

QBE INSURANCE (AUSTRALIA) LIMITED
NEW ZEALAND BRANCH
FINANCIAL STATEMENTS – 31 DECEMBER 2019

INDEX

	<u>PAGE NO.</u>
Statement by Directors	1
Independent auditor's report	2-6
Financial Statements	
• Statement of comprehensive income	7
• Balance sheet	8
• Statement of changes in balances due to Head Office	9
• Statement of cash flows	10
• Notes to the financial statements	12-46

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT BY DIRECTORS
For the year ended 31 December 2019

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 46 fairly present the Financial Statements of the New Zealand Branch of the Company For the year ended 31 December 2019.

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

The 14th day of February 2020.

DIRECTOR:



DIRECTOR:





Independent auditor's report

To the Directors of QBE Insurance (Australia) Limited

We have audited the financial statements which comprise:

- the balance sheet as at 31 December 2019;
- 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 accompanying 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 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of the 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. In addition, certain partners and employees of our firm may deal with the Branch on normal terms within the ordinary course of trading activities of the Branch. These matters have not impaired our independence as auditor of the Branch.

Our audit approach

Overview



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

Overall materiality: \$4.3 million, which represents approximately 1% of gross earned premium revenue.

We chose gross earned premium revenue 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 there is one key audit matter:

- Valuation of outstanding claims

Materiality

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

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

Audit scope

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

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



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of outstanding claims</i> <i>(2019: \$520,872,000, 2018: \$417,877,000)</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Historical claims data is a key input to the actuarial estimates. Accordingly, we:</p> <ul style="list-style-type: none">• evaluated the design effectiveness and tested controls over claims processing;• assessed a sample of claim case estimates at the year end to check that they were supported by appropriate management assessment and documentation;• reviewed the initial loss estimate report prepared by the independent loss adjustor and management's assessment of the claim case estimate for the fire at the New Zealand International Convention Centre, under development by SkyCity Entertainment Group Limited;• assessed on a sample basis the accuracy of the previous claims estimates by comparing with actual amounts settled;• inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and• tested the integrity of data used in the actuarial models by agreeing a sample of model inputs to source.

Key audit matter	How our audit addressed the key audit matter
<p>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 and the level of uncertainty in the net discounted central estimate.</p> <p><i>Relevant references in the financial statements</i></p> <p>Refer to notes 4(A)(i), 4(A)(iii - v) and 19 to the financial statements, which also describes the elements that make up the balance.</p>	<p>Together with our PwC actuarial expert, we:</p> <ul style="list-style-type: none"> • considered the work and findings of the actuaries engaged by the Branch; • evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year, seeking justification for any significant differences; • assessed key actuarial judgements and assumptions, including initial expected loss ratios, inflation rates, discount rates, claims expenses ratios and 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; • tested the discount rates applied for classes of business where there is a greater length of time between the initial claim event and settlement; and • assessed the risk margin by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.

Responsibilities of the Directors for the financial statements

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

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



Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the 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 Richard Day.

For and behalf of :

A handwritten signature in blue ink, appearing to read 'Richard Day', written over a horizontal line.

Chartered Accountants
17 February 2020

Auckland

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	NOTE	2019 \$000's	2018 \$000's
Gross written premium		451,333	429,513
Unearned premium movement	18	(17,051)	2,195
Gross earned premium revenue		434,282	431,708
Outward reinsurance premium		(189,339)	(192,967)
Deferred reinsurance premium movement	13	407	1,109
Outward reinsurance premium expense		(188,932)	(191,858)
Net earned premium		245,350	239,850
Gross claims incurred	8	(372,397)	(202,400)
Reinsurance and other recoveries revenue	8	256,474	102,312
Net claims incurred	8	(115,923)	(100,088)
Gross commission expense		(70,097)	(72,270)
Reinsurance commission revenue		29,969	28,918
Net commission expense		(40,128)	(43,352)
Deferred acquisition cost movement		300	(220)
Underwriting expenses	6	(46,223)	(45,035)
Underwriting profit		43,376	51,155
Other income		3,836	3,938
Investment income	7	14,865	14,643
Other (losses)/gains	7	(527)	2,342
Profit before income tax		61,550	72,078
Income tax expense	9	(17,208)	(20,282)
Profit for the year attributable to Head Office Account		44,342	51,796
Other comprehensive income after income tax		-	-
Total comprehensive income for the year attributable to Head Office Account		44,342	51,796

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 2019

	NOTE	2019 \$000's	2018 \$000's
ASSETS			
Cash and cash equivalents	10	20,514	4,757
Investments	11	541,171	507,054
Trade and other receivables	12	166,052	158,725
Deferred insurance costs	13	54,845	51,856
Reinsurance and other recoveries on outstanding claims	19	381,059	303,190
Right-of-use lease assets	15	11,451	-
Property, plant and equipment	14	5,401	7,407
Total assets		1,180,493	1,032,989
LIABILITIES			
Trade and other payables	17	47,733	56,481
Current tax liabilities		8,995	18,723
Lease liabilities	15	13,706	-
Unearned premium	18	252,430	235,379
Outstanding claims	19	520,872	417,877
Deferred tax liabilities	16	8,480	10,284
Total liabilities		852,216	738,744
Net assets		328,277	294,245
Due to Head Office - Australia		328,277	294,245

