QBE INSURANCE (AUSTRALIA) LIMITED

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS – 31 DECEMBER 2018

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QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT BY DIRECTORS
For the year ended 31 December 2018

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 7 to 45 fairly present the Financial Statements of the New Zealand Branch of the Company For the year ended 31 December 2018.

The Board of Directors of QBE Insurance (Australia) Limited authorised these statements for issue on

the 15th day of February 2019.

DIRECTOR:

DIRECTOR:

Independent auditor's report

To the Directors of QBE Insurance (Australia) Limited

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

- the balance sheet as at 31 December 2018;
- 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 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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.

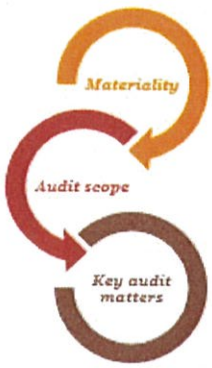
We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional 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 compliance and advisory services. The provision of these other services has not impaired our independence as auditor of the Branch.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Our audit approach

Overview



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

Overall materiality: $4.29 million, which represents approximately 1% of gross written premium.

We chose gross written premium as the benchmark because, in our view, it is a key metric used in assessing the performance of the Branch, is not as volatile as other profit and loss measures, and is a generally accepted benchmark for insurance companies. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

We have determined that valuation of outstanding claims is a key audit matter.

Materiality

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

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

Audit scope

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims *2018 $417,877 thousand, 2017 $496,199 thousand* We considered the valuation of outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that the Branch makes in determining the balance. The valuation of outstanding claims involves significant judgement given the number of claims and the inherent uncertainty in estimating the expected present value of future payments for claims incurred. The valuation of outstanding claims relies on the quality of underlying data. It involves complex and subjective assumptions about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Branch as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled. Liability and other long tail classes of business where there is a greater length of time between the initial claim event and settlement, typically display greater variability between initial estimates and final settlement. The estimate of expected future payments is discounted to present value using a risk free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle. Outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Branch takes into account various factors, such as mix of business, historical experience, level of uncertainty in the net discounted central estimate.	Our audit procedures included obtaining an understanding of key actuarial controls, including key data reconciliations and the Branch's review of the estimates. Historical claims data is a key input to the actuarial estimates. Accordingly, we: o Evaluated the design effectiveness and tested controls over claims processing; o Re-performed key actuarial data reconciliations; o Assessed a sample of claim case estimates at the year end to check that they were supported by appropriate documentation; and o Inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits. Together with PwC actuarial experts we: o Evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year. We sought justification for any significant differences; o Assessed key actuarial judgements and assumptions including claims expenses ratios, discount rates, weighted average term to settlement, and challenged them by comparing with our expectations based on the Branch's experience, our own sector knowledge and independently observable trends; o Tested the discount rate applied for classes of business where there is a greater length of time between the initial claim event and settlement; o Considered the work and findings of Branch's actuary; and o Assessed the risk margin, by comparing to known industry practices and the New Zealand Society of Actuaries recommended framework. In particular we focused on the assessed level of uncertainty in the central estimate.

Relevant references in the financial statements Refer to notes 4(A)(i), 4(A)(iii - v) and 18 to the financial statements, which also describes the elements that make up the balance.	We have no matters to report from the procedures performed.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

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Who we report to

This report is made solely to the Directors of QBE Insurance (Australia) Limited, 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 Directors of QBE Insurance (Australia) Limited, 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:

PricewaterhouseCoopers

Chartered Accountants
20 February 2019

Auckland

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	NOTE	2018 $000's	2017 $000's
Gross written premium		**429,513**	428,383
Unearned premium movement	17	**2,195**	(28,712)
Gross earned premium revenue		**431,708**	399,671
Outward reinsurance premium		**(192,967)**	(184,302)
Deferred reinsurance premium movement	13	**1,109**	(153)
Outward reinsurance premium expense		**(191,858)**	(184,455)
Net earned premium		**239,850**	215,216
Gross claims incurred	8	**(202,400)**	(149,761)
Reinsurance and other recoveries revenue	8	**102,312**	49,606
Net claims incurred	8	**(100,088)**	(100,155)
Gross commission expense		**(72,270)**	(68,450)
Reinsurance commission revenue		**28,918**	25,053
Net commission		**(43,352)**	(43,397)
Deferred acquisition cost movement		**(220)**	(230)
Underwriting expenses	6	**(45,035)**	(43,483)
Underwriting profit		**51,155**	27,951
Other income		**3,938**	3,626
Investment income	7	**14,643**	16,284
Other gains/(losses)	7	**2,342**	(2,996)
Profit before income tax		**72,078**	44,865
Income tax expense	9	**(20,282)**	(12,593)
Profit for the year attributable to Head Office Account		**51,796**	32,272
Other comprehensive income after income tax		**-**	-
Total comprehensive income for the year attributable to Head Office Account		**51,796**	32,272

