensive experience in sales and distribution, relationship management, portfolio management, pricing, product framework development and financial management.

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 Insurance Limited 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 31 December 2020. 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 and non-executive director of the Bank of Queensland Ltd and a non-executive director of Dexus Funds Management Ltd and a member of the Adobe International Advisory Board. He is also director and Chairman of Saltbush Capital Markets Pty Ltd and Giant Steps Endowment Fund.

Mr Allaway was formerly non-executive director of Nine Entertainment Co. Ltd, Macquarie Goodman Industrial Trust, Metcash Ltd, 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 Insurance Limited as an independent non-executive director on 1 July 2020. Mr Hutchinson has been a member of the Audit Committee and Investment Committee since 1 July 2020 and a member of the Technology Committee since 19 August 2020. He was appointed Chair of the Technology Committee effective 20 August 2021. Mr Hutchinson was a member of the Human Resources & Remuneration Committee from 1 July 2021 to 17 May 2021, a member of the 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 31 December 2020. Mr Hutchinson was a member of the Risk Committee from 1 July 2020 until 1 January 2021, and was reappointed to this Committee from 18 March 2021.

Career Summary:
Mr Hutchinson is non-executive director of BlueScope Steel Ltd, Mission Australia, Alpha Australia and World Wide Generation Limited, and is a Senior Partner of Chasnay Capital Partners Ltd (Hong Kong).

Mr Hutchinson was formerly President and Chief Executive Officer of General Electric Europe, President and Chief Executive Officer of 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 Insurance Limited 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, a member of the Technology Committee from 19 August 2020 until 1 January 2021 and was a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 31 December 2020.

Career Summary:
Ms McFadden is Chairman and non-executive director of The GPT Group Ltd and a non-executive director of Newcrest Mining Ltd.

Ms McFadden was formerly Chairman of Eftpos Australia Payments Ltd and Skilled Group Ltd, and a non-executive director of Tabcorp Holdings Ltd, Myer Family Investments Pty Ltd and Leighton Holdings Ltd. 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 Insurance Limited as an 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 from 1 July 2020 until 1 January 2021, and reappointed to this Committee from 18 March 2021. Ms McAloon was a member of the Technology Committee from 19 August 2020 to 1 January 2021, a member of the Investment Committee from 1 July 2020 to 1 January 2021 and was a member of the Conduct, Culture & Reputation Committee from 1 July 2020 until its dissolution on 31 December 2020.

Career Summary:

Ms McAloon has over 30 years of business, government and regulatory experience at senior executive and board levels across the natural resources, energy and infrastructure sectors. In particular, she has experience in navigating complex environmental, social and governance issues across multiple jurisdictions. Ms McAloon was an executive at BHP Billiton and AGL. Prior to this, she held positions in government in energy, rail and natural resources.

Ms McAloon is currently a Non-Executive Director of Energy Australia (since December 2012), Home Consortium (since October 2019), United Malt Group Ltd (since February 2020) and Newcrest Mining (since July 2021). Jane is also a board member of the Allens Advisory Board (since September 2019).

She is a former director of Viva Energy (June 2018 to August 2021), Healthscope Limited (February 2016 to June 2019), Cogstate Limited (January 2017 to November 2019), Civil Aviation Safety Authority (December 2017 to December 2019), Port of Melbourne (February 2018 to February 2020) and GrainCorp (December 2019 to March 2020). Ms McAloon was also previously Chair of Defence Reserves Support Council and a Member of the Referendum Council on Constitutional Recognition for Aboriginal and Torres Strait Islander Peoples.

Thomas Karl Heinz Naumann

Thomas Naumann was appointed to the Board of Allianz Australia Insurance Limited 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 was reappointed to the Committee effective 23 August 2021. Mr Naumann was also a member of the Conduct, Culture & Reputation Committee from 2 August 2019 until its dissolution on 31 December 2020.

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., Allianz Hayat ve Emeklilik A.S., and Allianz Australia Life Insurance Ltd and Allianz Australia Life Insurance Holdings Ltd.

Mr Naumann is a member of the Supervisory Board of Allianz Deutschland AG and Chair of its Audit and Risk Sub-Committee, a member of the Supervisory Board of Allianz Versicherungs-AG, and a non-executive member of the Supervisory Board of Allianz Direct Versicherungs-AG, Munich.

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

Christopher George Townsend

Christopher Townsend was appointed to the Board of Allianz Australia Insurance Limited as a non-executive director, and as a member of the Audit Committee and Risk Committee on 1 January 2022.

Career Summary

Mr Townsend is a member of the Board of Management of Allianz SE, overseeing the Global Insurance Lines, Reinsurance, Anglo Markets, Middle East and Africa, and the Chairman of the Supervisory Board of Allianz Global Corporate & Specialty SE. Mr Townsend is also a non-executive director of a number of other Allianz Global Group companies.