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE
For the year ended 31 December 2019

HEAD OFFICE – AUSTRALIA	NOTE	2019 \$000's	2018 \$000's
Balance as at 1 January		294,245	242,634
Profit for the year attributable to Head Office Account		44,342	51,796
Total comprehensive income		44,342	51,796
Net current transactions with Head Office		(10,310)	(185)
Balance at 31 December	21	328,277	294,245

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 2019

	NOTE	2019 \$000's	2018 \$000's
OPERATING ACTIVITIES			
Premium received		446,814	430,671
Reinsurance and other recoveries received		176,510	187,345
Outwards reinsurance paid		(179,106)	(192,514)
Claims paid		(269,402)	(280,722)
Insurance costs and other underwriting costs paid		(42,463)	(41,908)
Interest received		14,351	15,976
Interest paid for leases		(529)	-
Other operating income received		4,243	3,881
Other operating payments		(49,903)	(36,807)
Income taxes paid		(28,740)	(12,306)
Net cash flows from operating activities	10	71,775	73,616
INVESTING ACTIVITIES			
Proceeds on sale of investments		417,571	223,199
Payments for purchase of investments		(453,177)	(292,548)
Payments for purchase of property, plant and equipment		(181)	(6,315)
Net cash flows from investing activities		(35,787)	(75,664)
FINANCING ACTIVITIES			
Payments relating to principal element of lease liabilities		(687)	-
Net parent company settlements		(19,544)	(507)
Net cash flows from financing activities		(20,231)	(507)
Net movement in cash and cash equivalents		15,757	(2,555)
Cash and cash equivalents at the beginning of the year		4,757	7,312
Cash and cash equivalents at the end of the year	10	20,514	4,757

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

Table of Contents

1. GENERAL INFORMATION.....	12
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	12
3. NEW ACCOUNTING STANDARDS AND AMENDMENTS.....	19
4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	20
5. RISK MANAGEMENT.....	24
6. UNDERWRITING EXPENSES	32
7. INVESTMENT INCOME AND OTHER (LOSSES)/GAINS.....	32
8. CLAIMS INCURRED.....	33
9. INCOME TAX EXPENSE.....	34
10. CASH AND CASH EQUIVALENTS	35
11. INVESTMENTS	36
12. TRADE AND OTHER RECEIVABLES	37
13. DEFERRED INSURANCE COSTS	37
14. PROPERTY, PLANT AND EQUIPMENT	38
15. LEASES	39
16. DEFERRED INCOME TAX.....	40
17. TRADE AND OTHER PAYABLES.....	41
18. UNEARNED PREMIUM.....	41
19. OUTSTANDING CLAIMS	42
20. SOLVENCY	45
21. CAPITAL MANAGEMENT AND HEAD OFFICE ACCOUNT	45
22. KEY MANAGEMENT PERSONNEL.....	45
23. REMUNERATION OF AUDITOR	45
24. CONTINGENT LIABILITIES	46
25. CAPITAL EXPENDITURE COMMITMENTS	46
26. RELATED PARTY DISCLOSURES	46
27. CREDIT RATING.....	46
28. EVENTS OCCURRING AFTER REPORTING DATE	46

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 2019 and were authorised for issue by the directors on the 14th day of February 2020.

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 reclassification 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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

(C) Premium revenue

Premium revenue 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 revenue 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.

Performance obligations in respect of management fee income include the provision of agreed insurance administration activities. Management fee 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.

There is no revenue (2018 nil) recognised in the reporting period in respect of performance obligations satisfied (or partially satisfied) in previous periods.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

(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 are initially recognised at fair value and are subsequently measured at amortised cost.

Cash and cash equivalents are subjected to impairment testing using the NZ IFRS 9 ECL methodology. The branch considers that credit risk has not increased significantly since initial recognition, and that these assets represent low credit risks, taking into account the credit standing of the counterparties and the nature of the exposures.

The branch foresees negligible credit losses arising on cash and cash equivalents from possible default events within 12 months from the reporting date and considers that no allowance for impairment is required at 31 December 2019.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 10.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

(L) Investments

Investment assets are financial assets within the scope of NZ IFRS 9. The branch's investments are designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the branch's business model for managing and evaluating the investment portfolio.

Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model.

The fair value hierarchy and the branch's approach to measuring the fair value of each investment instrument is disclosed 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 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

Trade and other receivables are principally amounts owed to the branch by policyholders. Unclosed premium receivables are estimated amounts due to the branch in relation to business for which the branch is on risk but where the policy is not billed to the counterparty at the balance date.