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 2018

	NOTE	2018 $000's	2017 $000's
ASSETS			
Cash and cash equivalents	10	**4,757**	7,312
Investments	11	**507,054**	440,314
Trade and other receivables	12	**171,949**	191,573
Deferred insurance costs	13	**51,856**	52,852
Reinsurance on outstanding claims	18	**303,190**	369,001
Property, plant and equipment	14	**7,407**	2,248
Total assets		**1,046,213**	1,063,300
LIABILITIES			
Trade and other payables	16	**69,705**	65,861
Current tax liabilities		**18,723**	9,999
Unearned premium	17	**235,379**	237,574
Outstanding claims	18	**417,877**	496,199
Deferred tax liabilities	15	**10,284**	11,033
Total liabilities		**751,968**	820,666
Net assets		**294,245**	242,634
Due to Head Office - Australia	20	**294,245**	242,634

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

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE

For the year ended 31 December 2018

HEAD OFFICE – AUSTRALIA	NOTE	2018 $000's	2017 $000's
Balance as at 1 January		**242,634**	207,815
Profit for the year		**51,796**	32,272
Total comprehensive income		**51,796**	32,272
Net current transactions with Head Office		**(185)**	2,547
Balance at 31 December	20	**294,245**	242,634

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 2018

	NOTE	2018 $000's	2017 $000's
OPERATING ACTIVITIES			
Premium received		**430,671**	410,879
Reinsurance and other recoveries received		**187,345**	169,792
Outwards reinsurance paid		**(192,514)**	(187,510)
Claims paid		**(280,722)**	(300,021)
Insurance costs paid		**(41,908)**	(47,719)
Interest received		**15,976**	12,704
Other operating income received		**3,881**	3,776
Other operating payments		**(36,807)**	(36,059)
Income taxes paid		**(12,306)**	512
Net cash flows from operating activities	10	**73,616**	26,354
INVESTING ACTIVITIES			
Proceeds on sale of investments		**223,199**	271,560
Payments for purchase of investments		**(292,548)**	(318,786)
Payments for purchase of plant and equipment		**(6,315)**	(1,633)
Net cash flows from investing activities		**(75,664)**	(48,859)
FINANCING ACTIVITIES			
Net parent company settlements		**(507)**	4,410
Net cash flows from financing activities		**(507)**	4,410
Net movement in cash and cash equivalents		**(2,555)**	(18,095)
Cash and cash equivalents at the beginning of the financial year		**7,312**	25,407
Cash and cash equivalents at the end of the financial year	10	**4,757**	7,312

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

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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).

The Branch is an insurer providing general insurance services. It is registered at 125 Queen Street, Auckland.

The financial statements of the Branch are for the year ended 31 December 2018 and were authorised for issue by the directors on the 15th day of February 2019.

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 for-profit entities.The Branch is a for-profit 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).

Where appropriate, prior period comparatives have been reclassified in this financial report to ensure comparability in the current reporting period. The reclassificiation was necessary to provide the readers of financial report with a greater understanding of the Branch's notes to the financial statements.

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.

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 in profit or loss.

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2. Summary of Significant Accounting Policies (Continued)

(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 balance sheet date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

(H) Revenue from contracts with customers
Revenue from contracts with customers is recognised as the Branch satisfies its performance obligations by transferring promised services to customers. Revenue is recognised at an amount that reflects the consideration to which it is entitled in exchange for those services.

	2018 $000's	2017 $000's
Management fee income	**2,891**	2,635
Other fee income	**1,047**	991
Total revenue from contracts with customers	**3,938**	3,626

2. Summary of Significant Accounting Policies (Continued)

Performance obligations in respect of management fee income include the provision of agreed insurance administration activities. Transaction prices are generally agreed fixed fees but may include some elements that vary based on volumes, complexity of claims or performance. Performance obligations are generally satisfied on a daily basis.

Performance obligations in respect of other fee income reflect the provision of various other services to customers. Revenue is recognised as performance obligations are satisfied. The bases for transaction price varies, but are generally fixed rate or fixed dollar amounts.

There is no revenue (2017 nil) recognised in the reporting period in respect of performance obligations satisfied (or partially satisfied) in previous periods.

(I) Investment income

Interest income is recognised in the period in which it is earned. 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.

(J) 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.

(K) 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.

2. Summary of Significant Accounting Policies (Continued)

(L) Investments

The business model for the Branch's portfolio of investments, which comprise interest-bearing assets, that represent solely payments of principal and interest (SPPI), is to manage and evaluate the portfolio on a fair value basis, in accordance with the documented investment strategy. The Branch is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. Investments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to realise proceeds from sale. As required by NZ IFRS 9 Financial Instruments, the Branch's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

Investments 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. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model. Fixed and floating rate securities are valued using independently sourced valuations as detailed in Note 11.

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.

(M) Trade and other receivables

(i) All receivables at 31 December 2017 and from 1 January 2018 those receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts (Trade Debtors) 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 due according to the original term of the receivable.

