QBE INSURANCE (INTERNATIONAL) LI
New Zealand Branch

10058891867

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT BY DIRECTORS

We, being two directors of QBE Insurance (International) Limited, certify that the Statement of Comprehensive Income, Statement of Changes in Balances Due To Head Office, Statement of Financial Position, and notes set out on pages 8 to 21 are true copies of the Financial Statements of the New Zealand branch of the Company for the year ended 31 December 2009

The Board of Directors of QBE Insurance (International) Limited authorised these statements for issue on 30 day of April 2010.

DIRECTOR:

DIRECTOR: D Hemnacy

PRICEWATERHOUSECOOPERS

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Auditors' Report
To the Directors of QBE Insurance (International) Limited – New Zealand Branch

We have audited the financial statements on pages 5 to 21. The financial statements provide information about the past financial performance of the New Zealand operations of the QBE Insurance (International) Limited - New Zealand Branch (New Zealand Branch) for the year ended 31 December 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 8 to 11.

This report is made solely to the Company's Directors. Our audit work has been undertaken so that we might state to the Directors those matters which we are required to state to them in an auditors' 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 Directors, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of financial statements which present fairly the financial position of the New Zealand Branch as at 31 December 2009 and its financial performance for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies used and described on pages 8 to 11 are appropriate to the circumstances of the New Zealand Branch, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the New Zealand Branch other than in our capacities as auditors and tax advisors.

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Auditors' Report
QBE Insurance (International) Limited – New Zealand Branch

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion, the financial statements on pages 5 to 21 presents fairly the financial position of the New Zealand Branch as at 31 December 2009 and its financial performance for the year ended on that date.

Our audit was completed on 14 May 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 $000	2008 $000
Insurance premium revenue		235,846	224,928
Insurance premium ceded to reinsurers		(121,500)	(106,364)
Net insurance premium revenue		**114,346**	**118,564**
Movement in unearned premium reserve		3,257	(8,149)
TOTAL REVENUE		**117,603**	**110,415**
Claims expenses	6	53,643	54,372
Acquisition costs		18,945	18,790
Operating expenses	7	28,381	29,361
TOTAL EXPENSES		**100,969**	**102,523**
UNDERWRITING PROFIT		**16,634**	**7,892**
Sundry income		890	934
Investment income	5	15,840	21,417
Other expenses	7	(7,551)	(12,171)
PROFIT BEFORE TAXATION		**25,813**	**18,072**
Income Tax Expense	8	7,336	5,627
PROFIT FOR THE YEAR		**18,477**	**12,445**
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,477**	**12,445**

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE FOR THE YEAR ENDED 31 DECEMBER 2009

HEAD OFFICE – AUSTRALIA

	2009	2008
	$000	$000
Balance at 1 January	14,138	52,234
Profit for the year	18,477	12,445
Other comprehensive income	-	-
Total comprehensive income for the year	18,477	12,445
Current net transactions with Head Office	(3,254)	(50,541)
Balance at 31 December	**29,361**	**14,138**

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Notes	2009 $000	2008 $000
DUE TO HEAD OFFICE – AUSTRALIA		29,361	14,138
LIABILITIES			
Trade and other payables	13	24,491	26,622
Outstanding claims	15	122,192	119,328
Unearned premiums reserve	14	100,044	103,301
Advances from related companies	17	104,160	104,512
Provision for tax		-	2,098
Deferred income tax liability	8	4,142	-
TOTAL LIABILITIES		**384,390**	**369,999**
ASSETS			
Cash and cash equivalents		7,418	10,164
Trade receivables	9	66,575	63,980
Other receivables	11	8,432	6,819
Tax refund		3,606	-
Deferred income tax asset	8	-	5,817
Deferred acquisition costs	16	21,262	20,481
Financial assets at fair value through profit or loss	12	273,339	258,385
Property, plant and equipment	10	2,623	3,218
Retirement benefit surplus	23	1,135	1,135
TOTAL ASSETS		**384,390**	**369,999**

1. GENERAL INFORMATION

QBE Insurance (International) Limited, is a company incorporated in Australia and operates in New Zealand as a branch (the Branch).

The Branch is an insurer based in Auckland.

The financial statements of the Branch are for the year ended 31 December 2009 and were authorised for issue by the directors on 30 day of April 2010.

The entity'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 report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 January 2009, the following standards, interpretations and amendments have been adopted with effect from 1 January 2009 in the preparation of these financial statements:

NZ IAS 1 Presentation of Financial Statements (revised) - The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

(a) Basis of preparation

Entity Reporting and Statutory Base
The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards and other applicable financial reporting standards, as appropriate for profit oriented entities that qualify for and apply differential reporting concessions. The Branch is a profit oriented entity registered under the Companies Act 1993. It is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Differential Reporting

The Branch qualifies for Differential Reporting exemptions as it has no public accountability and there is no separation of owners and the governing body. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted except for NZ IAS 12: Income Taxes, which has been fully complied with.

Historical Cost Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(b) Premium revenue

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

(c) Unearned premium and deferred reinsurance

Unearned premium is calculated based on the term of the risk, which closely approximates the pattern of risks underwritten, using the daily pro rata method.

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance date.

(d) Claims, reinsurance and other recoveries

The outstanding claims liability is measured as the central estimate of the present value of expected future payments for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments are discounted to present value using a risk free rate. A risk margin is applied to the outstanding claims provision, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

Reinsurance and other recoveries receivable on paid claims and reported claims not yet paid are recognised as revenue.

Recoveries receivable 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.

(e) Investment Income

Interest income is recognised using the effective interest rate. 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 fair value gains or losses on financial assets.

(f) 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.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis.

(h) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows which is recognised in the income statement. The carrying amount of the provision of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

(i) Financial Assets

Basis of valuation

All financial assets, except for trade and other receivables and trade creditors, are designated at fair value through profit or loss on initial recognition on the basis that they are acquired principally for the purpose of selling in the near future. They are initially recorded at fair value and are subsequently remeasured to fair value at the end of each reporting period. Purchases and sales are recognised on trade date. Assets are derecognised when the rights to receive cash flows have expired or have been transferred. Movements in the fair value are recognised in the Statement of Comprehensive Income. Fair value for each type of financial asset is determined as follows:

Listed investments – by reference to the closing bid price of the instrument at the end of each reporting period.

Unlisted investments – the fair value of financial assets not traded on an active market is determined using valuation techniques including reference to:

- the fair value of recent arm's length transactions involving the same instrument or instruments that are substantially the same; or
- discounted cash flow analysis; or
- option pricing models.

All financial assets are used to back general insurance and financial liabilities arising under non insurance contracts.

(j) Property, plant and equipment

All plant and equipment is stated at historical cost less depreciation and impairment. Plant and equipment is depreciated using 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. The carrying amount of the replaced part is derecognised. 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 operating expenses in the Statement of Comprehensive Income.

(k) Impairment of non financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes 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 value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An allowance account is used to record provisions for impairment. The carrying amount of the asset is reduced through the use of the allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income within Operating Expenses.

(l) Foreign currency translation

Functional and Presentation currency

The financial statements are presented in New Zealand dollars which is both functional and presentation currency of the Branch.

Transactions and balances

Foreign currency transactions are translated at the rates of exchange at the dates of the transactions. At the balance date, amounts payable and receivable in foreign currencies are translated at the rates of exchange prevailing at that date. Exchange gains and losses on operational foreign currency transactions and the translation of amounts receivable and payable in foreign currencies are included in the Statement of Comprehensive Income.

(m) Employee benefits

Superannuation

The Branch participates in a superannuation plan and contributes to the plan in accordance with plan rules and actuarial recommendations, which are designed to ensure that the plan's funding provides sufficient assets to meet its liabilities. The Superannuation Plan is considered to be a defined contribution scheme when the Branch has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all benefits due.

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.

(n) Leases

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

(o) Statement of changes in equity

The Branch, having no equity, has not presented a Statement of Changes in Equity. The movement in the balance due to Head Office has been shown in the Statement of Changes due to Head office.

(p) Goods and Services Tax (GST)

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

(q) Acquisition Costs

Acquisition costs include commissions on premium revenue, payable to brokers, net of commissions on premiums ceded to reinsurers, receivable from reinsurers. A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the same period as the underlying premium revenue.

(r) Liability Adequacy Testing

Liability adequacy testing is performed in order to recognise any deficiencies in the Statement of Comprehensive Income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus the additional risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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. The key areas where critical accounting estimates are applied are noted below.

(i) Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("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 claim event is available including:

- claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Branch has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions.

(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 the end of each reporting period to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty and credit risk. Impairment is recognised when there is objective evidence that the Branch may not receive amounts due to it, and these amounts can be reliably measured.

(iii) **Impact of changes in key variables**

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes.

	MOVEMENT IN VARIABLE	FINANCIAL IMPACT PROFIT/(LOSS)	
		2009	2008
	%	$000	$000
Inflation rates	increase of 1%	(1,540)	(1,587)
	decrease of 1%	1,540	1,587
Discount rates	increase of 1%	1,497	1486
	decrease of 1%	(1,497)	(1,486)
Claims expenses ratio	increase of 1%	(1,411)	(1,395)
	decrease of 1%	1,411	1,395
Weighted average term to settlement	+ 0.5 years	2,232	1,788
	- 0.5 years	(2,232)	(1,788)

Determined at the Branch level net of reinsurance and taxation

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The Branch's risk management objectives are to:

- Avoid unwelcome surprises by reducing uncertainty and volatility;
- Achieve competitive advantage by better understanding the risk environment in which the Branch operates; and
- Optimise risk and more effectively allocate resources by assessing the balance of risk and reward.

A fundamental part of the Branch's overall risk strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. These risks include insurance risks, financial risks and other risks, such as regulatory and capital 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.

(A) Insurance risks

The Branch has established protocols to manage its insurance risks across the underwriting, claims and actuarial disciplines.

(i) Underwriting risks

Selection and Pricing 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 is prepared to take, and are measured by reference to some combination of:

- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures;
- probable maximum loss;
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business or types of product that may be written.

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

Insurance and reinsurance policies are written in accordance with the Branch's risk tolerance and underwriting protocols. Non-standard and long term policies may only be written if expressly included in delegated authorities.

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

Concentration risk

The Branch's exposure to concentrations of insurance risk is mitigated through product diversification. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of businesses.

The Branch has potential exposure to catastrophe losses that may impact more than one class of business. This exposure is monitored by reference to the Branch's maximum event retention ("MER") which is the estimated net loss from major natural catastrophes with an approximate return period of (250) years for that peril. Realistic disaster scenarios ("RDS'), industry standard probable maximum losses and various models are used to assess potential losses to major catastrophe events for determining the MER. No recent catastrophes have significantly impacted the results of the Branch.

Reinsurance risk

The Branch's strategy in respect of the selection, approval and monitoring of 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 security committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses based on RDS.

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 analyses.

(ii) Claims management and claims provisioning risks

The Branch's approach to claims provisioning, and the related sensitivities, are provided in note 3. The Branch seeks to ensure the adequacy of its claims provisions 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 and with a realistic assessment of the ultimate claims cost.
- Initial IBNR estimates are set by experienced internal actuaries in conjunction with the product managers and underwriters for each class of business.

Despite the rigour involved in the establishment and review of claims provisions, these provisions are subject to significant uncertainty for the reasons provided in note 3.

(B) Financial risks arising from insurance contracts

The financial position of the Branch is monitored to ensure that sufficient net assets are retained for the purpose of financial soundness. The Branch has processes in place to ensure that there is sufficient liquidity in the investment portfolio to enable timely settlement of claims. The Branch's financial assets comprise of cash and cash equivalents, trade receivables (note 9), and financial assets at fair value through profit or loss (note 12).

The Branch is exposed to the risk that interest rate movements may materially impact the valuation of the outstanding claims provisions. Historically there has been a high correlation between changes in discount rates and the movement in claims inflation. The financial impact of changing interest rates on outstanding claims is therefore expected to be offset in the longer term by similar changes in claims inflation.

	2009 $000	2008 $000
5. INVESTMENT INCOME		
Term deposits	12	58
Government securities	8	8
Local authority securities	7,888	11,783
Interest on current account	553	964
Equities	1,218	1,174
	9,679	13,987
Changes in net market value of investments:		
Term deposits and Bills receivable	4,367	8,762
Government securities	-	7
Local authority securities	(491)	7,032
Equities	2,285	(8,371)
	6,161	7,430
Investment income	15,840	21,417

6. CLAIM EXPENSES

(a) Claims Analysis

	2009 $000	2008 $000
Gross claims incurred	99,542	112,793
Claims handling expenses	(4,387)	6,728
Discount movement	3,068	4,459
Discounted gross claims incurred	98,223	123,980
Reinsurance and other recoveries	(45,069)	(69,916)
Discount movement	489	308
Discounted reinsurance recoveries	(44,580)	(69,608)
Net claims incurred	53,643	54,372

(b) Claims Development

Current year claims relate to risks borne in the current reporting period. Prior year claims relate to a reassessment of the risks borne in all previous reporting periods. Prior period claims were reviewed and adjustments made to more accurately reflect the ultimate cost of settlement.

