QBE INSURANCE (INTERNATIONAL) LIMITED

New Zealand Branch

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012.

The Board of Directors of QBE Insurance (International) Limited authorised these statements for issue on the 19 day of FEBRUARY 2013.

DIRECTOR: ____________

DIRECTOR: ____________

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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 2012, 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 Directors of the Branch are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of 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 auditors consider the internal controls relevant to the Branch's preparation of financial statements that give a true and fair view of 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.

We have no relationship with, or interests in, the Branch other than in our capacities as auditors and tax advisors. These services have not impaired our independence as auditors of the Branch.

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Independent Auditors' Report

QBE Insurance (International) Limited – New Zealand Branch

Opinion

In our opinion, the financial statements on pages 5 to 21:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) give a true and fair view of the financial position of the Branch as at 31 December 2012, and its financial performance for the year then ended.

Restriction on Distribution or Use

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

Chartered Accountants
21 February 2013

Auckland

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $000	2011 $000
Insurance premium revenue		311,993	266,826
Insurance premium ceded to reinsurers		(167,200)	(135,562)
Net insurance premium revenue		**144,793**	**131,264**
Movement in unearned premium reserve		(21,226)	(30,899)
TOTAL REVENUE		**123,567**	**100,365**
Claims expenses	6	46,537	66,603
Acquisition costs		20,487	21,408
Operating expenses	7	32,405	30,057
TOTAL EXPENSES		**99,429**	**118,068**
UNDERWRITING PROFIT/(LOSS)		**24,138**	**(17,703)**
Sundry income		454	1,321
Investment income	5	9,723	10,843
Other expenses	7	(6,467)	(5,705)
PROFIT/(LOSS) BEFORE TAXATION		**27,848**	**(11,244)**
Income tax (expense)/Credit	8	(7,960)	3,344
PROFIT/(LOSS) FOR THE YEAR		**19,888**	**(7,900)**
Other comprehensive loss after tax		-	423
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**19,888**	**(8,323)**

The accompanying notes form part of these Financial Statements

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QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE FOR THE YEAR ENDED 31 DECEMBER 2012

HEAD OFFICE – AUSTRALIA

	2012	2011
	$000	**$000**
Balance at 1 January	25,142	23,187
Profit/(loss) for the year	19,888	(7,900)
Other comprehensive expense	-	(423)
Total comprehensive income/(loss) for the year	19,888	(8,323)
Current net transactions with Head Office	1,589	10,278
Balance at 31 December	**46,619**	**25,142**

The accompanying notes form part of these Financial Statements

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Notes	2012 $000	2011 $000
DUE TO HEAD OFFICE – AUSTRALIA		46,619	25,142
LIABILITIES			
Trade and other payables	13	22,827	18,332
Outstanding claims	15	126,926	132,616
Unearned premiums reserve	14	146,631	125,405
Advances from related companies	17	91,704	107,298
Current tax payable		3,855	-
Deferred income tax liability	8	5,246	1,324
TOTAL LIABILITIES		**443,808**	**410,117**
ASSETS			
Cash and cash equivalents		37,815	17,139
Trade receivables	9	100,177	78,901
Other receivables	11	8,797	13,238
Deferred acquisition costs	16	23,299	21,946
Financial assets at fair value through profit or loss	12	271,944	276,951
Property, plant and equipment	10	1,776	1,942
TOTAL ASSETS		**443,808**	**410,117**

The accompanying notes form part of these Financial Statements

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 2012 and were authorised for issue by the directors on the 19 day of February 2013.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. 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 2012, 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.

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 contracts and financial liabilities arising under non insurance contracts.