(ii) Receivables within the scope of NZ IFRS 9 from 1 January 2018 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision for expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Branch expects to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The assessment of ECL's reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The Branch adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECLs. For all other receivables, the provision is based on the portion of lifetime ECLs that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the provision is based on lifetime ECLs.

The transition to NZ IFRS 9 had no impact on the amounts recorded in respect of these receivables.

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.

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2. Summary of Significant Accounting Policies (Continued)

(N) 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.

(O) 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.

(P) Trade and other payables
Trade and other payables are initially recognised at fair value and are subsequently measured at cost. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

Transactions are under standard terms and conditions. Related party payables are repayable on demand.

(Q) 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.

(R) 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.

2. Summary of Significant Accounting Policies (Continued)

(ii) Share based payment expense

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.

(S) 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.

(T) Goods and services tax (GST)

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared on a GST exclusive basis. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(U) Rounding of amounts

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

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3. NEW ACCOUNTING STANDARDS AND AMENDMENTS

(A) New and amended standards adopted by the Branch

The Branch adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2018:

- NZ IFRS 9 Financial Instruments introduced changes in the classification and measurement of financial assets and liabilities. Rights and obligations arising under an insurance contract as defined in NZ IFRS 4 are excluded from the scope of NZ IFRS 9.

  The transition to NZ IFRS 9 did not result in any changes to the Branch's classification of financial assets and financial liabilities. There were no impacts on the amounts recognised in the financial statements in the current year or required retrospective changes in respect of the prior year. Refer to the accounting policies in notes 2(L), (M) and (P).

- NZ IFRS 15 Revenue from Contracts with Customers introduced a single model for the recognition of revenue based on when control of goods and services transfers to a customer. It does not apply to insurance contracts and financial instruments. Although the adoption of NZ IFRS 15 resulted in changes to accounting policies, there was no material impact on the amounts recognised in the financial statements in the current year and no retrospective changes were required in respect of the prior year. Refer to the accounting policy in note 2(H).

(B) New accounting standards and amendments issued but not yet effective

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 2019 have not been early adopted:

- NZ IFRS 16 Leases was issued in 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases. It will replace existing accounting requirements for leases from 1 January 2019. Under current requirements, leases are classified based on their nature, either as finance leases which are recognised on the balance sheet or operating leases which are not recognised on the balance sheet. The application of NZ IFRS 16 will result in the recognition of all leases on the balance sheet in the form of a right-of-use asset and a corresponding lease liability. Over the life of the lease, the liability incurs interest and is reduced as lease payments are made, and the asset is amortised over its useful life.
- The new standard is expected to impact leases which are currently classified by the Branch as operating leases, being mainly leases over premises and equipment.
- On adoption of NZ IFRS 16, the Branch will apply an exemption under the new Standard and will not recognise low value leases and leases with a term of less than 12 months on the balance sheet. The resulting amount to be recognised as a gross up to the balance sheet at 1 January 2019 is expected to be approximately 0.2 million dollars. The Branch intends to apply the modified retrospective approach on adoption of the standard, which will result in an adjustment of 0.2 million dollars to opening retained earnings at 1 January 2019. Future net profit or loss is not expected to be impacted materially by the adoption of this standard.

- NZ IFRS 17 Insurance contracts was adopted by the New Zealand Accounting Standards Board on 10 August 2017. It is currently effective for the reporting period beginning 1 January 2021, but this is expected to be deferred to 1 January 2022 following a tentative decision of the International Accounting Standards Board to delay the mandatory implementation date by one year.

  The standard will be applicable to general, life and health insurance business and introduces a new 'general model' for recognition and measurement of insurance contracts. It also permits application of a simplified model (which is similar to the current basis on which general insurance is brought to account under NZ IFRS 4 (Appendix D) if the liability for remaining coverage under the simplified model would not materially differ from the general model.

3. New Accounting Standards and Amendments (Continued)

The Branch has completed an impact assessment and additional analysis on key areas of interpretation and has determined that the simplified approach is expected to apply to more than 95% of the Branch's business based on the existing business mix. This analysis also identified key requirements of NZ IFRS 17 where the technical interpretation remains unclear. Given the broad scope, complexity and lack of general consensus on the interpretation of some key areas of the standard, the impact of NZ IFRS 17 on the Branch's financial statements is still being determined; however, significant disclosure changes and some impact on reported profit or loss are expected. We continue to monitor market developments in order to assess the impact of evolving interpretations on the Branch.

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 2018 are the responsibility of Francois Rademeyer, Fellow of the Institute of Actuaries of Australia. Estimates of the outstanding claims as at 31 December 2017 are the responsibility of Chris Killourhy, Fellow of the New Zealand Society of Actuaries.

The actuarial assessments are in accordance with the standards and guidance of the Institute of Actuaries of Australia and New Zealand Society of Actuaries. The Actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Branch'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.

4. Critical Accounting Estimate and Judgements (Continued)

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).

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.

4. Critical Accounting Estimate and Judgements (Continued)

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.

(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 uses New Zealand discount rates.

