QBE INSURANCE (INTERNATIONAL) L
New Zealand Branch

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

P# 18
01 JUN 2011

BUSINESS & REGISTRIES
BRANCH, AUCKLAND
31 MAY 2011
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QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

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 2010.

The Board of Directors of QBE Insurance (International) Limited authorised these statements for issue on 19th day of May 2011.

DIRECTOR: ______________

DIRECTOR: ______________

pwc

Independent Auditors' Report

to the Directors of QBE Insurance (International) Limited – New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of QBE Insurance (International) Limited – New Zealand Branch (the Branch) on pages 5 to 21, which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income and statement of changes in balances due to head office for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that present fairly the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Branch's preparation of financial statements that present fairly the matters to which they relate, 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 Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacities as auditors and tax advisors we have no relationship with, or interests in, the Branch.

Independent Auditors' Report

QBE Insurance (International) Limited – New Zealand Branch

Opinion

In our opinion, the financial statements on pages 5 to 21 present fairly, in all material effects, the financial position of the Branch as at 31 December 2010, and its financial performance for the year ended on that date.

Restriction on Distribution or Use

This report is made solely to the Company's Directors, as a body. Our audit work has been undertaken so that we might state to the Company's 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 Company's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
20 May 2011

Auckland

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 $000	2009 $000
Insurance premium revenue		237,533	235,846
Insurance premium ceded to reinsurers		(133,141)	(121,500)
Net insurance premium revenue		**104,392**	**114,346**
Movement in unearned premium reserve		5,538	3,257
TOTAL REVENUE		**109,930**	**117,603**
Claims expenses	6	64,874	53,643
Acquisition costs		20,171	18,945
Operating expenses	7	27,916	28,381
TOTAL EXPENSES		**112,961**	**100,969**
UNDERWRITING (LOSS)/PROFIT		**(3,031)**	**16,634**
Sundry income		897	890
Investment income	5	11,790	15,840
Other expenses	7	(6,900)	(7,551)
PROFIT BEFORE TAXATION		**2,756**	**25,813**
Income Tax Expense	8	537	7,336
PROFIT FOR THE YEAR		**2,219**	**18,477**
Other Comprehensive Expense after tax	23	**388**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,831**	**18,477**

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE FOR THE YEAR ENDED 31 DECEMBER 2010

HEAD OFFICE – AUSTRALIA

	2010 $000	2009 $000
Balance at 1 January	29,361	14,138
Profit for the year	2,219	18,477
Other comprehensive expense	(388)	-
Total comprehensive income for the year	1,831	18,477
Current net transactions with Head Office	(8,005)	(3,254)
Balance at 31 December	**23,187**	**29,361**

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	2010 $000	2009 $000
DUE TO HEAD OFFICE – AUSTRALIA		23,187	29,361
LIABILITIES			
Trade and other payables	13	20,458	24,026
Outstanding claims	15	128,962	122,192
Unearned premiums reserve	14	94,506	100,044
Advances from related companies	17	103,666	104,160
Deferred income tax liability	8	4,260	4,142
TOTAL LIABILITIES		**375,039**	**383,925**
ASSETS			
Cash and cash equivalents		10,988	7,418
Trade receivables	9	63,331	66,110
Other receivables	11	10,682	8,432
Tax refund		1,332	3,606
Deferred acquisition costs	16	20,931	21,262
Financial assets at fair value through profit or loss	12	264,911	273,339
Property, plant and equipment	10	2,276	2,623
Retirement benefit surplus	23	588	1,135
TOTAL ASSETS		**375,039**	**383,925**

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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 at 29 Customs Street West, Auckland.

The financial statements of the Branch are for the year ended 31 December 2010 and were authorised for issue by the directors on 19 th day of May 2011.

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. Certain comparative figures have been restated to ensure consistent presentation with the current reporting period.

There were no new or revised accounting standards, interpretations and amendments which became operative for the annual reporting period commencing 1 January 2010, which have a significant impact on these financial statements.

(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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income within 'operating 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 'operating expenses' in the Statement of Comprehensive Income.

(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.

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(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 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)	
	%	2010 $000	2009 $000
Inflation rates	increase of 1%	(1,851)	(1,540)
	decrease of 1%	1,851	1,540
Discount rates	increase of 1%	1,787	1,497
	decrease of 1%	(1,787)	(1,497)
Claims expenses ratio	increase of 1%	(840)	(1,411)
	decrease of 1%	840	1,411
Weighted average term to settlement	+ 0.5 years	2,094	2,232
	- 0.5 years	(2,094)	(2,232)

Determined at the Branch level net of reinsurance and taxation

PRICEWATERHOUSECOOPERS

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.

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.

5. INVESTMENT INCOME

	2010 $000	2009 $000
Term deposits	51	12
Government securities	145	8
Local authority securities	11,131	7,888
Interest on current account	844	553
Equities	1,065	1,218
	13,236	9,679
Changes in net market value of investments:		
Term deposits and Bills receivable	2,527	4,367
Government securities	40	-
Local authority securities	(2,898)	(491)
Equities	(1,115)	2,285
	(1,446)	6,161
Investment income	11,790	15,840

6. CLAIM EXPENSES

(a) Claims Analysis

	2010 $000	2009 $000
Gross claims incurred	255,354	99,542
Claims handling expenses	(1,630)	(4,387)
Discount movement	(5,761)	3,068
Discounted gross claims incurred	247,963	98,223
Reinsurance and other recoveries	(188,394)	(45,069)
Discount movement	5,305	489
Discounted reinsurance recoveries	(183,089)	(44,580)
Net claims incurred	64,874	53,643

(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.

	2010 $000			2009 $000		
	Current Year	Prior Years	TOTAL	Current Year	Prior Years	TOTAL
Gross claims incurred and related expenses						
Undiscounted	263,770	(10,046)	253,724	85,686	9,469	95,155
Discount to present value	(10,716)	4,955	(5,761)	416	2,652	3,068
	253,054	(5,091)	247,963	86,102	12,121	98,223
Reinsurance and other recoveries						
Undiscounted	(197,172)	8,778	(188,394)	(34,827)	(10,242)	(45,069)
Discount to present value	7,043	(1,738)	5,305	(77)	566	489
	(190,129)	7,040	(183,089)	(34,904)	(9,676)	(44,580)
Net claims incurred	62,925	1,949	64,874	51,198	2,445	53,643

7. **OPERATING EXPENSES**

	2010	2009
	$000	$000
Auditor's fees – audit	205	241
Auditor's fees – tax	55	73
Depreciation – Leasehold Improvements	124	138
Depreciation – Plant & Equipment	380	529
Interest	6,597	7,662
Lease and rental charges	2,165	2,095
Loss on sale of fixed assets	13	-
Provision for doubtful debts	(170)	(194)
Head office charges	3,662	4,168
Retirement Plan contributions	667	562
Other expenses	21,118	20,658
	34,816	35,932

8. **INCOME TAX**

	2010	2009
Profit before tax	2,756	25,813
Taxation payable at 30%	827	7,744
Expenses not deductible for tax purposes	152	99
NRWT on dividend and use of money interest	(160)	(183)
Change in tax rates	(304)	-
Prior period adjustment	22	(324)
Income Tax attributable to profit before tax	537	7,336
Comprising		
Current period tax charge/(credit)	260	(2,623)
Movement in deferred income tax asset/(liability)	277	9,959
	537	7,336

Deferred income tax asset/(liability)
The gross movement on the deferred income tax account is as follows:

	2010	2009
Beginning of year	(4,142)	5,817
Statement of Comprehensive Income	(277)	(9,959)
Statement of Changes in Balances due to Head Office	159	-
End of year	**(4,260)**	**(4,142)**

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Branch from 1 January 2011. The financial effect of the change in tax rate has been taken into account in these financial statements and reduces deferred tax assets and liabilities by $304,000 on a net basis.