Amounts owed to the branch are financial assets within the scope of NZ IFRS 9 except for those amounts which represent rights due under an insurance contract as defined in NZ IFRS 4 Insurance Contracts.

Premium and reinsurance receivables are excluded from the scope of NZ IFRS 9. These are initially recognised at fair value and are subsequently measured at amortised cost less any impairment. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting and other expenses.

A provision for impairment on Premium or reinsurance receivables 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.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, where applicable). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less an allowance for impairment.

Impairment of receivables within the scope of NZ IFRS 9 is calculated as an allowance for expected credit losses (ECLs). Any increase or decrease in the allowance for ECLs is recognised in profit or loss within underwriting and other expenses.

For receivables within the scope of NZ IFRS 9, the allowance 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. The allowance for ECLs reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances. Any shortfall is discounted at an approximation to the asset's original effective interest rate.

For all other receivables within the scope of NZ IFRS 9, the allowance 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 allowance is based on the lifetime ECLs.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

The branch considers that the credit risk on other receivables within the scope of NZ IFRS 9 has not increased significantly since initial recognition, and these assets represents low credit risks. The branch does not foresee losses arising on these receivables from possible default events within 12 months from the reporting date, and considers that no allowance for impairment is required at 31 December 2019.

For receivables outside the scope of NZ IFRS 9, an allowance 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. The branch regularly reviews the collectability of receivables and the adequacy of allowances for impairment.

(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 primarily comprise amounts related to reinsurance and tax.

Amounts owed by the branch are financial liabilities within the scope of NZ IFRS 9 except for those amounts which represent obligations under an insurance contract as defined in NZ IFRS 4 Insurance Contracts.

Reinsurance premium payables are outside the scope of NZ IFRS 9. They are initially recognised at fair value and are subsequently measured at amortised cost.

Other payables are within the scope of NZ IFRS 9. They are also initially recognised at fair value and are subsequently measured at amortised cost.

Amounts due to reinsurers and third parties are settled under standard terms and conditions. Amounts due to related entities are repayable on demand and interest free.

There were no contract liabilities at 31 December 2019 (2018: 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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

(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.

(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

Until 2019 under previous requirements, leases were classified as either finance leases or operating leases. All the branch leases were classified as operating leases. Operating lease payments were recognised entirely in underwriting and other expenses.

NZ IFRS 16 Leases was adopted with effect from 1 January 2019 and established new accounting requirements for leases. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. The Branch measured the carrying amount of the lease assets on certain leases as if NZ IFRS 16 had applied since the lease commencement date.

Lease liabilities are measured as the present value of future lease payments net of incentives, discounted using the branch's incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost, which principally comprises the amount of the lease liability and the estimated restoration cost at the end of the lease. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

2. Summary of Significant Accounting Policies (Continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In the statement of comprehensive income, the depreciation charge associated with right-of-use lease assets is recognised in underwriting and other expenses. Lease finance costs are recognised in financing and other costs.

Costs of leases of low value assets and leases with a term of 12 months or less (which do not give rise to right-of-use lease assets or lease liabilities on the balance sheet) are recognised in underwriting and other expenses.

(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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

3. NEW ACCOUNTING STANDARDS AND AMENDMENTS

(A) New and amended standards adopted by the Branch

The branch adopted NZ IFRS 16 Leases from 1 January 2019.

NZ IFRS 16 establishes new accounting requirements for leases. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. The key accounting policies affected by the adoption of NZ IFRS 16 are set out in note 2(S).

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

NZ IFRS 17, a new accounting standard for insurance contracts, was adopted by the New Zealand Accounting Standards Board on 10 August 2017. It is currently effective for reporting periods beginning on or after 1 January 2021, but this is expected to be deferred to 1 January 2022 following a tentative decision of the International Accounting Standards Board (IASB) 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 if the liability for remaining coverage under the simplified model would not materially differ from the general model.

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 requirements of NZ IFRS 17 where the technical interpretation remains unclear. In addition, the IASB is in the process of considering potential changes to the wording of IFRS 17 to remedy implementation issues identified and it is expected these changes would then be adopted into NZ IFRS 17 during 2020. Given the potential for changes in NZ IFRS 17 and the broad scope, complexity and lack of general consensus on the interpretation of key components 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. The Branch continues to monitor market developments in order to assess the impact of changes and evolving interpretations.

In addition, recent indications from the Australian Prudential Regulation Authority (APRA) regarding the impact of the Australian equivalent standard (AASB 17) on both reporting to APRA and the measurement of capital required by APRA are under consideration and the impacts on the Branch's implementation project are being assessed.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 2019 and 31 December 2018, are the responsibility of Francois Rademeyer, Fellow of the Institute of Actuaries of Australia.

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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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)(iv) and (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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

4. Critical Accounting Estimate and Judgements (Continued)

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

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

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

(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 0.97% (2018: 1.71%) and subsequent years were 1.12% - 1.72% (2018: 1.70% - 2.37%).