The discount rates used in the measurement of outstanding claims and reinsurance recoveries for the succeeding year was 1.71% (2017: 1.86%) and subsequent years were 1.70% - 2.37% (2017: 1.83% - 2.86%). The change has no material impact.

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 2.08 years (2017: 1.30 years).

Other Assumptions

In the sensitivity analysis, a base inflation rate of 1.7% (2017:0.4%) and claims expenses ratio of 7.3% (2017: 2.99%) was applied.

(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.

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.

4. Critical Accounting Estimate and Judgements (Continued)

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]	
		2018	2017
	%	$000's	$000's
Inflation rates	increase of 1%	(1,360)	(973)
	decrease of 1%	1,337	960
Discount rates	increase of 1%	1,323	934
	decrease of 1%	(1,371)	(966)
Claims expenses ratio	increase of 1%	(1,596)	(1,596)
	decrease of 1%	1,596	1,596
Weighted average term to settlement	+0.5 years	330	378
	-0.5 years	(332)	(380)

Determined at the Branch level net of reinsurance and taxation

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

(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 in New Zealand. 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.

5. Risk Management (Continued)

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 insurance 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

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 all 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,

5. Risk Management (Continued)

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.

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.

5. Risk Management (Continued)

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
- the Branch's central estimate is reviewed 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 or reinsurance arrangements is addressed by the following protocols:

- 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:

5. Risk Management (Continued)

- 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 periodically throughout the year.

(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. The reinsurance counterparty credit risk is further disclosed under note 5(C)(ii). 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			
	Aaa $000's	Aa $000's	A $000's	Total $000's
At December 2018				
Cash and cash equivalents	**-**	**3,807**	**950**	**4,757**
Interest bearing investments	**17,250**	**489,804**	**-**	**507,054**
At December 2017				
Cash and cash equivalents	-	6,319	993	7,312
Interest bearing investments	17,497	411,813	11,004	440,314

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

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.

	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED				
		0 TO 3 MTHS	3 TO 6 MTHS	6 MTHS TO 1 YEAR	GREATER THAN 1 YEAR	TOTAL
	$000's	$000's	$000's	$000's	$000's	$000's
At December 2018						
Trade debtors						
Amounts due from related entities	**135**	-	-	-	-	**135**
Reinsurance and other recoveries	**3,176**	**3,272**	**193**	**13**	-	**6,654**
Other receivables						
Premium receivable	**86,459**	**1,202**	**375**	**138**	**237**	**88,411**
Interest accrued and other receivables	**7,849**	-	-	-	-	**7,849**
At December 2017						
Trade debtors						
Amounts due from related entities	75	-	-	-	-	75
Reinsurance and other recoveries	13,273	973	15	149	12,384	26,794
Other receivables						
Premium receivable	92,666	4,934	328	70	47	98,045
Interest accrued and other receivables	6,574	-	-	-	-	6,574

Refer to note 2(M) for the Branch's accounting policy with regard to the determination of provisions for impairment. Interest accrued and other receivables at 31 December 2018, are considered to have low credit risk, on the basis of the nature of the outstanding balances, loss history and the counterparty's capacity and intent to meet contractual cash flows. The impairment provision required is therefore limited to 12-month ECLs, and the Branch has determined that no provision for impairment was required at 31 December 2018 on these financial assets.

(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.

5. Risk Management (Continued)

		CREDIT RATING					
		AAA $000's	AA $000's	A $000's	BBB $000's	NOT RATED $000's	TOTAL $000's
Reinsurance recoveries on outstanding claims	**2018**	**-**	**27,042**	**291,082**	**-**	**-**	**318,124**
	2017	-	31,443	361,371	-	-	392,814
Reinsurance recoveries on paid claims	**2018**	**-**	**2,958**	**3,696**	**-**	**-**	**6,654**
	2017	-	13,825	12,969	-	-	26,794

(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 including group reinsurance programs.

With the exception of the impact on the Branch of group reinsurance programs, the Branch is not exposed to material foreign currency risk exposure.

(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.

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 December 2018							
Fixed rate	$000's	**158,876**	**132,329**	**90,582**	**20,849**	**4,088**	**406,724**
Weighted average interest rate	%	**2.63**	**3.15**	**1.99**	**2.78**	**2.65**	**2.66**
Floating rate	$000's	**105,087**	-	-	-	-	**105,087**
Weighted average interest rate	%	**1.65**	-	-	-	-	**1.65**
At December 2017							
Fixed rate	$000's	82,251	152,285	15,412	88,941	20,732	359,621
Weighted average interest rate	%	2.78	2.86	2.62	2.50	3.25	2.77
Floating rate	$000's	57,786	25,142	5,077	-	-	88,005
Weighted average interest rate	%	1.98	2.40	2.63	-	-	2.24

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]	
	%	2018 $000's	2017 $000's
Interest rate movement - interest-bearing financial assets	+0.50	**(2,795)**	(3,270)
	-0.50	**2,795**	3,270

[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 2018, the Branch did not hold any investments in listed equities (2017: nil). The Branch is exposed to price risk on its investment in corporate fixed interest 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 ($616) - $581. 2017: ($1,272) - $1,266).