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 Tax Losses	$000 Depreciation	$000 Provisions	$000 Other	$000 Total
At 1 January 2009	-	-	(6,144)	(341)	(6485)
(Charged)/Credited to the Statement of Comprehensive Income	-	-	(234)	-	(234)
At 31 December 2009	-	-	(6,378)	(341)	(6,719)
(Charged)/Credited to the Statement of Comprehensive Income	-	-	517	17	534
(Charged)/Credited to the Statement of Changes in Balances due to Head Office	-	-	-	159	159
At 31 December 2010		**-**	**(5,861)**	**(165)**	**(6,026)**

Deferred Tax Assets	Tax Losses	Depreciation	Provisions	Other	Total
At 1 January 2009	-	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**
(Charged)/Credited to the Statement of Comprehensive Income	367	(573)	(644)	39	(811)
At 31 December 2010	**367**	**895**	**465**	**39**	**1,766**

9. TRADE RECEIVABLES

	2010 $000	2009 $000
Premium debtors	63,245	65,737
Due from reinsurers	166	622
Provision for doubtful debts	(80)	(249)
	63,331	66,110

10. PROPERTY, PLANT & EQUIPMENT

2010	Plant & Equipment	Leasehold Improvements	Total
Cost or Valuation			
At 1 January	3,459	1,367	4,826
Additions	121	37	158
Disposals	(5)	(5)	(10)
At 31 December	3,575	1,399	4,974
Accumulated Depreciation			
At 1 January	1,849	354	2,203
Depreciation Charge	380	124	504
Disposals	(4)	(5)	(9)
At 31 December	2,225	473	2,698
Carrying Amount			
At 31 December 2010	1,350	926	2,276

	Plant & Equipment	Leasehold Improvements	Total
2009			
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

	2010 $000	2009 $000
11. OTHER RECEIVABLES		
Accrued investment income	2,685	2,401
Other receivables and prepayments	7,997	6,031
Total receivables and other assets	10,682	8,432
12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Term deposits	565	207
Bills receivable	89,661	152,197
Government securities	10,627	124
Local authority securities	161,063	120,811
Equities	2,995	-
Total investments	264,911	273,339
13. TRADE AND OTHER PAYABLES		
Due to reinsurers	849	3,627
Other payables	19,609	20,399
Total trade and other payables	20,458	24,026
14. UNEARNED PREMIUM RESERVE		
Gross unearned premium reserve	123,536	124,669
Reinsurance unearned premium reserve	(29,030)	(24,625)
	94,506	100,044
Unearned premium at 1 January	100,044	103,301
Deferral of premiums on contracts written in the period	89,740	95,966
Earning of premiums written in previous and current period	(95,278)	(99,223)
Unearned premium at 31 December	94,506	100,044

15. OUTSTANDING CLAIMS

	2010	2009
	$000	$000
(A) Net Outstanding claims		
Gross outstanding claims	352,522	210,231
Claims settlement costs	7,079	8,709
	359,601	218,940
Discount to present value	(21,473)	(15,712)
Gross outstanding claims provision	338,128	203,228
Reinsurance and other recoveries on outstanding claims	(221,004)	(87,569)
Discount to present value	11,838	6,533
	(209,166)	(81,036)
Net outstanding claims	128,962	122,192
Central estimate	101,467	100,248
Risk margin	27,495	21,944
Net outstanding claims	128,962	122,192

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 4.48% (2009: 4.98%). 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 2.3 years (2009: 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% (2009 : greater than 80%).

(B) Claims Development

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

	2004	2005	2006	2007	2008	2009	2010	TOTAL
	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of net ultimate claims cost:								
At end of accident year	65,758	68,346	65,506	57,499	58,099	48,184	60,995	
One year later	62,313	68,019	67,847	53,621	60,634	44,759	-	
Two years later	51,605	51,435	63,786	51,457	63,783	-	-	
Three years later	47,325	49,075	62,616	52,396	-	-	-	
Four years later	44,871	47,462	63,496	-	-	-	-	
Five years later	44,659	47,906	-	-	-	-	-	
Six years later	46,591	-	-	-	-	-	-	
Current estimate of net cumulative claims cost	**46,591**	**47,906**	**63,496**	**52,396**	**63,783**	**44,759**	**60,995**	**379,926**
Cumulative net payments	43,688	46,002	52,817	43,262	41,668	21,503	17,647	266,587
Net undiscounted outstanding claims for the seven most recent accident years	**2,903**	**1,904**	**10,679**	**9,134**	**22,115**	**23,256**	**43,348**	**113,339**

(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	113,339
Outstanding claims – accident years 2003 and prior	18,179
Claims settlements costs	7,079
Discount on outstanding claims	(9,635)
Net outstanding claims	**128,962**

	2010	2009
	$000	$000
16. DEFERRED ACQUISITION COSTS		
Deferred Costs at 1 January	21,262	20,481
Costs deferred in current year	19,895	20,391
Amortisation charged to Statement of Comprehensive Income	(20,226)	(19,610)
Deferred costs at 31 December	20,931	21,262

A liability adequacy test was performed which identified a surplus so no write down was required (2009: nil).

17. RELATED PARTY INFORMATION

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

Transactions with Related Parties

(a) Transactions with the ultimate parent entity
During the financial year the Branch had no transactions with QBE Insurance Group Limited. (2009: nil)

(b) Transactions involving the parent entity
At balance date the Branch had an intercompany payable balance of $102 million (2009: $102 million). This 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, 22 December 2006.

(c) Transactions involving other related entities ($000's)
At balance date the Branch had intercompany payable balances of $1,706 (2009: $2,226) and intercompany receivable balances of $40 (2009: $66). Balances owed to/from related parties are settled on a regular basis.

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 (2009: Nil).

20. CONTINGENT LIABILITIES

Other than operating lease obligations there were no material contingent liabilities existing at balance date (2009: Nil).

21. OPERATING LEASE OBLIGATIONS

	2010 $000	2009 $000
Obligations payable after balance date on non cancellable operating leases are as follows:		
Within one year	2,371	2,007
One to two years	2,174	1,452
Two to five years	4,703	3,691
Over five years	66	886

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 2010. 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 2010. 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. The surplus was written down in the current financial year by $388,000 after tax (2009:nil).

24. EVENTS AFTER BALANCE DATE

A catastrophe loss event occurred in the period subsequent to 31 December 2010 and its financial effect has not been brought to account at 31 December 2010.

The catastrophe event, an earthquake, occurred in February 2011 in Christchurch, New Zealand. The total net cost of this event to the Branch will be in the region of $15 million to $20 million.

There are no other events since balance date that have 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 2010

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 Australia

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 3 March 2011.

The company has the power to amend and reissue the financial report.

BUSINESS & REGISTRIES BRANCH, AUCKLAND

31 MAY 2011

RECEIVED

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2010

Your directors present their report on QBE Insurance (International) Limited ("the company") as at 31 December 2010 and for the year then ended.

Directors

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

L F Bleasel AM
N G Drabsch
C L A Irby
V McLenaghan
D A M Ramsay (alternate to F M O'Halloran)
D M Boyle
J M Green (appointed on 1 March 2010)
E J Cloney (resigned 4 July 2010)
B J Hutchinson
I Y L Lee
F M O'Halloran
I F Hudson
M J Goodwin
J D Neal (appointed 3 February 2011)

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:

	2010 $'000	2009 $'000
Revenue		
Premium revenue	**358,669**	372,395
Other revenue	**172,562**	107,018
Net fair value gains on financial assets	**1,175**	14,602
	532,406	494,015
Expenses	**503,583**	433,317
Profit before income tax	**28,823**	60,698
Income tax expense	**6,640**	13,698
Net profit after income tax attributable to ordinary equity holders of the company	**22,183**	47,000

The net combined operating ratio increased from 84.4% in 2009 to 91.9% in 2010, attributable to earthquake events in New Zealand, and other natural disasters throughout Asia Pacific region.

Gross written premium decreased by 6.7% from $385.6 million in 2009 to $359.9 million in 2010, reflecting tough trading conditions in New Zealand. The reinsurance ratio has increased from 43.5% in 2009 to 45 % 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2010

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 418 persons (2009: 423).

Dividends

The dividends paid during the year totalled $41,194,557 (2009: $36,067,000).

Options

There were no options granted by the company during the year (2009: 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

Other than the event mentioned below, at the date of this report no matter or circumstance that has arisen since 31 December 2010 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.

Catastrophe event in New Zealand

A catastrophe loss event occurred in the period subsequent to 31 December 2010 and its financial effect has not been brought to account at 31 December 2010.

The catastrophe event, an earthquake, occurred in February 2011 in Christchurch, New Zealand. It is too early to reliably estimate the gross losses for the company, however management does not believe that the net claims cost to the company, after reinsurance recoveries, will exceed $2.6 million.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2010

Environmental regulation

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

Directors' benefits

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 ....

Sydney
3 March 2011

PRICEWATERHOUSECOOPERS

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SYDNEY NSW 1171
DX 77 Sydney
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Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of QBE Insurance (International) Limited for the year ended 31 December 2010, 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
3 March 2011

Liability is limited by a scheme approved under the Professional Standards Legislation.