Mr Townsend has had an extensive career in the insurance industry, including as CEO of AIG's International General Insurance operations and President and CEO of Asia at Metlife.

Directors' Report (continued)

Directors (continued)

Ulf Lange

Ulf Lange is the alternate director for Christopher Townsend with his appointment effective from 17 February 2022 and limited to attending the Allianz Australia Audit Committee and Risk Committee meetings on Mr Townsend's behalf.

Career Summary:
Mr Lange is the Head of the Business Division, Anglo Markets and Global Lines at Allianz SE, Allianz Australia's parent company in Germany. He is a member of the Euler Hermes Group Supervisory Board (part of the Allianz Group), a non-executive director of Allianz Ireland PLC and the Chairman of its Nomination Committee and its Remuneration Committee.

Mr Lange has held a number of senior executive roles in his sixteen years with Allianz SE including Head of Legal, Compliance and HR (CEEMA), CFO of Allianz Ayudhya Assurance (Thailand), and CFO of Allianz Partners SAS (Paris/Munich). During this time Mr Lange has also been a member of the Board of Directors on a number of Allianz Partners companies in Europe, the USA, Canada, the United Kingdom and South East Asia including Australia.

George David Sartorel
George Sartorel was appointed to the Board of Allianz Australia Insurance Limited as a non-executive director on 14 August 2019 and resigned with effect from 31 July 2021. Mr Sartorel was a member of the Nomination Committee from 14 August 2019 to 31 July 2021, and a member of the Investment Committee and Human Resources & Remuneration Committee from 14 August 2019 to 1 January 2021. Mr Sartorel was a member of the Audit Committee and Risk Committee from 14 August 2019 until 1 January 2021 and was reappointed to these Committees from 18

March 2021 until his resignation on 31 July 2021. Mr Sartorel was a member and Chairman of the Technology Committee from 19 August 2020 to 31 July 2021 and was a member of the Conduct, Culture & Reputation Committee from 14 August 2019 until its dissolution on 31 December 2020.

Career Summary:
Mr Sartorel 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.

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		Audit Committee		Risk Committee		HR & Rem Committee[1]		Investment Committee		Technology Committee		Nominations Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
P.N.J. Allaway	10	10	4	4	5	5	-	-	4	4	4	4	-	-
P.J. Dwyer	10	10	4	4	5	5	4	4	4	4	4	4	-	-
R.D. Feledy	10	10	4*	4	5*	5	4*	4	4	4	4*	4	-	-
R.M. Hutchinson[4]	10	10	4	4	4	4	-	-	4	4	4	4	-	-
J.F. McAloon[3]	9	10	3	3	5	5	4	4	-	-	-	-	-	-
V.A. McFadden	8	10	4	4	5	5	4	4	-	-	-	-	-	-
T.K.H. Naumann[5]	10	10	4	4	4	5	4	4	4	4	1	1	-	-
G.D.Sartorel[2]	7	7	1	1	2	2	-	-	-	-	2	2	-	-

1 Human Resources & Remuneration Committee.
2 G.D Sartorel reappointed to Audit Committee and Risk Committee from 18 March 2021. Resigned from all Board and Committee appointments effective 31 July 2021.
3 J.F McAloon reappointed to Audit Committee from 18 March 2021.
4 R.M Hutchinson reappointed to Risk Committee from 18 March 2021.
5 T.K.H Naumann reappointed to Technology Committee effective 23 August 2021.

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

Allianz

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 40, are in accordance with the Financial Reporting Act 2013, including:

(i) fairly presenting the NZ Branch's financial position as at 31 December 2021 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

Sydney
30 March 2022

R.D. Feledy
Director

Sydney
30 March 2022

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Note	2021 $000	2020 $000
Premium revenue	8	36,366	90,386
Outward reinsurance expense	8	(28,085)	(36,956)
Net premium revenue		**8,281**	**53,430**
Claims income/(expense)	10	7,054	(66,186)
Reinsurance and other recoveries (expense)/revenue	10	(5,393)	19,172
Net claims expense		**1,661**	**(47,014)**
Acquisition costs		(656)	(16,685)
Total underwriting expenses		**(656)**	**(16,685)**
Underwriting result		**9,286**	**(10,269)**
Investment income	9	134	1,341
Foreign exchange gains/(losses)		1,037	(4,747)
Other income/(expenses)		719	(3,971)
Other income and expenses		**1,890**	**(7,377)**
Profit/(loss) before income tax		**11,176**	**(17,646)**
Income tax (expense)/benefit	11(a)	(3,159)	4,961
Profit/(loss) after income tax		**8,017**	**(12,685)**

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 40.

Statement of Changes in Head Office Account

For the year ended 31 December 2021

	Head office transfers $000	Retained earnings $000	**Total head office account** **$000**
At 1 January 2021	23,648	12,616	**36,264**
Profit for the year	-	8,017	**8,017**
At 31 December 2021	**23,648**	**20,633**	**44,281**

	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**

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 40.