(E) Liquidity risk

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

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.

6. UNDERWRITING EXPENSES

	2018 $000's	2017 $000's
Depreciation – leasehold improvements	**639**	184
Depreciation – property, plant & equipment	**517**	360
Employee benefit expenses	**30,180**	26,819
Lease and rental charges	**2,730**	2,034
Loss on sale of property, plant and equipment	**15**	37
Provision for doubtful debts	**251**	(307)
Head office charges	**4,971**	3,101
Retirement plan contributions	**1,576**	1,481
Other expenses	**4,156**	9,774
	45,035	43,483

7. INVESTMENT INCOME AND OTHER GAINS/ (LOSSES)

	2018 $000's	2017 $000's
Investment income		
Interest received or receivable	**17,252**	15,656
Net fair value (losses)/gains on financial assets	**(2,609)**	628
	14,643	16,284
Other gains/ (losses)		
Foreign exchange gains/(losses)	**2,722**	(2,656)
Other expenses	**(380)**	(340)
	2,342	(2,996)

8. CLAIMS INCURRED

(A) Claims analysis

	2018 $000's	2017 $000's
Gross claims incurred and related expenses		
Direct	**202,400**	149,761
Reinsurance and other recoveries		
Direct	**(102,312)**	(49,606)
Net claims incurred	**100,088**	100,155

Gross claims incurred and reinsurance and other recoveries revenue in the Statement of Comprehensive Income have been changed to recognise non-reinsurance recoveries revenue as opposed to being netted off against the gross claims incurred. In 2017, gross claims incurred was $143,680 thousand and has increased to $149,761. Reinsurance and other recoveries revenue was $43,525 thousand and has increased to $49,606. There is no change to Net claims incurred.

(B) Net claims incurred

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.

	2018			2017		
	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's
Gross claims incurred and related expenses						
Undiscounted	**204,772**	**(10,686)**	**194,086**	206,161	(74,611)	131,550
Discount	**(2,560)**	**10,874**	**8,314**	(3,348)	21,559	18,211
Gross claims incurred	**202,212**	**188**	**202,400**	202,813	(53,052)[1]	149,761
Reinsurance and other recoveries						
Undiscounted	**(78,616)**	**(15,006)**	**(93,622)**	(85,388)	47,588	(37,800)
RI impairment	**-**	**-**	**-**	-	(190)[2]	(190)
Discount	**1,201**	**(9,891)**	**(8,690)**	1,940	(13,556)	(11,616)
RI claims incurred	**(77,415)**	**(24,897)**	**(102,312)**	(83,448)	33,842	(49,606)
Net claims incurred						
Undiscounted	**126,156**	**(25,692)**	**100,464**	120,773	(27,213)	93,560
Discount	**(1,359)**	**983**	**(376)**	(1,408)	8,003	6,595
Net claims incurred	**124,797**	**(24,709)[3]**	**100,088**	119,365	(19,210)	100,155

[1]A significant portion of the prior year movement relates to claims arising from the Kaikoura earthquake event which occurred on 14 November 2016. Additional information obtained in 2017 supported a reduction in the estimated Gross Claims Incurred relating to that event.

[2]RI impairment was raised as a general provision and is part of the trade and other receivable.

[3]Favourable development on long tail claims (net of reinsurance) combined with favourable group and divisional aggregate reinsurance recoveries which form part of the group reinsurance program.

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.

	2018			2017		
	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's
Net undiscounted claims development – central estimate (note 18 (E))	**105,154**	**(12,796)**	**92,358**	103,985	(15,070)	88,915
Movement in claims settlement costs	**7,699**	**407**	**8,106**	5,575	(930)	4,645
Movement in discount	**(1,359)**	**983**	**(376)**	(1,408)	8,003	6,595
Movement in risk margin	**13,303**	**(13,303)**	**-**	11,213	(11,213)	-
Net claims incurred – discounted	**124,797**	**(24,709)**	**100,088**	119,365	(19,210)	100,155

9. INCOME TAX EXPENSE

Reconciliation of prima facie tax to income tax expense

	2018 $000's	2017 $000's
Profit before income tax	**72,078**	44,865
Prima facie tax payable at 28%	**20,182**	12,562
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	**100**	115
Prima facie tax adjusted for non-temporary differences	**20,282**	12,677
Over provision in prior years	**-**	(84)
Income tax expense	**20,282**	12,593
Analysed as follows:		
Current tax	**21,031**	11,536
Deferred tax	**(749)**	1,057
	20,282	12,593
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	**(23)**	(92)
Deferred tax liabilities recognised in profit or loss	**(726)**	1,149
	(749)	1,057