	2009 $000			2008 $000		
	Current Year	Prior Years	TOTAL	Current Year	Prior Years	TOTAL
Gross claims incurred and related expenses						
Undiscounted	85,686	9,469	95,155	110,215	9,306	119,521
Discount to present value	416	2,652	3,068	9,065	(4,606)	4,459
	86,102	12,121	98,223	119,280	4,700	123,980
Reinsurance and other recoveries						
Undiscounted	(34,827)	(10,242)	(45,069)	(49,562)	(20,354)	(69,916)
Discount to present value	(77)	566	489	(5,584)	5,892	308
	(34,904)	(9,676)	(44,580)	(55,146)	(14,462)	(69,608)
Net claims incurred	51,198	2,445	53,643	64,134	(9,762)	54,372

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	2009	2008
	$000	$000

7. OPERATING EXPENSES

	2009 $000	2008 $000
Auditor's Fees – audit	241	247
Auditor's fees – tax	73	41
Depreciation – Leasehold Improvements	138	167
Depreciation – Plant & Equipment	529	421
Interest	7,662	12,258
Lease and rental charges	2,095	2,006
Loss on sale of fixed assets	-	17
Provision for doubtful debts	(194)	(1,145)
Head office charges	4,168	5,569
Retirement Plan contributions	562	709
Other expenses	20,658	21,242
	35,932	41,532

8. INCOME TAX

	2009 $000	2008 $000
Profit before tax	25,813	18,072
Taxation payable at 30%	7,744	5,422
Expenses and deductible for tax purposes	99	70
NRWT on dividend and use of money interest	(183)	(176)
Prior period adjustment	(324)	311
Income Tax attributable to profit before tax	7,336	5,627
Comprising		
Current period tax (credit)/charge	(2,623)	8,243
Movement in deferred income tax asset/(liability)	9,959	(2,616)
	7,336	5,627

Deferred Income Tax Asset/(Liability)
The gross movement on the deferred income tax account is as follows:

	2009 $000	2008 $000
Beginning of year	5,817	3,201
Statement of Comprehensive Income (credit)/charge	(9,959)	2,616
End of year	**(4,142)**	**5,817**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred Tax Liabilities	**$000 Depreciation**	**$000 Provisions**	**$000 Other**	**$000 Total**
At 1 January 2008	-	(5,846)	(384)	(6,230)
(Charged)/Credited to the Statement of Comprehensive Income	-	(298)	43	255
At 31 December 2008	-	(6,144)	(341)	(6,485)
(Charged)/Credited to the Statement of Comprehensive Income	-	(234)	-	(234)
At 31 December 2009	**-**	**(6,378)**	**(341)**	**(6,719)**

Deferred Tax Assets	**Depreciation**	**Provisions**	**Other**	**Total**
At 1 January 2008	1,798	4,897	2,736	9,431
(Charged)/Credited to the Statement of Comprehensive Income	(951)	460	3,362	2,871
At 31 December 2008	**847**	**5,357**	**6,098**	**12,302**
(Charged)/Credited to the Statement of Comprehensive Income	621	(4,248)	(6,098)	(9,725)
At 31 December 2009	**1,468**	**1,109**	**-**	**2,577**

9. TRADE RECEIVABLES	**2009 $000**	**2008 $000**
Premium debtors	66,202	62,237
Due from reinsurers	622	2,186
Provision for doubtful debts	(249)	(443)
	66,575	63,980

10. PROPERTY, PLANT & EQUIPMENT

2009	**Plant & Equipment**	**Leasehold Improvements**	**Total**
Cost or Valuation			
At 1 January	3,450	1,355	4,805
Additions	60	12	72
Disposals	(51)	-	(51)
At 31 December	3,459	1,367	4,826
Accumulated Depreciation			
At 1 January	1,371	216	1,587
Depreciation Charge	529	138	667
Disposals	(51)	-	(51)
At 31 December	1,849	354	2,203
Carrying Amount			
At 31 December 2009	1,610	1,013	2,623

	Plant & Equipment	Leasehold Improvements	Total
2008			
Cost or Valuation			
At 1 January	3,491	160	3,651
Additions	212	1,195	1,407
Disposals	(253)	-	(253)
At 31 December	3,450	1,355	4,805
Accumulated Depreciation			
At 1 January	1,187	49	1,236
Depreciation Charge	421	167	588
Disposals	(237)	-	(237)
At 31 December	1,371	216	1,587
Carrying Amount			
At 31 December 2008	2,079	1,139	3,218

	2009 $000	2008 $000
11. OTHER RECEIVABLES		
Accrued investment income	2,401	2,626
Other receivables and prepayments	6,031	4,193
Total receivables and other assets	8,432	6,819
12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Term deposits	207	216
Bills receivable	152,197	122,568
Government securities	124	124
Local authority securities	120,811	113,778
Equities	-	21,699
Total investments	273,339	258,385
13. TRADE AND OTHER PAYABLES		
Due to reinsurers	3,939	4,238
Other payables	20,552	22,384
Total trade and other payables	24,491	26,622
14. UNEARNED PREMIUM RESERVE		
Gross unearned premium reserve	124,669	116,268
Reinsurance unearned premium reserve	(24,625)	(12,967)
	100,044	103,301
Unearned premium at 1 January	103,301	95,152
Deferral of premiums on contracts written in the period	95,966	99,118
Earning of premiums written in previous and current period	(99,223)	(90,969)
Unearned premium at 31 December	100,044	103,301

15. OUTSTANDING CLAIMS

	2009	2008
	$000	$000
(A) Net Outstanding claims		
Gross outstanding claims	210,231	199,551
Claims Settlement Costs	8,709	13,132
	218,940	212,683
Discount to present value	(15,712)	(17,011)
Gross Outstanding claims provision	203,228	195,672
Reinsurance and other recoveries on outstanding claims	(87,569)	(82,658)
Discount to present value	6,533	6,314
	(81,036)	(76,344)
Net outstanding claims	122,192	119,328
Central estimate	100,248	104,449
Risk margin	21,944	14,879
Net outstanding claims	122,192	119,328

There is an implicit allowance for inflation in the outstanding claims reserve model and as such, no explicit inflation assumption is made.

The discount rate used in the measurement of outstanding claims and reinsurance recoveries for both the succeeding year as well as subsequent years is 4.98% (2008: 4.36%). The same rate is used for succeeding and subsequent years, as the government bond yields that are used to determine the discount rates are fairly similar.

The weighted average term to settlement is 2.0 years (2008: 2.0 years)

Risk margin is determined allowing for diversification between business classes and the relative uncertainty of the outstanding claims estimate for each class.

Assumptions regarding uncertainty for each class were applied to the central estimates, allowing for diversification in order to arrive at an overall provision, which is intended to have a probability of adequacy greater than 80% (2008 : greater than 80%).

(B) Claims Development

(i) Net Undiscounted outstanding claims for the seven most recent accident years

	2003	2004	2005	2006	2007	2008	2009	TOTAL
	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of net ultimate claims cost:								
At end of accident year	59,139	65,759	68,346	65,506	57,499	58,099	45,627	419,975
One year later	59,969	62,314	68,019	67,847	53,621	63,423	-	375,193
Two years later	55,927	51,605	51,435	63,786	52,833	-	-	275,586
Three years later	52,996	47,325	49,075	65,234	-	-	-	214,630
Four years later	48,057	44,870	47,889	-	-	-	-	140,816
Five years later	47,528	44,442	-	-	-	-	-	91,970
Six years later	44,395	-	-	-	-	-	-	44,395
Current estimate of net cumulative claims cost	**44,395**	**44,442**	**47,889**	**65,234**	**52,833**	**63,423**	**45,627**	**363,843**
Cumulative net payments	43,087	42,129	44,035	48,241	38,066	33,142	12,321	261,021
Net undiscounted outstanding claims for the seven most recent accident years	**1,308**	**2,313**	**3,854**	**16,993**	**14,767**	**30,281**	**33,306**	**102,822**

(ii) Reconciliation of net undiscounted outstanding claims for the seven most recent accident years to net outstanding claims

	TOTAL $000
Net undiscounted outstanding claims for the seven most recent accident years	102,822
Outstanding claims – accident years 2002 and prior	19,840
Claims settlements costs	8,709
Discount on Outstanding claims	(9,179)
Net outstanding claims	**122,192**

16. DEFERRED ACQUISITION COSTS

	2009 $000	2008 $000
Deferred Costs at 1 January	20,481	19,486
Costs deferred in current year	20,391	19,626
Amortisation charged to income	(19,610)	(18,631)
Deferred costs at 31 December	21,262	20,481

A liability adequacy test was performed which identified a surplus so no write down was required.

17. RELATED PARTY TRANSACTIONS

The Branch's ultimate parent and controlling party is QBE Insurance Group Limited, a company incorporated in Australia.

The Branch has transactions in the normal course of business with fellow subsidiaries of the Parent. These comprise of insurance and reinsurance transactions, financial, management and support services. Balances owed to related parties are disclosed in the Statement of Financial Position and settled on a regular basis. Included in this balance is a mandatory convertible notes issue of $102 million subscribed for by the ultimate Parent. Interest is calculated at the 6 month New Zealand dollar LIBOR plus a margin. The notes convert to ordinary shares on the 40th anniversary from the date of issue.

18. REINSURANCE PROGRAMME PRINCIPLES

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.

19. CAPITAL COMMITMENTS

Capital commitments contracted at balance date were Nil (2008: Nil).

20. CONTINGENT LIABILITIES

Other than operating lease obligations there were no material contingent liabilities existing at balance date (2008: Nil).

21. OPERATING LEASE OBLIGATIONS

	2009 $000	2008 $000
Obligations payable after balance date on non cancellable operating leases are as follows:		
Within one year	2,007	2,149
One to two years	1,452	1,820
Two to five years	3,691	3,660
Over five years	886	2,085

Operating leases held over properties give the Branch the right to renew the lease subject to a redetermination of the lease rental by the lessor.

22. CREDIT RATING

QBE Insurance (International) Limited New Zealand Branch has received an A+ (strong) rating from Standard and Poors dated 5 December 2009. The credit rating is an indication of the Branch's current and future claims paying ability.

23. RETIREMENT BENEFIT SURPLUS

Membership of the defined benefit component of the QBE New Zealand Staff Superannuation Plan ('the Plan') has been discontinued. No members of the Plan were entitled to receive defined benefits during 2009. The Plan is a defined contribution scheme as members are only entitled to receive benefits linked to their historical contributions on retirement, disability or death.

The surplus on the Branch balance sheet represents historical contributions made to the Plan in excess of the minimum requirement agreed between the Branch, the Plan's Trustees and Actuary. Mercers complete independent valuations periodically to determine the surplus amount available to the Branch.

24. EVENTS AFTER BALANCE DATE

Nothing has arisen since balance date that has significantly affected the Branch's operations or financial state of affairs.

QBE INSURANCE (INTERNATIONAL) LIMITED

(A.C.N. 000 000 948)

FINANCIAL REPORT – 31 DECEMBER 2009

INDEX

This financial report includes separate financial statements for QBE Insurance (International) Limited ("the company") as an individual entity. The financial report is presented in Australian dollars.

QBE Insurance (International) Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

82 Pitt Street
Sydney, NSW 2000

A description of the nature of the company's operations and its principal activities is included in the directors' report on pages 1 to 4, which is not part of this financial report.

The financial report was authorised for issue by the directors on 26 February 2010. The company has the power to amend and reissue the financial report.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2009

Your directors present their report on QBE Insurance (International) Limited (the company) for the year ended 31 December 2009.

Directors

The following directors held office during the whole of the financial year and up to the date of this report:

L F Bleasel AM	E J Cloney
N G Drabsch	B J Hutchinson
C L A Irby	I Y L Lee
V McLenaghan	F M O'Halloran
D A M Ramsay (alternate to F M O'Halloran)	I F Hudson
D M Boyle	M J Goodwin

Principal activity

The principal activity of the company continued to be underwriting of general insurance and reinsurance risks. There were no significant changes to the principal activity during the year.

Results and review of operations

The results of the company for the year were as follows:

	2009 $'000	2008 $'000
Revenue		
Premium revenue	**372,395**	353,264
Other revenue	**107,018**	141,708
Net fair value gains (losses) on financial assets	**14,602**	(781)
	494,015	494,191
Expenses	**433,317**	424,275
Profit before income tax	**60,698**	69,916
Income tax expense	**13,698**	16,706
Net profit after income tax attributable to ordinary equity holders of the company	**47,000**	53,210

The net combined operating ratio increased from 78.0% in 2008 to 84.4% in 2009, attributable to large fire losses in Singapore and French Polynesia.

