

QBE INSURANCE (AUSTRALIA) LIMITED
NEW ZEALAND BRANCH
FINANCIAL REPORT – 31 DECEMBER 2016

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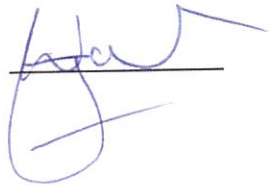
QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT BY DIRECTORS
For the year ended 31 December 2016

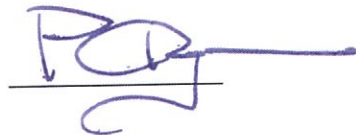
We, being two directors of QBE Insurance (Australia) Limited, certify that the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Balances Due To Head Office, Statement of Cash Flows and notes set out on pages 4 to 42 are true copies of the Financial Statements of the New Zealand Branch of the Company for the year ended 31 December 2016.

The Board of Directors of QBE Insurance (Australia) Limited authorised these statements for issue on the ¹⁴17 day of February 2017.

DIRECTOR:

A handwritten signature in blue ink, appearing to be 'John', written over a horizontal line.

DIRECTOR:

A handwritten signature in blue ink, appearing to be 'Paul', written over a horizontal line.



Independent auditor's report

To the Directors of QBE Insurance (Australia) Limited New Zealand Branch

QBE Insurance (Australia) Limited New Zealand Branch's financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in balances due to head office for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of QBE Insurance (Australia) Limited New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Branch in the areas of tax and advisory advice. The provision of these other services has not impaired our independence as auditors of the Branch.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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


https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

Who we report to

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

For and on behalf of:

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

Chartered Accountants
17 February 2017

Auckland

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	NOTE	2016 \$000's	2015 \$000's
Gross written premium		378,656	353,444
Unearned premium movement	17	(13,734)	(13,073)
Gross earned premium revenue		364,922	340,371
Outward reinsurance premium		(157,931)	(166,469)
Deferred reinsurance premium movement	13	(7,989)	5,633
Outward reinsurance premium expense		(165,920)	(160,836)
Net earned premium		199,002	179,535
Gross claims incurred	8	(563,453)	(161,231)
Reinsurance and other recoveries revenue	8	444,600	91,499
Net claims incurred	8	(118,853)	(69,732)
Gross commission expense		(61,009)	(49,311)
Reinsurance commission revenue		23,290	16,572
Net commission		(37,719)	(32,739)
Deferred acquisition cost movement		(100)	2,894
Underwriting expenses	6	(47,537)	(48,520)
Underwriting profit		(5,207)	31,438
Sundry income		3,263	3,067
Investment income	7	11,676	16,072
Other expenses	7	(326)	(2,131)
Profit before income tax		9,406	48,446
Income tax expense	9	(2,343)	(14,234)
Profit for the year attributable to Head Office Account		7,063	34,212
Other comprehensive income after income tax		-	-
Total comprehensive income for the year attributable to Head Office Account		7,063	34,212

The statement of comprehensive income should be read in conjunction with the accompanying notes.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

BALANCE SHEET
As at 31 December 2016

	NOTE	2016 \$000's	2015 \$000's
ASSETS			
Cash and cash equivalents	10	25,407	18,737
Investments	11	392,460	369,057
Trade and other receivables	12	169,586	153,411
Deferred insurance costs	13	48,931	52,619
Reinsurance and other recoveries on outstanding claims	18	497,222	213,154
Property, plant and equipment	14	1,156	1,544
Current tax assets		2,049	-
Deferred tax assets	15	1,578	1,066
Total assets		1,138,389	809,588
LIABILITIES			
Trade and other payables	16	56,744	62,013
Current tax liabilities		-	4,220
Unearned premium	17	209,736	196,002
Outstanding claims	18	652,540	333,875
Deferred tax liabilities	15	11,554	10,348
Total liabilities		930,574	606,458
Net assets		207,815	203,130
Due to Head Office – Australia	20	207,815	203,130

The balance sheet should be read in conjunction with the accompanying notes.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE
For the year ended 31 December 2016

HEAD OFFICE – AUSTRALIA	NOTE	2016 \$000's	2015 \$000's
Balance as at 1 January		-	190,579
Profit for the year		7,063	34,212
Total comprehensive income		7,063	34,212
Acquisition of Net Assets from QII NZ	30	195,097	-
Dividend Paid		-	(24,357)
Current transactions with Head Office		5,655	2,696
Balance at 31 December	20	207,815	203,130

The statement of changes in balances due to Head Office should be read in conjunction with the accompanying notes.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	NOTE	2016 \$000's	2015 \$000's
OPERATING ACTIVITIES			
Premium received		374,446	329,833
Reinsurance and other recoveries received		162,245	131,238
Outwards reinsurance paid		(162,102)	(166,448)
Claims paid		(244,788)	(191,932)
Insurance costs paid		(42,120)	(37,512)
Interest received		14,052	12,457
Other operating income		(6,759)	28
Other operating payments		(48,165)	(31,290)
Income taxes paid		(7,918)	(12,810)
Net cash flows from operating activities	10	38,891	33,564
INVESTING ACTIVITIES			
Proceeds on sale of investments		325,654	437,103
Payments for purchase of investments		(351,433)	(458,921)
Payments for purchase of plant and equipment		(221)	(564)
Net cash flows from investing activities		(26,000)	(22,382)
FINANCING ACTIVITIES			
Parent company settlements ¹		(6,221)	(8,960)
Net cash flows from financing activities		(6,221)	(8,960)
Net movement in cash and cash equivalents		6,670	2,222
Cash and cash equivalents at the beginning of the financial year		18,737	16,515
Cash and cash equivalents at the end of the financial year	10	25,407	18,737

The statement of cash flows should be read in conjunction with the accompanying notes.

¹ Cash inflows and outflow have been netted off as they relate to the activities of the counterparty.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

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QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. GENERAL INFORMATION

QBE Insurance (Australia) Limited (referred to as the Parent or Head Office), is a company incorporated in Australia and operates in New Zealand as a branch (the Branch).

Under the terms of a Portfolio Assumption Deed between the two parties QBE Insurance (International) Limited and QBE Insurance (Australia) Limited, effective 1 January 2016, the insurance business of QBE Insurance (International) Limited New Zealand Branch was transferred to QBE Insurance (Australia) Limited and its New Zealand Branch. All appropriate regulatory approvals were received to effect the transfer and as from 1 January 2016, the insurance business that was previously carried out by QBE Insurance (International) Limited New Zealand Branch is now being carried out by QBE Insurance (Australia) Limited New Zealand Branch (the Branch).

Net assets of QBE Insurance (International) Limited New Zealand Branch were \$203.130 million as at 31 December 2015. Of these, net assets of \$195.097 million were acquired by QBE Insurance (Australia) Limited. The net assets balance which remained with QBE Insurance (International) Limited relates to reinsurance premium payable / receivable balances.