Statement of Financial Position

As at 31 December 2021

	Note	2021 $000	2020 $000
Assets			
Cash and cash equivalents	21	43,206	104,437
Trade and other receivables	12	58,544	70,746
Reinsurance and other recoveries receivable	15(d)	56,260	71,161
Deferred acquisition costs	14	-	69
Deferred reinsurance premiums		14,531	15,926
Financial assets at fair value through profit or loss	13	44,965	88,391
Right of use asset		-	220
Current tax asset		239	1,771
Deferred tax asset	11(c)	547	11
Total assets		**218,292**	**352,732**
Liabilities			
Accounts payable and accruals		86,473	180,796
Unearned premium liability	17	13,703	23,736
Outstanding claims	15(a)	71,912	111,736
Net deferred reinsurance commission	14	1,923	-
Provision for expected credit loss		-	1
Lease liability		-	199
Total liabilities		**174,011**	**316,468**
Net assets		**44,281**	**36,264**
Head office account		**44,281**	**36,264**
Total head office account		**44,281**	**36,264**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 12 to 40.

Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 $000	2020 $000
Cash flows from operating activities			
Premiums received		34,928	35,990
Outwards reinsurance paid		(32,075)	(35,605)
Claims paid		(32,770)	(57,872)
Reinsurance and other recoveries received		11,169	20,336
Net reinsurance commission received/acquisition costs (paid)		1,336	(4,051)
Intercompany amounts (paid)/received		(84,506)	19,664
Income taxes (paid)		(2,163)	(4,221)
Interest received		99	2,391
Other income (paid)/received		(1,934)	21,425
Foreign exchange (losses)/gains		1,037	(4,747)
Net cash outflow from operating activities	**21(b)**	**(104,879)**	**(6,690)**
Cash flows from investing activities			
Net payments from trading of investments		43,846	(686)
Net cash inflow (outflow) from investing activities		**43,846**	**(686)**
Cash flows from financing activities			
Principal elements of lease payments		(198)	(208)
Net cash outflow from financing activities		**(198)**	**(208)**
Net decrease in cash and cash equivalents		**(61,231)**	**(7,584)**
Cash and cash equivalents at the beginning of the year		104,437	112,021
Cash and cash equivalents at the end of the year		**43,206**	**104,437**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 12 to 40.

Notes to the Financial Statements
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Notes to the Financial Statements

For the year ended 31 December 2021

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 2021 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:

C/- Bell Gully, 48 Shortland Street,
Auckland 1140,
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 10 Carrington 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.

(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.

Notes to the Financial Statements

For the year ended 31 December 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New standards and interpretations not yet adopted (continued)

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, and the New Zealand External Reporting Board has adopted the same position.

The Company has established a project team to implement the requirements of NZ IFRS 17 and is currently performing a detailed impact assessment of the standard.

NZ IFRS 17 introduces a general model that measures insurance contracts based on the fulfilment cash flows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period), and a simplified measurement model (the premium allocation approach or PAA) which is permitted in certain circumstances. An assessment of PAA eligibility has been completed, and it is expected that the PAA approach will be applied to all issued and ceded policies.

NZ IFRS 17 allows insurers to decide whether the impact of changes in economic / financial assumptions will be accounted for through the insurance financial result, therefore impacting the P&L, or through OCI. It is expected that the OCI option will be utilised for all portfolios.

Due to the complexity of the standard requirements and evolving global and local interpretation of these requirements, the impact of a number of NZ IFRS 17 requirements is still being determined, but is expected to be limited as the Company continues its withdrawal from the New Zealand market.

(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.

(v) 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 2021 to 31 December 2021.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Acquisition costs

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

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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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, w hich 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 w ork, health and safety policies; and
- Oversee human resources and remuneration, investment and audit and risk management issues through delegation to Board committees.

The Company has six Board appointed committees, these being:

- Human Resources and Remuneration Committee;
- Audit Committee;
- Risk Committee;
- Investment Committee;
- 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 follow s:

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. Dw yer, R.D.Feledy, T.K.H.Naumann, G.D.Sartorel (resigned 31 July 2021), P.N.J Allaw ay, R.M.Hutchinson, J.F.McAloon, V.A.McFadden, C.G. Tow nsend (appointed 1 January 2022) and U. Lange (appointed as an alternate director 17 February 2022).

T.K.H. Naumann, C.G. Tow nsend and U. Lange represent 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.

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, product risk, pricing risk, reserving risk and reinsurance risk), credit risk, market risk and funding and liquidity risk. Non-financial risks include: operational and compliance risk, strategic risk and conduct risk and Environmental Social and Governance (ESG) (including climate change risk) 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 NZ Branch maintains various Risk Frameworks to manage and govern material risk classes, for example the Underwriting Risk Ownership Framework. The NZ 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.