Gross written premium increased by 1.69% from $379.3 million in 2008 to $385.6 million in 2009, reflecting new business growth in New Zealand and New Caledonia. The reinsurance ratio has increased from 40.5% in 2008 to 43.5% due to an escalation in excess of loss rates in the year. The net commission and expense ratios are both in line with the prior year.

DIRECTORS' REPORT
For the year ended 31 December 2009

Controlling entities

The entity is a company limited by shares, incorporated and domiciled in Australia. The parent is QBE Holdings (AAP) Pty Limited (incorporated in Australia) and the ultimate parent entity is QBE Insurance Group Limited (incorporated in Australia).

The controlling entity's registered office is at 82 Pitt Street, Sydney, NSW 2000.

Employee numbers

At the reporting date the company employed 423 persons (2008: 419).

Dividends

The dividends paid during the year were $36,067,000 (2008: $89,925,000).

Options

There were no options granted by the company during the year (2008: nil).

Likely developments

Information on likely developments in the company's operations in future financial years and the expected results of those operations has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the company.

Significant changes

There were no significant changes in the state of affairs of the company during the financial year.

Events subsequent to balance date

There is, at the date of this report no matter or circumstance that has arisen since 31 December 2009 that has significantly affected, or may significantly affect:

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

Environmental regulation

The company's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2009

Directors' benefits

Since the end of the previous financial year, no director of the company has received or become entitled to receive a benefit (other than a remuneration benefit) by reason of a contract made or proposed by the company or a related entity with a director or with a firm of which the director is a member or with an entity in which the director has a substantial financial interest.

Indemnification and insurance

During the year, a related company paid insurance premiums in respect of a contract insuring directors and officers of the company. The officers of the company covered by the insurance contract include the directors listed on page 1 and the company secretaries, D A M Ramsey and P E Barnes. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract are prohibited by a confidentiality clause in the contract.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

Rounding of amounts

The company is of a kind referred to in class order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the class order to the nearest thousand dollars

Auditors

PricewaterhouseCoopers continue in office in accordance with Section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

Director ....

Director ....

26 Sydney
February 2010

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of QBE Insurance (International) Limited for the year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QBE Insurance (International) Limited during the period.

J W Bennett
Partner
PricewaterhouseCoopers

Sydney
26 February 2010

QBE INSURANCE (INTERNATIONAL) LIMITED

INCOME STATEMENT
For the year ended 31 December 2009

	NOTES	**2009 $'000**	2008 $'000
Revenue			
Premium revenue	6	**372,395**	353,264
Other revenue	6	**107,018**	141,708
Net fair value gains / (losses) on financial assets	6	**14,602**	(781)
		494,015	494,191
Expenses			
Outward reinsurance premium expense	7(A)	**149,724**	141,722
Gross claims incurred	9	**173,067**	176,140
Other expenses	7(C)	**110,526**	106,413
		433,317	424,275
Profit before income tax		**60,698**	69,916
Income tax expense	8	**13,698**	16,706
Net profit after income tax attributable to ordinary equity holders of the company		**47,000**	53,210

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

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	NOTES	**2009** **$'000**	2008 $'000
Net profit after income tax attributable to ordinary equity holders of the company		**47,000**	53,210
Net movement in foreign currency translation reserve	25	**(32,923)**	22,163
Other comprehensive income for the year, net of tax		**(32,923)**	22,163
Total comprehensive income for the year		**14,077**	75,373
Attributable to:			
Ordinary equity holders of the company		**14,077**	75,373
		14,077	75,373

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

QBE INSURANCE (INTERNATIONAL) LIMITED

BALANCE SHEET
As at 31 December 2009

	NOTES	2009 $'000	2008 $'000
ASSETS			
Financial assets at fair value through profit or loss			
Cash and cash equivalents	10	**60,131**	88,237
Investments	11	**470,916**	569,432
Derivative financial instruments	12	**466**	1,487
Trade and other receivables	13	**209,897**	211,854
Reinsurance and other recoveries on outstanding claims	22	**140,416**	146,785
Tax asset		**3,072**	4
Deferred insurance costs	14	**76,499**	67,304
Superannuation surplus	29	**917**	937
Property, plant and equipment	15	**3,889**	3,878
Deferred tax asset	16	**6,740**	10,610
Investment property	17	**1,803**	1,976
Shares in controlled entities	18	**29,430**	30,657
Intangible assets	19	**16,534**	16,534
Total assets		**1,020,710**	1,149,695
LIABILITIES			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	12	**598**	817
Trade and other payables	20	**56,354**	125,773
Tax liabilities		**5,645**	7,209
Unearned premium	21	**189,025**	199,195
Outstanding claims	22	**358,678**	388,563
Provisions	23	**261**	310
Deferred tax liabilities	16	**9,305**	4,994
Total liabilities		**619,866**	726,861
Net assets		**400,844**	422,834
EQUITY			
Share capital	24	**230,000**	230,000
Reserves	25	**15,424**	48,347
Retained profits	25	**64,205**	53,272
Mandatory convertible securities	26	**91,215**	91,215
Total equity		**400,844**	422,834

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

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

	Share capital $'000	Equity component of hybrid securities $'000	Reserves $'000	Retained profits $'000	Total equity $'000
As at 1 January 2009	230,000	91,215	48,347	53,272	422,834
Net profit after income tax attributable to ordinary equity holders of the company	-	-	-	47,000	47,000
Other comprehensive income for the year, net of tax	-	-	(32,923)	-	(32,923)
Total comprehensive income for the year	-	-	(32,923)	47,000	14,077
Transactions with owners in their capacity as owners					
Dividends paid on ordinary shares	-	-	-	(36,067)	(36,067)
As at 31 December 2009	230,000	91,215	15,424	64,205	400,844

	Share capital $'000	Equity component of hybrid securities $'000	Reserves $'000	Retained profits $'000	Total equity $'000
As at 1 January 2008	230,000	91,215	26,184	89,987	437,386
Net profit after income tax attributable to ordinary equity holders of the company	-	-	-	53,210	53,210
Other comprehensive income for the year, net of tax	-	-	22,163	-	22,163
Total comprehensive income for the year	-	-	22,163	53,210	75,373
Transactions with owners in their capacity as owners					
Dividends paid on ordinary shares	-	-	-	(89,925)	(89,925)
As at 31 December 2008	230,000	91,215	48,347	53,272	422,834

The above statement of changes in equity should be read in conjunction with the accompanying notes

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	NOTES	2009 $'000	2008 $'000
OPERATING ACTIVITIES			
Premium received		**382,738**	376,604
Reinsurance and other recoveries received		**69,014**	53,338
Outwards reinsurance paid		**(170,146)**	(156,584)
Claims paid		**(157,798)**	(141,703)
Insurance costs paid		**(58,131)**	(55,760)
Other underwriting costs paid		**(34,565)**	(33,879)
Interest received		**13,201**	17,596
Dividends received		**740**	1,671
Other operating income received		**(358)**	2,495
Other operating expenses paid		**472**	(4,157)
Interest paid		**-**	(16)
Income tax paid		**(10,013)**	(12,282)
Net cash flows from operating activities	35	**35,154**	47,323
INVESTING ACTIVITIES			
Proceeds on sale of investments		**1,109,254**	540,842
Proceeds on sale of plant and equipment		**56**	76
Payments for purchase of investments		**(1,056,786)**	(508,210)
Payments for purchase of plant and equipment		**(1,671)**	(1,661)
Net payments for purchase of other financial assets		**83**	842
Dividends received from related entities		**3,174**	3,850
Net receipts from/(payments to) related entities		**(70,160)**	26,683
Net cash flows from investing activities		**(16,050)**	62,422
FINANCING ACTIVITIES			
Dividends paid		**(36,067)**	(89,925)
Net cash flows from financing activities		**(36,067)**	(89,925)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(16,963)**	19,820
Cash and cash equivalents at the beginning of the financial year		**88,237**	62,536
Effect of exchange rate changes		**(11,143)**	5,881
Cash and cash equivalents at the end of the financial year	10	**60,131**	88,237

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2009

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS
The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

These financial statements are separate financial statements and the company is exempted from preparing consolidated financial statements under AASB 127. The ultimate parent company, QBE Insurance Group Limited (incorporated in Australia) produces consolidated financial statements in accordance with International Financial Reporting Standards produced for public use, which can be obtained at www.qbe.com or 82 Pitt Street, Sydney, NSW, 2000.

Investments in controlled entities are held at cost and a list of subsidaries is summarised in note 18.

(B) Premium revenue

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

(C) Unearned premium

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten using either the daily pro rata method or the 24ths method.

At each balance 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. The assessment is carried out at the regional business segment level, being a portfolio of contracts that are broadly similar and managed together as a single portfolio. If the unearned premium liability, less related intangible assets and deferred acquisition costs, is deficient, then the resulting deficiency is recognised in the income statement of the company.

(D) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 receivable 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

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised on a straight line basis over the financial years expected to benefit from the expenditure.

(H) Investment income

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

(I) Taxation

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction, 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 assets and liabilities are recognised for all temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. 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, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Taxation (Continued)

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the near future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company has implemented the tax consolidation legislation. All entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity continues to be a stand-alone tax payer in its own right. In addition to its own current and deferred tax amounts, the company also recognises any current tax or deferred tax arising from unused tax losses and unused tax credits. Details of the tax funding agreements are included in note 8 to the financial statements.

(J) Policyholders' and shareholders' funds

Policyholders' funds are those financial assets which are held to fund the insurance provisions of the company. The remaining financial assets and investment properties (refer note1(O)) represent shareholders' funds. Insurance profit is derived by adding investment income on policyholders' funds to the underwriting result.

(K) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis.

(L) Investments

All investments other than those in controlled entities are designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. The policy of management is to designate a group of financial assets or financial liabilities as fair value through profit or loss when that group is both managed and its performance evaluated on a fair value basis for both internal and external reporting in accordance with the company's documented investment strategy.

For securities traded in an active market, the fair value is determined by reference to published closing bid price quotations. For securities that are not traded and securities that are traded in a market that is not active, fair value is determined using valuation techniques generally by reference to the fair value of recent arm's length transactions involving the same or similar instruments. Discounted cash flow analysis or option pricing models are used for a small number of investments.

For commonly controlled entities where fair value is not readily determinable, valuation is based on cost.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the company commits to buy or sell the asset.

Investments are derecognised when the right to receive future cash flows from the assets has expired, or has been transferred, and the company has transferred substantially all the risks and rewards of ownership.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) Derivative financial instruments

The company is subject to currency, interest rate, price, credit and liquidity risks. Derivative financial instruments ("derivatives") are used to manage these risks. The company does not enter, issue or hold derivatives for speculative trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss.

For derivatives traded in an active market, the fair value of derivatives presented as asset is determined by reference to published closing bid price quotations and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques, including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

(N) Trade and other receivables

Trade and other receivables are measured at fair value through profit or loss. Provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original term of the receivable. Any increase or decrease in the provision for impairment is recognised in the income statement within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in the income statement.

(O) Investment properties

Investment properties are valued by reference to external market valuations at fair value through profit or loss.

(P) Property, plant and equipment

All plant and equipment is stated at historical cost less accumulated depreciation.

Leasehold improvements, office equipment, fixtures and fittings and motor vehicles are depreciated using the straight line method over the estimated useful life to the company of each class of asset. Estimated useful lives are between three and five years for all classes.

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. Refer note 1(R).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets acquired. Goodwill acquired in a business combination is tested for impairment annually or more often if there is an indication of impairment and is not subject to amortisation.

(ii) Intangible assets

Intangible assets are measured at cost. Those with a finite useful life are amortised using the straight line method over the estimated useful life. Estimated useful lives are between four and twenty one years. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more often if there is an indication of impairment.

(R) Impairment of assets

Assets, including goodwill and intangibles, 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 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.

(S) Trade and other payables

Trade and other payables are measured at cost and are settled under standard terms. Inter-company payables are measured at cost and are repayable on demand.

(T) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of overseas operations are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The company's financial statements are presented in Australian dollars, being the presentation currency of the company.

(ii) Translation of foreign currency transactions and balances

Foreign currency transactions are translated into functional currencies at the rates of exchange 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 the income statement.

iii) Translation of overseas operations

The results and net assets of all overseas operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- monetary assets and liabilities are translated at the closing balance sheet date rates of exchange;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in overseas operations, are taken to shareholders' equity. When an overseas operation is sold, these exchange differences are recognised in the income statement as part of the gain or loss on sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Hedging transactions
Derivatives are used to economically hedge the foreign exchange risk relating to certain transactions.

(U) Equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

(V) Mandatory convertible securities
Mandatory convertible notes are classified as equity due to their mandatory conversion nature.

(W) Dividends
Provision is made for dividends which are declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance sheet date.