10. CASH AND CASH EQUIVALENTS

	2018 $000's	2017 $000's
Cash at bank and on hand	**4,757**	7,312

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

	2018 $000's	2017 $000's
Profit after income tax	**51,796**	32,272
Depreciation of property, plant and equipment	**1,156**	544
Fair value movement of financial assets	**2,610**	(628)
Loss on sale of plant and equipment	**15**	37
Movement in trade and other payables	**5,338**	6,507
Movement in trade and other receivables	**18,250**	(18,733)
Movement in net outstanding claims	**(12,511)**	(28,120)
Movement in unearned premiums	**(2,195)**	27,838
Movement in deferred insurance costs	**996**	(3,921)
Movement in tax balances	**7,976**	13,105
Movement in head office account	**185**	(2,547)
Net cash flows from operating activities	**73,616**	26,354

11. INVESTMENTS

	2018 $000's	2017 $000's
Fixed interest rate		
Short term money	**35,000**	-
Government bonds	**53,862**	67,951
Corporate bonds	**317,862**	291,671
	406,724	359,622
Floating interest rate		
Short term money	**87,812**	39,479
Floating rate notes	**12,518**	41,213
	100,330	80,692
Total investments	**507,054**	440,314
Amounts maturing within 12 months	**259,206**	132,723
Amounts maturing in greater than 12 months	**247,848**	307,591
Total investments	**507,054**	440,314

Valuation of investments
All investments are initially recorded at fair value and are subsequently remeasured to fair value at each balance sheet 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.

Government bonds and corporate 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 the same 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.

	2018			2017		
	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	**11,561**	**111,251**	**122,812**	5,055	34,424	39,479
Government bonds	**53,862**	**-**	**53,862**	67,951	-	67,951
Corporate bonds/other	**-**	**330,380**	**330,380**	-	332,884	332,884
Total investments	**65,423**	**441,631**	**507,054**	73,006	367,308	440,314

12. TRADE AND OTHER RECEIVABLES

	2018 $000's	2017 $000's
Trade debtors		
Premium receivable[1]	88,411	98,045
Reinsurance and other recoveries[1]	6,654	26,794
Unclosed premium	50,759	42,283
	145,824	167,122
Amounts due from related entities (Note 26)	135	75
Interest accrued and other receivables	7,849	6,574
Other debtors	17,363	17,305
Prepayments	778	497
Trade and other receivables	171,949	191,573
Receivable within 12 months	171,949	191,573
Receivable in greater than 12 months	-	-
Trade and other receivables	171,949	191,573

[1] Net of a provision for impairment

(A) Provision for impairment

	2018 $000's	2017 $000's
At 1 January	262	569
Amounts recognised in profit or loss	251	(307)
At 31 December	513	262

(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

	2018 $000's	2017 $000's
Deferred reinsurance premium	8,561	7,452
Deferred commission	31,895	33,780
Deferred acquisition costs	11,400	11,620
Deferred insurance costs	51,856	52,852
To be expensed within 12 months	50,786	50,936
To be expensed in greater than 12 months	1,070	1,916
Deferred insurance costs	51,856	52,852

13. Deferred Insurance Costs (Continued)

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITON COSTS	
	2018 $000's	2017 $000's	2018 $000's	2017 $000's	2018 $000's	2017 $000's
At 1 January	**7,452**	7,629	**33,780**	29,402	**11,620**	11,900
Costs deferred in financial year	**7,596**	6,220	**31,331**	32,724	**10,985**	11,037
Amortisation of costs deferred in previous financial years	**(6,487)**	(6,373)	**(33,216)**	(28,067)	**(11,205)**	(11,267)
Intergroup transfer	**-**	(24)	**-**	(279)	**-**	(50)
At 31 December	**8,561**	7,452	**31,895**	33,780	**11,400**	11,620

14. PROPERTY, PLANT AND EQUIPMENT

2018	LEASEHOLD IMPROVEMENTS $000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS $000's	TOTAL $000's
Cost or valuation			
At 1 January	**3,080**	**4,207**	**7,287**
Additions	**4,362**	**1,992**	**6,354**
Disposals	**(1,282)**	**(2,674)**	**(3,956)**
At 31 December	**6,160**	**3,525**	**9,685**
Accumulated depreciation and impairment losses			
At 1 January	**(1,788)**	**(3,251)**	**(5,039)**
Disposals	**1,282**	**2,635**	**3,917**
Depreciation charge for the year	**(639)**	**(517)**	**(1,156)**
At 31 December	**(1,145)**	**(1,133)**	**(2,278)**
Carrying amount			
At 31 December	**5,015**	**2,392**	**7,407**

2017	LEASEHOLD IMPROVEMENTS $000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS $000's	TOTAL $000's
Cost or valuation			
At 1 January	1,713	4,381	6,094
Additions	1,434	240	1,674
Disposals	(67)	(414)	(481)
At 31 December	3,080	4,207	7,287
Accumulated depreciation and impairment losses			
At 1 January	(1,655)	(3,283)	(4,938)
Disposals	51	392	443
Depreciation charge for the year	(184)	(360)	(544)
At 31 December	(1,788)	(3,251)	(5,039)
Carrying amount			
At 31 December	1,292	956	2,248