(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

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. Allianz Australia Limited and its controlled entities (the "Consolidated Entity") maintains a Reinsurance Management Strategy ("REMS") as required by APRA Prudential Standard GPS230. The REMS is reviewed annually and approved by the Board.

(b) Operational and compliance risk

Operational risk is the risk of 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 categories with supporting risk frameworks to enable specific allocation of responsibility and of ownership of particular risks in areas where they arise. Continuous identification, assessment, reporting, monitoring and testing of key risks and controls is in place to assess whether risks are within acceptable levels and what action, if any, is required to reduce risk outside appetite. Incident and issue management processes support continuous improvement to the control environment. The Branch has also developed a methodology approved by senior management and the Board to monitor the maturity in which The Branch manages non-financial risks

3. RISK MANAGEMENT (CONTINUED)

(b) Operational and compliance risk (continued)

Compliance risk arises where the Branch fails to comply with relevant legislation, regulation and industry codes that could result in loss of operating licence, penalties or brand damage. Whilst compliance risk is a separate Level 1 category in the Company Risk Taxonomy, management of this risk is aligned to processes to manage operational risk and compliance risk is considered as part of business decision making. The Company maintains a Compliance Risk Framework and manages compliance risk in accordance with this framework.

The Branch adopts a consistent and transparent approach to regulatory compliance and engagement. Operational Compliance Plans (OCPs) are in place to capture regulatory obligations and map to controls that enable and confirm compliance with such obligations. Periodic review of the OCPs is in place as is monitoring and testing of the controls. A formal process is in place to update for new obligations as they are identified. Regulatory change is proactively managed with appropriate governance and resource to effect required change. The Branch aims to foster respectful and constructive relationships with its key regulators.

(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 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
2021				
Cash and cash equivalents	43,206	-	-	43,206
Trade and other receivables	3,636	1,028	53,880	58,544
Reinsurance and other recoveries receivable	50,949	5,311	-	56,260
Financial assets at fair value through profit and loss	44,965	-	-	44,965
Total financial assets	**142,756**	**6,339**	**53,880**	**202,975**
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**

3. RISK MANAGEMENT (CONTINUED)

(d) Strategic risk

Strategic risk includes the risk of inappropriate strategy and strategy execution risk, including business plan delivery, that results in a failure to execute on the business strategy or not adapting the strategy to the changes in the external environment. The NZ Branch maintains a Strategic Risk Framework and Strategic risks are managed in accordance with this framework.

The NZ Branch manages its business plan to deliver on its strategy which is aligned with the strategy for technical excellence for the Allianz P&C segment which links with the management of Underwriting risk. It does not pursue business opportunities outside of the core line of business.

(e) Conduct risk

Conduct risk is defined as the risk of inappropriate, unethical or unlawful behaviours, or inadequacies in past or current business practices, or in the design of the Consolidated Entity's products, sales practices and customer servicing, leading to unfair Customer or stakeholder outcomes.

Conduct risks are identified and minimised to the extent possible through the application of appropriate governance, controls and monitoring of product design indicators, customer servicing standards, customer complaints and the practices of Allianz and third-party distribution partners and suppliers.

(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. Service level agreements are maintained with several cash management providers.

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

	Maturing in:				
	1 year or less $000	1 to 3 years $000	3 to 5 years $000	Over 5 years $000	Total $000
As at 31 December 2021					
Outstanding claims	50,169	13,126	7,331	2,790	73,416
Accounts payable and accruals	86,473	-	-	-	86,473
Total financial liabilities	**136,642**	**13,126**	**7,331**	**2,790**	**159,889**

	Maturing in:				
	1 year or less $000	1 to 3 years $000	3 to 5 years $000	Over 5 years $000	Total $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**

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For the year ended 31 December 2021

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's exposure to foreign currency risk is limited to the value of intra-entity balances, with the remaining financial assets and financial liabilities 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 increase/decrease 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
2021			
Financial assets			
Cash	43,206	(311)	311
Bills of exchange and floating notes	44,965	324	(324)
Total financial assets	**88,171**	**13**	**(13)**
2020			
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**

(h) Environmental Social and Governance (ESG) and Reputation Risks

ESG risks is the risk of poor ESG outcomes resulting in a reduction in the value of in-force business or future business. Reputation Risk is the risk of potential damage to the NZ Branch reputation arising directly or indirectly from the manifestation of other material risks.