QBE INSURANCE (INTERNATIONAL) LIMITED

BALANCE SHEET

As at 31 December 2010

	NOTES	**2010 $'000**	2009 $'000
ASSETS			
Financial assets at fair value through profit or loss			
Cash and cash equivalents	9	**67,450**	60,131
Investments	10	**420,422**	470,916
Derivative financial instruments	11	**390**	466
Trade and other receivables	12	**190,401**	209,897
Reinsurance and other recoveries on outstanding claims	21	**201,910**	140,416
Tax asset		**1,034**	3,072
Deferred insurance costs	13	**77,584**	76,499
Superannuation surplus	28	**-**	917
Property, plant and equipment	14	**3,321**	3,889
Deferred tax asset	15(A)	**4,833**	6,740
Investment property	16	**-**	1,803
Investments in controlled entities	17	**40,099**	29,430
Intangible assets	18	**16,534**	16,534
Total assets		**1,023,978**	1,020,710
LIABILITIES			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	11	**450**	598
Trade and other payables	19	**53,234**	56,354
Tax liabilities		**3,977**	5,645
Unearned premium	20	**177,996**	189,025
Outstanding claims	21	**416,498**	358,678
Provisions	22	**269**	261
Deferred tax liabilities	15(C)	**8,145**	9,305
Total liabilities		**660,569**	619,866
Net assets		**363,409**	400,844
EQUITY			
Share capital	23	**230,000**	230,000
Reserves	24(A)	**(2,752)**	15,424
Retained profits	24(B)	**44,946**	64,205
Mandatory convertible securities	25	**91,215**	91,215
Total equity		**363,409**	400,844

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

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	NOTES	2010 $'000	2009 $'000
REVENUE			
Premium revenue	5	**358,669**	372,395
Other revenue	5	**172,562**	107,018
Net fair value gains / (losses) on financial assets	5	**1,175**	14,602
		532,406	494,015
EXPENSES			
Outward reinsurance premium expense	6(A)	**155,887**	149,724
Gross claims incurred	8	**248,641**	173,067
Other expenses	6(C)	**99,055**	110,526
		503,583	433,317
Profit before income tax		**28,823**	60,698
Income tax expense	7	**6,640**	13,698
Profit (loss) after income tax		**22,183**	47,000
OTHER COMPREHENSIVE INCOME			
Net movement in foreign currency translation reserve	24	**(18,176)**	(32,923)
Other comprehensive income		**71**	-
Actuarial loss on superannuation surplus		**(318)**	-
Other comprehensive income after income tax		**(18,423)**	(32,923)
Total comprehensive income after income tax		**3,760**	14,077
Attributable to:			
Ordinary equity holders of the company		**3,760**	14,077
		3,760	14,077

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

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

2010	Share capital $'000	Equity component of hybrid securities $'000	Reserves $'000	Retained profits $'000	Total equity $'000
As at 1 January	**230,000**	**91,215**	**15,424**	**64,205**	**400,844**
Profit after income tax	-	-	-	**22,183**	**22,183**
Other comprehensive income	-	-	**(18,176)**	**71**	**(18,105)**
Actuarial loss on superannuation surplus				**(318)**	**(318)**
Total comprehensive income	-	-	**(18,176)**	**21,936**	**3,760**
Transactions with owners in their capacity as owners					
Dividends paid on ordinary shares		-	-	**(41,195)**	**(41,195)**
As at 31 December	**230,000**	**91,215**	**(2,752)**	**44,946**	**363,409**

2009	Share capital $'000	Equity component of hybrid securities $'000	Reserves $'000	Retained profits $'000	Total equity $'000
As at 1 January	230,000	91,215	48,347	53,272	422,834
Profit after income tax	-	-	-	47,000	47,000
Other comprehensive income	-	-	(32,923)	-	(32,923)
Actuarial loss on superannuation surplus	-	-	-	-	-
Total comprehensive income	-	-	(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	230,000	91,215	15,424	64,205	400,844

The 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 2010

	NOTES	2010 $'000	2009 $'000
OPERATING ACTIVITIES			
Premium received		**357,315**	382,738
Reinsurance and other recoveries received		**68,590**	69,014
Outwards reinsurance paid		**(164,200)**	(170,146)
Claims paid		**(161,230)**	(157,798)
Insurance costs paid		**(57,447)**	(58,131)
Other underwriting costs paid		**(36,023)**	(34,565)
Interest received		**12,532**	13,201
Dividends received		**1,160**	740
Retirement benefit paid		**(140)**	-
Other operating income received		**103**	472
Other operating expenses paid		**(1,363)**	(358)
Income tax paid		**(5,076)**	(10,013)
Net cash flows from operating activities	34	**14,221**	35,154
INVESTING ACTIVITIES			
Proceeds on sale of investments		**985,893**	1,109,254
Proceeds on sale of plant and equipment		**75**	56
Payments for purchase of investments		**(978,717)**	(1,056,786)
Payments for purchase of plant and equipment		**(642)**	(1,671)
Net payments for purchase of other financial assets		**14**	83
Dividends received from related entities		**2,630**	3,174
Net receipts from (payments to) related entities		**30,373**	(70,160)
Net cash flows from investing activities		**39,626**	(16,050)
FINANCING ACTIVITIES			
Dividends paid		**(41,195)**	(36,067)
Net cash flows from financing activities		**(41,195)**	(36,067)
Net movement in cash and cash equivalents		**12,652**	(16,963)
Cash and cash equivalents at the beginning of the financial year		**60,131**	88,237
Effect of exchange rate changes		**(5,333)**	(11,143)
Cash and cash equivalents at the end of the financial year	9	**67,450**	60,131

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

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2010

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 the requirements of 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: Consolidated and Separate Financial Statements. 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 17.

(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 profit or loss 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 and tax sharing agreements are included in note 7 to the financial statements.

(J) Policyholders' and shareholders' funds

Policyholders' funds are those financial assets which are held to fund the net insurance liabilities 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 assets backing 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.

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 profit or loss within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in profit or loss.

(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).

(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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) Impairment of assets (continued)
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 profit or loss.

iii) Translation of overseas controlled entities
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 profit or loss as part of the gain or loss on sale.

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

(v) Exchange rates
The principal exchange rates affecting the company were:

	2010		2009	
	Profit or loss	**Balance sheet**	**Profit or loss**	**Balance sheet**
A$/NZ$	**1.282**	**1.316**	1.250	1.235
A$/SGD	**1.250**	**1.316**	1.136	1.266
A$/Euro	**0.690**	**0.763**	0.561	0.626

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 profit or loss, with a corresponding adjustment to equity.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 profit or loss 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) 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.

(AC) 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.

2. NEW ACCOUNTING STANDARDS AND AMENDMENTS

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2013
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
2009-12	Amendments to Australian Accounting Standards	1 January 2011
2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19	1 January 2011
2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011
2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 January 2014
2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
2010-5	Amendments to Australian Accounting Standards	1 January 2011
2010-6	Amendments to Australian Accounting Standards- Disclosures on Transfers of Financial Assets	1 January 2012
2010-7	Amendments to Australian Accounting Standards arising from AASB 0 (December 2010)	1 January 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 January 2014

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

The company will apply the standards and amendments detailed above for the reporting periods beginning on the operative dates set out above. An initial assessment of the financial impact of AASB 9 and associated amendments to other accounting standards has been undertaken and the application of the current version of this standard is not expected to have a material impact on the company's financial statements or accounting policies.

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 34. 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:

(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).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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.

(iii) Risk margin

Risk margins are held to mitigate the potential for uncertainty in the outstanding claims estimation process. The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business due to factors such as actuarial estimation, data quality and legislative uncertainty, and the diversification benefits achieved by writing a number of classes of business across a number of geographic 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 10 (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 or 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 divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. Applying correlations between divisions' results in a further diversification benefit to the company with a consequent impact on the company's risk margin.

The potential impact of changes in the coefficient of variation assumptions on the company's profit or loss 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 20(D)) are determined using the same methods described above.

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

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 an appropriate starting point in determining a risk-free rate. Details of risk-free rates used to discount the outstanding claims provision are summarised below.

	2010 %		2009 %	
	SUCCEEDING YEAR	**SUBSEQUENT YEARS**	SUCCEEDING YEAR	SUBSEQUENT YEARS
New Zealand	**3.36**	**3.67- 5.87**	3.69	4.69 - 6.05
Asia	**0.36 - 0.40**	**0.50 - 2.87**	0.56	0.65 - 2.87
Pacific	**0.68 - 4.98**	**0.86 - 5.56**	0.94 - 4.29	1.42 - 5.74

The relevant discount rate is applied to the anticipated cash flow profile of the outstanding claims provision, which is determined by reference to a combination of historical analysis and current expectations of when claims will be settled. Details of the weighted average term to settlement of the company's claims provision, analysed by currency, are summarised below.