(X) Employee benefits

(i) Superannuation
The company participates in a number of superannuation plans and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities.

Defined contribution plans
For defined contribution plans, contributions are expensed as incurred.

(ii) Share based payment
The employees of the company participate in an equity settled, share based compensation plan of QBE Insurance Group Limited. For all other options and conditional rights, the fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is expensed evenly over the period between grant and vesting dates. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance sheet date, the company revises its estimates of the number of options that are expected to become exercisable. The company recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(X) Employee benefits (Continued)

(iii) Profit sharing and bonus plans

The company recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it has demonstrably committed to either:

- terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or
- providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(Y) Long service leave

The provision for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Benefits falling due more than twelve months after the balance date are discounted to present value.

(Z) Leases

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

(AA) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

QBE Insurance (International) Limited is part of a GST group headed by QBE Management Services Pty Limited, a related entity.

(AB) Comparatives

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 the financial report with a greater understanding of the company's notes to the financial statements.

(AC) Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the financial statements. Amounts have been rounded off in the financial statements to the nearest thousand dollars in accordance with that class order.

2. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The AASB has issued the following amendments to Australian Accounting Standards:

TITLE		OPERATIVE DATE
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	1 January 2010
2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]	1 January 2010
2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139]	1 January 2010
Interpretation 17	Distributions of Non-cash Assets to Owners	1 January 2010
2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]	1 January 2010
AASB 3	Revision to Australian Accounting Standard – Business Combinations [AASB 3]	1 January 2010
2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 & AASB 138 and Interpretations 9 & 16]	1 January 2010
2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	1 January 2010
2009-7	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 136 & 139 and Interpretation 17]	1 January 2010
2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issue	1 January 2011
2009-11	Amendments to Australian Accounting Standard arising from AASB 9 [AASB1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and interpretations 10 & 12]	1 January 2013
2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 &1031 and interpretations 2, 4, 16, 1039 &1052]	1 January 2011
2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	1 January 2011
2009-14	Amendments to Australian Interpretation-Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	1 January 2011
AASB 9	Financial Instruments	1 January 2013

The Australian accounting standard, amendments and interpretations detailed in the table above are not mandatory until the operative dates stated; however, early adoption is permitted.

The company will apply the amendments detailed above for the reporting periods beginning on the operative dates set out above. The application of these standards is not expected to have a material impact on the company's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company is an international general insurance entity, underwriting most major commercial and personal lines classes of business through operations in eight countries. The analysis of the company's gross written premium and net earned premium from insurance and reinsurance business is shown on page 35. The head office function is located in Australia and exists to support the activities of overseas operations.

In view of this geographic and product diversity, the company has developed a strong, centralised risk management and policy framework, designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of claims provisions and investment management. In addition, assessment of risk margin undertaken at a regional level is subject to detailed head office review and the company's probability of adequacy is determined by the approved actuary.

The company makes estimates and judgments in respect of the reported amounts of certain assets and liabilities. These estimates and judgments are determined by qualified and experienced employees with reference to historical data and reasoned expectations of future events and are continually updated. The key areas in which critical estimates and judgments are applied are described as follows:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Ultimate liability arising from claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date. This provision consists of estimates of both the expected ultimate cost of claims notified to the company as well as the expected ultimate cost of claims incurred but not yet reported ("IBNR). The estimated cost of claims includes direct expenses that are expected to be incurred in settling those 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 company, 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 outstanding claims provision and the associated reinsurance and other recoveries are described below.

(i) Insurance risk assumptions

The company's process for establishing outstanding claims provision involves extensive consultation with internal 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. The risk management procedures related to the actuarial function are explained further in note 4.

The determination of the amounts that the company 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 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 on the company's income statement and balance sheet are summarised in note 3(A)(vii).

(ii) Central estimates

The outstanding claims provision comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of adequacy. The outstanding claims provision is discounted at risk free rates of return to reflect the time value of money.

A central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. As the company requires a higher probability that estimates will be adequate over time, a risk margin is added to the central estimate of outstanding claims.

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 outstanding claims provision.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(iii) Risk margin

The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business and the diversification benefits achieved by writing a number of classes of business in a number of geographical locations.

The measurement of 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. The use of a range of outcomes allows a determination of the risk margin required to provide an estimate at a given probability of adequacy, e.g. nine times in ten (a 90% probability of adequacy). These techniques use standard statistical distributions, and the measure of variability is referred to as the standard deviation or the coefficient of variation.

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two of more geographic locations 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. For example, high correlation exists in classes of business affected by court cases involving bodily injury claims such as motor third party liability (CTP), workers' compensation and public liability.

Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by the company are normally derived from industry analysis, the company's historical experience and the judgment of experienced and qualified actuaries.

The risk margin for the company is determined by analysing the variability of each class of business and the correlation between classes of business and countries. Correlations are determined for aggregations of classes of business at the country level. Applying correlations between countries results in a further diversification benefit to the company with a subsequent impact on the company's risk margin.

The potential impact of changes in the coefficient of variation assumptions on the company's income statement and balance sheet is summarised in note 3(A)(vii).

(iv) Assets arising from contracts with reinsurers

Assets arising from contracts with the company's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty and credit risk. Counterparty and credit risk in relation to reinsurance assets is considered in note 4.

(v) Expected present value of future cash flows for future claims

The expected present value of future cash flows for future claims and risk margin used in the liability adequacy test (refer to note 21(D)) are determined using the same methods described above.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(vi) Financial assumptions used to determine present value of insurance provisions

The outstanding claims provision is discounted to net present value using a risk free rate of return. Details of risk free rates used to discount the outstanding claims provisions are summarised below:

	2009 %		2008 %	
	SUCCEEDING YEAR	**SUBSEQUENT YEARS**	SUCCEEDING YEAR	SUBSEQUENT YEARS
New Zealand	**3.69**	**4.69-6.05**	4.36	4.23-4.67
Asia	**0.56**	**0.65-2.87**	1.08	0.89-2.10
Pacific	**0.94-4.29**	**1.42-5.74**	2.26-3.05	1.86-4.04

The potential impact of a change in discount rates on the company's income statement and balance sheet is summarised in note 3(A)(vii).

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

The impact of changes in key outstanding claims variables are summarised in the table below. Each change has been calculated in isolation of the other changes and each change shows the after tax impact on profit and equity assuming that there is no change to:

- Any of the other variables – This is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation. As can be seen from the table on page 22, the impact of a change in discount rates is largely offset by the impact of a change in the rate of inflation. The impact of a change in interest rates on financial assets is shown in note 5(A).
- The probability of adequacy – It is likely that if, for example, the central estimate was to increase by 5%, at least part of the increase would result in a decrease in the probability of adequacy, which is currently estimated to be 91.6% (2008: 81.3%). Likewise, if the coefficient of variation were to increase by 1%, it is likely that the probability of adequacy would reduce from its current level and that the change would therefore impact the amount of risk margins held rather than net profit after income tax or equity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

		FINANCIAL IMPACT[1]			
	MOVEMENT IN VARIABLE %	**PROFIT (LOSS) 2009 $'000**	**EQUITY 2009 $'000**	PROFIT (LOSS) 2008 $'000	EQUITY 2008 $'000
Central estimate	+5	**(7,639)**	**(7,639)**	(8,462)	(8,462)
	-5	**7,639**	**7,639**	8,462	8,462
Inflation rate	+1	**(2,854)**	**(2,854)**	(3,233)	(3,233)
	-1	**2,776**	**2,776**	3,148	3,148
Discount rate	+1	**2,716**	**2,716**	3,080	3,080
	-1	**(2,846)**	**(2,846)**	(3,233)	(3,233)
Coefficient of variation	+1	**(1,884)**	**(1,884)**	(1,371)	(1,371)
	-1	**1,879**	**1,879**	1,388	1,388
Weighted average term to settlement years	+10	**1,169**	**1,169**	1,117	1,117
	-10	**(1,169)**	**(1,169)**	(1,117)	(1,117)

[1] Determined at the company level net of reinsurance and taxation at the prima facie rate of 30%.

AASB 1023: General 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 appropriate starting point to determine a risk-free rate.

The company has adopted government bond rates appropriate to the mean term and currency of the outstanding claims provision. This has resulted in a probability of adequacy of 91.6% (2008: 83.1%).

(B) Retirement benefit obligations
At 31 December 2009, there were no defined benefit members within the New Zealand staff superannuation scheme. The company is therefore no longer exposed to actuarial or investment risks arising from the Scheme.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(C) Intangible assets

Goodwill and intangibles assets with 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. Intangibles assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment review is based on the net present value of estimated future cash flows of the relevant cash generating unit, which is determined by reference to, amongst other factors, the estimated combined operating ratio in the business plan.

If the discount rate applied in these calculations was increased by one per cent over the rates applied at 31 December 2009, the company would have no requirement to reflect an impairment.

(D) Valuation of financial assets

All financial assets are designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. The fair value hierarchy, which analyses the fair values of financial assets by reference to their significant inputs, is explained in notes 10, 11 and 12 to the financial statements. Within the hierarchy, less than 0.2% of the company's financial assets held at fair value are categorised as level 3. As a result, a change to any of the key valuation assumptions would not have a material impact on the company's financial statements.

4. RISK MANAGEMENT

The company's risk management policy, strategy and framework are embedded in the QBE Insurance Group Limited head office and in each of the regional operations, providing a consistent approach to managing risk across the organisation. The Board annually approves a comprehensive risk management strategy ("RMS") and a reinsurance management strategy ("REMS"), both of which are lodged with the Australian Prudential Regulatory Authority ("APRA").

The company's risk management objectives are to:
- adequately price risk;
- avoid unwelcome surprises by reducing uncertainty and volatility;
- achieve competitive advantage through better understanding the risk environment in which the company operates;
- optimise risk and more effectively allocate capital and resources by assessing the balance of risk and reward;
- comply with laws and internal procedures; and
- improve resilience to external events.

A fundamental part of the company'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 company has established internal controls to manage risk in the key areas of exposure relevant to its business. The broad risk categories discussed below are:

- insurance risk;
- reinsurance counterparty risk;
- acquisition risk;
- operational risk; and
- capital and regulatory risk.

Financial risk are considered in note 5. Within each of these categories, risks are evaluated before consideration of the impact of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within risk tolerance.

(A) Insurance risk

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.

4. RISK MANAGEMENT (CONTINUED)

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 and reinsurance group is less likely to be affected by a change in any one specific portfolio. The company has developed its underwriting strategy to diversify the type of insurance risks accepted and, within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The company has established the following protocols to manage its insurance risk across the understanding, claims and actuarial disciplines.

(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 company's annual business planning process. Delegated authorities reflect the level of risk which the company is prepared to take. The authorities include reference to some combination of:

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

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

Insurance and reinsurance policies are written in accordance with local management practices and regulations within each jurisdiction taking into account the company's risk 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 company.

Pricing of risks is controlled by use of in-house pricing models relevant to the specific portfolio and markets in which the company operates. 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 company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across eight countries and over nineteen sub-classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and specialty products under the control of proven employees skilled in underwriting allows the company to lead underwrite in many of the markets in which it operates.

4. RISK MANAGEMENT (CONTINUED)

The table below demonstrates the diversity of the company's operations.

	2009 $'000	2008 $'000
GROSS EARNED PREMIUM		
Property	**86,159**	82,099
Professional Indemnity	**65,019**	61,495
Marine, energy and aviation	**55,855**	51,380
Liability	**50,930**	52,028
Motor and motor casualty	**39,765**	36,989
Accident and Health	**28,952**	28,692
Financial and credit	**18,472**	14,916
Engineering	**14,863**	14,915
Workers' compensation	**12,380**	10,750
	372,395	353,264

The company has potential exposure to catastrophe losses that may impact more than one operating division. Each year, the company sets its tolerance to concentration risk. RDSs, using industry standard and QBE determined probable maximum losses and various catastrophe models, are calculated for each portfolio during the business planning process. These RDSs are aggregated across all portfolios and divisions to determine the company's maximum event retention ("MER") which is the estimated maximum net loss from major natural catastrophes with an approximate return period of 250 years. The MER must be less than the company's concentration risk tolerance, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

In 2009, the MER was $3,600,000 before tax (2008: $3,700,000 before tax).

(ii) Claims management and claims provisioning risks

The company's approach to determining the outstanding claims provision and the related sensitivities are set out in note 3. The company 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 aggregate outstanding claims provision for each controlled entity is assessed in a series of claims review meetings, which are attended by senior management and the approved actuary in order to ensure consistency of provisioning practices across all countries.

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 3.

4. RISK MANAGEMENT (CONTINUED)

(B) Reinsurance counterparty risk

The company reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital. The company's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the company'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 based on RDSs and the company's MER; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Strict controls are maintained over reinsurance counterparty exposures. Reinsurance is placed with counterparties that have a strong credit rating and concentration of risk is managed by adherence to counterparty limits. Counterparty limits are reviewed by management on a regular basis. Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the company requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved.