QBE Insurance (International) Limited and its New Zealand Branch has also retained all exposures in respect of historic taxation matters of which the Commissioner of Inland Revenue has issued a Notice of Proposed Adjustment (refer note 7). QBE Insurance (International) Limited has also retained some bad debts and non-insurance related income. To all intents and purposes the insurance business in New Zealand of QBE Insurance (Australia) Limited is the same as was carried on by QBE Insurance (International) Limited. The comparatives for the financial year ended 31 December 2015 in these financial statements relate to QBE Insurance (International) Limited New Zealand Branch. The transfer has been accounted for as a common control transaction specifically as a capital reorganisation.

The Branch is an insurer providing general insurance services. It is based at 29 Customs Street West, Auckland.

The financial statements of the Branch are for the year ended 31 December 2016 and were authorised for issue by the directors on the 7th day of February 2017.

The Branch's owners do not have the power to amend these financial statements once issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit oriented entities. The Branch is a profit oriented entity registered under the Companies Act 1993. The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

The financial statements of the Branch comply with International Financial Reporting Standards (IFRS).

The Branch is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and it is a Licenced Insurer under the Insurance (Prudential Supervision) Act 2010.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial statements, with the principal exceptions being the measurement of financial assets at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (Continued)

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 4.

(B) Unearned premium

Unearned premium is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risks underwritten, using the daily pro-rata method or the 24ths method.

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of

the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The resulting deficiency is recognised immediately through the profit or loss.

(C) Premium revenue

Premium comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account based upon the pattern of booking of renewals and new business.

(D) Outward reinsurance

Premium ceded to reinsurers is recognised as an 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. Accordingly, a portion of outward reinsurance premium is treated as deferred reinsurance premium at the balance sheet date.

(E) Claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs. Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

(F) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

(G) Acquisition costs

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (Continued)

premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

(H) Investment income

Interest income is recognised on an accruals basis. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as net fair value gains or losses on financial assets in the Statement of Comprehensive Income.

(I) Taxation

The income tax expense for the year is the tax payable on the current year's taxable income, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that is not a business combination and at the time did not affect either accounting profit or taxable loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability on a net basis, or to realise the asset and settle the liability simultaneously.

(J) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements.

(K) Investments

Investments comprise interest-bearing assets. Investments are designated as at fair value through profit or loss on initial recognition. They are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. The policy of management is to designate a group of financial assets or financial liabilities as at fair value through profit or loss when that group is both managed and its performance evaluated on a fair value basis for both internal and external reporting in accordance with the Branch's documented investment strategy.

Fixed and floating rate securities are valued using independently sourced valuations.

All purchases and sales of investments 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 Branch commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(L) Trade and other receivables

Trade and other receivables are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Branch will not be able to collect all amounts

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (Continued)

due according to the original term of the receivable. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in profit or loss.

(M) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Plant and equipment is depreciated using the diminishing value method over the estimated useful life of each class of asset. Estimated useful lives are between three and ten years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'underwriting expenses' in the Statement of Comprehensive Income.

(N) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows.

(O) Trade and other payables

Trade and other payables are measured at cost and are settled under standard terms and conditions. Related party payables are measured at cost and are repayable on demand.

(P) Foreign currency

(i) Functional and presentation currency

The Branch's financial statements are presented in New Zealand dollars, being the functional and presentation currency of the Branch.

(ii) Translation of foreign currency transactions and balances

Foreign currency transactions are translated into New Zealand dollars at the spot rates of exchange applicable at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

(iii) Hedging transactions

Derivatives may be used to hedge the foreign exchange risk relating to certain transactions.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. Summary of Significant Accounting Policies (Continued)

(Q) Employee benefits

(i) Superannuation

The Branch contributes to a privately administered pension plan on a mandatory, contractual or voluntary basis. The Branch has no obligation once the contributions have been paid. All contributions are recognised as an employee expense when they are due.

(ii) Share based payment

The employees of the Branch participate in an equity settled share based compensation plan of QBE Insurance Group Limited. The fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense.

(iii) Other

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

(R) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(S) Goods and services tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(T) Rounding of amounts

Amounts in the financial statements have been rounded off in the financial statements to the nearest one thousand dollars.

3. NEW ACCOUNTING STANDARDS AND AMENDMENTS

The following standards, amendments and interpretations to existing standards which have been published and are mandatory for the Branch's accounting periods beginning on or after 1 January 2018 have not been early adopted:

- NZ IFRS 9, Financial Instruments effective 1 January 2018. Introduces changes in the classification and measurement of financial assets and liabilities. Not expected to have a material impact on the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates of the outstanding claims as at 31 December 2016 and 31 December 2015 is the responsibility of Benoit Laganieri, Fellow of the Institute of Actuaries of Australia.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Critical Accounting Estimate and Judgements (Continued)

The actuarial assessments are in accordance with the standards and guidance of the Institute of Actuaries of Australia. The Actuary is satisfied the data is consistent, complete and accurate to determine the outstanding claims liability.

The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's obligations after having regard to the prevailing market environment and prudent industry practice.

The key areas in which critical estimates and judgments are applied are described as follows:

(A) Outstanding claims provision

The Branch's net outstanding claims provision comprises:

- the gross central estimate of expected future claims payments;
- amounts recoverable from reinsurers based on the gross central estimate;
- a reduction to reflect the discount to present value using risk-free rates of return to reflect the time value of money; and
- a risk margin that reflects the inherent uncertainty in the net discounted central estimate.

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the Branch requires a higher probability that estimates will be adequate over time, a risk margin is added to the net discounted central estimate to determine the outstanding claims provision.

(i) Central estimates

The provision for expected future payments includes those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs, being the indirect expenses incurred in the settlement of claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claims is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, typically display greater variability between initial estimates and final settlement due to delays in reporting claims, uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to more certainty. The estimation techniques and assumptions used in determining the central estimate are described below.

The Branch's process for establishing the central estimate involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes half yearly internal claims provisioning committee meetings attended by the senior management and the Appointed Actuary and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 5.

The determination of the amounts that the Branch will ultimately pay for claims arising under insurance and reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the central estimate on the Branch's profit or loss are summarised in note 4(A)(v).

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Critical Accounting Estimate and Judgements (Continued)

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate.

The net central estimate is discounted at risk-free rates of return to reflect the time value of money. Details of the key assumptions applied in the discounting process are summarised in note 4(A)(iv).

(ii) Assets arising from contracts with reinsurers

Assets arising from contracts with the Branch's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance sheet date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty and credit risk in relation to reinsurance assets is considered in note 5(C)(ii).

(iii) Risk margin

Risk margins are determined by management and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- change in the mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement;
- prior accident year claims development; and
- the level of uncertainty in the net discounted central estimate due to actuarial estimation, data quality issues, variability of key discount and inflation assumptions and legislative uncertainty.

The variability by class of business uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

The appropriate risk margin for two or more classes of business combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class.