	2010 YEARS				2009 YEARS			
	NZD	**SGD**	**Other**	**Total**	**NZD**	**SGD**	**Other**	**Total**
Asia	-	1.27	-	1.27	-	1.27	-	1.27
New Zealand	2.12	-	-	2.12	1.87	-	-	1.87
Pacific	-	-	2.85	2.85	-	-	2.65	2.65

The potential impact of a change in discount rates or the weighted average term to settlement on the company's profit or loss 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 variables on the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation. As can be seen from the table below, the impact of a change in discount rates is largely offset by the impact of a change in the rate of inflation.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

		FINANCIAL IMPACT[1]	
	MOVEMENT IN VARIABLE %	**PROFIT IMPACT 2010 $'000**	PROFIT IMPACT 2009 $'000
Central estimate	+5	**(7,511)**	(7,639)
	-5	**7,511**	7,639
Inflation rate	+1	**(2,985)**	(2,854)
	-1	**2,899**	2,776
Discount rate	+1	**2,869**	2,716
	-1	**(3,012)**	(2,846)
Coefficient of variation	+1	**(2,076)**	(1,884)
	-1	**2,067**	1,879
Weighted average term to settlement years	+10	**1,257**	1,169
	-10	**(1,257)**	(1,169)

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

(B) Retirement benefit obligations

At 31 December 2010, 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.

(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 2010, the company would have no requirement to reflect an impairment.

4. RISK MANAGEMENT

The company's risk management policy, strategy and framework are embedded in the QBE Insurance company Limited head office and in each of the regional operations, providing a consistent approach to managing risk across the organisation.

The company's risk management policy, strategy and framework are embedded in the head office and in each of the divisional operations, ensuring 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 Regulation Authority ("APRA").

The company's risk management policy objectives are to:

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

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

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

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

A fundamental part of the 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 operating activities of the company expose it to 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 its financial performance. The company has established internal controls to manage risk in the key areas of exposure relevant to its business.

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

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

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

4. RISK MANAGEMENT (CONTINUED)

(A) Strategic risk

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

(i) Capital management risk

Australian and overseas controlled entities are subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in Australia and overseas continues to evolve in response to economic, political and industry developments. QBE 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. Refer to note 23(D).

(B) Insurance risk

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified insurance and reinsurance company 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.

QBE has established the following protocols to manage its insurance risk across the underwriting, 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 QBE is prepared to take. The authorities include reference to some combination of:

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

4. RISK MANAGEMENT (CONTINUED)

Limits in respect of each of the above are set at a portfolio, divisional and company-wide 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 controlled entity 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 appetite and tolerance and underwriting standards. Non-standard and long-term policies may only be written if expressly included in the delegated authorities. No individual long-term or non-standard policy is material to the company.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which QBE 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 49 countries and hundreds of 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 speciality products under the control of employees skilled in underwriting such products allows QBE to lead underwrite in many of the markets in which it operates.

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

	2010 $'000	2009 $'000
GROSS EARNED PREMIUM		
Property	**83,894**	86,159
Professional Indemnity	**65,235**	65,019
Marine, energy and aviation	**53,198**	55,855
Liability	**50,250**	50,930
Motor and motor casualty	**33,864**	39,765
Accident and Health	**28,071**	28,952
Financial and credit	**18,166**	18,472
Engineering	**15,274**	14,863
Workers' compensation	**10,717**	12,380
	358,669	372,395

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.

4. RISK MANAGEMENT (CONTINUED)

(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.

(C) Credit risk

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

i) Investment counterparty credit risk

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

- a QBE-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE and establishes tolerance levels. 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;
- QBE Group has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which we may transact. The Group 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 Group only uses derivatives in highly liquid markets; and
- 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 company's aggregate credit risk exposure at the balance sheet 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 Aaa to Baa are classified as speculative grade.

4. RISK MANAGEMENT (CONTINUED)

As at 31 December 2010

	CREDIT RATING						
	Aaa	Aa	A	Baa	SPECULATIVE GRADE	NOT-RATED	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	**38,706**	**25,205**	-	-	**3,539**	**67,450**
Interest bearing investments	**215,478**	**180,233**	**20,078**	**1,256**	-	**1,095**	**418,140**
Derivative financial instruments	-	**293**	**97**	-	-	-	**390**

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

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 notes 10 and 11.

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 2010

		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
Amounts due from related entities	99,843	-	-	-	-	**99,843**
Premium receivable[1]	46,730	16,242	4,682	1,160	315	**69,129**
Other debtors	13,457	-	-	-	570	**14,027**

4. RISK MANAGEMENT (CONTINUED)

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
Amounts due from related entities	112,567	-	-	-	-	112,567
Premium receivable1	49,797	18,566	5,745	1,587	293	75,988
Other debtors	10,858	51	-	3,786	840	15,535

(1) Amounts shown include impairment provision of $348,000 (2009: $855,000)

Details of reinsurance and other recoveries on outstanding claims and paid claims are set out in note 21(A).

(ii) Reinsurance counterparty credit 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 credit rating analysis below includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis set out below.

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.

4. RISK MANAGEMENT (CONTINUED)

		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	**2010**	**67**	**1,481**	**208,760**	**2**	**-**	**354**	**210,664**
	2009	336	5,217	137,440	-	2,242	2,344	147,579
Reinsurance and other recoveries on paid claims	**2010**	**7**	**210**	**948**	**6**	**-**	**7**	**1,178**
	2009	96	(175)	(60)	-	(4)	(101)	(244)

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	**2010**	**128**	**51**	**80**	**66**	**853**	**1,178**
	2009	254	41	209	(427)	(321)	(244)

(D) Market risk

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

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

(i) Currency risk

The company's exposure to currency risk generally arises as a result of transactions affecting either the translation of foreign currency amounts back to the functional currency of a controlled entity ("operational currency risk") or due to the translation of the company's net investment in foreign operations to the company's presentation currency of Australian dollars. Hedging of such currency exposures may be undertaken when the defined exposure exceeds certain thresholds.

4. RISK MANAGEMENT (CONTINUED)

Operational currency risk

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

- as far as is practicable, each controlled entity 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 foreign currencies are minimised; and
- 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 reported in profit or loss with the gains or losses from the related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange contracts 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 mitigate, where possible, its operational foreign currency exposures at a controlled entity level. Residual foreign currency exposures at the controlled entity level are managed to be within an absolute local currency unit limit.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the Australian dollar against the major currencies to which we are exposed. The sensitivity is measured with reference to the company's residual (or unmatched) operational foreign currency exposures at the balance sheet date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1(T) (ii). The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged. This analysis does not take into account that the matching of currency assets and liabilities is actively managed and therefore assumes no response by management to movements in a variable.

EXPOSURE CURRENCY	SENSITIVITY %	PROFIT IMPACT 2010 $'000	PROFIT IMPACT 2009 $'000
NZ dollar	+10	**11,327**	10,478
	-10	**(11,327)**	(10,478)
Singapore dollar	+10	**6,119**	7,622
	-10	**(6,119)**	(7,622)
Euro	+10	**6,481**	7,254
	-10	**(6,481)**	(7,254)

(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.

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

4. RISK MANAGEMENT (CONTINUED)

The claims provision is discounted to present value by reference to risk-free interest rates. The company is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 3(A)(vii). QBE has a policy of maintaining a relatively short duration for assets backing policyholders' funds in order to minimise any further potential volatility affecting insurance profit.

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 on the following page. 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 2010									
Interest-bearing financial assets	**$'000**	**120,662**	**316,876**	**20,198**	**20,909**	**2,293**	**-**	**4,652**	**485,590**
Weighted average interest rate	**%**	**2.47**	**1.90**	**3.80**	**4.42**	**4.43**	**-**	**4.49**	**2.27**
At 31 December 2009									
Interest-bearing financial assets	$'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

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of fixed interest securities and therefore impact reported profit after tax. The impact of a 1.00% increase or decrease in interest rates on fixed interest securities owned by the company at the balance sheet date is shown in the table below.

	SENSITIVITY	PROFIT IMPACT 2010	PROFIT IMPACT 2009
	%	$'000	$'000
Interest rate movement – interest-bearing securities	1.00%	(1,198)	(1,092)
	-1.00%	1,198	1,092

(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.

QBE is exposed to price risk on its investment in equities and uses derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those explained in note 4(D)(i) in respect of forward foreign exchange contracts. Exposure is also managed by diversification across worldwide markets and currencies.

At 31 December 2010, 0.5% (2009 0.3%) of the company's investments and cash was held in listed equities, of which the majority were publicly traded in the major financial markets.

4. RISK MANAGEMENT (CONTINUED)

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease In the value of equity Investments owned by the company at the balance sheet date on consolidated profit after tax Is shown in the table below. The calculation assumes that exposures are unhedged although in practice QBE 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.