The NZ Branch is committed to making a positive contribution to society and the environment. ESG policies and processes guide the business in ensuring business transactions align to these values. ESG can arise in underwriting, investment and procurement activities. Guidelines are in place to manage sensitive areas, including seeking Allianz SE Group approval in certain circumstances. The NZ Branch recognises climate change as an emerging risk and action plans are in place for us to meet Allianz SE Group targets including reductions to our carbon footprint and we continue to embed sustainability and environmental considerations into business and decision making processes. Reputational impact can occur through both direct and indirect impacts from operational risk events and the manifestation of inadequately managing other material risks. Potential issues are identified, managed and monitored to enable appropriate mitigating actions and responses to be prepared and effected.

3. RISK MANAGEMENT (CONTINUED)

(i) Fair value estimation

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

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The fair value of unlisted funds is based upon independent valuations using a combination of observable or comparable market prices or other valuation techniques.

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

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 buffer above the prudential regulatory requirement (PCR) to ensure the ongoing strength and security of the Company whilst suitably protecting policyholders. This capital buffer is defined as a multiple of the PCR and is set in line with the stated risk appetite for a PCR breach over one year.

4. CAPITAL MANAGEMENT (CONTINUED)

(a) Capital management strategy risk (continued)

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

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

(b) Regulatory capital compliance

The entity's reporting obligations to the RBNZ have been satisfied by submissions to the RBNZ of the Company's and Parent Company's APRA returns. 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 2021.

	2021 AUD	2021 NZD
Statutory capital of Allianz Australia Insurance Limited	$000	$000
Common equity tier 1 capital		
Ordinary shares	2,085,307	2,214,429
Retained earnings	1,464,911	1,555,618
Disclosed reserves	(34,175)	(36,291)
Technical provision in excess of liability valuation (net of tax)	87,359	92,768
Regulatory adjustments for non-allowable assets	(1,287,959)	(1,367,709)
Total common equity tier 1 capital	**2,315,443**	**2,458,815**
Total regulatory capital	**2,315,443**	**2,458,815**
Prescribed capital amount		
Insurance risk charge	1,118,885	1,188,166
Insurance concentration risk charge	150,000	159,288
Diversified asset risk charge	701,803	745,259
Operational risk charge	220,956	234,638
Aggregation benefit	(402,632)	(427,563)
Adjustments to prescribed capital amount as approved by APRA	(178,901)	(189,979)
Prescribed capital amount	**1,610,111**	**1,709,809**
Solvency margin	**705,332**	**746,006**
Capital adequacy multiple	**1.44**	**1.44**
Additional capital requirement*	150,000	159,288
Adjusted capital adequacy multiple	**1.32**	**1.32**

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4. CAPITAL MANAGEMENT (CONTINUED)

(b) Regulatory capital compliance (continued)

	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)	(622,581)
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	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 AUD$150,000,000 is subject to the satisfactory completion of these Transformation Programs.

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.

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 2021.

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 2021 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	**Long-tail classes**
Domestic motor vehicle	Public and products liability
Commercial motor vehicle	Professional indemnity
Domestic buildings and contents	
Commercial property	
Pleasure craft	
Marine and aviation	
Consumer credit	
Travel	

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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.

	2021 Short-Tail	2021 Long-Tail	2020 Short-Tail	2020 Long-Tail
Average weighted term to settlement (years)	0.84	1.78	0.54	1.42
Claims handling expenses (net of reinsurance)	4.9%	4.3%	3.6%	5.0%
Discount rate	2.11%	1.80%	0.20%	0.40%
Economic inflation rate per annum	2.5%	3.5%	2.5%	3.5%

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

6. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

(e) Sensitivity analysis – insurance contracts (continued)

(ii) Impact of changes in key variables

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

2021

	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
Average weighted term to settlement	+0.5 year	516	153	362	107
	-0.5 year	(521)	(155)	(365)	(108)
Claims handling expenses	1%	(621)	(518)	(434)	(362)
	-1%	621	518	434	362
Discount rate	+1% p.a.	473	118	331	83
	-1% p.a.	(490)	(124)	(343)	(87)
Economic inflation rate	+1% p.a.	(493)	(125)	(345)	(88)
	-1% p.a.	486	122	340	85

	Movement in variable	Impact on Profit before tax	Impact on Profit before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Long-tail					
Average weighted term to settlement	+0.5 year	93	7	65	5
	-0.5 year	(94)	(7)	(66)	(5)
Claims handling expenses	1%	(86)	(10)	(61)	(7)
	-1%	86	10	61	7
Discount rate	+1% p.a.	276	14	193	9
	-1% p.a.	(294)	(14)	(206)	(10)
Economic inflation rate	+1% p.a.	(297)	(14)	(208)	(10)
	-1% p.a.	284	14	199	10
Superimposed Inflation	+1% p.a.	(297)	(14)	(208)	(10)
	-1% p.a.	284	14	199	10

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.