The following table provides information about the quality of the company's credit risk exposure in respect of undiscounted reinsurance and other recoveries on outstanding claims at the balance sheet date. The analysis classifies the assets according to Standard and Poors counterparty ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

		CREDIT RATING						
		AAA	AA	A	BBB	SPECULATIVE GRADE	NOT-RATED	TOTAL
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Reinsurance and other recoveries on outstanding claims	**2009**	**336**	**5,217**	**137,440**	**-**	**2,242**	**2,344**	**147,579**
	2008	398	10,634	141,861	-	899	1,952	155,744
Reinsurance and other recoveries on paid claims	**2009**	**96**	**(175)**	**(60)**	**-**	**(4)**	**(101)**	**(244)**
	2008	-	763	4,071	47	170	557	5,608

The following table provides further information regarding the aging of reinsurance recoveries and other recoveries (on paid claims) at the balance date.

			PAST DUE BUT NOT IMPAIRED				
		NEITHER PAST DUE NOR IMPAIRED	0-3 MTHS	3-6 MTHS	6 MTHS - 1 YEAR	GREATER THAN 1 YEAR	TOTAL
		$'000	$'000	$'000	$'000	$'000	$'000
Reinsurance and other recoveries on paid claims	**2009**	**254**	**41**	**209**	**(427)**	**(321)**	**(244)**
	2008	346	3,257	566	700	739	5,608

4. RISK MANAGEMENT (CONTINUED)

(C) Operational Risk

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that does not relate to insurance, acquisition, capital and regulatory or financial risks. The company manages operational risk within the same robust control framework as its other risks. One of the cornerstones of the company'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 company 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, including the use of internal audit.

(D) Capital and regulatory risks

Australian and overseas controlled entities are subject to extensive prudential regulation and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect the policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in Australia and overseas continues to evolve in response to economic, political and industry developments. The company 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. [Also refer to note 24(D)]

5. FINANCIAL RISK

The operating activities of the company expose it to financial risks such as market risk, credit risk and liquidity risk. The company's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. The key objective of the company's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the company's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

(A) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. 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).

(i) Operational currency risk

The company is exposed to currency risk in respect of its net foreign currency exposures. This risk is managed as follows:

- As far as is practicable, the company manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, thus ensuring that any exposures to other currencies are minimised.
- Where possible forward foreign exchange contracts are used to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 1(M).

Foreign exchange gains or losses arising from operational foreign currency exposures are included in the income statement with the gains or losses from the related forward foreign exchange contracts. The risk management process covering forward foreign exchange contracts and hedges involves close senior management scrutiny, including regular Board and other management reporting. All forward foreign exchange contracts and hedge transactions are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The company's policy is to actively manage its operational foreign currency exposures at a regional level. Residual foreign currency exposures at the operational level are managed to be within an absolute local currency unit limit.

5. FINANCIAL RISK (CONTINUED)

The analysis below demonstrates the impact on profit after income tax and equity of a movement in foreign currency exchange rates against the Australian dollar on our major operational currency exposures at the balance date:

			FINANCIAL IMPACT[1]				FINANCIAL IMPACT[1]	
	RESIDUAL EXPOSURE AT 31 DEC 2009	MOVEMENT IN VARIABLE AGAINST A$	PROFIT (LOSS) 2009	EQUITY 2009	RESIDUAL EXPOSURE AT 31 DEC 2008	MOVEMENT IN VARIABLE AGAINST A$	PROFIT (LOSS) 2008	EQUITY 2008
	$'000	%	$'000	$'000	$'000	%	$'000	$'000
New Zealand Dollar	82,374	+5	2,883	2,883	98,472	+5	3,447	3,447
		-5	(2,883)	(2,883)		-5	(3,447)	(3,447)
EURO	10,933	+5	383	383	11,046	+5	387	387
		-5	(383)	(383)		-5	(387)	(387)

[1] Determined at the company level net of taxation at the prima facie rate.

(ii) Interest rate risk

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

The company's risk management strategy 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 company invests in high quality, liquid fixed interest securities and cash and actively manages the duration of the fixed interest portfolio.

5. FINANCIAL RISK (CONTINUED)

The contractual maturity profile of the company'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 below. The table includes investments at the maturity date of the security, however, many of the longer-dated securities have call dates of relatively short duration.

			FIXED INTEREST RATE MATURING IN						
		FLOATING INTEREST RATE	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 2009									
Interest bearing financial assets1	**$'000**	**86,239**	**250,099**	**179,586**	**9,804**	**2,823**	**-**	**201**	**528,752**
Weighted average interest rate	**%**	**2.22**	**3.09**	**1.93**	**3.63**	**2.62**	**-**	**2.00**	**2.56**
At 31 December 2008									
Interest bearing financial assets	$'000	32,018	470,418	69,775	51,362	-	-	263	623,836
Weighted average interest rate	%	4.89	3.23	5.09	4.55	-	-	2.11	3.63

(1) Includes $60,131,000 (2008 $88,237,000) of cash and cash equivalents and $266,938,000 (2008 $251,581,000) of short term.

The company's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below.

		FINANCIAL IMPACT[1]			FINANCIAL IMPACT[1]	
	MOVEMENT IN VARIABLE	PROFIT (LOSS) 2009	EQUITY 2009	MOVEMENT IN VARIABLE	PROFIT (LOSS) 2008	EQUITY 2008
	%	$'000	$'000	%	$'000	$'000
Interest rate movement – interest-bearing securities	1.50%	(1,370)	(1,370)	1.50%	(5,406)	(5,406)
	-1.50%	1,370	1,370	-1.50%	5,406	5,406

[1] Determined at the company level net of taxation at the prima facie rate of 30%.

The effect of interest rate movements on the company's provision for outstanding claims is included in note 3(A)(vii).

(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.

The company is exposed to price risk on its investment in equities and is managed by diversification across worldwide markets and currencies.

At 31 December 2009, 0.3% (2008: 5.1%) of the company's investments and cash were held in listed equities. The majority of the company's equity holdings were publicly traded in the major financial markets.

5. FINANCIAL RISK (CONTINUED)

The potential impact of movements in the market value of listed equities on the company's income statement and balance sheet is shown in the sensitivity analysis below. The calculation assumes that exposures are unhedged although in practise the company may purchase derivatives to manage this exposure. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis.

			FINANCIAL IMPACT[1]				FINANCIAL IMPACT[1]	
	EXPOSURE AT 31 DECEMBER 2009	MOVEMENT IN VARIABLE	PROFIT (LOSS) 2009	EQUITY 2009	EXPOSURE AT 31 DECEMBER 2008	MOVEMENT IN VARIABLE	PROFIT (LOSS) 2008	EQUITY 2008
		%	$'000	$'000		%	$'000	$'000
NZX	-	+20	-	-	17,911	+20	2,508	2,508
		-20	-	-		-20	(2,508)	(2,508)
SGX	-	+20	-	-	13,155	+20	1,842	1,842
		-20	-	-		-20	(1,842)	(1,842)
EURO	1,718	+20	241	241	2,190	+20	307	307
STOXX		-20	(241)	(241)		-20	(307)	(307)

[1] Determined at the company level net of taxation at the prima facie rate of 30%.

(B) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate the company's exposure to credit risk:

- a Group-wide credit risk policy is in place which defines what constitutes credit risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the 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 that may be held.
- the company has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which the company may transact. The company 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. The company only uses derivatives in highly liquid markets.
- 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 avoided by adherence to counterparty limits. The provision for impairment is formally assessed by management at least four times a year.

The following tables provide information regarding the aggregate credit risk exposure of the company at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to Moody's counterparty credit ratings. Aaa is the highest possible rating. Rated assets falling outside the range of Aa to Baa are classified as speculative grade.

5. FINANCIAL RISK (CONTINUED)

As at 31 December 2009

	CREDIT RATING						
	Aaa	Aa	A	Baa	SPECULATIVE GRADE	NOT-RATED	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	34,547	20,582	2	-	5,000	60,131
Interest bearing investments	261,274	189,563	12,507	4,239	-	1,038	468,621
Derivative financial instruments	-	266	200	-	-	-	466
Other debtors	-	-	-	-	-	15,535	15,535
Amounts due from controlled entities	-	-	432	-	-	-	432
Amounts due from related entities	-	-	112,567	-	-	-	112,567

As at 31 December 2008

	CREDIT RATING						
	Aaa	Aa	A	Baa	SPECULATIVE GRADE	NOT-RATED	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	139	69,579	11,866	-	-	6,653	88,237
Interest bearing investments	286,065	236,037	1,803	-	-	11,694	535,599
Derivative financial instruments	-	1,487	-	-	-	-	1,487
Other debtors	-	-	-	-	-	14,551	14,551
Amounts due from controlled entities	-	-	-	-	-	934	934
Amounts due from related entities	-	-	92,131	-	-	10,179	102,310

Details of credit risk in respect of reinsurance recoveries on outstanding claims are set out in note 4(B).

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values. Further details are provided in note 12.

5. FINANCIAL RISK (CONTINUED)

The following tables provide information regarding the ageing of the company's financial assets that are past due but not impaired at the balance sheet date.

As at 31 December 2009

	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED				TOTAL
		0-3 MTHS	3-6 MTHS	6 MTHS- 1 YEAR	GREATER THAN 1 YEAR	
	$'000	$'000	$'000	$'000	$'000	$'000
Premium receivable(1)	49,797	18,566	5,745	1,587	293	75,988
Other debtors	10,858	51	-	3,786	840	15,535
Amounts due from controlled entities	432	-	-	-	-	432
Amounts due from related entities	112,567	-	-	-	-	112,567

As at 31 December 2008

	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED				TOTAL
		0-3 MTHS	3-6 MTHS	6 MTHS- 1 YEAR	GREATER THAN 1 YEAR	
	$'000	$'000	$'000	$'000	$'000	$'000
Premium receivable(1)	50,175	14,158	14,713	2,502	774	82,322
Other debtors	11,675	34	6	1,684	1,152	14,551
Amounts due from controlled entities	934	-	-	-	-	934
Amounts due from related entities	102,310	-	-	-	-	102,310

(1) Amounts shown include impairment provision of $855,000 (2008: $396,000)

Details of reinsurance and other recoveries on outstanding claims and paid claims are set out in note 4(B).

(C) Liquidity risk

In addition to treasury cash held for working capital requirements, and in accordance with the company's liquidity policy, a minimum percentage of the investments and cash is held in liquid, short term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. The company has a strong liquidity position. At 31 December 2009, the duration of cash and fixed interest securities was 0.29 years (2008: 0.87 years).

The company limits the risk of liquidity shortfalls resulting from mismatch in the timing of claims payments and receipt of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

5. FINANCIAL RISK (CONTINUED)

The table below summarises the maturity profile of financial liabilities of the company based on the remaining undiscounted contractual obligations

As at 31 December 2009

	1 YEAR OR LESS $'000	1 TO 3 YEARS $'000	3 TO 5 YEARS $'000	OVER 5 YEARS $'000	NO TERM $'000	TOTAL $'000
Trade payables	**13,644**	**1,217**	**309**	**129**	**1**	**15,300**
Other payables	**29,850**	**547**	-	-	-	**30,397**
Amounts due to controlled entities	**652**	-	-	-	-	**652**
Amounts due to related entities	**10,005**	-	-	-	-	**10,005**

As at 31 December 2008

	1 YEAR OR LESS $'000	1 TO 3 YEARS $'000	3 TO 5 YEARS $'000	OVER 5 YEARS $'000	NO TERM $'000	TOTAL $'000
Trade payables	17,353	1,075	-	-	-	18,428
Other payables	25,044	40	10	899	-	25,993
Amounts due to controlled entities	5	-	-	-	-	5
Amounts due to related entities	73,112	-	-	-	-	73,112

The company has no significant concentration of liquidity risk.

The maturity profile of the company's net outstanding claims provision is analysed in note 22(A). For the maturity profile of derivative financial instruments refer to note 12.