The risk margin for the Branch is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business. Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by the Branch are normally derived from industry analysis and the judgement of experienced and qualified actuaries.

The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from the comparison of the risk margin with the net discounted central estimate. Using a range of outcomes, it allows a determination of the probability of adequacy represented by a risk margin. For example, a 90% probability of adequacy indicates that the outstanding claims provision is expected to be adequate nine times in ten. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

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For the year ended 31 December 2016

4. Critical Accounting Estimate and Judgements (Continued)

(iv) Financial assumptions used to determine the outstanding claims provision

Discount rates

NZ IFRS 4 Insurance Contracts requires that the outstanding claims provision shall be discounted for the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations. The standard also states that government bond rates may be an appropriate starting point in determining a risk-free rate. The Branch generally uses currency specific risk-free rates to discount the outstanding claims provision.

The discount rates used in the measurement of outstanding claims and reinsurance recoveries for the succeeding year was 1.96% (2015: 2.42%) and subsequent years were 2.08% - 3.42% (2015: 2.59% - 3.49%).

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled. The weighted average term to settlement of the Branch's claims provision is 1.86 years (2015: 1.45 years).

(v) Impact of changes in key variables on the outstanding claims provision

The impact of changes in key variables used in the calculation of the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, it is likely that if the central estimate was to increase by 5%, at least part of the increase would result in a decrease in the probability of adequacy. Likewise, if the coefficient of variation were to increase by 1%, it is likely that the probability of adequacy would reduce from its current level and that the change would therefore impact the amount of risk margins held rather than net profit after income tax or equity.

The impact of a change in interest rates on profit after tax due to market value movement on fixed interest securities is shown in note 5(D)(ii).

	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT PROFIT (LOSS) ¹	
		2016 \$000's	2015 \$000's
Inflation rates	increase of 1%	(1,765)	(967)
	decrease of 1%	1,724	949
Discount rates	increase of 1%	1,663	915
	decrease of 1%	(1,733)	(950)
Claims expenses ratio	increase of 1%	(2,040)	(1,170)
	decrease of 1%	2,040	1,170
Weighted average term to settlement	+0.5 years	1,534	664
	-0.5 years	(1,559)	(671)

Determined at the Branch level net of reinsurance and taxation

¹ Net of tax at the Branch's prima facie rate of 28%

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Critical Accounting Estimate and Judgements (Continued)

(B) Liability adequacy test

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims, plus a risk margin to reflect the inherent uncertainty of the central estimate. Future claims are those claims expected to arise from claims events occurring after the balance sheet date. The assessment is carried out using the same methods described in note 4(A) above and 17(B).

5. RISK MANAGEMENT

QBE Group's risk management policy, strategy and framework are embedded in the head office and in each of the divisional operations and business units within each of the divisions, ensuring a consistent approach to managing risk across the organisation. The board annually approves a comprehensive risk management strategy (RMS), including a risk appetite statement and a reinsurance management strategy (REMS).

As a member of the QBE Group, the Branch has adopted the risk management policy of QBE Group where applicable. The Branch's risk management objectives are to:

- achieve competitive advantage through better understanding the risk environment in which QBE operates;
- optimise risk and more effectively allocate resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility.

It is QBE Group's policy to adopt a rigorous approach to managing risk throughout each of the divisions and business units. Risk management is a continuous process and an integral part of quality business management. QBE Group's approach is to integrate risk management into the broader management processes of the organisation. It is QBE Group's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

Risk management is a key part of our governance structure and our strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management allows all of the Branch's risks to be managed in an integrated manner.

QBE Group's global risk management framework defines the risks that QBE Group is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value of our shareholders. The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self-assessment, risk treatment, optimisation and ongoing improvement through management action plans, risk and performance monitoring.

A fundamental part of the Branch's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The operating activities of the Branch expose it to risks such as market risk, credit risk and liquidity risk. The branch's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Branch has established internal controls to manage risk in the key areas of exposure relevant to its business.

The Branch's risk profile is described under the following broad risk categories:

- Strategic risk
- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Group risk

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

Each of these is described more fully in sections (A) to (G) below.

(A) Strategic risk

Strategic risk refers to the current and prospective impact on earnings and or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change. This includes risks associated with business strategy and change, tax planning, investment strategy and corporate governance. Of particular relevance is capital management risk.

Capital management risk

The Branch is subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. QBE Group works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

(B) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. This includes underwriting, catastrophe, claims concentration and claims estimation risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified insurance Branch is less likely to be affected by a change in any one specific portfolio. The Branch has developed its underwriting strategy to diversify the type of insurance risks accepted, and where possible, within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

QBE Group has established the following protocols to manage its insurance risk across the underwriting, claims and outwards reinsurance.

(i) Underwriting risks

Selection and pricing of risks

Underwriting authority is delegated to experienced underwriters for the forthcoming year following a detailed retrospective and prospective analysis of each class of business as part of the Branch's annual business planning process. Delegated authorities reflect the level of risk which the Branch allows. The authorities include reference to some combination of:

- return on risk adjusted equity;
- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures per zone;
- probable maximum loss and realistic disaster scenarios (RDS);
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business and types of product that may be written.

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

Limits in respect of each of the above are set at a portfolio and Branch level and are included within business plans for individual classes of business. They are adjusted to reflect a risk factor in respect of previous underwriting results, the economic environment and other potential drivers of volatility.

Insurance and reinsurance policies are written in accordance with the Branch's management practices and New Zealand regulations taking into account the Branch's risk appetite and tolerance and underwriting standards. Non-standard and long-term policies may only be written if expressly included in the delegated authorities. No individual long-term or non-standard policy is material to the Branch.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio and this is combined with a detailed knowledge of the current developments in the respective markets and classes of business.

Concentration risk

The Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified by multiple classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business.

The Branch has potential exposure to catastrophe losses. The Branch undertakes probable maximum loss modelling to ensure the Branch operates within its tolerance to concentration risk.

(ii) Claims management and claims estimation risks

The Branch's approach to determining the outstanding claims provision and the related sensitivities are set out in note 4. The Branch seeks to ensure the adequacy of its outstanding claims provision by reference to the following controls:

- experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims;
- processes exist to ensure that all claims advices are captured and updated on a timely basis with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced internal actuaries in conjunction with the local product managers and underwriters for each class of business in each business unit. The valuation of the central estimate is primarily performed by actuaries who are not involved in the pricing function and who therefore provide an independent assessment;
- the determination of the risk margin is performed by senior management and the Board with input from the Appointed Actuary;
- the aggregate outstanding claims provision is assessed in a series of quarterly internal claims review meetings which are attended by senior management and the Appointed Actuary in order to ensure consistency of provisioning practices across all countries; and
- all of the Branch's central estimate is reviewed by external actuaries at least annually.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons provided in note 4.