2020

	Movement in variable	Impact on Loss before tax	Impact on Loss before tax	Impact on Head Office Account	Impact on Head Office Account
		$000	$000	$000	$000
		Gross	Net	Gross	Net
Short-tail					
Average w eighted term to settlement	+0.5 year				
		92	39	64	27
	-0.5 year	(75)	(39)	(52)	(27)
Claims handling expenses	1%	(919)	(822)	(643)	(575)
	-1%	919	822	643	575
Discount rate	+1% p.a.	390	207	273	145
	-1% p.a.	(398)	(211)	(279)	(148)
Inflation rate	+1% p.a.	(395)	(210)	(276)	(147)
	-1% 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	$000	$000	$000
		Gross of RI	Net of RI	Gross of RI	Net of RI
Long-Tail					
Average Weighted Term to Settlement	+0.5 year	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)
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

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**	
	2021	**2020**	**2021**	**2020**
Short-tail classes	3.3%	3.2%	5.0%	6.1%
Long-tail classes	1.9%	3.2%	5.0%	6.1%
Overall margin	3.2%	3.2%	5.0%	6.1%

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 area in which critical estimates and judgements are applied is in relation to outstanding claims and reinsurance and other recoveries receivable (Note 15).

8. PREMIUM REVENUE

	2021 $000	2020 $000
Gross written premium	26,334	46,649
Movement in unearned premium liability	10,032	43,737
Gross earned premium revenue	**36,366**	**90,386**
Outwards reinsurance expense	(28,085)	(36,956)
Net earned premium	**8,281**	**53,430**

9. INVESTMENT AND OTHER INCOME

Interest on government bonds	444	1,032
Other interest	99	1,253
Unrealised gains/(losses) on investments	1	(821)
Realised losses on investments	(410)	(123)
Total investment and other income	**134**	**1,341**

Notes to the Financial Statements

For the year ended 31 December 2021

10. NET CLAIMS INCURRED

	Current year $000	Prior years $000	Total $000
2021			
Gross claims incurred - undiscounted	(12,126)	18,091	5,965
Discount movement	421	668	1,089
Gross claims incurred - discounted	(11,705)	18,759	7,054
Reinsurance and other recoveries revenue - undiscounted	7,461	(12,062)	(4,601)
Discount movement	(303)	(489)	(792)
Reinsurance and other recoveries revenue discounted	7,158	(12,551)	(5,393)
Net claims incurred	**(4,547)**	**6,208**	**1,661**

	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)**

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

Current year claims are those which have occurred with a date of loss in the current financial period. Prior year claims relate to a reassessment of the ultimate cost of claims which occurred in all previous reporting periods. The prior year undiscounted releases are a result of claims inflation (wage inflation and superimposed inflation) having been lower than assumed at 31 December 2020 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

	2021 $000	2020 $000
(a) Income tax expense		
Current tax expense/(benefit)	3,679	(1,648)
Movement in deferred acquisition costs	(535)	(3,293)
Prior year adjustment	15	(20)
Total recognised income tax expense/(benefit)	**3,159**	**(4,961)**
(b) Reconciliation of effective tax rate		
Profit/(loss) before tax	11,176	(17,647)
Income tax at 28%	(3,129)	4,941
Prior year adjustment	(30)	20
Total income tax (expense)/benefit	**(3,159)**	**4,961**

(c) Deferred tax asset

The balance comprises temporary differences attributable to:

	2021 $000	2020 $000
Deferred acquisition costs	538	(19)
Others	9	30
Net deferred tax asset	**547**	**11**

12. TRADE AND OTHER RECEIVABLES

	2021	2020
	$000	$000
(a) Trade and other receivables		
Premiums receivable	16,934	27,893
Unclosed premiums	4,356	1,992
Reinsurance debtors	4,664	6,325
Other receivables	32,590	34,536
To be received within 12 months	**58,544**	**70,746**
Total trade and other receivables	**58,544**	**70,746**

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:

	2021	2020
Not past due or impaired	52,219	60,149
0 to 3 months	6,181	9,179
3 to 6 months	3	-
Over 6 months	141	1,418
Total receivables	**58,544**	**70,746**

Notes to the Financial Statements

For the year ended 31 December 2021

13. FINANCIAL ASSETS

(a) Investments

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

	2021	2020
	$000	$000
Bills of exchange and floating notes	44,965	67,981
Government bonds	-	20,410
Total financial assets at fair value through profit or loss	**44,965**	**88,391**

(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).

	Level 1	**Level 2**	**Level 3**	**Total**
2021	**$000**	**$000**	**$000**	**$000**
Bills of exchange and floating rate notes	-	44,965	-	**44,965**
Government bonds	-	-	-	**-**
Total investments	**-**	**44,965**	**-**	**44,965**
Cash and cash equivalents	43,206	-	-	**43,206**
Total financial assets	**43,206**	**44,965**	**-**	**88,171**
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**

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 2021. The appropriateness of fair value hierarchy classification is reviewed annually.