	SENSITIVITY	PROFIT IMPACT 2010	PROFIT IMPACT 2009
	%	$'000	$'000
EURO STOXX	+20	**205**	241
	-20	**(205)**	(241)

(E) Liquidity risk

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors. This includes the risk associated with asset liability management. The key objective of the company's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet QBE's obligations including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

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

In addition to treasury cash held for working capital requirements, and in accordance with company's liquidity policy, a minimum percentage of consolidated 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. QBE has a strong liquidity position. At 31 December 2010, the average duration of cash and fixed interest securities was 0.35 years (2009 0.29 years).

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

The following tables summarise the contractual maturity profile of certain of the company's financial liabilities based on the remaining undiscounted contractual obligations.

As at 31 December 2010

	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	**4,874**	**448**	-	-	-	**5,322**
Amounts due to controlled entities	-	-	-	-	-	-
Amounts due to related entities	**21,872**	-	-	-	-	**21,872**
Other payables	**17,242**	**2,561**	-	-	-	**19,803**
Accrued expenses	**6,237**	-	-	-	-	**6,237**

4. RISK MANAGEMENT (CONTINUED)

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
Amounts due to controlled entities	652	-	-	-	-	652
Amounts due to related entities	10,005	-	-	-	-	10,005
Other payables	24,192	349	-	-	-	24,541
Accrued expenses	5,658	198	-	-	-	5,856

The company has no significant concentration of liquidity risk.

The maturity profile of the company's net outstanding claims provision is analysed in note 21(A). For the maturity profile of derivative financial instruments refer to note 11.

(F) Operational Risk

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

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

QBE 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.

5. REVENUE

	2010 $'000	2009 $'000
Premium revenue		
Direct and facultative	**358,483**	372,392
Inward reinsurance	**186**	3
	358,669	372,395
Other revenue		
Reinsurance and other recoveries	**146,867**	74,879
Reinsurance commission	**16,050**	17,811
Interest and dividend income	**9,326**	14,501
Net fair value gains (losses) on properties	**319**	(173)
	172,562	107,018
Net fair value gains on financial assets	**1,175**	14,602
Revenue	**532,406**	494,015

6. PROFIT BEFORE INCOME TAX

(A) Profit before income tax

	2010 $'000	2009 $'000
Gross written premium	**359,897**	385,660
Unearned premium movement	**(1,228)**	(13,265)
Gross earned premium	**358,669**	372,395
Outward reinsurance premium	**(162,023)**	(167,724)
Deferred reinsurance premium movement	**6,136**	18,000
Outward reinsurance premium expense	**(155,887)**	(149,724)
Net earned premium	**202,782**	222,671
Gross claims incurred	**(242,552)**	(168,021)
Claims settlement expenses	**(6,089)**	(5,046)
Reinsurance and other recoveries	**146,867**	74,879
Net claims incurred (Note 8)	**(101,774)**	(98,188)
Net commission	**(38,945)**	(40,337)
Other acquisition costs	**(18,057)**	(17,804)
Underwriting and other expenses	**(27,521)**	(31,541)
	(84,523)	(89,682)
Underwriting profit	**16,485**	34,801
Investment income on policyholders' funds	**6,528**	10,234
Insurance profit	**23,013**	45,035
Investment income on shareholders' funds	**5,810**	15,663
Profit before income tax	**28,823**	60,698

(B) Net investment income and other income

	2010 $'000	2009 $'000
Dividends received or receivable from controlled entities	**2,630**	3,174
Dividends from non-related entities	**1,160**	1,568
Interest received or receivable from non-related entities	**13,170**	9,729
Interest received or receivable from controlled entities	**25**	30
Interest and dividend income	**16,985**	14,501
Net realised losses on equities	**(1,096)**	(3,645)
Net realised gains on fixed interest and other securities	**2,706**	6,260
Net realised gain on properties	**319**	-
Net unrealised gains (losses) on equities	**1,344**	12,563
Net unrealised (losses) on controlled entities	**(1,119)**	(1,081)
Net unrealised gains(losses) on fixed interest and other securities	**(3,846)**	505
Net unrealised (losses) on properties	**-**	(173)
Foreign exchange gains	**1,780**	496
Investment and other income	**17,073**	29,426
Investment expenses	**(783)**	(810)
Foreign exchange losses	**(3,952)**	(2,719)
Net investment and other income	**12,338**	25,897

6. PROFIT BEFORE INCOME TAX (CONTINUED)

(C) Other expenses

	2010 $'000	2009 $'000
Net commission	**55,154**	58,148
Other acquisition costs	**18,057**	17,804
Underwriting and other expenses	**16,341**	27,931
Lease expenses	**3,362**	1,677
Investment expenses	**783**	699
Net fair value losses on financial assets	**3,186**	1,933
Finance costs	**-**	111
Foreign exchange losses	**2,172**	2,223
Other expenses	**99,055**	110,526

7. INCOME TAX

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

	2010 $'000	2009 $'000
Profit before income tax	**28,823**	60,698
Prima facie tax payable at 30%	**8,647**	18,208
Tax effect of permanent differences:		
Untaxed dividends	**(186)**	(282)
Differences in tax rates	**220**	(1,244)
Other, including non-allowable expenses and non-taxable income	**(2,345)**	(2,285)
Prima facie tax adjustment for permanent differences	**6,336**	14,397
Deferred tax asset no longer recognised	**409**	250
Underprovision (overprovision) in prior year	**(105)**	(949)
Income tax expense	**6,640**	13,698
Analysed as follows:		
Current tax	**5,935**	6,464
Deferred tax	**810**	8,183
Underprovision (overprovision) in prior year	**(105)**	(949)
	6,640	13,698
Deferred tax (credit)expense comprises:		
Deferred tax assets charged(credited) to profit	**4,757**	3,350
Deferred tax liability charged to income profit	**(3,947)**	4,833
	810	8,183

(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 using the standalone method. The assets and liabilities arising under the agreement are recognised as intercompany assets and liabilities in the balance sheet of each Australian entity.

8. CLAIMS INCURRED

(A) Claims analysis

	2010 $'000	2009 $'000
Gross claims incurred and related expenses		
Direct and facultative	**249,869**	180,647
Inward reinsurance	**(1,228)**	(7,580)
	248,641	173,067
Reinsurance and other recoveries		
Direct and facultative	**146,842**	79,062
Inward reinsurance	**25**	(4,183)
	146,867	74,879
Net claims incurred	**101,774**	98,188

(B) Claims development

Current year's claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting periods.

	2010			2009		
	CURRENT YEAR $'000	**PRIOR YEARS $'000**	**TOTAL $'000**	CURRENT YEAR $'000	PRIOR YEARS $'000	TOTAL $'000
Gross claims incurred and related expenses						
Undiscounted	**285,893**	**(36,741)**	**249,152**	190,473	(20,887)	169,586
Discount	**(8,276)**	**7,765**	**(511)**	978	2,503	3,481
	277,617	**(28,976)**	**248,641**	191,451	(18,384)	173,067
Reinsurance and other recoveries						
Undiscounted	**165,070**	**(16,611)**	**148,459**	94,280	(20,712)	73,568
Discount	**(4,861)**	**3,269**	**(1,592)**	368	943	1,311
	160,209	**(13,342)**	**146,867**	94,648	(19,769)	74,879
Net claims incurred						
Undiscounted	**120,823**	**(20,110)**	**100,713**	96,193	(175)	96,018
Discount	**(3,415)**	**4,476**	**1,061**	610	1,560	2,170
	117,408	**(15,634)**	**101,774**	96,803	1,385	98,188

The development of the net undiscounted outstanding claims for the nine most recent accident years is shown in note 21(D). Note 8(C) is a reconciliation of the amounts included in the table above and the current year movements in the claim development table.

8. CLAIMS INCURRED (CONTINUED)

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

	2010			2009		
	CURRENT YEAR $'000	PRIOR YEARS $'000	TOTAL $'000	CURRENT YEAR $'000	PRIOR YEARS $'000	TOTAL $'000
Net claims development – central estimate (note 21)	**95,920**	**(8,379)**	**87,541**	90,849	(5,815)	85,034
Foreign exchange	**-**	**(2,065)**	**(2,065)**	236	(1,053)	(817)
Movement in claims settlement costs	**10,044**	**(3,955)**	**6,089**	1,766	3,279	5,045
Movement in discount	**(3,390)**	**4,471**	**1,081**	610	1,560	2,170
Movement in risk margin	**13,630**	**(4,502)**	**9,128**	3,342	3,414	6,756
Net claims incurred – discounted	**116,204**	**(14,430)**	**101,774**	96,803	1,385	98,188

9. CASH AND CASH EQUIVALENTS

	2010 $'000	2009 $'000
Cash at bank and on hand	**39,294**	30,177
Overnight money	**17,514**	15,104
Term deposits	**10,642**	14,850
	67,450	60,131

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.