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled. The weighted average term to settlement of the Branch's claims provision is 1.98 years (2018: 2.08 years).

Other Assumptions

In the sensitivity analysis, a base inflation rate of 1.7% (2018: 1.7%) and an overall claims expenses ratio of 1.24% of gross undiscounted outstanding claims (2018: 1.54%) was applied. The assumption has been updated to reflect SkyCity.

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

The branch underwrites a range of insurance including, but not limited to, short-tail (Engineering, Commercial Property, Commercial Motor, Marine) and long-tail (Public Liability, Professional Indemnity, D&O) products. The ultimate claims cost of short tail products by their nature is determined relatively quickly, while long tail products can take a number of year before the final cost is determined.

A key parameter within the actuarial assessment of claims reserves is the initial expected loss ratio (IELR) for each class of business. The impact of adjusting IELRs parameters by 20% for short tail and long tail products on the after-tax profit is summarised in the table below. In performing this analysis we have not allowed for excess of loss or facultative reinsurance that would be recovered on large losses. This sensitivity analysis is applied to all classes of business simultaneously and does not allow for the diversification benefit that occurs in practice.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

4. Critical Accounting Estimate and Judgements (Continued)

		FINANCIAL IMPACT	
		PROFIT (LOSS)¹	
	MOVEMENT IN INITIAL EXPECTED LOSS RATIO	2019	2018
	%	\$000's	\$000's
Short tail classes	increase of 20%	(854)	(688)
	decrease of 20%	854	688
Long tail classes	increase of 20%	(5,678)	(5,833)
	decrease of 20%	5,678	5,833

The impact of changes in economic variables and claims expense ratios are summarised in the table below. Each change shows the after-tax impact on profit and is calculated in isolation from the other changes and assuming that there is no change to any of the other variables.

		FINANCIAL IMPACT	
		PROFIT (LOSS)¹	
	MOVEMENT IN VARIABLE	2019	2018
	%	\$000's	\$000's
Inflation rates	increase of 1%	(1,647)	(1,360)
	decrease of 1%	1,615	1,337
Discount rates	increase of 1%	1,604	1,323
	decrease of 1%	(1,669)	(1,371)
Claims expenses ratio	increase of 1%	(1,573)	(1,936)
	decrease of 1%	1,573	1,936
Weighted average term to settlement	+0.5 years	221	330
	-0.5 years	(222)	(332)

Determined at the Branch level net of reinsurance and taxation

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

In practice if the central estimate was to increase as set out in the sensitivity tests shown in note 5 (ii) and table above the probability of adequacy would reduce.

In contrast to these assumptions, if the projected level of claims uncertainty was increased, the expected future claims cost would remain unchanged, but the additional risk margin would be required to maintain the same probability of adequacy. In the event that the probability of adequacy was to fall below the level specified within the risk appetite statement would risk margins be increased and profit impacted.

(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 18(B).

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 the Branch operates;
- optimise risk and more effectively allocate resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility.

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

Risk management is a key part of QBE Group's 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 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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

5. Risk Management (Continued)

(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,

claims concentration and claims estimation risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

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

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

(i) Underwriting risks

Selection and pricing of risks

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

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

5. Risk Management (Continued)

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

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

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

Concentration risk

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

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

(ii) Claims management and claims estimation risks

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

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

5. Risk Management (Continued)

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:

- 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 ratings. Aaa is the highest possible rating.

	CREDIT RATING			
	Aaa \$000's	Aa \$000's	A \$000's	Total \$000's
At December 2019				
Cash and cash equivalents	-	20,415	99	20,514
Interest bearing investments	-	541,171	-	541,171
At December 2018				
Cash and cash equivalents	-	3,807	950	4,757
Interest bearing investments	17,250	489,804	-	507,054

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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				TOTAL
		0 TO 3 MTHS	3 TO 6 MTHS	6 MTHS TO 1 YEAR	GREATER THAN 1 YEAR	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
At December 2019						
Trade debtors						
Amounts due from related entities	913	-	-	-	-	913
Reinsurance and other recoveries	6,018	234	317	17	-	6,586
Other receivables						
Premium receivable	88,979	3,377	813	-	424	93,593
Interest accrued and other receivables	13,991	-	-	-	-	13,991
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	11,988	-	-	-	-	11,988

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 2019, 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 2019 (2018: nil) 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 Poor's counterparty ratings. AAA is the highest possible rating.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

5. Risk Management (Continued)

		CREDIT RATING					TOTAL \$000's
		AAA \$000's	AA \$000's	A \$000's	BBB \$000's	NOT RATED \$000's	
Reinsurance recoveries on outstanding claims	2019	-	23,660	363,152	-	-	386,812
	2018	-	27,042	291,082	-	-	318,124
Reinsurance recoveries on paid claims	2019	-	1,577	5,009	-	-	6,586
	2018	-	2,958	3,696	-	-	6,654