14. NET DEFERRED REINSURANCE COMMISSION AND 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, with the result indicating that net premium liabilities for the New Zealand portfolio is sufficient.

This prospective assessment compares the net present value of claims that are expected to be paid for future events insured under existing policies with net premium liabilities. In addition, a risk adjustment is required to be applied to premium liabilities with a 75% probability of adequacy.

	2021	2020
Movement in net deferred reinsurance commission and acquisition costs at 1 January	$000	$000
Net deferred reinsurance commission and acquisition costs at 1 January	69	12,704
Reinsurance commission and acquisition costs deferred	(1,166)	5,023
Amortisation charged to income	(826)	(17,658)
Release of premium deficiency prior year	-	-
Total as at 31 December	**(1,923)**	**69**

15. OUTSTANDING CLAIMS

	2021	2020
(a) Outstanding claims liability	$000	$000
Expected future claims payments (undiscounted) - central estimate	71,676	108,481
Risk margin applied (undiscounted)	545	1,363
Claims handling expenses	1,195	2,309
Discount to present value - central estimate	(1,496)	(418)
Discount to present value - risk margin	(8)	1
Total outstanding claims liability	**71,912**	**111,736**

(b) Christchurch Earthquakes

The central estimate for the outstanding claims liability includes $4.3 million in 2021 (2020: $1.6 million) relating to the Christchurch earthquakes which occurred in 2010 and 2011, with $2.2 million held in reinsurance recoveries to offset this. 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 $34.9 million in 2021 (2020: $35.7 million) relating to the Kaikoura earthquakes which occurred in November 2016, with $28 million held in reinsurance recoveries to offset this. The estimate is based on information on individual reported claims plus an allowance for future claims and claims development.

15. OUTSTANDING CLAIMS (CONTINUED)

(d) Reconciliation of movement in discounted outstanding claims liability

	2021			2020		
	Gross $000	Recoveries $000	Net $000	Gross $000	Recoveries $000	Net $000
Balance as at 1 January	111,736	(71,161)	40,575	108,182	(72,258)	35,924
Current year claims incurred	11,705	(7,158)	4,547	78,094	(21,823)	56,271
Change in previous years' claims incurred	(18,758)	12,550	(6,208)	(11,908)	2,650	(9,258)
Current year claims paid	(3,886)	1,022	(2,864)	(29,469)	2,982	(26,487)
Change in prior year claims paid	(28,885)	8,487	(20,398)	(33,163)	17,288	(15,875)
Balance as at 31 December	**71,912**	**(56,260)**	**15,652**	**111,736**	**(71,161)**	**40,575**

17. UNEARNED PREMIUM LIABILITY

	2021 $000	2020 $000
Unearned premium liability as at 1 January	23,736	67,473
Deferral of premiums on contracts written in the period	26,333	46,649
Premiums earned during the year	(36,366)	(90,386)
Unearned premium liability as at 31 December	**13,703**	**23,736**

18. 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.

	2021 $	2020 $
Audit of the financial statements	49,400	52,945
Taxation services	12,500	12,500
Total auditor's remuneration	**61,900**	**65,445**

19. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key management personnel

Key management personnel are those who directly or indirectly have authority and responsibility for planning, directing and controlling the activities of The Branch. This includes executive and non-executive directors as well as the senior management team.

(b) Transactions with key management personnel

	2021	2020
	$ NZD	$ NZD
Short term employee benefits	9,855,340	7,870,860
Post employment benefits	381,656	291,772
Long term employee benefits	95,305	86,609
Share-based payments	3,331,889	1,634,107
Termination benefits	1,582,821	986,563
Total benefits paid, payable or otherwise provided by the Company to management companies in relation to the key management personnel	**15,247,011**	**10,869,911**

Remuneration for staff is paid by Allianz New Zealand Limited and Allianz Australia Services Pty Limited, subsidiaries of Allianz Australia Limited and recharged to relevant Group companies in accordance with a service agreement based on estimated time spent. Share-based payments relate to Restricted Stock Units for shares in the ultimate parent entity, Allianz SE.

(c) Loans and other transactions with key management personnel

The Company sold insurance to its key management personnel during the period within normal employee or customer relationships on terms and conditions no more favourable than those available on similar transactions to other employees or customers. Refer to Note 19 for related party transactions concerning Directors.

20. 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. D. Feledy, P.J. Dwyer, T.K.H Naumann, G.D. Sartorel (resigned 31 July 2021), P.N.J Allaway, R.M. Hutchinson, J.F. McAloon, V.A. McFadden, C.G. Townsend (appointed 1 January 2022) and U. Lange (appointed as an alternate director 17 February 2022). T.K.H. Naumann, C.G. Townsend and U. Lange represent the shareholder, Allianz SE that resulted in them having significant influence over the financial and operating policies of the Company and NZ Branch.