(j) Property, plant and equipment

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

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

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

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

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

(k) Impairment of non financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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

(l) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

(m) Employee benefits

Superannuation

The Branch participates in a superannuation plan and contributes to the plan in accordance with plan rules and actuarial recommendations, which are designed to ensure that the plan's funding provides sufficient assets to meet its liabilities. The Superannuation Plan is considered to be a defined contribution scheme as 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 in Balances 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)**	
	%	**2012 $000**	**2011 $000**
Inflation rates	increase of 1%	(1,855)	(1,912)
	decrease of 1%	1,855	1,912
Discount rates	increase of 1%	1,828	1,884
	decrease of 1%	(1,828)	(1,884)
Claims expenses ratio	increase of 1%	(841)	(863)
	decrease of 1%	841	863
Weighted average term to settlement	+ 0.5 years	1,289	1,420
	- 0.5 years	(1,289)	(1,420)

Determined at the Branch level net of reinsurance and taxation.

4. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The Branch's risk management objectives are to:
- avoid unwelcome surprises by reducing uncertainty and volatility;
- achieve competitive advantage by better understanding the risk environment in which the Branch operates; and
- optimise risk and more effectively allocate resources by assessing the balance of risk and reward.

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

One of the cornerstones of the Branch's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices. The Branch operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored.

(A) Insurance risks

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

(i) Underwriting risks

Selection and pricing risks

Underwriting authority is delegated to experienced underwriters for the forthcoming year following a detailed retrospective and prospective analysis of each class of business as part of the Branch's annual business planning process. Delegated authorities reflect the level of risk which the Branch is prepared to take, and are measured by reference to some combination of:
- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures;
- probable maximum loss;
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business or types of product that may be written.

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

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

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

Concentration risk

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

The Branch has potential exposure to catastrophe losses that may impact more than one class of business. This exposure is monitored by reference to the Branch's maximum event retention ("MER") which is the estimated net loss from major natural catastrophes with an approximate return period of (250) years for that peril. Realistic disaster scenarios ("RDS'), industry standard probable maximum losses and various models are used to assess potential losses to major catastrophe events for determining the MER.

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

	2012 $000	2011 $000
Term deposits and bills receivable	31	99
Government securities	959	871
Local authority securities	5,395	7,621
Interest on current account	573	540
Equities	-	4
	6,958	9,135
Changes in net market value of investments:		
Term deposits and bills receivable	3,701	2,884
Local authority securities	(936)	(1,285)
Equities	-	109
	2,765	1,708
Investment income	9,723	10,843

6. CLAIM EXPENSES

(a) Claims Analysis

	2012 $000	2011 $000
Gross claims incurred	291,456	894,432
Claims handling expenses	1,140	314
Discount movement	829	(14,514)
Discounted gross claims incurred	293,425	880,232
Reinsurance and other recoveries	(246,767)	(831,182)
Discount movement	(121)	17,553
Discounted reinsurance recoveries	(246,888)	(813,629)
Net claims incurred	46,537	66,603

(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.

	2012 $000			2011 $000		
	Current Year	Prior Years	TOTAL	Current Year	Prior Years	TOTAL
Gross claims incurred and related expenses						
Undiscounted	101,557	191,039	292,596	880,196	14,550	894,746
Discount to present value	(3,662)	4,491	829	(24,667)	10,153	(14,514)
	97,895	195,530	293,425	855,529	24,703	880,232
Reinsurance and other recoveries						
Undiscounted	(44,749)	(202,018)	(246,767)	(812,458)	(18,724)	(831,182)
Discount to present value	1,575	(1,696)	(121)	22,558	(5,005)	17,553
	(43,174)	(203,714)	(246,888)	(789,900)	(23,729)	(813,629)
Net claims incurred	54,721	(8,184)	46,537	65,629	974	66,603

	2012	2011
	$000	$000

7. OPERATING EXPENSES

	2012 $000	2011 $000
Auditor's fees – audit	231	216
Auditor's fees – tax	37	49
Depreciation – leasehold Improvements	102	122
Depreciation – plant & equipment	255	306
Employee benefit expenses	25,222	21,235
Interest (note 17)	6,187	6,306
Lease and rental charges	2,175	2,207
Loss on sale of fixed assets	46	4
Provision for doubtful debts	13	37
Head office charges	3,861	3,707
Retirement plan contributions	1,275	932
Other (recoveries)/expenses	(532)	641
	38,872	35,762