(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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 YEARS OR MORE	TOTAL
At December 2019							
Fixed rate	\$000's	235,131	174,738	61,088	52,094	8,113	531,164
Weighted average interest rate	%	2.85	2.07	1.61	1.33	2.02	2.29
Floating rate	\$000's	30,521	-	-	-	-	30,521
Weighted average interest rate	%	0.01	-	-	-	-	0.01
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

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	
		2019 \$000's	2018 \$000's
Interest rate movement - interest-bearing financial assets	+0.50	(2,409)	(2,013)
	-0.50	2,409	2,013

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 2019, the Branch had \$5m investments in listed equities trusts (2018: 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 (\$371) - \$346. 2018: ((\$444) - \$418).

(E) Liquidity risk

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

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 19(B). All other financial liabilities except leases 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.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

6. UNDERWRITING EXPENSES

	2019 \$000's	2018 \$000's
Depreciation - leasehold improvements	629	639
Depreciation - property, plant & equipment	407	517
Depreciation - right-of-use assets	1,810	-
Employee benefit expenses	31,393	30,180
Lease and rental charges	27	2,730
Loss on sale of property, plant and equipment	-	15
Provision for doubtful debts	86	251
Head office charges	4,633	4,971
Retirement plan contributions	1,588	1,576
Other expenses	5,650	4,156
	46,223	45,035

7. INVESTMENT INCOME AND OTHER (LOSSES)/GAINS

	2019 \$000's	2018 \$000's
Investment income		
Interest income	16,354	17,252
Net fair value (losses)/gains on financial assets	(1,489)	(2,609)
	14,865	14,643
Other (losses)/gains		
Foreign exchange (losses)/gains	(87)	2,722
Other expenses	(440)	(380)
	(527)	2,342

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

8. CLAIMS INCURRED

(A) Claims analysis

	2019 \$000's	2018 \$000's
Gross claims incurred and related expenses		
Direct	372,397	202,400
Reinsurance and other recoveries		
Direct	(256,474)	(102,312)
Net claims incurred	115,923	100,088

(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.

	2019			2018		
	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	318,982	43,519	362,501	204,772	(10,686)	194,086
Discount	(1,593)	11,489	9,896	(2,560)	10,874	8,314
Gross claims incurred	317,389	55,008	372,397	202,212	188	202,400
Reinsurance and other recoveries						
Undiscounted	(196,183)	(51,229)	(247,412)	(78,616)	(15,006)	(93,622)
RI impairment	-	118	118	-	-	-
Discount	859	(10,039)	(9,180)	1,201	(9,891)	(8,690)
RI claims incurred	(195,324)	(61,150)	(256,474)	(77,415)	(24,897)	(102,312)
Net claims incurred						
Undiscounted	122,799	(7,592)	115,207	126,156	(25,692)	100,464
Discount	(734)	1,450	716	(1,359)	983	(376)
Net claims incurred	122,065	(6,142)	115,923	124,797	(24,709)¹	100,088

¹ 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.

² The Branch is exposed to New Zealand International Convention Centre loss where the building suffered a large fire during construction. The date of loss was 22nd October 2019. The net provision for the Branch is \$6m NZD, which is the retained cost after all reinsurance. The net provision for QBE Group is \$57.1m NZD.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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 19(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.

	2019			2018		
	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 19 (E))	105,317	1,576	106,893	105,154	(12,796)	92,358
Movement in claims settlement costs	7,173	1,141	8,314	7,699	407	8,106
Movement in discount	(734)	1,450	716	(1,359)	983	(376)
Movement in risk margin	10,309	(10,309)	-	13,303	(13,303)	-
Net claims incurred – discounted	122,065	(6,142)	115,923	124,797	(24,709)	100,088

9. INCOME TAX EXPENSE

Reconciliation of prima facie tax to income tax expense

	2019 \$000's	2018 \$000's
Profit before income tax	61,550	72,078
Prima facie tax payable at 28%	17,234	20,182
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	58	100
Prima facie tax adjusted for non-temporary differences	17,292	20,282
Over provision in prior years	(84)	-
Income tax expense	17,208	20,282
Analysed as follows:		
Current tax	19,012	21,031
Deferred tax	(1,804)	(749)
	17,208	20,282
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	(1,112)	(23)
Deferred tax liabilities recognised in profit or loss	(692)	(726)
	(1,804)	(749)

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

10. CASH AND CASH EQUIVALENTS

	2019	2018
	\$000's	\$000's
Cash at bank and on hand	20,514	4,757

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

	2019	2018
	\$000's	\$000's
Profit after income tax	44,342	51,796
Depreciation of property, plant and equipment	1,036	1,156
Fair value movement of financial assets	1,489	2,610
Loss on sale of plant and equipment	-	15
Movement in trade and other payables	(16,766)	(7,886)
Movement in trade and other receivables	3,962	31,474
Movement in net outstanding claims	25,126	(12,511)
Movement in unearned premiums	17,051	(2,195)
Movement in deferred insurance costs	(2,989)	996
Movement in tax balances	(11,532)	7,976
Movement in head office account	10,056	185
Cash flows from operating activities	71,775	73,616