Management fees paid to:	2021 $	2020 $
Allianz New Zealand Limited	167,325	267,500
PIMCO Australia Pty Limited	(870)	(748)

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	(289,254)	(1,416,069)
Primacy Underwriting Management Limited	(2,437)	1,170,076
Euler Hermes Trade Credit Underwriting Agency Pty Limited	1,921,098	2,055,982
Reinsurance premiums ceded	28,084,900	36,956,313
Reinsurance claims recoverable (paid)/recovered	(5,392,156)	19,172,453
Amounts due (to) / from related parties		
Head Office Account - Allianz Australia Insurance Limited	(44,608,068)	(36,538,756)
Allianz Australia Insurance Limited	(50,713,435)	(136,775,337)
Allianz New Zealand Limited	5,327,330	5,440,311
Club Marine Limited	(3,398,051)	(2,708,131)
Allianz Australia Services Pty Limited	(11,606,274)	(11,830,840)
AWP Services New Zealand Ltd	15,641,176	17,233,025
Net amount due to related parties	**(89,357,322)**	**(165,179,728)**

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2021	2020
	$000	$000
(a) Cash reconciliation		
Cash and cash equivalents in the statement of cash flows	43,206	104,437

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

	2021	2020
Profit/(loss) for the year	8,746	(12,685)
Non-cash movements:		
Unrealised losses on revaluation	33	754
Expected credit loss recognised under NZ IFRS 9	-	(1)
Change in assets and liabilities:		
Decrease in premium receivables	8,595	4,255
Decrease in unearned premium	(10,033)	(43,737)
Decrease in reinsurance and other recoveries	16,562	1,168
Decrease in deferred acquisition costs/increase in deferred reinsurance commission	1,992	12,635
Decrease/(increase) in deferred reinsurance premium	1,395	(139)
Increase in deferred tax assets	(585)	(3,293)
(Decrease)/increase in outstanding claims	(39,824)	3,554
(Increase)/decrease reinsurance premium payable	(5,384)	1,490
(Decrease)/increase in creditors and amounts owed to related companies	(86,452)	41,391
Decrease/(increase) in current tax asset	852	(5,889)
(Decrease)/increase in sundry payables	(2,652)	16,855
Decrease/(increase) in other receivables	1,500	(23,245)
Increase in interest income receivable	156	105
Decrease in right-of-use assets	220	239
(Increase) in financial assets at fair value	-	(147)
Net cash outflow from operating activities	**(104,879)**	**(6,690)**

22. 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.

23. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no 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

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 2021, 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).

We have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include a significant accounting policies and other explanatory information.

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.

Independence

We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and *International Code of Ethics for Professional Accountants (including International Independence Standards)* issues by the International Ethics Standards Board for 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.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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Our audit approach

Overview

Overall materiality: $2.1 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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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 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 liability *Refer to note 15 (2021: $71.9m, 2020: $111m)* We considered the valuation of outstanding claims liability 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 present value of 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 cash flows in each portfolio as well as allowing for diversification between them. The Branch will consider the Probability of Sufficiency in determining the appropriate risk margin. Probability of Sufficiency 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 and agreeing to underlying documentation. 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 significant 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 discount 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 NZ IFRS and IFRS.

Other information

The Directors of Allianz Australia Insurance Limited are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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 management and the Directors for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the 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 Management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

The Directors of Allianz Australia Insurance Limited are responsible for overseeing the Branch's financial reporting process.

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 Directors of Allianz Australia Insurance Limited. 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 to the Branch and the Directors of Allianz Australia Insurance Limited for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 March 2022

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 2021. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 30 March 2022 and an unqualified opinion was issued.

S Hadfield

Scott Hadfield

Board Paper

Allianz Australia Insurance Limited (NZ Branch)

Meeting Date:	28 March 2022		
Division:	Finance	For Approval	☐
Submitted By:	Brett Riley	For Discussion	☐
Reviewed By:	Paul Harvey	For Noting	☒
SUBJECT:	**AAIL (NZ Branch) Appointed Actuary Report at 31 December 2021**		

1. PURPOSE

I have prepared this Appointed Actuary report as at 31 December 2021 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 2021 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 2021, as documented in the report titled "Allianz Australia Limited Valuation of Outstanding Claims Liabilities as at 30 September 2021";
- A roll forward of the 30 September 2021 full valuation outstanding claims estimates to 31 December 2021. The results of this analysis summarised at the Allianz Australia Limited level are documented in the Board report "Liability Roll-Forward Report – 31 December 2021";
- A full analysis of premium liabilities as at 31 December 2021, as documented in the report "Allianz Australia Limited Valuation of Premium Liabilities as at 31 December 2021"; and
- An analysis of risk margins, as documented in the report "Allianz Australia Limited Assessment of Risk Margins as at 31 December 2019" and the update memo "Assessment of Risk Margins as at 31 December 2021".

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 2021 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 March 2022