(iii) Reinsurance

Reinsurance is purchased to make the Branch's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The majority of reinsurance will be arranged on a non-proportional excess of loss treaty basis. Facultative cover will only be used where the inclusion of certain risks in the treaty would have an undue effect on the treaty or where there was a specific exposure that could not be covered under the treaty.

The Branch's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

- Placement of appropriate treaty or facultative reinsurance is governed by the Branch's reinsurance management strategy and Group committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses based on realistic disaster scenarios.

The quality of the Branch's exposure to reinsurance counterparties is actively monitored at Branch level with reference to detailed counterparty analysis prepared using age of balance and rating agency analysis.

(C) Credit risk

Credit risk is the risk of default by transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders and reinsurers.

The Branch's credit risk arises mainly from investment and reinsurance protection activities. The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

- A QBE Group-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE group and establishes tolerance levels. Compliance with the policy is monitored and exposures and breaches are reported to the QBE Group investment committee.
- Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. The policy also sets out minimum credit ratings for investments.
- QBE Group has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which the Branch may transact. The Branch does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings and therefore does not require collateral or other security to support derivatives.
- Credit risk in respect of premium debtors and reinsurance receivables is actively monitored. Strict controls are maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is managed by adherence to counterparty limits. The provision for impairment is formally assessed by management at least four times a year.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

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For the year ended 31 December 2016

5. Risk Management (Continued)

(i) Credit quality of financial assets

The following tables provide information regarding the Branch's aggregate credit risk exposure at the balance sheet date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they generally cannot be rated as the receivables are due from numerous individual companies. The analysis classifies the assets according to Moody's counterparty credit ratings. Aaa is the highest possible rating.

	CREDIT RATING			TOTAL \$000's
	Aaa \$000's	Aa \$000's	A \$000's	
At 31 December 2016				
Cash and cash equivalents	-	24,446	961	25,407
Interest bearing investments	37,951	312,823	41,686	392,460
At 31 December 2015				
Cash and cash equivalents	-	17,580	1,157	18,737
Interest bearing investments	31,101	295,835	42,121	369,057

The carrying amount of the relevant asset classes in the Balance Sheet represents the maximum amount of credit exposure.

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New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. Risk Management (Continued)

The following table provides information regarding the ageing of the Branch's financial assets that are past due at the balance sheet date.

		PAST DUE BUT NOT IMPAIRED				
	NEITHER PAST DUE BUT NOT IMPAIRED \$000's	0 TO 3 MTHS \$000's	3 TO 6 MTHS \$000's	6 MTHS TO 1 YEAR \$000's	GREATER THAN 1 YEAR \$000's	TOTAL \$000's
At 31 December 2016						
Amounts due from related entities	2,984	-	-	-	-	2,984
Reinsurance and other recoveries	1,328	7,785	-	-	11,741	20,854
Premium receivable ¹	83,992	2,587	178	504	-	87,261
Other debtors	21,077	-	-	-	-	21,077
At 31 December 2015						
Amounts due from related entities	14	-	-	-	-	14
Reinsurance and other recoveries	4,816	6,010	-	-	11,741	22,567
Premium receivable ¹	49,054	18,525	2,459	888	-	70,926
Other debtors	11,056	-	-	-	-	11,056

¹ Net of a provision for impairment

(ii) Reinsurance counterparty credit risk

The Branch's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the divisional security committee and is controlled by reference to the following protocols:

- Treaty or facultative reinsurance is placed in accordance with the requirements of the Branch's reinsurance management strategy and Group security committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses and the Branch's maximum event retention.
- Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

The following table provides information about the quality of the Branch's credit risk exposure in respect of undiscounted reinsurance and other recoveries on outstanding claims at the balance sheet date. The analysis classifies the assets according to Standard and Poors counterparty ratings. AAA is the highest possible rating.

		CREDIT RATING					TOTAL \$000's
		AAA \$000's	AA \$000's	A \$000's	BBB \$000's	NOT RATED \$000's	
Reinsurance recoveries on outstanding claims ¹	2016	-	46,356	485,969	148	-	532,473
	2015	-	87,696	132,649	129	-	220,474
Reinsurance recoveries on paid claims ¹	2016	-	17,980	2,861	13	-	20,854
	2015	-	20,380	2,177	10	-	22,567

¹ Net of a provision for impairment.

\$19.5 million of the Reinsurance recoveries on paid claims balance is past due. (2015: \$17.7 million)

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

(D) Market risk

Market risk is the risk of variability in the value of, and returns on, investments and the risk associated with variability of interest rates, foreign exchange rates and economy-wide inflation on both assets and liabilities, excluding insurance liabilities.

Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates); interest rate risk (due to fluctuations in market interest rates); and price risk (due to fluctuations in market prices). Within each of these categories, risks are evaluated before considering the effect of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within the Branch's risk appetite and tolerance.

(i) Currency risk

The Branch's exposure to currency risk generally arises as a result of the translation of foreign currency amounts back to the functional currency of the Branch. There is no material currency risk exposure to the Branch.

(ii) Interest rate risk

Financial instruments with floating interest rate expose the Branch to cash flow interest rate risk, whereas fixed interest rate instruments expose the Branch to fair value interest rate risk.

QBE Group's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The Branch invests in high quality, liquid interest-bearing securities and cash and actively manages the duration of the fixed interest portfolio.

The claims provision is discounted to present value by reference to risk-free interest rates. The Branch is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 4(A)(v). QBE Group has a policy of maintaining a relatively short duration for assets backing insurance liabilities in order to minimise any further potential volatility affecting insurance profit.

The contractual maturity profile of the Branch's interest-bearing financial assets and hence its exposure to interest rate risk, and the effective weighted average interest rate for interest-bearing financial assets is analysed in the table below. The table includes investments at the maturity date of the security.

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New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

		INTEREST – BEARING FINANCIAL ASSETS MATURING IN					
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	TOTAL
At 31 December 2016							
Fixed rate	\$000's	43,311	101,196	76,351	15,189	44,768	280,815
Weighted average interest rate	%	2.51	3.21	2.74	3.38	3.39	2.99
Floating rate	\$000's	68,758	33,188	30,087	5,019	-	137,052
Weighted average interest rate	%	1.88	2.89	2.90	3.17	-	2.44
At 31 December 2015							
Fixed rate	\$000's	72,000	75,398	26,312	33,149	-	206,859
Weighted average interest rate	%	3.60%	3.20%	3.34%	3.76%	-	3.48%
Floating rate	\$000's	137,372	11,225	27,296	-	5,042	180,935
Weighted average interest rate	%	2.86%	3.37%	3.56%	-	3.91%	3.13%

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Branch at the balance sheet date is shown in the table below.