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

11. INVESTMENTS

	2019 \$000's	2018 \$000's
Fixed interest rate		
Short term money	134,000	35,000
Government bonds	41,832	53,862
Listed equity trusts	5,040	-
Corporate bonds	350,292	317,862
	531,164	406,724
Floating interest rate		
Short term money	10,007	87,812
Floating rate notes	-	12,518
	10,007	100,330
Total investments	541,171	507,054
Amounts maturing within 12 months	240,196	259,206
Amounts maturing in greater than 12 months	300,975	247,848
Total investments	541,171	507,054

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 2. 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, and classified as level 2.

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.

	2019			2018		
	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	-	144,007	144,007	-	122,812	122,812
Government bonds	41,832	-	41,832	53,862	-	53,862
Listed equity trusts	-	5,040	5,040	-	-	0
Corporate bonds	-	350,292	350,292	-	330,380	330,380
Total investments	41,832	499,339	541,171	53,862	453,192	507,054

33/000



QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

12. TRADE AND OTHER RECEIVABLES

	2019 \$000's	2018 \$000's
Trade receivables		
Premium receivable ¹	93,593	88,411
Reinsurance and other recoveries on paid claims	6,586	6,654
Unclosed premium	50,096	50,759
	150,275	145,824
Amounts due from related entities (Note 26)	913	135
Other receivables	11,287	7,849
Accrued interest income and other receivables	2,704	4,139
Prepayments	873	778
Trade and other receivables	166,052	158,725
Receivable within 12 months	166,052	158,725
Receivable in greater than 12 months	-	-
Trade and other receivables	166,052	158,725

¹ Net of provision for impairment.

(A) Provision for impairment

	2019 \$000's	2018 \$000's
At 1 January	513	262
Amounts recognised in statement of comprehensive income	86	251
At 31 December	599	513

(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

	2019 \$000's	2018 \$000's
Deferred reinsurance premium	8,968	8,561
Deferred commission	34,177	31,895
Deferred acquisition costs	11,700	11,400
Deferred insurance costs	54,845	51,856
To be expensed within 12 months	53,908	50,786
To be expensed in greater than 12 months	937	1,070
Deferred insurance costs	54,845	51,856

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

13. Deferred Insurance Costs (Continued)

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITION COSTS	
	2019 \$000's	2018 \$000's	2019 \$000's	2018 \$000's	2019 \$000's	2018 \$000's
At 1 January	8,561	7,452	31,895	33,780	11,400	11,620
Costs deferred in financial year	8,116	7,596	33,615	31,331	11,315	10,985
Amortisation of costs deferred in previous financial years	(7,709)	(6,487)	(31,333)	(33,216)	(11,015)	(11,205)
At 31 December	8,968	8,561	34,177	31,895	11,700	11,400

14. PROPERTY, PLANT AND EQUIPMENT

2019	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	6,160	3,525	9,685
Transitional adjustment ¹	(1,152)	-	(1,152)
Additions	63	119	182
Disposals	-	(2)	(2)
At 31 December	5,071	3,642	8,713
Accumulated depreciation			
At 1 January	(1,145)	(1,133)	(2,278)
Disposals	-	2	2
Depreciation charge for the year	(629)	(407)	(1,036)
At 31 December	(1,774)	(1,538)	(3,312)
Carrying amount			
At 31 December	3,297	2,104	5,401

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

¹Prior to the adoption of NZ IFRS 16, the Branch accounted for leasehold improvements funded by lessor incentives on a gross basis, including the asset cost in property, plant and equipment, and the incentives received in liabilities.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

15. LEASES

The branch leases various offices, motor vehicles and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for fixed periods of 3 to 12 years but may have extension options as described below.

(A) Right-of-use lease assets

2019	Premises \$000's	Other \$000's	Total \$000's
Right-of-use assets			
At 1 January	-	-	-
Adjustment on initial application of NZ IFRS 16	12,795	932	13,727
Additions	430	125	555
Disposals	-	(66)	(66)
At 31 December	13,225	991	14,216
Accumulated depreciation			
At 1 January	-	-	-
Adjustment on initial application of NZ IFRS 16	(994)	-	(994)
Depreciation charge for the year	(1,457)	(353)	(1,810)
Disposals	-	39	39
At 31 December	(2,451)	(314)	(2,765)
Net Right-of-use assets			
At 31 December	10,774	677	11,451

(B) Lease liabilities

	2019 \$000's
At 1 January	-
Adjustment on initial application of NZ IFRS 16	13,857
Additions	555
Disposals	(19)
Principal repayments	(687)
At 31 December	13,706
Principal repayments	687
Interest	529
Total repayments	1,216