6. REVENUE

	2009 $'000	2008 $'000
Premium revenue		
Direct and facultative	**372,392**	353,214
Inward reinsurance	**3**	50
	372,395	353,264
Other revenue		
Reinsurance and other recoveries	**74,879**	99,160
Reinsurance commission	**17,811**	16,883
Interest and dividend income	**14,501**	24,278
Foreign exchange gain	**-**	1,675
Net fair value losses on properties	**(173)**	(288)
	107,018	141,708
Net fair value gains (losses) on financial assets	**14,602**	(781)
Revenue	**494,015**	494,191

7. PROFIT BEFORE INCOME TAX

(A) Profit before income tax

	2009 $'000	2008 $'000
Gross written premium	**385,660**	379,257
Unearned premium movement	**(13,265)**	(25,993)
Gross earned premium	**372,395**	353,264
Outward reinsurance premium	**(167,724)**	(153,626)
Deferred reinsurance premium movement	**18,000**	11,904
Outward reinsurance premium expense	**(149,724)**	(141,722)
Net earned premium	**222,671**	211,542
Gross claims incurred	**(168,021)**	(168,129)
Claims settlement expenses	**(5,046)**	(8,011)
Reinsurance and other recoveries	**74,879**	99,160
Net claims incurred (Note 9)	**(98,188)**	(76,980)
Net commission	**(40,337)**	(39,371)
Other acquisition costs	**(17,804)**	(14,643)
Underwriting and other expenses	**(31,541)**	(34,074)
Underwriting profit	**34,801**	46,474
Investment and other income (Note 7B)	**25,897**	23,442
Profit before income tax	**60,698**	69,916

7. PROFIT BEFORE INCOME TAX (CONTINUED)

(B) Net investment income and other income

	2009 $'000	2008 $'000
Dividends from controlled entities	**3,174**	3,850
Dividends from non-related entities	**1,568**	1,706
Interest received or receivable from non-related entities	**11,404**	18,514
Other investment (expenses)income	**(1,645)**	208
Interest and dividend income	**14,501**	24,278
Net realised losses on equities	**(3,645)**	(4,488)
Net realised gains on fixed interest and other securities	**6,260**	18,689
Net unrealised gains (losses) on equities	**12,563**	(12,866)
Net unrealised (losses) on controlled entities	**(1,081)**	-
Net unrealised gains(losses) on fixed interest and other securities	**505**	(2,116)
Net unrealised (losses) on properties	**(173)**	(288)
Foreign exchange gains	**496**	3,013
Investment and other income	**29,426**	26,222
Investment expenses	**(810)**	(1,442)
Foreign exchange losses	**(2,719)**	(1,338)
	(3,529)	(2,780)
Net investment and other income	**25,897**	23,442

(C) Other expenses

	2009 $'000	2008 $'000
Net commission	**58,148**	56,254
Other acquisition costs	**17,804**	14,643
Underwriting and other expenses	**29,864**	31,791
Defined benefit superannuation plan expense	-	602
Lease expenses	**1,677**	1,681
Investment expenses	**699**	1,074
Finance costs	**111**	368
Foreign exchange losses	**2,223**	-
Other expenses	**110,526**	106,413

(D) Dividend

	2009 $'000	2008 $'000
Dividends paid of 15.7 cents (2008: 39.1 cents) per share	**36,067**	89,925

8. INCOME TAX

(A) Reconciliation of prima facie tax to income tax expense

	2009 $'000	2008 $'000
Profit before income tax	**60,698**	69,916
Prima facie tax payable at 30%	**18,208**	20,976
Tax effect of permanent differences:		
Untaxed dividends	**(282)**	(326)
Differences in tax rates	**(1,244)**	650
Capital gains adjustments	**-**	(5)
Market value adjustments	**324**	-
Intercompany transactions	**(953)**	(1,155)
Attributable income	**253**	507
Non-taxable income	**(1,863)**	(3,230)
Non allowable expenses	**234**	332
Other	**(280)**	(723)
Prima facie tax adjustment for permanent differences	**14,397**	17,026
Current year tax losses not recognised	**250**	(92)
Underprovision (overprovision) in prior year	**(949)**	(228)
Income tax expense	**13,698**	16,706
Analysed as follows:		
Current tax	**6,464**	18,422
Deferred tax	**8,183**	(1,488)
Underprovision (overprovision) in prior year	**(949)**	(228)
	13,698	16,706
Deferred tax (credit)expense comprises:		
Deferred tax assets charged(credited) to income statement	**3,350**	(1,686)
Deferred tax liability charged to income statement	**4,833**	198
	8,183	(1,488)

(B) Tax consolidation legislation

The accounting policy in relation to this legislation is set out in note 1(l).

On adoption of the tax consolidation legislation, the directors of the company and its Australian entities entered into tax sharing and tax funding agreements that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation.

The contributions are allocated by reference to the notional taxable income of each Australian entity.

9. CLAIMS INCURRED

(A) Claims analysis

	2009 $'000	2008 $'000
Gross claims incurred and related expenses		
Direct and facultative	**180,647**	184,146
Inward reinsurance	**(7,580)**	(8,006)
	173,067	176,140
Reinsurance and other recoveries		
Direct and facultative	**79,062**	98,787
Inward reinsurance	**(4,183)**	373
	74,879	99,160
Net claims incurred	**98,188**	76,980

(B) Claims development

Current years 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 periods.

	2009			2008		
	CURRENT YEAR $'000	**PRIOR YEARS $'000**	**TOTAL $'000**	CURRENT YEAR $'000	PRIOR YEARS $'000	TOTAL $'000
Gross claims incurred and related expenses						
Undiscounted	**190,473**	**(20,887)**	**169,586**	203,142	(35,444)	167,698
Discount	**978**	**2,503**	**3,481**	(4,696)	13,138	8,442
	191,451	**(18,384)**	**173,067**	198,446	(22,306)	176,140
Reinsurance and other recoveries						
Undiscounted	**94,280**	**(20,712)**	**73,568**	87,630	13,665	101,295
Discount	**368**	**943**	**1,311**	(1,499)	(636)	(2,135)
	94,648	**(19,769)**	**74,879**	86,131	13,029	99,160
Net claims incurred						
Undiscounted	**96,193**	**(175)**	**96,018**	115,512	(49,109)	66,403
Discount	**610**	**1,560**	**2,170**	(3,197)	13,774	10,577
	96,803	**1,385**	**98,188**	112,315	(35,335)	76,980

The development of the net undiscounted outstanding claims for the nine most recent accident years is shown in note 22(D). Note 9(C) is a reconciliation of the amounts included in the table above and the current year movements in the claim development table.

9. CLAIMS INCURRED (CONTINUED)

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

	2009			2008		
	CURRENT YEAR $'000	**PRIOR YEARS $'000**	**TOTAL $'000**	CURRENT YEAR $'000	PRIOR YEARS $'000	TOTAL $'000
Net claims development – central estimate (note 22)	**90,849**	**(5,815)**	**85,034**	106,709	(40,695)	66,014
Foreign exchange	**236**	**(1,053)**	**(817)**	1,582	1,958	3,540
Movement in claims settlement costs	**1,766**	**3,279**	**5,045**	4,024	3,987	8,011
Movement in discount [(1)]	**610**	**1,560**	**2,170**	(3,197)	13,774	10,577
Movement in risk margin	**3,342**	**3,414**	**6,756**	3,197	(14,359)	(11,162)
Net claims incurred - discounted	**96,803**	**1,385**	**98,188**	112,315	(35,335)	76,980

(1) The prior accident year discount includes an unwind of $1.6million (2008 unwind of $13.8 million) reflecting the impact of the movement in discount rates on the company's insurance operations.

(D) Reclassification of prior year comparatives

Prior period comparatives have been reclassified in respect of discount on outstanding claims, risk margin and claims settlement costs in this financial report, to ensure comparability in the current reporting period. The reclassification was necessary to provide the readers of the financial report with a greater understanding of the company's notes to the financial statements.

10. CASH AND CASH EQUIVALENTS

	2009 $'000	2008 $'000
Cash at bank and on hand	**30,177**	58,244
Overnight money	**15,104**	12,637
Term deposits	**14,850**	17,356
	60,131	88,237

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

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

11. INVESTMENTS

	2009 $'000	2008 $'000
Interest Bearing		
Short term money	**266,938**	251,581
Government bonds	**102,933**	166,225
Corporate bonds	**98,750**	117,793
	468,621	535,599
Equities		
Listed	**1,718**	33,256
Unlisted	**577**	577
	2,295	33,833
Total investments	**470,916**	569,432
Amounts maturing within 12 months	**368,167**	453,385
Amounts maturing in greater than 12 months	**102,749**	116,047
	470,916	569,432

11. INVESTMENTS (CONTINUED)

(A) Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. Investments traded in an active market are valued with reference to the closing bid price. The significant majority of other investments, being fixed and floating rate securities are valued using independently sourced valuations that do not involve the exercise of judgement by management. Less than 1% of investments are valued using accepted valuation practices such as discounted cash flow analysis and option pricing tools. Any reasonable changes in the inputs used to value these investments would not have a significant impact on the balance sheet.

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

Fair value hierarchy

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 (consensus price using broker quotes & valuation model with observable inputs); and
Level 3: valuation techniques are applied for which any significant input is not based on observable market data.

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	2009 Total $'000
Short-term money	**17,483**	**249,455**	**-**	**266,938**
Government bonds	**25,041**	**77,892**	**-**	**102,933**
Corporate bonds	**-**	**98,750**	**-**	**98,750**
Equities	**1,720**	**-**	**575**	**2,295**
Total investments	**44,244**	**426,097**	**575**	**470,916**

Corporate bonds with a value of $98.7 million in the company have been valued based on consensus pricing using broker quotes (Level 2). Short-term money in the company of $17.5 million meets the level 1 valuation criteria.

(B) Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

Level 3 – Equities: unlisted	**2009 $'000**
At 1 January	**575**
Realised gains/losses in the income statement	**-**
Unrealised gains/losses in the income statement	**-**
Purchases	**-**
Sales	**-**
Foreign exchange	**-**
At 31 December	**575**

12. DERIVATIVE FINANCIAL INSTRUMENTS

(A) Fair Value

	2009 $'000	2008 $'000
Assets maturing within 12 months		
Forward foreign exchange contracts	**466**	1,487
	466	1,487
Liabilities maturing within 12 months		
Forward foreign exchange contracts	**(598)**	(817)
	(598)	(817)

All derivative positions entered into by the company are for economic hedging purposes but do not, in all cases, meet the criteria for hedge accounting.

(B) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At the balance sheet date $466,000 (2008: $1,487,000) is receivable from forward foreign contracts.

(C) Forward foreign exchange contracts

Forward foreign exchange contracts are entered into by the company for the purpose of managing residual foreign currency exposures. The company's policy for managing such exposures is explained in note 5(A)(i). Contractual amounts to purchase $7,549,000 (2008: $1,057,000) were outstanding at the balance sheet date.

The maturity profile for all forward foreign contracts was less than one year.

During the year a profit of $462,000 (2008: a loss before tax of $580,000) was recognised in profit or loss relating to the movements in the fair value of the forward foreign contracts.

(D) Determination of fair value and fair value hierarchy

The valuation bases used by the company are explained in note 11(A), Derivatives are analysed in the table below using a fair value hierarchy which reflects the significance of inputs into determination of fair value

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	2009 Total $'000
Forward foreign exchange contracts	-	72	(204)	(132)
	-	**72**	**(204)**	**(132)**

13. TRADE AND OTHER RECEIVABLES

	2009 $'000	2008 $'000
Trade debtors		
Premium receivable[1]	**75,988**	82,322
Reinsurance and other recoveries[1]	**(244)**	5,608
Unclosed premium	**5,406**	5,993
	81,150	93,923
Other debtors	**15,535**	14,551
Prepayments	**213**	136
Amounts due from controlled entities	**432**	934
Amounts due from related entities	**112,567**	102,310
Trade and other receivables	**209,897**	211,854
Receivable within 12 months	**209,206**	209,928
Receivable in 12 months or more	**691**	1,926
Trade and other receivables	**209,897**	211,854

[1] Net of a provision for impairment

(A) Provision for impairment

	PROVISION FOR IMPAIRMENT			
	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At 1 January	**396**	814	**2,147**	2,166
Amounts used in the period	**-**	(379)	**(300)**	-
Unused amounts written back	**(171)**	-	**(664)**	-
Increase in provision	**741**	(253)	**-**	-
Foreign exchange	**(111)**	214	**(150)**	(19)
At 31 December	**855**	396	**1,033**	2,147

(B) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate to 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 company 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. Note 5 also provides more information on the risk management policy of the company.

14. DEFERRED INSURANCE COSTS

	2009 $'000	2008 $'000
Deferred reinsurance premium	**47,759**	35,783
Deferred net commission	**19,269**	22,018
Deferred acquisition costs	**9,471**	9,503
Deferred insurance costs[1]	**76,499**	67,304

[1] The majority of deferred insurance costs will be expensed within 12 months of the balance date.