	SENSITIVITY %	PROFIT/(LOSS) & EQUITY ¹	
		2016 \$000's	2015 \$000's
Interest rate movement – interest-bearing financial assets	+0.50	(2,819)	(1,808)
	-0.50	2,819	1,808

¹ Net of tax at the Branch's prima facie rate of 28%

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

At 31 December 2016, the Branch did not hold any investments in listed equities (2015: nil). The Branch is exposed to price risk on its investment in corporate fixed interest and floating rate securities. All corporate securities are measured at fair value through profit or loss. Movements in credit spreads impact the value of corporate fixed interest and floating rate securities and therefore impact reported profit after tax. The profit/(loss) impact in \$000's of a plus or minus 0.5% change in credit spreads is (\$1,639) - \$1,639. 2015 (\$1,482) – \$1,460.

(E) Liquidity risk

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

5. Risk Management (Continued)

This includes the risk associated with asset liability management. The key objective of the Branch's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the Branch's obligations including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for the Parent.

Liquidity must be sufficient to meet both planned and unplanned cash requirements. The Branch is exposed to liquidity risk mainly through its obligations to make payments in relation to its insurance activities.

In addition to treasury cash held for working capital requirements, and in accordance with the Branch's liquidity policy, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations. The Branch has a strong liquidity position. The maturity of the Branch's interest-bearing financial assets is included in note 5(D)(ii).

The Branch may limit the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries.

The Branch has no significant concentration of liquidity risk.

The maturity profile of the Branch's net outstanding claims provision is analysed in note 18(B). All other financial liabilities have a contractual maturity profile of 1 year or less.

(F) Operational risk

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). The Branch manages operational risk within the same robust risk management framework as its other risks. The risk assessment and monitoring framework involves on-going:

- identification and review of the key risks to the Branch;
- definition of the acceptable level of risk appetite and tolerance;
- assessment of those risks throughout the Branch in terms of the acceptable level of risk (risk tolerance) and the residual risk remaining after having considered risk treatment;
- assessment of whether each risk is within the acceptable level of risk, or requires appropriate action be taken to mitigate any excess risk;
- transparent monitoring and reporting of risk management related matters on a timely basis; and
- alignment of internal audit programs with risks.

One of the cornerstones of the Branch's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices.

The Branch operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

(G) Group risk

Group risk is the risk to the Branch arising specifically from being part of the Group, including the financial impact and loss of support from the parent company.

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New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

6. UNDERWRITING EXPENSES

	2016 \$000's	2015 \$000's
Depreciation – leasehold improvements	384	376
Depreciation – property, plant & equipment	225	281
Employee benefit expenses	27,847	28,933
Lease and rental charges	2,103	1,939
Loss on sale of property, plant and equipment	2	1
Provision for doubtful debts	(240)	252
Head office charges	4,470	3,080
Retirement plan contributions	1,606	1,524
Other expenses	11,140	12,134
	47,537	48,520

7. INVESTMENT INCOME AND OTHER EXPENSES

	2016 \$000's	2015 \$000's
Investment income		
Interest received or receivable	14,052	12,457
Net fair value (losses) / gains on financial assets	(2,376)	3,615
	11,676	16,072
Other expenses		
Interest expense	-	-
Withholding tax and related expense	-	-
Foreign exchange (losses)/profit	(28)	(1,764)
Investment expenses	(298)	(367)
	(326)	(2,131)

As at 31 December 2015, QBE Insurance (International) Limited had potential exposures in relation to certain historic taxation matters regarding which the Commissioner of Inland Revenue had issued a Notice of Proposed Adjustment. The quantum of tax proposed by the Commissioner was \$8,936,000 before any available deductions. As at 31 December 2015, QBE Insurance (International) Limited had estimated the use of money interest to be between \$1,000,000 - \$2,000,000 before any available deductions. QBE Insurance (International) Limited continues to dispute this matter having obtained professional advice. QBE Insurance (Australia) Limited New Zealand Branch has no exposure to this historic taxation matter.

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8. CLAIMS INCURRED

(A) Claims analysis

	2016 \$000's	2015 \$000's
Gross claims incurred and related expenses		
Direct	563,453	161,231
Reinsurance and other recoveries		
Direct	(444,600)	(91,499)
Net claims incurred	118,853	69,732

(B) Claims development

Current year's claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid.

	CURRENT YEAR \$000's	2016 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2015 PRIOR YEARS \$000's	TOTAL \$000's
Gross claims incurred and related expenses						
Undiscounted	584,864	11,739	596,603	140,656	15,664	156,320
Discount	(37,856)	4,706	(33,150)	(2,606)	7,517	4,911
Gross claims incurred	547,008	16,445	563,453	138,050	23,181	161,231
Reinsurance and other recoveries						
Undiscounted	444,413	28,119	472,532	60,742	27,895	88,637
RI impairment	-	-	-	-	(22)	(22)
Discount	(31,074)	3,142	(27,932)	(1,991)	4,875	2,884
RI claims incurred	413,339	31,261	444,600	58,751	32,748	91,499
Net claims incurred						
Undiscounted	140,451	(16,380)	124,071	79,914	(12,209)	67,705
Discount	(6,782)	1,564	(5,218)	(615)	2,642	2,027
Net claims incurred	133,669	(14,816)	118,853	79,299	(9,567)	69,732

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

8. Claims Incurred (Continued)

(C) Reconciliation of net claims incurred to claims development table

The development of the net outstanding claims for the 10 most recent accident years is shown in note 18(E). This note is a reconciliation of the amounts included in the table in note 8(B) and the current financial year movements in the claims development table.

	CURRENT YEAR \$000's	2016 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2015 PRIOR YEARS \$000's	TOTAL \$000's
Net undiscounted claims development – central estimate (note 18 (E))	123,686	(2,808)	120,878	66,220	(4,499)	61,721
Movement in claims settlement costs	4,637	(1,444)	3,193	4,519	1,465	5,984
Movement in discount	(6,782)	1,564	(5,218)	(615)	2,642	2,027
Movement in risk margin	12,128	(12,128)	-	9,175	(9,175)	-
Net claims incurred – discounted	133,669	(14,816)	118,853	79,299	(9,567)	69,732

QBE INSURANCE (AUSTRALIA) LIMITED
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For the year ended 31 December 2016

9. INCOME TAX EXPENSE

Reconciliation of prima facie tax to income tax expense

	2016 \$000's	2015 \$000's
Profit before income tax	9,406	48,446
Prima facie tax payable at 28%	2,634	13,565
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	67	640
Prima facie tax adjusted for non-temporary differences	2,701	14,205
(Over) / under provision in prior years	(358)	29
Income tax expense	2,343	14,234
Analysed as follows:		
Current tax	1,649	12,500
Deferred tax	694	1,734
	2,343	14,234
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	(512)	(415)
Deferred tax liabilities recognised in profit or loss	1,206	2,149
	694	1,734

10. CASH AND CASH EQUIVALENTS

	2016 \$000's	2015 \$000's
Cash at bank and on hand	25,407	18,737

Amounts in cash and cash equivalents are the same as those included in the cash flow statement.

Cash and cash equivalents include balances readily convertible to cash. All balances are held to service normal operational requirements.