The maturity profile of the discounted lease liability at 31 December 2019 is as follows:

	Lease liability (discounted) 2019 \$000's	Lease liability (undiscounted) 2019 \$000's	Operating lease commitments (undiscounted) 2018 \$000's
Payable:			
Not later than one year	1,607	2,100	1,256
Later than one year but less than five years	5,418	6,879	7,139
Later than five years	6,681	7,352	8,805
Total future minimum lease payments under non-cancellable operating leases	13,706	16,331	17,200

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

15. Leases (Continued)

The undiscounted lease liability is equivalent to operating lease commitments under NZ IAS 17 Leases. There was no material difference between lease liabilities recognised in the statement of financial position on initial application of NZ IFRS 16 and operating lease commitments as disclosed under NZ IAS 117 at 31 December 2018 discounted using the incremental borrowing rates on initial application of NZ IFRS 16. The weighted average incremental borrowing rate on initial application was 3.9%.

16. DEFERRED INCOME TAX

	2019 \$000's	2018 \$000's
Deferred tax assets	2,805	1,693
Deferred tax liabilities	(11,285)	(11,977)
Net deferred tax liabilities	(8,480)	(10,284)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2019 \$000's	2018 \$000's
Amounts recognised in profit or loss		
Provision for impairment	114	260
Employee benefits	1,905	1,415
Other	786	18
Deferred tax assets	2,805	1,693

(ii) Movements

	2019 \$000's	2018 \$000's
At 1 January	1,693	1,670
Amounts recognised in profit or loss	1,112	23
At 31 December	2,805	1,693

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2019 \$000's	2018 \$000's
Amounts recognised in profit or loss		
Insurance provisions	(11,285)	(11,977)
Deferred tax liabilities	(11,285)	(11,977)

(ii) Movements:

	2019 \$000's	2018 \$000's
At 1 January	(11,977)	(12,703)
Amounts recognised in profit or loss	692	726
At 31 December	(11,285)	(11,977)

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

17. TRADE AND OTHER PAYABLES

	2019 \$000's	2018 \$000's
Reinsurance/Insurance payables	20,660	22,158
Amounts due to related entities (Note 26)	-	1,935
Other payables	23,350	28,097
Accrued expenses	3,723	4,291
Trade and other payables	47,733	56,481
Payable within 12 months	47,733	56,481
Payable in greater than 12 months	-	-
Trade and other payables	47,733	56,481

There were no contract liabilities at 31 December 2019 (2018: 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.

18. UNEARNED PREMIUM

(A) Unearned premium

	2019 \$000's	2018 \$000's
At 1 January	235,379	237,574
Deferral of premium on contracts written in the period	244,174	226,955
Earning of premium written in previous periods	(227,123)	(229,150)
At 31 December	252,430	235,379
To be earned within 12 months	244,399	227,123
To be earned in greater than 12 months	8,031	8,256
Unearned premium	252,430	235,379

(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 7% (2018: 10%) 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 2019 and 31 December 2018.

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

19. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2019 \$000's	2018 \$000's
Gross outstanding claims provision	497,727	394,732
Risk margin	23,145	23,145
Outstanding claims	520,872	417,877
Reinsurance on outstanding claims	(381,059)	(303,190)
Net outstanding claims provision	139,813	114,687
Analysed as follows:		
Net undiscounted central estimate	117,890	93,480
Discount to present value	(1,222)	(1,938)
Net discounted central estimate	116,668	91,542
Risk margin	23,145	23,145
Net outstanding claims provision	139,813	114,687
 Gross undiscounted outstanding claims	 521,644	 428,498
Claim settlement accrual	6,203	6,251
	527,847	434,749
Discount to present value	(6,975)	(16,872)
Gross discounted outstanding claims	520,872	417,877
Less than 12 months	181,803	143,572
Greater than 12 months	339,069	274,305
Gross discounted central estimate	520,872	417,877
 Reinsurance and other recoveries on outstanding claims	 386,812	 318,124
Discount to present value	(5,753)	(14,934)
Reinsurance on outstanding claims	381,059	303,190
Less than 12 months	131,826	122,623
Greater than 12 months	249,233	180,567
Reinsurance on outstanding claims	381,059	303,190

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

19. 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 2019	\$000's	49,977	32,477	25,236	15,895	9,158	7,070	139,813
At 31 December 2018	\$000's	16,287	38,613	45,138	9,747	3,542	1,360	114,687

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 20% (2018: 25%) 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 75% (2018: greater than 80%).