15. DEFERRED INCOME TAX

	2018 $000's	2017 $000's
Deferred tax assets	**1,693**	1,670
Deferred tax liabilities	**(11,977)**	(12,703)
Net deferred tax liabilities	**(10,284)**	(11,033)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2018 $000's	2017 $000's
Amounts recognised in profit or loss		
Provision for impairment	**260**	74
Employee benefits	**1,415**	1,128
Other	**18**	468
Deferred tax assets	**1,693**	1,670

(ii) Movements

	2018 $000's	2017 $000's
At 1 January	**1,670**	1,578
Amounts recognised in profit or loss	**23**	92
At 31 December	**1,693**	1,670

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2018 $000's	2017 $000's
Amounts recognised in profit or loss		
Insurance provisions	**(11,977)**	(12,703)
Deferred tax liabilities	**(11,977)**	(12,703)

(ii) Movements:

	2018 $000's	2017 $000's
At 1 January	**(12,703)**	(11,554)
Amounts recognised in profit or loss	**726**	(1,149)
At 31 December	**(11,977)**	(12,703)

16. TRADE AND OTHER PAYABLES

	2018 $000's	2017 $000's
Trade Payables	**22,158**	22,732
Amounts due to related entities (Note 26)	**1,935**	3,294
Other payables	**41,321**	35,051
Accrued expenses	**4,291**	4,784
Trade and other payables	**69,705**	65,861
Payable within 12 months	**69,705**	65,861
Payable in greater than 12 months	**-**	-
Trade and other payables	**69,705**	65,861

There were no contract liabilities at 31 December 2018 (2017: nil). The Branch has no obligations to fulfil services to customers for which it has already received consideration (or an amount of consideration is due) from the customers.

17. UNEARNED PREMIUM

(A) Unearned premium

	2018 $000's	2017 $000's
At 1 January	**237,574**	209,736
Intergroup transfers	**-**	(874)
Deferral of premium on contracts written in the period	**226,955**	227,997
Earning of premium written in previous periods	**(229,150)**	(199,285)
At 31 December	**235,379**	237,574
To be earned within 12 months	**227,123**	229,150
To be earned in greater than 12 months	**8,256**	8,424
Unearned premium	**235,379**	237,574

(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 10% (2017: 11%) 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, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

The application of the liability adequacy test in respect of net unearned premium liabilities identified a surplus at 31 December 2018 and 31 December 2017.

18. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2018 $000's	2017 $000's
Gross outstanding claims provision	**394,732**	473,054
Risk margin	**23,145**	23,145
Outstanding claims	**417,877**	496,199
Reinsurance on outstanding claims	**(303,190)**	(369,001)
Net outstanding claims provision	**114,687**	127,198
Analysed as follows:		
Net undiscounted central estimate	**93,480**	105,425
Discount to present value	**(1,938)**	(1,372)
Net discounted central estimate	**91,542**	104,053
Risk margin	**23,145**	23,145
Net outstanding claims provision	**114,687**	127,198
Gross undiscounted outstanding claims	**428,498**	514,737
Claim settlement accrual	**6,251**	6,647
	434,749	521,384
Discount to present value	**(16,872)**	(25,185)
Gross discounted outstanding claims	**417,877**	496,199
Less than 12 months	**143,572**	169,003
Greater than 12 months	**274,305**	327,196
Gross discounted central estimate	**417,877**	496,199
Reinsurance on outstanding claims	**318,124**	392,814
Discount to present value	**(14,934)**	(23,813)
Reinsurance on outstanding claims	**303,190**	369,001
Less than 12 months	**122,623**	101,083
Greater than 12 months	**180,567**	267,918
Reinsurance on outstanding claims	**303,190**	369,001

18. Outstanding Claims (Continued)

(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 2018	**$000's**	**20,949**	**34,588**	**39,763**	**10,244**	**4,730**	**4,413**	**114,687**
At 31 December 2017	$000's	67,921	22,984	14,090	9,398	6,013	6,792	127,198

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

(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 25% (2017: 22%) 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% (2017: greater than 80%).

(D) Reconciliation of movement in discounted outstanding claims provision

	2018 OUTSTANDING CLAIMS $000's	REINSURANCE $000's	NET $000's	2017 OUTSTANDING CLAIMS $000's	REINSURANCE $000's	NET $000's
At 1 January	**496,199**	**(369,001)**	**127,198**	652,540	(497,222)	155,318
Increase in net claims incurred in current accident year	**202,212**	**(77,415)**	**124,797**	202,813	(83,448)	119,365
Movement in prior year claims provision	**188**	**(24,897)**	**(24,709)**	(53,052)	33,842	(19,210)
Incurred claims recognised in profit or loss	**202,400**	**(102,312)**	**100,088**	149,761	(49,606)	100,155
Claim (payments) recoveries during the year	**(280,722)**	**168,123**	**(112,599)**	(306,102)	177,827	(128,275)
At 31 December	**417,877**	**(303,190)**	**114,687**	496,199	(369,001)	127,198