Reconciliation of profit after income tax to net cash flows from operating activities

	2016 \$000's	2015 \$000's
Profit after income tax	7,063	34,212
Depreciation of property, plant and equipment	609	656
Fair value movement of financial assets	2,376	(3,616)
Loss on sale of plant and equipment	2	1
Interest expense	-	-
Withholding tax and related expense	-	-
Movement in trade and other payables	4,230	20,869
Movement in trade and other receivables	(16,178)	(18,014)
Movement in net outstanding claims	34,597	955
Movement in unearned premiums	13,734	13,073
Movement in deferred insurance costs	3,688	(13,300)
Movement in tax balances	(5,575)	1,424
Movement in Head Office account	(5,655)	(2,696)
Net cash flows from operating activities	38,891	33,564

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
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11. INVESTMENTS

	2016 \$000's	2015 \$000's
Fixed interest rate		
Short term money	-	12,000
Government bonds	66,136	18,080
Corporate bonds	214,678	176,779
	280,814	206,859
Floating interest rate		
Short term money	43,352	84,562
Floating rate notes	68,294	77,636
	111,646	162,198
Total investments	392,460	369,057
Amounts maturing within 12 months	86,661	190,635
Amounts maturing in greater than 12 months	305,799	178,422
Total investments	392,460	369,057

Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Fixed and floating rate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Fair value hierarchy

The investments of the Branch are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

Level 1: Valuation is based on quoted prices in active markets for similar instruments.

Level 2: Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus price using broker quotes and valuation model with observable inputs.

Level 3: Valuation techniques are applied for which any significant input is not based on observable market data. There were no level 3 investments.

	2016			2015		
	LEVEL 1 \$000's	LEVEL 2 \$000's	TOTAL \$000's	LEVEL 1 \$000's	LEVEL 2 \$000's	TOTAL \$000's
Short-term money	31,367	11,985	43,352	15,431	81,131	96,562
Government bonds	66,136	-	66,136	18,080	-	18,080
Corporate bonds/other	-	282,972	282,972	-	254,415	254,415
Total investments	97,503	294,957	392,460	33,511	335,546	369,057

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

12. TRADE AND OTHER RECEIVABLES

	2016 \$000's	2015 \$000's
Trade debtors		
Premium receivable ¹	88,897	70,926
Reinsurance and other recoveries ¹	20,854	22,567
Unclosed premium	34,993	48,754
	144,744	142,247
Amounts due from related entities (Note 26)	2,984	14
Other debtors	21,077	11,056
Prepayments	781	94
Trade and other receivables	169,586	153,411
Receivable within 12 months	169,586	153,411
Receivable in greater than 12 months	-	-
Trade and other receivables	169,586	153,411

¹ Net of a provision for impairment

(A) Provision for general impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2016 \$000's	2015 \$000's	2016 \$000's	2015 \$000's
At 1 January	809	535	-	22
Amounts recognised in profit or loss	(240)	274	-	(22)
At 31 December	569	809	-	-

(B) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

(C) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Branch as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of balances in the table above, where relevant, is included in note 5(C). Note 5 also provides more information on the risk management policies of the Branch.

13. DEFERRED INSURANCE COSTS

	2016 \$000's	2015 \$000's
Deferred reinsurance premium	7,629	15,618
Deferred commission	29,402	25,001
Deferred acquisition costs	11,900	12,000
Deferred insurance costs	48,931	52,619
To be expensed within 12 months	45,621	50,304
To be expensed in greater than 12 months	3,310	2,315
Deferred insurance costs	48,931	52,619

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. Deferred Insurance Costs (Continued)

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITION COSTS	
	2016 \$000's	2015 \$000's	2016 \$000's	2015 \$000's	2016 \$000's	2015 \$000's
At 1 January	15,618	9,985	25,001	20,228	12,000	9,106
Costs deferred in financial year	6,482	12,220	28,785	24,295	11,390	11,757
Amortisation of costs deferred in previous financial years	(14,471)	(6,587)	(24,384)	(19,522)	(11,490)	(8,863)
At 31 December	7,629	15,618	29,402	25,001	11,900	12,000

14. PROPERTY, PLANT AND EQUIPMENT

2016	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,721	4,168	5,889
Additions	-	223	223
Disposals	(8)	(10)	(18)
At 31 December	1,713	4,381	6,094
Accumulated depreciation and impairment losses			
At 1 January	(1,398)	(2,947)	(4,345)
Disposals	8	8	16
Depreciation charge for the year	(265)	(344)	(609)
At 31 December	(1,655)	(3,283)	(4,938)
Carrying amount			
At 31 December	58	1,098	1,156

2015	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,494	3,836	5,330
Additions	227	790	1,017
Disposals	-	(458)	(458)
At 31 December	1,721	4,168	5,889
Accumulated depreciation and impairment losses			
At 1 January	(1,137)	(2,556)	(3,693)
Disposals	-	4	4
Depreciation charge for the year	(261)	(395)	(656)
At 31 December	(1,398)	(2,947)	(4,345)
Carrying amount			
At 31 December	323	1,221	1,544

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

15. DEFERRED INCOME TAX

	2016 \$000's	2015 \$000's
Deferred tax assets	1,578	1,066
Deferred tax liabilities	(11,554)	(10,348)
	(9,976)	(9,282)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2016 \$000's	2015 \$000's
Amounts recognised in profit or loss		
Provision for impairment	159	227
Employee benefits	874	338
Other	545	501
Deferred tax assets	1,578	1,066
Deferred tax assets analysed as follows:		
Recoverable within 12 months	1,578	1,066
Recoverable in greater than 12 months	-	-
	1,578	1,066

(ii) Movements

	2016 \$000's	2015 \$000's
At 1 January	1,066	650
Amounts recognised in profit or loss	512	416
At 31 December	1,578	1,066

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2016 \$000's	2015 \$000's
Amounts recognised in profit or loss		
Insurance provisions	(11,554)	(10,348)
Deferred tax liabilities	(11,554)	(10,348)
Deferred tax liabilities analysed as follows:		
Payable within 12 months	(11,554)	(10,348)
Payable in greater than 12 months	-	-
	(11,554)	(10,348)

(ii) Movements:

	2016 \$000's	2015 \$000's
At 1 January	(10,348)	(8,199)
Amounts recognised in profit or loss	(1,206)	(2,149)
At 31 December	(11,554)	(10,348)

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

16. TRADE AND OTHER PAYABLES

	2016 \$000's	2015 \$000's
Trade payables	19,517	17,540
Amounts due to related entities (Note 26)	686	10,185
Other payables	33,334	32,008
Accrued expenses	3,207	2,280
Trade and other payables	56,744	62,013
Payable within 12 months	56,744	62,013
Payable in greater than 12 months	-	-
Trade and other payables	56,744	62,013

17. UNEARNED PREMIUM

(A) Unearned premium

	2016 \$000's	2015 \$000's
At 1 January	196,002	182,929
Deferral of premium on contracts written in the period	202,091	186,867
Earning of premium written in previous periods	(188,357)	(173,794)
At 31 December	209,736	196,002
To be earned within 12 months	200,166	188,358
To be earned in greater than 12 months	9,570	7,644
Unearned premium	209,736	196,002

(B) Liability adequacy test

The probability of adequacy of the unearned premium liability differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net unearned premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Branch.