(D) Reconciliation of movement in discounted outstanding claims provision

	2019 OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's	2018 OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's
At 1 January	417,877	(303,190)	114,687	496,199	(369,001)	127,198
Increase in net claims incurred in current accident year	307,080	(195,324)	111,756	202,212	(77,415)	124,797
Movement in prior year claims provision	65,317	(61,150)	4,167	188	(24,897)	(24,709)
Incurring claims recognised in profit or loss	372,397	(256,474)	115,923	202,400	(102,312)	100,088
Claim (payments) recoveries during the year	(269,402)	178,605	(90,797)	(280,722)	168,123	(112,599)
At 31 December	520,872	(381,059)	139,813	417,877	(303,190)	114,687

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

19. Outstanding Claims (Continued)

(E) Claims development – undiscounted net central estimate

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

	Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
End of accident year		50,805	52,500	44,970	53,734	55,905	66,220	123,686	103,545	105,099	105,317	761,781
1 year later		56,241	54,416	40,954	58,347	61,531	70,634	122,376	108,524	107,880		680,905
2 years later		53,503	53,258	47,757	57,699	57,670	67,690	116,640	108,651			562,868
3 years later		55,668	56,515	46,218	54,426	55,239	60,285	116,219				444,570
4 years later		58,683	54,073	44,060	51,474	54,486	61,671					324,447
5 years later		56,254	52,510	42,714	54,282	54,567						260,327
6 years later		55,248	52,330	36,647	54,246							198,671
7 years later		55,140	53,164	37,472								145,776
8 years later		52,225	53,016									105,241
9 years later		52,082										52,082
Current central estimate cost for the ten most recent accident years		52,082	53,016	37,472	54,246	54,567	61,671	116,219	108,651	107,880	105,317	751,121
Cumulative net claims payments to date		51,999	52,648	33,214	52,754	52,868	68,114	106,525	90,066	81,359	52,574	642,121
Net undiscounted central estimate	2,685	83	368	4,258	1,492	1,699	(6,443)	9,694	18,585	26,521	52,743	111,687
Discount to present value												(1,222)
Risk Margin												23,145
Claims settlement costs												6,203
Net outstanding claims at 31 December 2019	123	25	260	186	153	47	139	1,472	663	870	2,265	139,813
Net movement in the central estimate from prior year	(2,677)	(143)	(147)	625	(36)	81	1,386	(421)	127	2,781	105,317	106,893

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

20. 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 following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2018 and 2019 position reflects the year to date 31 December quarter APRA return (unaudited).

	2019 AUD\$000's	2018 AUD\$000's
APRA capital base	2,219,993	2,364,232
APRA prescribed capital amount	1,553,634	1,502,322
Capital surplus	666,359	861,910
Solvency coverage	1.43	1.57

21. 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.

22. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2019 and 2018 is set out below.

	2019 \$000's	2018 \$000's
Short term employee benefits	4,057	2,274
Post-employment benefits	729	6
Share based payments	587	111
	5,374	2,391

23. REMUNERATION OF AUDITOR

	2019 \$000's	2018 \$000's
PricewaterhouseCoopers		
Audit of financial statements	260	289
Taxation compliance and advisory services	45	56
	305	345

QBE INSURANCE (AUSTRALIA) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

24. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2019 (2018: nil).

25. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no capital expenditure commitments as at 31 December 2019 (2018: nil).

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:

		2019 \$000's	2018 \$000's
Related party	Description		
QBE Equator Reinsurances Limited	Reinsurance	(784)	1,935
QBE LMI Australia	Expenses recovery	(117)	(135)
QBE PNG	Expenses recovery	(12)	-
		(913)	1,800
The outstanding related party balances are reported as:			
Trade and other payables		-	1,935
Trade and other receivables		(913)	(135)

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

	2019 \$000's	2018 \$000's
Transactions with QBE Insurance (Australia) Limited		
Reinsurance expense less recoveries	55,706	38,975
Administration and management fees	5,157	4,971
Reimbursement of transactions with related parties	(4,345)	(4,547)
Transactions with other related parties of ultimate parent		
QBE Equator Reinsurances Limited		
Reinsurance expense less recoveries	32,385	18,558

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ for QBE Insurance (Australia) Limited, New Zealand Branch, on 30 May 2019: A+ (2018: A+)

28. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, no matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect the financial statements.

QBE Insurance (Australia) Limited

ABN 78 003 191 035 (incorporated in Australia)

QBE Centre | Level 21 | 125 Queen Street | Auckland | New Zealand

PO Box 44 | Auckland 1140 | New Zealand

Telephone +64 9 366 9920

www.qbe.com



28 April 2020

Mr Zak Abro
CFO NZ & Pacific
QBE Centre
125 Queen Street
AUCKLAND

Dear Mr Abro

Re: New Zealand Operations Actuarial Report at 31 December 2019

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 2019.

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 granted exemption from complying with the RBNZ solvency standards for non-life insurance business under Section 59 of the Insurance Act. QBENZ is a branch of QBE Insurance (Australia) Limited (QIA) which is an APRA regulated entity. QBENZ is therefore dependent on QIA's capital management plan.

Yours sincerely

A handwritten signature in dark ink, reading "Francois Rademeyer". The signature is written in a cursive style with a large, sweeping 'F' and a distinct 'R'.

Francois Rademeyer

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