10. INVESTMENTS

	2010 $'000	2009 $'000
Interest Bearing		
Short term money	**186,342**	266,938
Government bonds	**41,724**	102,933
Corporate bonds	**190,074**	98,750
	418,140	468,621
Equities		
Listed	**2,281**	1,718
Unlisted	**1**	577
	2,282	2,295
Total investments	**420,422**	470,916
Amounts maturing within 12 months	**249,547**	368,167
Amounts maturing in greater than 12 months	**170,875**	102,749
Total investments	**420,422**	470,916

10. 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 and 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	2010 Total $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	2009 Total $'000
Short-term money	**9,802**	**176,540**	**-**	**186,342**	17,483	249,455	-	266,938
Government bonds	**33,456**	**8,268**	**-**	**41,724**	25,041	77,892	-	102,933
Corporate bonds	**107**	**189,967**	**-**	**190,074**	-	98,750	-	98,750
Equities - Listed	**2,281**	**-**	**-**	**2,281**	1,718	-		1,718
Equities - Unlisted	**-**	**-**	**1**	**1**	2		575	577
Total investments	**45,646**	**374,775**	**1**	**420,422**	44,244	426,097	575	470,916

Corporate bonds with a value of $190.0 million (2009 $98.8 million) in the company have been valued based on consensus pricing using broker quotes (Level 2).

(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	**2010 $'000**
At 1 January	**575**
Sales	**(574)**
At 31 December	**1**

11. DERIVATIVE FINANCIAL INSTRUMENTS

(A) Fair Value

	Assets maturing within 12 months		Liabilities maturing within 12 months	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Forward foreign exchange contracts	**390**	466	**(450)**	(598)
	390	466	**(450)**	(598)

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 $390,000 (2009: $466,000) 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 4(A)(i). In the company, undiscounted contractual amounts to purchase $6,880,000 million (2009 $7,549,000) were outstanding at the balance sheet date. The maturity profile of these contracts is set out in the table below.

	2010 $'000	**2009 $'000**
Less than one year	**6,880**	7,459
More than one year but less than five years	**-**	–
	6,880	7,459

(D) Determination of fair value and fair value hierarchy

The valuation bases used by the company are explained in note 10(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**	**2010 Total $'000**	**LEVEL 1 $'000**	**LEVEL 2 $'000**	**LEVEL 3 $'000**	**2009 Total $'000**
Forward foreign exchange contracts	**-**	**12**	**(72)**	**(60)**	-	72	(204)	(132)

12. TRADE AND OTHER RECEIVABLES

	2010 $'000	2009 $'000
Trade debtors		
Premium receivable[1]	**69,129**	75,988
Reinsurance and other recoveries on paid claims[1]	**1,178**	(244)
Unclosed premium	**3,567**	5,406
	73,874	81,150
Other debtors	**14,027**	15,535
Prepayments	**209**	213
Amounts due from controlled entities	**2,448**	432
Amounts due from related entities	**99,843**	112,567
Trade and other receivables	**190,401**	209,897
Receivable within 12 months	**189,706**	209,206
Receivable in 12 months or more	**695**	691
Trade and other receivables	**190,401**	209,897

[1] Net of a provision for impairment

(A) Provision for impairment

	PROVISION FOR IMPAIRMENT			
	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
At 1 January	**855**	396	**1,033**	2,147
(Credit) charge for the year	**-**	-	**179**	(300)
Other movements	**(488)**	570	**(226)**	(664)
Foreign exchange	**(19)**	(111)	**(29)**	(150)
At 31 December	**348**	855	**957**	1,033

(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 4. Note 4 also provides more information on the risk management policy of the company.

13. DEFERRED INSURANCE COSTS

	2010 $'000	2009 $'000
Deferred reinsurance premium	**51,121**	47,759
Deferred net commission	**17,862**	19,269
Deferred acquisition costs	**8,601**	9,471
Deferred insurance costs[1]	**77,584**	76,499

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

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
At 1 January	**47,759**	35,783	**19,269**	22,018	**9,471**	9,503
Costs deferred in financial year	**51,432**	50,253	**18,209**	19,631	**8,694**	9,541
Amortisation of costs deferred in previous financial years	**(45,293)**	(32,255)	**(18,333)**	(19,990)	**(8,868)**	(8,695)
Foreign exchange	**(2,777)**	(6,022)	**(1,283)**	(2,390)	**(696)**	(878)
At 31 December	**51,121**	**47,759**	**17,862**	**19,269**	**8,601**	**9,471**

14. PROPERTY, PLANT AND EQUIPMENT

2010	**OFFICE EQUIPMENT/ FIXTURES & FITTINGS $'000**	**MOTOR VEHICLES $'000**	**TOTAL $'000**
Cost or valuation			
At 1 January	**7,889**	**597**	**8,486**
Additions	**211**	**431**	**642**
Disposals	**(46)**	**(247)**	**(293)**
Foreign exchange	**(680)**	**(58)**	**(738)**
At 31 December	**7,374**	**723**	**8,097**
Accumulated depreciation and impairment losses			
At 1 January	**(4,199)**	**(398)**	**(4,597)**
Disposals	**45**	**233**	**278**
Depreciation charge for the year	**(845)**	**(130)**	**(975)**
Foreign exchange	**492**	**26**	**518**
At 31 December	**(4,507)**	**(269)**	**(4,776)**
Carrying amount			
At 31 December	**2,867**	**454**	**3,321**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	3,690	199	3,889

15. DEFERRED INCOME TAX

	2010 $'000	2009 $'000
Deferred tax assets	**4,833**	6,740
Deferred tax liabilities	**(8,145)**	(9,305)

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

	2010 $'000	2009 $'000
Amounts recognised in profit or loss		
Provision for impairment	**226**	316
Employee benefits	**458**	923
Insurance provisions	**1,986**	6,308
Investment related	**1,873**	1,522
Depreciation	**732**	1,189
Tax losses recognised	**299**	-
Other	**353**	426
	5,927	10,684
Set-off of deferred tax liabilities	**(1,094)**	(3,944)
	4,833	6,740

(ii) Movements

	2010 $'000	2009 $'000
Balance at 1 January	**10,684**	14,034
(Charged) Credited to profit or loss	**(4,757)**	(3,350)
Balance at 31 December	**5,927**	10,684

(B) Tax losses
The company has $0.3 million tax losses brought to account in 2010 (2009: $nil).

15. DEFERRED INCOME TAX (CONTINUED)

(C) Deferred tax liabilities – maturing in greater than 12 months

(i) The balance comprises temporary differences attributable to:

	2010 $'000	2009 $'000
Amounts recognised in profit or loss		
Insurance provisions	**6,975**	11,195
Investment related	**1,920**	1,626
Superannuation surplus	**198**	207
Depreciation	**145**	152
	9,238	13,180
Amounts recognised directly in equity		
Defined benefit superannuation plan	**-**	69
	9,238	13,249
Set-off of deferred tax assets	**(1,093)**	(3,944)
	8,145	9,305

(ii) Movements

	2010 $'000	2009 $'000
Balance at 1 January	**13,249**	8,418
Charged to profit or loss	**(3,947)**	4,833
Charged to equity	**(64)**	(2)
Balance at 31 December	**9,238**	13,249

16. INVESTMENT PROPERTY

	2010 $'000	2009 $'000
At 1 January	**1,803**	1,976
FX revaluation	**(147)**	(173)
Gain on disposal	**319**	
Disposal	**(1,975)**	-
At 31 December	**-**	1,803

The property was disposed of on 15 November 2010 for $1,975,488 to a related party, QBE Management Services UK Limited.

17. INVESTMENTS IN CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2010 %	2009 %
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

18. INTANGIBLE ASSETS

2010	GOODWILL $'000	TOTAL $'000
Cost		
At 1 January	**16,534**	16,534
At 31 December	**16,534**	16,534
Amortisation		
At 31 December	-	-
Carrying amount		
At 31 December	**16,534**	16,534

2009	GOODWILL $'000	TOTAL $'000
Cost		
At 1 January	**16,534**	16,534
At 31 December	**16,534**	16,534
Amortisation		
At 31 December	-	-
Carrying amount		
At 31 December	**16,534**	16,534

(A) Goodwill

Goodwill is allocated to cash generating units being the lowest level at which there are separately identifiable cash flows relating to the goodwill. As the company continues to acquire operations and reorganise the way that operations are managed, reporting structures may change giving rise to a reassessment of cash generating units.

The goodwill relating to certain acquisitions outside Australia is denominated in currencies other than the Australian dollar and so is subject to foreign exchange movements.