NZ IFRS requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provisions, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Branch has adopted a risk margin of 8.7% (2015: 6.7%) for premium liabilities, for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in New Zealand and Australia.

The application of the liability adequacy test in respect of net unearned premium liabilities identified a surplus at 31 December 2016 and 31 December 2015.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

18. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2016 \$000's	2015 \$000's
Gross outstanding claims provision	629,395	310,731
Risk margin	23,145	23,144
Outstanding claims	652,540	333,875
Reinsurance and other recoveries on outstanding claims	(497,222)	(213,154)
Net outstanding claims provision	155,318	120,721
Analysed as follows:		
Net undiscounted central estimate	140,318	100,503
Discount to present value	(8,145)	(2,926)
Net discounted central estimate	132,173	97,577
Risk margin	23,145	23,144
Net outstanding claims provision	155,318	120,721
 Gross undiscounted central estimate	 688,283	 348,583
Claim settlement accrual	7,653	(4,462)
	695,936	344,121
Discount to present value	(43,396)	(10,246)
Gross discounted central estimate	652,540	333,875
Less than 12 months	206,524	176,272
Greater than 12 months	446,016	157,603
Gross discounted central estimate	652,540	333,875
 Reinsurance and other recoveries on outstanding claims	 532,473	 220,474
Discount to present value	(35,251)	(7,320)
Reinsurance and other recoveries on outstanding claims	497,222	213,154
Less than 12 months	133,851	110,449
Greater than 12 months	363,371	102,705
Reinsurance and other recoveries on outstanding claims	497,222	213,154

(B) Maturity profile of net outstanding claims provision

The expected maturity of the Branch's discounted net outstanding claims provision is analysed below.

		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2016	\$000's	71,150	30,547	18,721	14,417	9,328	11,155	155,318
At 31 December 2015	\$000's	69,099	25,040	12,088	6,431	3,850	4,213	120,721

The weighted average term to settlement of the claims provision is included in note 4(A)(iv).

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

18. Outstanding Claims (Continued)

(C) Risk margin

The process used to determine the risk margin is explained in note 4(A)(iii) and details of the risk-free discount rates adopted are set out in note 4(A)(iv).

The risk margin included in net outstanding claims is 18% (2015: 24%) of the central estimate. Assumptions regarding uncertainty for each business class were applied to the central estimates, allowing for diversification in order to arrive at an overall position, which is intended to have a probability of adequacy greater than 80% (2015: greater than 80%).

(D) Reconciliation of movement in discounted outstanding claims provision

	2016			2015		
	OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's	OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's
At 1 January	333,875	(213,154)	120,721	364,576	(244,810)	119,766
Increase in net claims incurred in current accident year	547,008	(413,339)	133,669	138,050	(58,751)	79,299
Movement in prior year claims provision	16,445	(31,261)	(14,816)	23,181	(32,748)	(9,567)
Incurred claims recognised in profit or loss	563,453	(444,600)	118,853	161,231	(91,499)	69,732
Claim (payments) recoveries during the year	(244,788)	160,532	(84,256)	(191,932)	123,155	(68,777)
At 31 December	652,540	(497,222)	155,318	333,875	(213,154)	120,721

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

18. Outstanding Claims (Continued)

(E) Claims development – undiscounted net central estimate

The central estimate claims development table is presented net of reinsurance.

	Prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
End of accident year		61,424	53,337	40,821	50,805	52,500	44,970	53,734	55,905	66,220	123,686	603,402
1 year later		48,484	53,476	41,159	56,241	54,416	40,954	58,347	61,531	71,113		485,721
2 years later		47,503	58,081	40,575	53,503	53,258	47,757	57,699	57,670			416,046
3 years later		50,128	60,665	40,479	55,668	56,515	46,218	54,426				364,099
4 years later		49,951	59,792	42,711	58,683	54,073	44,060					309,270
5 years later		49,588	60,974	42,257	56,254	52,510						261,583
6 years later		50,202	62,350	40,309	55,248							208,109
7 years later		48,837	61,951	40,767								151,555
8 years later		48,552	61,986									110,538
9 years later		48,682										48,682
Current central estimate cost for the ten most recent accident years		48,682	61,986	40,767	55,248	52,510	44,060	54,426	57,670	71,113	123,686	610,148
Cumulative net claims payments to date		48,276	59,943	39,619	51,290	49,042	35,039	45,584	39,911	56,482	52,868	478,054
Net undiscounted central estimate	590	406	2,043	1,148	3,958	3,468	9,021	8,842	17,759	14,631	70,818	132,684
Discount to present value												-8,145
Risk Margin												23,145
Claims settlement costs												7,653
Net Outstanding Claims at 31 December 2016												155,337
Net movement	3,539	130	34	458	-1,005	-1,564	-2,158	-3,273	-3,862	4,893	123,686	120,878

QBE INSURANCE (AUSTRALIA) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

19. SOLVENCY

On 18 December 2015 the Branch was granted a full licence under the Insurance (Prudential Supervision) Act 2010 ("the Act"). As the Branch is a branch of an overseas insurer it is exempt under the Act from complying with the Solvency Standard for Non-Life Insurance Business subject to the condition that the Company meets the equivalent Australian non-Life solvency standard.

The table below discloses the solvency coverage for QBE Insurance (Australia) Limited which includes the Branch as calculated under the Australian APRA requirements.

	2016 ¹ AUD\$000's	2015 AUD\$000's
APRA prescribed capital amount	1,547,865	159,061
Capital surplus	1,060,558	249,714
Solvency coverage	1.69	2.57

¹ Dividends proposed before the financial statements were authorised but not recognised as a distribution during the period were \$50.0m (2015: nil). Solvency is expected to reduce to an APRA solvency coverage of 1.65 if the proposed dividend is declared.

20. CAPITAL MANAGEMENT AND HEAD OFFICE ACCOUNT

The Branch's objective when managing capital is to meet the solvency requirements and financial strength rating of the parent company.

Local management monitor key financial parameters to safeguard the Branch's ability to continue as a going concern and provide financial returns for the shareholder. The capital of the Branch comprises the Head Office account which consists of retained earnings and current account transactions between the Branch and Head Office. Current transactions with the Head Office include reinsurance, head office charges and other expenses which are settled on a regular basis.