	DEFERRED REINSURANCE PREMIUM $'000	**DEFERRED NET COMMISSION $'000**	**DEFERRED ACQUISITION COSTS $'000**
Deferred costs at 1 January 2008	19,939	19,236	8,576
Costs deferred in financial year	31,607	20,082	8,825
Amortisation of costs deferred in previous financial years	(19,704)	(18,722)	(8,210)
Foreign exchange	3,941	1,422	312
Deferred costs at 31 December 2008	**35,783**	**22,018**	**9,503**
Costs deferred in financial year	**50,253**	**19,631**	**9,541**
Amortisation of costs deferred in previous financial years	**(32,255)**	**(19,990)**	**(8,695)**
Foreign exchange	**(6,022)**	**(2,390)**	**(878)**
Deferred costs at 31 December 2009	**47,759**	**19,269**	**9,471**

15. PLANT AND EQUIPMENT

2009	OFFICE EQUIPMENT/ FIXTURES & FITTINGS $'000	MOTOR VEHICLES $'000	TOTAL $'000
Cost or valuation			
At 1 January	9,004	868	9,872
Additions	1,671	-	1,671
Disposals	(1,705)	(106)	(1,811)
Foreign exchange	(1,081)	(165)	(1,246)
At 31 December	7,889	597	8,486
Accumulated depreciation and impairment losses			
At 1 January	(5,560)	(434)	(5,994)
Disposals	1,527	75	1,602
Depreciation charge for the year	(919)	(133)	(1,052)
Foreign exchange	753	94	847
At 31 December	(4,199)	(398)	(4,597)
Carrying amount			
At 31 December 2009	3,690	199	3,889

2008	OFFICE EQUIPMENT/ FIXTURES & FITTINGS $'000	MOTOR VEHICLES $'000	TOTAL $'000
Cost or valuation			
At 1 January	7,853	727	8,580
Additions	1,489	172	1,661
Disposals	(1,037)	(201)	(1,238)
Foreign exchange	699	170	869
At 31 December	9,004	868	9,872
Accumulated depreciation and impairment losses			
At 1 January	(5,143)	(341)	(5,484)
Disposals	1,021	154	1,175
Depreciation charge for the year	(751)	(164)	(915)
Foreign exchange	(687)	(83)	(770)
At 31 December	(5,560)	(434)	(5,994)
Carrying amount			
At 31 December 2008	3,444	434	3,878

16. DEFERRED INCOME TAX

	2009 $'000	2008 $'000
Deferred tax assets	6,740	10,610
Deferred tax liabilities	(9,305)	(4,994)
Net	(2,565)	5,616

(A) Deferred tax assets – maturing in greater than 12 months
(i) The balance comprises temporary differences attributable to:

	2009 $'000	2008 $'000
Amounts recognised in the income statement		
Provision for impairment	316	603
Employee benefits	923	998
Insurance provisions	6,308	8,224
Investment related	1,522	3,022
Depreciation	1,189	699
Other	426	488
	10,684	14,034
Set-off of deferred tax liabilities	(3,944)	(3,424)
Deferred tax assets	6,740	10,610

(ii) Movements

	2009 $'000	2008 $'000
Balance at 1 January	14,034	12,348
(Charged) Credited to the income statement	(3,350)	1,686
Balance at 31 December	10,684	14,034

(B) Tax losses
The company has $nil tax losses not brought to account in 2009 (2008: $nil).

16. DEFERRED INCOME TAX (CONTINUED)

(C) Deferred tax liabilities – maturing in greater than 12 months
(i) The balance comprises temporary differences attributable to:

	2009 $'000	2008 $'000
Amounts recognised in the income statement		
Insurance provisions	**11,195**	7,348
Investment related	**1,626**	690
Defined benefit superannuation plan	**207**	210
Depreciation	**152**	53
Other provisions	**-**	46
	13,180	8,347
Amounts recognised directly in equity		
Defined benefit superannuation plan	**69**	71
	13,249	8,418
Set-off of deferred tax assets	**(3,944)**	(3,424)
Deferred tax liabilities	**9,305**	4,994

(ii) Movements

	2009 $'000	2008 $'000
Balance at 1 January	**8,418**	8,220
Charged to the income statement	**4,833**	198
Charged to equity	**(2)**	-
Balance at 31 December	**13,249**	8,418

17. INVESTMENT PROPERTY

	2009 $'000	2008 $'000
At 1 January	**1,976**	2,264
Fair value (losses) gains	**(173)**	(288)
At 31 December	**1,803**	1,976

The investment property is valued by the directors based on the independent valuation of various qualified employees of Savills Commercial Limited.

The investment property was valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows. The investment property is not expected to be realised within twelve months.

18. INVESTMENTS IN CONTROLLED ENTITIES

Subsidiaries

	Country of incorporation	Equity Holding	
		2009	2008
		%	%
QBE Insurance (Malaysia) Berhad	Malaysia	**51**	51
PT Asuransi QBE Pool Indonesia	Indonesia	**60**	60
QBE Insurance (Vietnam) Company Ltd	Vietnam	**100**	100
QBE Marine Underwriting Agency Pte. Limited	Singapore	**70**	70
QBE Insurance (Singapore) Pte. Limited	Singapore	**100**	100

19. INTANGIBLE ASSETS

Goodwill and intangible assets	2009	2008
	$'000	$'000
Carrying amount		
At 1 January	**16,534**	16,534
At 31 December	**16,534**	16,534

Impairment testing of goodwill and intangible asset

The company's accounting policy in respect of impairment testing of goodwill and intangibles is included in note 1(Q). The recoverable amount of goodwill and intangibles is determined by reference to a value in use calculation based on the following key assumptions and estimates:

- discounted cash flow projections for a five year period are included in the calculation. This information is extracted from the latest three year business plan which has been presented to and approved by the board;
- projections for year four and five are based on the final year of the three year business plan assuming growth of 2.5% per annum;
- discount rates are pre-tax and reflect a beta and equity risk premium appropriate to the company; and
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five and an appropriate discount rate and terminal growth rate

The most significant Cash Generating Unit is the New Zealand branch, which includes HIH business acquired on 30 April 2001 and has a carrying amount of $10,648,000 (2008: $10,648,000).

20. TRADE AND OTHER PAYABLES

	2009	2008
	$'000	$'000
Trade payables	**15,300**	18,428
Amounts due to controlled entities	**652**	5
Amounts due to related entities	**10,005**	73,112
Other payables	**24,541**	25,993
Accrued expenses	**5,856**	8,235
Trade and other payables	**56,354**	125,773
Payable within 12 months	**55,477**	122,491
Payable in 12 months or more	**877**	3,282
Trade and other payables	**56,354**	125,773

21. UNEARNED PREMIUM

(A) Unearned premium

	2009 $'000	2008 $'000
At 1 January	**199,195**	159,541
Deferral of premium on contracts written in the period	**194,577**	181,260
Earning of premium written in previous periods	**(181,311)**	(155,267)
Foreign exchange	**(23,436)**	13,661
At 31 December	**189,025**	199,195
To be earned within 12 months	**175,054**	179,400
To be earned in greater than 12 months	**13,971**	19,795
Unearned premium	**189,025**	199,195

(B) Net premium liabilities

	NOTE	2009 $'000	2008 $'000
Unearned premium		**189,025**	199,195
Deferred insurance costs	14	**(76,499)**	(67,304)
Net premium liabilities		**112,526**	131,891

(C) Expected present value of future cash flows for future claims including risk margin

	2009 $'000	2008 $'000
Undiscounted central estimate	**80,240**	94,688
Risk margin	**6,835**	7,755
	87,075	102,443
Discount to present value	**(2,714)**	(2,874)
Expected present value of future cash flows for future claims including risk margin	**84,361**	99,569

(D) Liability adequacy test

The probability of adequacy applied in the liability adequacy test 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 premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the company.

AASB 1023 "General Insurance Contracts" 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 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 company has adopted a risk margin 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 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 premium liabilities identified a surplus at 31 December 2009 and 31 December 2008.

(E) Risk margins

The process used to determine risk margins is explained in note 3(A)(iii).

The risk margin in expected future cash flows for future claims as a percentage of the central estimate is 10.7% (2008: 10.1%). This is the risk margin required to give a probability of adequacy of 75% for total insurance liabilities.

22. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2009 $'000	2008 $'000
Gross outstanding claims	**361,489**	391,590
Claims settlement costs	**16,358**	20,777
	377,847	412,367
Discount to present value	**(19,169)**	(23,804)
Gross outstanding claims provision	**358,678**	388,563
Less than 12 months	**165,436**	172,666
Greater than 12 months	**193,242**	215,897
Gross outstanding claims provision	**358,678**	388,563
Reinsurance and other recoveries on outstanding claims[1]	**147,579**	155,744
Discount to present value	**(7,163)**	(8,959)
Reinsurance and other recoveries on outstanding claims	**140,416**	146,785
Less than 12 months	**70,909**	70,110
Greater than 12 months	**69,507**	76,675
Reinsurance and other recoveries on outstanding claims	**140,416**	146,785
Net outstanding claims	**218,262**	241,778
Central estimate	**183,790**	214,754
Risk margin	**34,472**	27,024
Net outstanding claims	**218,262**	241,778

[1] Reinsurance and other recoveries on outstanding claims are shown net of a provision for impairment of $368,000 (2008: $565,000)

The maturity profile of the company'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 2009	**$'000**	**94,527**	**44,293**	**29,064**	**15,669**	**9,263**	**25,446**	**218,262**
At 31 December 2008	$'000	102,555	46,115	30,120	18,221	10,879	33,888	241,778

The weighted average terms to settlement of the company's net outstanding claims provision at the balance sheet date is 2.1 years (2008: 2.3 years).

22. OUTSTANDING CLAIMS (CONTINUED)

(B) Risk margins

The process used to determine the risk margin is explained in note 3(A)(iii) and details of the risk-free discount rates adopted are set out in note 3(A)(vi). The probability of adequacy at 31 December 2009 is 91.6% (2008: 83.1%) which is well above APRA's 75% benchmark. The risk margin included in net outstanding claims is 18.8% (2008: 12.6%) of the central estimate.

(C) Reconciliation of movement in discounted outstanding claims provision

	2009			2008		
	GROSS	REINSURANCE	NET	GROSS	REINSURANCE	NET
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January	**388,563**	**(146,785)**	**241,778**	324,253	(88,681)	235,572
Foreign exchange	**(45,153)**	**17,665**	**(27,488)**	29,841	(10,222)	19,619
Increase in net claims incurred in current accident year	**185,045**	**(94,197)**	**90,848**	215,183	(94,159)	121,024
Movement in prior year claims provision	**(11,978)**	**19,318**	**7,340**	(39,043)	(5,001)	(44,044)
Incurred claims recognised in the income statement	**127,914**	**(57,214)**	**70,700**	205,981	(109,382)	96,599
Claim (payments) recoveries during the year	**(157,799)**	**63,583**	**(94,216)**	(141,671)	51,278	(90,393)
At 31 December	**358,678**	**(140,416)**	**218,262**	388,563	(146,785)	241,778

(D) Reclassification of prior year comparatives

Prior period comparatives have been reclassified in respect of discount on outstanding claims, risk margin and claims settlement costs in this financial report, to ensure comparability in the current reporting period. The reclassification was necessary to provide the readers of the financial report with a greater understanding of the company's notes to the financial statements.

22. OUTSTANDING CLAIMS (CONTINUED)
(E) Claims development – undiscounted net central estimate

	2000 and prior $'000	2001 $'000	2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	TOTAL $'000
Estimate of net ultimate claims cost:											
At end of accident year		183,066	141,320	98,236	125,678	119,007	108,325	100,525	98,741	90,848	1,065,746
One year later		183,744	137,687	92,826	111,731	96,539	98,882	90,087	101,721		913,217
Two years later		172,128	130,700	88,674	93,935	87,521	89,694	88,992			751,644
Three years later		160,865	135,622	80,501	91,597	82,762	90,513				641,860
Four years later		154,418	127,331	78,488	87,829	82,089					530,155
Five years later		150,759	124,877	76,417	85,522						437,575
Six years later		147,097	126,511	73,038							346,646
Seven years later		150,517	124,239								274,756
Eight years later		151,865									151,865
Current central estimate cost of the nine most recent accident years		151,865	124,239	73,038	85,522	82,089	90,513	88,992	101,721	90,848	888,827
Cumulative net claim payments to date		(138,778)	(117,870)	(70,394)	(79,371)	(75,734)	(75,587)	(69,266)	(63,641)	(31,309)	(721,950)
Net undiscounted central estimate	21,506	13,087	6,369	2,644	6,151	6,355	14,926	19,726	38,080	59,539	188,383
Foreign Exchange											(9,316)
Net undiscounted central estimate at 31 December 2009											179,067
Discount to present value											(12,006)
Risk Margin											34,472
Claims settlement costs											16,358
Other											369
Net outstanding claims at 31 December 2009											218,262
***Net central estimate* Development**											
Current accident year minus prior accident year	(1,233)	1,348	(2,272)	(3,379)	(2,308)	(673)	818	(1,095)	2,980	90,848	85,034

A reconciliation of the net central estimate development in table above to the net incurred claims in the income statement, analysed between current and prior accident years, is included in note 9(C).

The company writes business in currencies other than the Australian dollar in its overseas operations. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been translated to the functional currencies of the company's overseas operations at constant rates of exchange. All estimates of net ultimate claims cost and cumulative claims payments for the nine most recent accident years reported in functional currencies other than Australian dollars have been translated to Australian dollars using the closing rate of exchange at 31 December 2009.