The most significant Cash Generating Unit is the New Zealand branch, which includes HIH business acquired on 30 April 2001.

(B) 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

18. INTANGIBLE ASSETS (CONTINUED)

(B) Impairment testing of goodwill and intangible asset (CONTINUED)

- 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 discount rate(s) used to value cash generating units at 31 December 2010 was 9.78% (31 December 2009 5-10%)

19. TRADE AND OTHER PAYABLES

	2010 $'000	2009 $'000
Trade payables	**5,322**	15,300
Amounts due to controlled entities	**-**	652
Amounts due to related entities	**21,872**	10,005
Other payables	**19,803**	24,541
Accrued expenses	**6,237**	5,856
Trade and other payables	**53,234**	56,354
Payable within 12 months	**50,220**	55,477
Payable in greater than 12 months	**3,014**	877
Trade and other payables	**53,234**	56,354

20. UNEARNED PREMIUM

(A) Unearned premium

	2010 $'000	2009 $'000
At 1 January	**189,025**	199,195
Deferral of premium on contracts written in the period	**181,592**	194,577
Earning of premium written in previous periods	**(180,364)**	(181,311)
Foreign exchange	**(12,257)**	(23,436)
At 31 December	**177,996**	189,025
To be earned within 12 months	**165,574**	175,054
To be earned in greater than 12 months	**12,422**	13,971
Unearned premium	**177,996**	189,025

(B) Net premium liabilities

	NOTE	2010 $'000	2009 $'000
Unearned premium		**177,996**	189,025
Deferred insurance costs	13	**(77,584)**	(76,499)
Net premium liabilities		**100,412**	112,526

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

	2010 $'000	2009 $'000
Undiscounted central estimate	**69,590**	80,240
Risk margin	**5,861**	6,835
	75,451	87,075
Discount to present value	**(2,482)**	(2,714)
Expected present value of future cash flows for future claims including risk margin	**72,969**	84,361

(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 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 2010 and 31 December 2009.

(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 10.6% (2009: 10.7%). This is the risk margin required to give a probability of adequacy of 75% for total insurance liabilities.

21. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2010 $'000	2009 $'000
Gross outstanding claims	**420,917**	361,489
Claims settlement costs	**15,076**	16,358
	435,993	377,847
Discount to present value	**(19,495)**	(19,169)
Gross outstanding claims provision	**416,498**	358,678
Less than 12 months	**250,116**	165,436
Greater than 12 months	**166,382**	193,242
Gross outstanding claims provision	**416,498**	358,678
Reinsurance and other recoveries on outstanding claims[1]	**210,664**	147,579
Discount to present value	**(8,754)**	(7,163)
Reinsurance and other recoveries on outstanding claims	**201,910**	140,416
Less than 12 months	**144,330**	70,909
Greater than 12 months	**57,579**	69,507
Reinsurance and other recoveries on outstanding claims	**201,910**	140,416
Net outstanding claims	**214,588**	218,262
Central estimate	**176,014**	183,790
Risk margin	**38,574**	34,472
Net outstanding claims	**214,588**	218,262

[1] Reinsurance and other recoveries on outstanding claims are shown net of a provision for impairment of $256,000 (2009: $368,000)

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 2010	**$'000**	**96,418**	**45,250**	**26,584**	**15,309**	**8,814**	**22,213**	**214,588**
At 31 December 2009	$'000	94,527	44,293	29,064	15,669	9,263	25,446	218,262

An analysis of the weighted average term to settlement of the claims provision is included in note 3(A)(vi).

(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 2010 is 93.6% (2009: 91.6%) which is well above APRA's 75% benchmark. The risk margin included in net outstanding claims is 19.7% (2009: 18.8%) of the central estimate.

21. OUTSTANDING CLAIMS (CONTINUED)

(C) Reconciliation of movement in discounted outstanding claims provision

	2010			2009		
	GROSS $'000	REINSURANCE $'000	NET $'000	GROSS $'000	REINSURANCE $'000	NET $'000
At 1 January	**358,678**	**(140,416)**	**218,262**	388,563	(146,785)	241,778
Foreign exchange	**(29,591)**	**15,173**	**(14,418)**	(45,153)	17,665	(27,488)
Increase in net claims incurred in current accident year	**266,805**	**(170,885)**	**95,920**	185,045	(94,197)	90,848
Movement in prior year claims provision	**(18,163)**	**24,018**	**5,855**	(11,978)	19,318	7,340
Incurred claims recognised in profit or loss	**219,050**	**(131,694)**	**87,356**	127,914	(57,214)	70,700
Claim (payments) recoveries during the year	**(161,230)**	**70,200**	**(91,030)**	(157,799)	63,583	(94,216)
At 31 December	**416,498**	**(201,910)**	**214,588**	358,678	(140,416)	218,262

21. OUTSTANDING CLAIMS (CONTINUED)

(D) Claims development – undiscounted net central estimate

	2000 & prior $'000	2001 $'000	2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	TOTAL $'000
Net claims cost –												
At end of accident year		169,239	125,437	89,913	116,921	111,287	101,468	93,363	95,986	82,953	95,920	1,082,487
One year later		167,587	122,717	84,399	104,014	90,113	92,467	87,453	94,249	85,318	-	928,317
Two years later		156,807	115,975	80,143	86,839	81,356	85,569	82,637	93,804	-	-	783,131
Three years later		145,793	120,968	72,300	84,629	77,608	84,602	80,791	-	-	-	666,691
Four years later		139,560	112,896	70,512	81,470	76,240	83,295	-	-	-	-	563,972
Five years later		136,067	110,511	69,141	78,929	75,667	-	-	-	-	-	470,314
Six years later		132,541	113,135	65,283	79,401	-	-	-	-	-	-	390,360
Seven years later		132,890	109,824	69,614	-	-	-	-	-	-	-	312,329
Eight years later		133,880	107,940	-	-	-	-	-	-	-	-	241,820
Nine years later		126,094	-	-	-	-	-	-	-	-	-	126,094
Current central estimate		126,094	107,940	69,614	79,401	75,667	83,295	80,791	93,804	85,318	95,920	897,844
Cumulative net claims		122,870	104,765	64,340	74,859	72,306	74,682	70,475	71,067	50,153	31,919	737,436
Net undiscounted central	19,181	3,224	3,175	5,274	4,541	3,361	8,613	10,316	22,738	35,165	64,001	179,589
Foreign exchange												(7,758)
Net undiscounted												171,831
Discount to present												(10,870)
Provision for impairment												
Risk margin												38,574
Claims settlement costs												15,053
Net outstanding claims												214,588
Net central estimate												
Increase (decrease) in the year - current year	(1,706)	(7,786)	(1,884)	4,331	471	(573)	(1,307)	(1,846)	(445)	2,365	95,920	87,541

A reconciliation of the net central estimate development in the table above to the net incurred claims in profit or loss, analysed between current and prior accident years, is included in note 8(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 2010.

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.

22. PROVISIONS

2010	PROVISION FOR LONG SERVICE LEAVE $'000	OTHER $'000	TOTAL $'000
At 1 January	**144**	**117**	**261**
Cash payments	**-**	**(1)**	**(1)**
Amount charged (credited) to profit or loss	**14**	**(5)**	**9**
Other movement	**38**	**1**	**39**
Foreign exchange	**(29)**	**(10)**	**(39)**
At 31 December	**167**	**102**	**269**
Payable within 12 months	**49**	**49**	**98**
Payable in greater than 12 months	**118**	**53**	**171**
At 31 December	**167**	**102**	**269**

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 profit or loss	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

23. CONTRIBUTED EQUITY

(A) Share capital

2010	NUMBER OF SHARES Thousands	$'000
Issued ordinary shares, fully paid at 1 January	**230,000**	**230,000**
Issued ordinary shares, fully paid at 31 December	**230,000**	**230,000**

2009	NUMBER OF SHARES Thousands	$'000
Issued ordinary shares, fully paid at 1 January	230,000	230,000
Issued ordinary shares, fully paid at 31 December	230,000	230,000

(B) Movements in share capital

There were no movements in share capital during the year (2009: 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 debt securities with capital characteristics or sell assets to reduce debt.

The controlled entities which are insurance companies are subject to, and are 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 company uses a company-wide Economic Capital Model (ECM) to assess the level of capital required for the underwriting, claims provisioning, credit, market, liquidity and operational risks to which It Is exposed. The economic capital is determined as the level of capital that the company needs to ensure that it can, with a pre-specified probability, satisfy its obligations in relation to all policies issued on or before the end of the plan year, with all risks run-off to ultimate. The ECM is used by management to help determine the strategic capital allocation, business planning, underwriting performance, pricing, reinsurance and aggregate management, as well as assisting in determining regulatory capital and reviews by third parties.