18. Outstanding Claims (Continued)

(E) Claims development – undiscounted net central estimate

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

	Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
End of accident year		40,821	50,805	52,500	44,970	53,734	55,905	66,220	123,686	103,545	105,099	697,284
1 year later		41,159	56,241	54,416	40,954	58,347	61,531	70,634	122,378	108,524		614,183
2 years later		40,575	53,503	53,258	47,757	57,699	57,670	67,690	116,640			494,793
3 years later		40,479	55,668	56,515	46,218	54,426	55,239	60,285				368,829
4 years later		42,711	58,683	54,073	44,060	51,474	54,486					305,488
5 years later		42,257	56,254	52,510	42,714	54,282						248,017
6 years later		40,309	55,248	52,330	36,847							184,735
7 years later		40,767	55,140	53,164								149,070
8 years later		40,113	52,225									92,337
9 years later		39,975										39,975
Current central estimate cost for the ten most recent accident years		39,975	52,225	53,164	36,847	54,282	54,486	60,285	116,640	108,524	105,099	681,527
Cumulative net claims payments to date		39,876	53,593	50,698	35,083	49,959	50,922	68,541	108,050	82,503	55,188	594,413
Net undiscounted central estimate	115	99	(1,368)	2,466	1,763	4,323	3,564	(8,256)	8,590	26,021	49,911	87,229
Discount to present value												(1,938)
Risk Margin												23,145
Claims settlement costs												6,251
Net Outstanding Claims at 31 December 2018												114,687
Net movement in the central estimate from prior year	1,453	(137)	(2,915)	833	(5,867)	2,808	(753)	(7,406)	(5,738)	4,979	105,099	92,357

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 being Australian APRA requirements.

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

	2018 AUD$000's	2017 AUD$000's
APRA capital base	**2,364,232**	2,699,561
APRA prescribed capital amount	**1,502,322**	1,574,206
Capital surplus	**861,910**	1,125,355
Solvency coverage	**1.57**	1.71

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 regularly on a net basis.

21. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2018 and 2017 is set out below.

	2018 $000's	2017 $000's
Short term employee benefits	**2,274**	1,643
Post-employment benefits	**6**	100
Share based payments	**111**	182
	2,391	1,925

22. REMUNERATION OF AUDITOR

	2018 $000's	2017 $000's
PricewaterhouseCoopers		
Audit of financial statements	**289**	283
Taxation and advisory services	**56**	62
	345	345

23. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2018 (2017: nil).

24. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no capital expenditure commitments as at 31 December 2018 (2017: nil).

25. OPERATING LEASE COMMITMENTS

	2018 $000's	2017 $000's
Payable:		
Not later than one year	**1,256**	2,025
Later than one year but less than five years	**7,139**	5,566
Later than five years	**8,805**	8,437
Total future minimum lease payments under non-cancellable operating leases	**17,200**	16,028

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 regularly on a net basis. At the end of the reporting period the Branch had the following related party balances:

		2018 $000's	2017 $000's
Related party	**Description**		
QBE Equator Reinsurances Limited	Reinsurance	**1,935**	3,294
QBE Lenders Mortgage Insurance Ltd	Expenses recovery	**(135)**	(75)
		1,800	3,219
The outstanding related party balances are reported as:			
Trade and other payables		**1,935**	3,294
Trade and other receivables		**(135)**	(75)

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

	2018 $000's	2017 $000's
Transactions with QBE Insurance (Australia) Limited		
Reinsurance expense less recoveries	**38,975**	53,506
Administration and management fees	**4,971**	3,046
Reimbursement of transactions with related parties	**(4,547)**	1,210
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	**18,558**	(2,962)

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ for QBE Insurance (Australia) Limited, New Zealand Branch, on 1 June 2018: A+ (2017: A+)

28. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, no matter or circumstance has arisen since 31 December 2018 that has significantly affected or may significantly affect the financial statements.

QBE Insurance (Australia) Limited
ABN 78 003 191 035 (incorporated in Australia)
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Telephone +64 9 366 9920
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24 April 2019

Mr Terry Lawrence
Head of Strategy & Support Services
QBE Centre
125 Queen Street
AUCKLAND

Dear Mr Lawrence

Re: New Zealand Operations Actuarial Report at 31 December 2018

Section 77 and 78 of the Insurance (Prudential Supervision) Act 2010 requires a licensed insurer to ensure the 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, Francois Rademeyer have conducted this review for QBENZ's financial statements for the period ending 31 December 2018.

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 purpose of this review, actuarial information includes: -

- Outstanding Claims Liabilities;
- Premium Liabilities;
- Application of the Liability Adequacy Test; and
- 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 grated 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 management plan.

Yours sincerely
QBE INSURANCE (AUSTRALIA) LIMITED

Francois Rademeyer

Francois Rademeyer
New Zealand Appointed Actuary of QBE Insurance (Australia) Limited
Member of the Institute of Actuaries of Australia