The central estimate claims development table is presented net of reinsurance. With operations in eight countries, a diverse range of insurance products, various reinsurance arrangements and with the company's risk tolerance managed on a net basis, it is not considered meaningful or practicable to provide this information other than on a net accident year basis.

23. PROVISIONS

2009	PROVISION FOR LONG SERVICE LEAVE $'000	OTHER $'000	TOTAL $'000
At 1 January	**168**	**142**	**310**
Cash payments	**-**	**(3)**	**(3)**
Amount charged (credited) to the income statement	**4**	**4**	**8**
Other movement	2	2	4
Foreign exchange	**(30)**	**(28)**	**(58)**
At 31 December	**144**	**117**	**261**
Payable within 12 months	**44**	**36**	**80**
Payable in greater than 12 months	**100**	**81**	**181**
At 31 December	**144**	**117**	**261**

2008	PROVISION FOR LONG SERVICE LEAVE $'000	OTHER $'000	TOTAL $'000
At 1 January	221	76	297
Cash payments	-	-	-
Amount charged (credited) to the income statement	(81)	37	(44)
Other movement	3	4	7
Foreign exchange	25	25	50
At 31 December	168	142	310
Payable within 12 months	50	85	135
Payable in greater than 12 months	118	57	175
At 31 December	168	142	310

24. CONTRIBUTED EQUITY

(A) Share capital

	2009 Shares	2008 Shares	2009 $'000	2008 $'000
Issued ordinary shares - fully paid	**230,000,000**	230,000,000	**230,000**	230,000

(B) Movements in share capital

There were no movements in share capital during the year (2008: nil)

(C) Contributed equity

Ordinary shares in the company entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. Ordinary shareholders rank after all creditors and are entitled to any residual proceeds.

Share capital has no par value.

(D) Capital risk management

The company's objectives when managing capital are to maintain an optimal capital structure to reduce the cost of capital whilst meeting capital adequacy requirements, providing security for policyholders and continuing to provide returns to shareholders. Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the company's activities. In order to maintain or adjust the capital structure, the company has the option to adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Insurance companies are subject to, and in compliance with, externally imposed capital requirements set and monitored by regulatory bodies. These requirements are in place to ensure sufficient solvency margins for the protection of policyholders. In addition, the company aims to maintain a strong credit rating and robust capital ratios in order to support its business objectives and maximise shareholder wealth.

The capital requirements of each business unit are assessed using capital modeling techniques with capital allocated to business unit to reflect, amongst other factors, past results and the inherent volatility of the business written in that business unit.

Management monitors the company's capital levels on an ongoing basis, with particular focus on the following:

- The company is subject to APRA Level 1 minimum capital requirements. Management actively manages the components of capital in order to achieve an optimal capital adequacy multiple of around 1.5 times APRA's minimum requirement for Level 1 groups. The multiple at 31 December 2009 is 4.9 times (2008: 4.5 times)
- The company is subject to local prudential standards requiring that a minimum level of capital is maintained to meet obligations to policyholders. It is the company's policy to maintain a capital base appropriate to its size, business mix, complexity and risk profile which meets regulatory requirements.
- The company believes that insurer financial strength ratings provided by the major rating agencies are an important factor in demonstrating the financial strength and claims paying ability. The company's policy is to maintain ratings to optimise the balance between providing security to policyholders whilst providing appropriate returns to shareholders.

25. OTHER RESERVES

(A) Reserves

	2009 $'000	2008 $'000
Other		
Balance brought forward and at 31 December	**1,770**	1,770
Realised capital profits		
Balance brought forward and at 31 December	**27,906**	27,906
Foreign currency translation		
Balance brought forward	**18,671**	(3,492)
(Losses) gains for the year	**(32,923)**	22,163
Balance at 31 December	**(14,252)**	18,671
Total reserves at 31 December	**15,424**	48,347

(B) Retained profits

	2009 $'000	2008 $'000
Retained profits at 1 January	**53,272**	89,987
Net profit after income tax attributable to ordinary equity holders of the company	**47,000**	53,210
Total available for appropriation	**100,272**	143,197
Dividends proposed, authorised and paid	**(36,067)**	(89,925)
Retained profits at 31 December	**64,205**	53,272

26. MANDATORY CONVERTIBLE SECURITIES

	2009 **$'000**	2008 $'000
Mandatory convertible securities		
December 2006 NZ$102,000,000	**91,215**	91,215

In December 2006, the company issued NZ$102,000,000 of mandatory convertible notes to QBE Insurance Group Limited. The notes were transferred from QBE Insurance Group Limited to QBE Holdings (AAP) Pty Limited (the parent entity) in September 2007. The term of the notes is perpetual but they convert to ordinary shares of the company on the 40th anniversary of their issue.

The notes are subordinated and distributions are not cumulative. If a distribution is not paid, QBE Insurance Group Limited will have no claim in respect of non-payment. However, if a distribution is not paid within 20 business days of a distribution payment date, the mandatory convertible notes will convert into ordinary shares of the company.

27. APRA CAPITAL ADEQUACY

The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2009 position reflects the December 2009 quarter APRA return (unaudited).

	2009 **$'000**	2008 $'000
Tier 1 Capital		
Paid up ordinary shares	**230,000**	230,000
General reserves	**(13,636)**	23,653
Retained earnings	**122,626**	103,431
	338,990	357,084
Residual Tier 1 Capital		
Mandatory convertible notes	**91,215**	91,215
Deductions	**(17,450)**	(17,471)
Total capital base	**412,755**	430,828
Total minimum capital requirement	**83,971**	94,322
Capital adequacy multiple	**4.91**	4.57

The liability required by GPS 310 for prudential reporting purposes differs from accounting purposes for three reasons:

(a) GPS 310 requires a prudential margin with a sufficiency of 75%. The directors have satisfied themselves that the company's provisions exceed this requirement.

(b) There is a difference between premium liabilities as required under GPS 310 and net unearned premium less deferred acquisition costs as required by AASB 1023.

(c) There is a difference arising from a contingent liability which attracts a capital charge under the prudential requirements.

28. KEY MANAGEMENT PERSONNEL

The names of persons who were directors of the company at any time during the financial year are as stated in the directors' report.

The key management personnel are all the directors of the company and the executives with the greatest authority for the strategic direction and management of the company.

Key management personnel compensation for the years ended 31 December 2009 and 2008 is set out below.

	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based Payments	Total
	$	$	$	$	$	$
2009	**4,655,832**	**351,147**	**38,978**	**-**	**575,007**	**5,620,964**
2008	4,649,621	359,806	47,200	-	477,775	5,534,402

29. SUPERANNUATION SURPLUS

	2009	2008
	$'000	$'000
Superannuation surplus	**917**	937

At 31 December 2009, there were no defined benefit members within the New Zealand Staff Superannuation Scheme (the 'Scheme') and as such, the company is no longer exposed to actuarial or investment risks arising from the Scheme. On that basis, the Scheme's classification has been changed from a defined benefit to a defined contribution scheme. Following advice from the Scheme's actuary, Mercer, the company is able to utilise the existing surplus in meeting its future contributions and as such the remaining asset is recorded on the company's balance sheet at 31 December 2009

30. REMUNERATION OF AUDITORS

	2009 $	2008 $
PricewaterhouseCoopers – Australian firm[1]		
Audit or review of financial reports	**245,246**	233,437
Audit of statutory returns	**96,844**	94,945
Actuarial services	**61,200**	60,000
	403,290	388,382
Related practices of PricewaterhouseCoopers – Australian firm[1]		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports	**372,557**	359,179
Audit of statutory returns	**83,592**	39,423
Other audit assurance services	**-**	-
Taxation services	**93,329**	178,750
Advisory Services (including due diligence services)	**-**	33,179
	549,478	610,531
	952,768	998,913
Audit and assurance services	**798,239**	726,984
Other services	**154,529**	271,929
	952,768	998,913

[1] From 1 January 2003, the company engaged PricewaterhouseCoopers for non-audit services, subject to the general principle that fees for non-audit services should not exceed 30% of the total of all fees in any one year. Consistent with prior periods, PricewaterhouseCoopers cannot provide the excluded services of preparing accounting records or financial reports, asset or liability valuations, acting in a management capacity, acting as a custodian of assets or acting as share registrar.

31. CONTINGENT LIABILITIES

	2009 $'000	2008 $'000
The company had the following unsecured contingent liabilities:		
Bankers guarantee to overseas branch	**801**	498
Guarantee to related entities	**13,330**	17,022
	14,131	17,520

The bankers guarantee is in support of an overseas branch as required by local insurance regulators. The guarantee is in support of a related entity in the QBE Group to give the related entity a similar credit rating as the company.

No material losses are expected in relation to these guarantees.

32. CAPITAL EXPENDITURE COMMITMENTS

The company had no commitments for expenditure as at 31 December 2009 (2008: nil).

33. OPERATING LEASE COMMITMENTS

	2009 $'000	2008 $'000
Payable:		
Not later than one year	**1,647**	1,774
Later than one but less than five years	**9,020**	4,523
Later than five years	**716**	1,721
Future minimum lease payments under non- cancellable operating leases	**11,383**	8,018

Lease commitments relate primarily to property leases in the New Zealand branch.

34. RELATED PARTIES

(A) Parent entity
The parent and the ultimate parent entity is QBE Insurance Group Limited.

(B) Subsidiaries
Interests in subsidiaries are set out in note 18.

(C) Transactions with related parties
The following material transactions occurred with related parties:

	2009 $,000	2008 $,000
Revenue		
Reinsurance and other recoveries - undiscounted	**82,330**	45,872
Reinsurance commission	**7,742**	7,208
Dividends received	**3,174**	3,850
Expenses		
Outward reinsurance premium	**99,020**	86,128
Payments made for management services	**557**	428
Other transactions		
Dividends paid	**36,067**	89,925

(D) Outstanding balances arising from transactions with related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2009 $,000	2008 $,000
Current assets		
Trade and other receivables	**17,036**	-
Reinsurance and other recoveries	**83,248**	48,824
Current liabilities		
Trade and other payables	-	22

(E) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and repayable in cash.

(F) Other related party disclosures

All material information required to be disclosed under AASB 124: Related Party Disclosures has been included in the financial statements as follows:

Reference	
Dividends from controlled entities	Note 7(B)
Amounts due from controlled and related entities	Note 13
Investments in controlled entities	Note 18
Amounts due to controlled and related entities	Note 20
Tax sharing agreement	Note 8(B)
Mandatory Convertible Securities	Note 26
Remuneration of key management personnel	Note 28
Retirement benefits	Note 29
Guarantees in respect of related parties	Note 31

35. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET PROFIT AFTER INCOME TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY

	2009 $'000	2008 $'000
Cash flows from operating activities	**35,154**	47,323
Depreciation of assets	**(1,052)**	(915)
Amortisation of premium/discount on fixed interest securities	**(1,678)**	175
Net (loss) profit on sale of plant and equipment	**(152)**	13
Net foreign exchange (losses) gains	**(1,348)**	(368)
Other gains (losses) on financial assets	**17,603**	(1,069)
(Increase) decrease in net outstanding claims	**(3,972)**	14,441
(Increase) decrease in unearned premiums	**(13,265)**	(14,089)
Increase (decrease) in net amounts receivable from controlled entities	**2,226**	3,096
Increase (decrease) in deferred insurance costs	**18,487**	1,975
Increase (decrease) in trade debtors	**306**	672
Increase (decrease) in other operating assets	**(4,949)**	(3,681)
Decrease (increase) in trade and other payables	**3,877**	1,432
Increase (decrease) in current tax liabilities	**(4,123)**	(3,170)
Decrease (increase) in deferred tax liabilities	**-**	991
Increase (decrease) in other provisions and operating liabilities	**(114)**	6,384
Net profit after income tax attributable to ordinary equity holders of the company	**47,000**	53,210

36. EVENTS OCCURING AFTER REPORTING DATE

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2009 that has significantly affected, or may significantly affect:
(i) the company's operations in future financial years;
(ii) the results of those operations in future financial years; or
(iii) the company's state of affairs in future financial years.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 61 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's financial position as at 31 December 2009 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

Signed in SYDNEY this 26 day of February 2010 in accordance with a resolution of the directors.

Director .... Director ....

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of QBE Insurance (International) Limited

Report on the financial report

We have audited the accompanying financial report of QBE Insurance (International) Limited ("the company"), which comprises the balance sheet as at 31 December 2009, the income statement, the statement of comprehensive income, statement changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for QBE Insurance (International) Limited.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(A), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independent auditor's report to the members of QBE Insurance (International) Limited (continued)

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion

(a) the financial report of QBE Insurance (International) Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board as disclosed in note 1(A).

PricewaterhouseCoopers

JW Bennett
Partner

Sydney
26 February 2010