Under the terms of a Portfolio Assumption Deed between the two parties QBE Insurance (International) Limited and QBE Insurance (Australia) Limited, effective 1 January 2016, the insurance business of QBE Insurance (International) Limited New Zealand Branch was transferred to QBE Insurance (Australia) Limited. All appropriate regulatory approvals were received to effect the transfer and as from 1 January 2016, the insurance business that was previously carried out by QBE Insurance (International) Limited New Zealand Branch has been carried out by QBE Insurance (Australia) Limited New Zealand Branch (the Branch).

For more information regarding the transfer of the insurance business of QBE Insurance (International) Limited New Zealand Branch to QBE Insurance (Australia) Limited New Zealand Branch, refer to Note 1. General Information and Note 30. Acquisition of Net Assets from QBE Insurance (International) Limited New Zealand Branch.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

21. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2016 and 2015 is set out below.

	2016 \$'000	2015 \$'000
Short term employee benefits	2,241	2,824
Post employment benefits	259	198
Share based payments	169	-
	2,669	3,022

22. REMUNERATION OF AUDITOR

	2016 \$'000	2015 \$'000
PricewaterhouseCoopers		
Audit of financial reports	302	305
Taxation services	49	49
	351	354

23. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2016 (2015: nil).

24. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no commitments for expenditure as at 31 December 2016 (2015: nil).

25. OPERATING LEASE COMMITMENTS

	2016 \$000's	2015 \$000's
Payable:		
Not later than one year	2,436	2,321
Later than one year but less than five years	2,398	3,711
Later than five years	-	453
Total future minimum lease payments under non-cancellable operating leases	4,834	6,485

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

26. RELATED PARTY DISCLOSURES

- (i) The Branch's ultimate parent and controlling party is QBE Insurance Group Limited, a company incorporated in Australia. All trading balances owed to/(from) related parties are settled on a regular basis. At the end of the reporting period the Branch had the following related party balances:

		2016 \$'000	2015 \$'000
Related party	Description		
QBE Equator Reinsurances Limited	Reinsurance	(2,968)	2,101
QBE Insurance (Australia) Limited	Reinsurance	-	8,084
QBE Lenders Mortgage Insurance Ltd	Expenses	(16)	(14)
QBE Insurance (International) Ltd	Reinsurance	686	-
		(2,298)	10,171
The outstanding related party balances are reported as:			
Trade and other payables		686	10,185
Trade and other receivables		(2,984)	(14)

- (ii) The following were carried out with related parties:

	2016 \$'000	2015 \$'000
Transactions with QBE Insurance (International) Limited		
Administration expense, tax payment and bad debt recovery	686	-
Acquisition of net assets of New Zealand Branch	195,097	-
Transactions with QBE Insurance (Australia) Limited		
Reinsurance expense less recoveries	63,875	66,756
Administration and management fees	4,425	3,080
Reimbursement of transactions with related parties	753	983
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	(10,436)	(13,386)

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ for QBE Insurance (Australia) Limited, New Zealand Branch, on 11 May 2016: A+ (2015: A+)

28. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, no matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

- (i) the Branch's operations in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the Branch's state of affairs in future financial year.

29. CORPORATE GOVERNANCE

Information regarding the corporate governance policies, practices and processes of QBE Insurance (Australia) Limited is available from www.group.qbe.com/investor-centre/corporate-governance.

30. Acquisition of Net Assets by QBE Insurance (Australia) Limited New Zealand Branch

The table below summarises the Net Assets transferred from QBE Insurance (International) Limited New Zealand Branch to QBE Insurance (Australia) Limited New Zealand Branch. The Net Assets figure available for transfer before adjustments (\$203.13 million) is the closing balance of Net Assets of QBE Insurance (International) Limited New Zealand Branch as at 31 December 2015 (refer comparatives).

No Cash was paid by QBE Insurance (Australia) Limited New Zealand Branch to QBE Insurance (International) Limited New Zealand Branch for the Net Assets acquired (of \$195.097 million). Cash was paid by the Parent of QBE Insurance (Australia) Limited New Zealand Branch to the Parent of QBE Insurance (International) Limited New Zealand Branch.

	<u>\$000's</u>
Net Assets Balance – QII NZ – 31 December 2015	203,130
Cash reduction, settlement of Head Office account balance	(6,750)
Retention of Intercompany Reinsurance Debtor	(1,283)
Balance of Net Assets acquired by QBE Insurance (Australia) Limited NZ Branch	195,097

QBE Insurance (International) Limited and its New Zealand Branch has also retained all exposures in respect of historic taxation matters of which the Commissioner of Inland Revenue has issued a Notice of Proposed Adjustment (refer note 7). QBE Insurance (International) Limited has also retained some bad debts and non-insurance related income. To all intents and purposes the insurance business in New Zealand of QBE Insurance (Australia) Limited is the same as was carried on by QBE Insurance (International) Limited. The comparatives for the financial year ended 31 December 2015 in these financial statements relate to QBE Insurance (International)

QBE INSURANCE (AUSTRALIA) LIMITED
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Limited New Zealand Branch. The transfer has been accounted for as a common control transaction specifically as a capital reorganisation.



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16 March 2017

Mr Terry Lawrence
Chief Financial Officer
QBE New Zealand
Level 9, AMP Centre
29 Customs Street West
Auckland

Dear Mr Lawrence

Re: QBE New Zealand Operations Actuarial Report at 31 December 2016.

Section 77 and 78 of the Insurance (Prudential Supervision) Act 2010 requires a licensed insurer to ensure that actuarial information included in the financial statements has been reviewed by the insurer's Appointed Actuary. As the Appointed Actuary for QBE New Zealand (QBENZ), I, Benoit Laganieri have conducted this review for QBENZ's financial statements for the period ending 31 December 2016.

This review involved ascertaining whether actuarial information used in the preparation of the financial statements has applied appropriately. No limitations were placed on me in conducting this review, and all information requested has been made available to me.

For the purposes of this review, actuarial information includes

- Outstanding claims liabilities
- Premium Liabilities
- Application of the Liability Adequacy Test
- Reinsurance and other recovery assets
- Deferred Acquisition Costs.

I am an employee of QBE Management Services (QMS), which is a related company to QBENZ in that both companies are fully owned by QBE Insurance Group. In addition to this, I held equity positions (current or deferred) in QBE Insurance Group securities at the date of this report. This holding is an immaterial proportion of the total shares issued by QBE.

From my review, it is my opinion that

- the actuarial information included in QBENZ's financial statements has been appropriately included;
- the actuarial information used to prepare the financial statements has been appropriately used; and
- it is understood that QBENZ was granted exemption from complying with the RBNZ solvency standards for non-life insurance business under Section 59 of the Insurance Act. QBENZ is a branch of QBE Insurance (Australia) Limited (QIA) which is an APRA regulated entity. QBENZ is therefore dependent on QIA's capital surplus to remain solvent under most adverse scenarios developed as part of QIA's capital management plan.

Yours faithfully

Benoit Laganieri
New Zealand Appointed Actuary of QBE Insurance (Australia) Limited
Fellow of the Institute of Actuaries of Australia