23. CONTRIBUTED EQUITY (CONTINUED)

Capital is allocated to business units, divisions and ultimately to underwriting portfolios according to the associated risk. The minimum target risk adjusted return on capital is 15%. The business plans include net asset projections, dividends, issued share projections and solvency projections as well as the impact of potential acquisitions. Should there be a significant change in the company's risk profile, the ECM will be recalculated, reviewed and, if appropriate, the results reported to the company's board.

The company maintains an ongoing review of its structure to ensure flexibility in the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the company to maintain its financial strength and credit rating and has afforded it with good access to capital markets when needed.

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 companies. The multiple at 31 December 2010 is 3.8 times (2009 4.9 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 local 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 of our regulated wholly-owned entities. The company's policy is to maintain ratings that optimise the balance between providing security to policyholders whilst providing appropriate returns to shareholders. All of our regulated wholly-owned entities are rated Standard & Poor's "A" rating or higher (or equivalent rating from other recognised rating agencies) at 31 December 2010.

In addition to the management reporting and planning processes, the company has dedicated staff in all business units and divisions responsible for understanding the regulatory capital requirements for each of our operations. The quality of assets (particularly investments and reinsurance recoveries) is monitored on an ongoing basis to ensure issues are identified early and remedial action, where necessary, is taken to restore effective capital performance and levels.

24. OTHER RESERVES

(A) Reserves

	2010 $'000	2009 $'000
Realised capital profits		
Balance brought forward and at 31 December	**27,906**	27,906
Foreign currency translation		
Balance brought forward	**(14,252)**	18,671
(Losses) gains for the year	**(18,176)**	(32,923)
Balance at 31 December	**(32,428)**	(14,252)
Other		
Balance brought forward and at 31 December	**1,770**	1,770
Total reserves at 31 December	**(2,752)**	15,424

24. OTHER RESERVES (CONTINUED)

(B) Retained profits

	2010 $'000	2009 $'000
Retained profits at 1 January	**64,205**	53,272
Net profit after income tax attributable to equity holders	**22,183**	47,000
Movement of retirement benefit fund	**(318)**	-
Other	**71**	-
Total available for appropriation	**86,141**	100,272
Dividends proposed, authorised and paid	**(41,195)**	(36,067)
Retained profits at 31 December	**44,946**	64,205

25. MANDATORY CONVERTIBLE SECURITIES

	2010 $'000	2009 $'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.

26. APRA CAPITAL ADEQUACY

The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2010 position reflects the December 2010 quarter APRA return (unaudited).

	2010 $'000	2009 $'000
Tier 1 Capital		
Paid up ordinary shares	**230,000**	230,000
General reserves	**(2,753)**	(13,636)
Retained earnings under APRA methodology	**44,946**	122,626
Outstanding claims provision surplus	**24,616**	-
Premium liabilities surplus	**25,769**	-
Tax effect of OCP and PI surplus	**(15,115)**	-
Residual Tier 1 Capital	**307,463**	338,990
Mandatory convertible notes	**91,215**	91,215
Deductions	**(16,687)**	(17,450)
Total capital base	**381,991**	412,755
Total minimum capital requirement	**99,424**	83,971
Capital adequacy multiple	**3.84**	4.91

The insurance 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.

27. 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 2010 and 2009 is set out below.

	2010 $	**2009 $**
Short-term employee benefits	**4,066,053**	4,655,832
Post employment benefits	**352,137**	351,147
Other long-term employment benefits	**49,298**	38,978
Share based payments	**833,859**	575,007
	5,301,347	5,620,964

28. SUPERANNUATION SURPLUS

	2010 $'000	2009 $'000
Superannuation surplus	-	917

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 was changed from a defined benefit to a defined contribution scheme. Following advice from the Scheme's actuary, Mercer, the company was able to utilise the existing surplus in meeting its future contributions and as such the remaining asset was recorded on the company's balance sheet at 31 December 2009.

29. REMUNERATION OF AUDITORS

	2010 $	2009 $
PricewaterhouseCoopers – Australian firm[1]		
Audit or review of financial reports	**187,907**	245,246
Audit of statutory returns	**73,601**	96,844
Actuarial services	**61,200**	61,200
	322,708	403,290
Related practices of PricewaterhouseCoopers		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports	**297,638**	372,557
Audit of statutory returns	**64,801**	83,592
Taxation services	**83,192**	93,329
	445,631	549,478
	768,339	952,768
Audit and assurance services	**623,947**	798,239
Other services	**144,392**	154,529
	768,339	952,768

[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.

30. CONTINGENT LIABILITIES

	2010 $'000	2009 $'000
The company had the following unsecured contingent liabilities:		
Bankers guarantee to overseas branch	768	801
Guarantee to related entities	11,676	13,330
	12,444	14,131

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.

31. CAPITAL EXPENDITURE COMMITMENTS

The company had no commitments for expenditure as at 31 December 2010 (2009: nil).

32. OPERATING LEASE COMMITMENTS

	2010 $'000	2009 $'000
Payable:		
Not later than one year	**3,367**	1,647
Later than one but less than five years	**6,554**	9,020
Later than five years	**324**	716
Future minimum lease payments under non- cancellable operating leases	**10,245**	11,383

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

33. 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 17.

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

	2010 $,000	2009 $,000
Revenue		
Gross earned premium	**517**	-
Reinsurance and other recoveries - undiscounted	**148,845**	82,330
Reinsurance commission	**7,821**	7,742
Dividends received	**2,630**	3,174
Payments received for management services	**779**	1,973
Expenses		
Outward reinsurance premium	**117,078**	99,020
Payments made for management services	**13,788**	14,285
Other transactions		
Dividends paid	**41,195**	36,067

33. RELATED PARTIES (CONTINUED)

(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:

	2010 $,000	2009 $,000
Current assets		
Trade and other receivables	**7,511**	17,036
Reinsurance and other recoveries	**195,117**	83,248
Current liabilities		
Trade and other payables	**1,162**	-

(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 6(B)
Amounts due from controlled and related entities	Note 12
Disposal of investment property	Note 16
Investments in controlled entities	Note 17
Amounts due to controlled and related entities	Note 19
Tax sharing agreement	Note 7(B)
Mandatory Convertible Securities	Note 25
Remuneration of key management personnel	Note 27
Superannuation surplus	Note 28
Guarantees in respect of related parties	Note 30

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

	2010	2009
	$'000	$'000
Cash flows from operating activities	14,221	35,154
Depreciation of property, plant and equipment	(975)	(1,052)
Amortisation of premium/discount on fixed interest securities	(101)	(1,678)
Net (loss) profit on sale of plant and equipment	61	(152)
Net foreign exchange (losses) gains	(2,319)	(1,348)
Other gains (losses) on financial assets	(1,692)	17,603
(Increase) decrease in net outstanding claims	57,820	(3,972)
(Increase) decrease in unearned premiums	11,029	(13,265)
Increase (decrease) in net amounts receivable from controlled entities	1,085	2,226
Increase (decrease) in deferred insurance costs	(115,766)	18,487
Increase (decrease) in trade debtors	45,116	306
Increase (decrease) in other operating assets	1,903	(4,949)
Decrease (increase) in trade and other payables	11,473	3,877
Increase (decrease) in current tax liabilities	791	(4,123)
Decrease (increase) in defined benefit plan surplus/deficit	(463)	-
Increase (decrease) in other provisions and operating liabilities	-	(114)
Profit after income tax	22,183	47,000

35. EVENTS OCCURING AFTER REPORTING DATE

Other than the event mentioned below, there is, at the date of this report, no matter or circumstance that has arisen since 31 December 2010 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.

Catastrophe event in New Zealand

A catastrophe loss event occurred in the period subsequent to 31 December 2010 and its financial effect has not been brought to account at 31 December 2010.

The catastrophe event, an earthquake, occurred in February 2011 in Christchurch, New Zealand. It is too early to reliably estimate the gross losses for the company, however management does not believe that the net claims cost to the company, after reinsurance recoveries, will exceed $2.6 million.

QBE INSURANCE (INTERNATIONAL) LIMITED

(A.C.N. 000 000 948)

DIRECTORS' DECLARATION
For the year ended 31 December 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 58 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 2010 and of its performance, as represented by the results of their operations, changes in equity and its 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

Note1(A) confirms that the financial statements also comply with International Financial reporting Standards as issued by the International Accounting Standards Board.

Signed in SYDNEY this 3rd day of March 2011 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 2010, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(A), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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 control 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 procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Liability limited by a scheme approved under Professional Standards Legislation

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

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 2010 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 company's 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
3 March 2011