8. INCOME TAX

	2012 $000	2011 $000
Profit/(loss) before tax	27,848	(11,244)
Taxation payable/(credit) at 28%	7,797	(3,148)
Expenses not deductible for tax purposes	71	101
NRWT on dividend and use of money interest	-	(1)
Pension plan surplus written off	-	(324)
Non assessable income	(8)	-
Prior period adjustment	100	28
Income tax attributable to profit/(loss) before tax	7,960	(3,344)
Comprising:		
Current period tax charge/(credit)	4,895	(30)
Movement in deferred income tax asset/(liability)	3,065	(3,314)
	7,960	(3,344)

Deferred income tax liability
The gross movement on the deferred income tax account is as follows:

	2012 $000	2011 $000
Beginning of year	(1,324)	(4,260)
Statement of Comprehensive Income	(3,065)	3,314
Statement of Changes in Balances due to Head Office	-	(77)
Losses transferred to QBE LMI	(857)	(301)
End of year	**(5,246)**	**(1,324)**

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	**Deferred Costs $000**	**Other $000**	**Total $000**
At 1 January 2011	(5,861)	(165)	(6,026)
(Charged)/credited to the Statement of Comprehensive Income	(284)	242	(42)
(Charged)/credited to the Statement of Changes in Balances due to Head Office	-	(77)	(77)
At 31 December 2011	(6,145)	-	(6,145)
(Charged)/credited to the Statement of Comprehensive Income	(379)	-	(379)
(Charged)/credited to the Statement of Changes in Balances due to Head Office	-	-	-
At 31 December 2012	**(6,524)**	**-**	**(6,524)**

Deferred Tax Assets	**Tax Losses $000**	**Depreciation $000**	**Provisions $000**	**Other $000**	**Total $000**
At 1 January 2011	367	895	465	39	1,766
(Charged)/Credited to the Statement of Comprehensive Income	3,853	(475)	1	(23)	3,356
Losses transferred to QBE LMI	(301)	-	-	-	(301)
At 31 December 2011	3,919	420	466	16	4,821
(Charged)/Credited to the Statement of Comprehensive Income	(3,062)	(402)	794	(16)	(2,686)
Losses transferred to QBE LMI	(857)	-	-	-	(857)
At 31 December 2012	**-**	**18**	**1,260**	**-**	**1,278**

9. TRADE RECEIVABLES

	2012 $000	**2011 $000**
Premium debtors	87,051	78,494
Due from reinsurers	13,256	524
Provision for doubtful debts	(130)	(117)
	100,177	78,901

10. PROPERTY, PLANT & EQUIPMENT

2012	**Plant & Equipment $000**	**Leasehold Improvements $000**	**Total $000**
Cost or Valuation			
At 1 January	3,322	1,400	4,722
Additions	183	102	285
Disposals	(329)	(40)	(369)
At 31 December	3,176	1,462	4,638
Accumulated Depreciation			
At 1 January	2,211	569	2,780
Depreciation charge	255	101	356
Disposals	(265)	(9)	(274)
At 31 December	2,201	661	2,862
Carrying Amount			
At 31 December 2012	975	801	1,776

	Plant & Equipment $000	Leasehold Improvements $000	Total $000
2011			
Cost or Valuation			
At 1 January	3,575	1,399	4,974
Additions	79	32	111
Disposals	(332)	(31)	(363)
At 31 December	3,322	1,400	4,722
Accumulated Depreciation			
At 1 January	2,225	473	2,698
Depreciation charge	306	122	428
Disposals	(320)	(26)	(346)
At 31 December	2,211	569	2,780
Carrying Amount			
At 31 December 2011	1,111	831	1,942

	2012 $000	2011 $000
11. OTHER RECEIVABLES		
Accrued investment income	998	1,163
Other receivables and prepayments	7,799	12,075
Total receivables and other assets	8,797	13,238

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 $000	2011 $000
Term deposits	545	614
Bills receivable	149,546	136,054
Government securities	15,630	16,111
Local authority securities	77,219	124,172
Corporate bonds	29,004	-
Total investments	271,944	276,951

13. TRADE AND OTHER PAYABLES

	2012 $000	2011 $000
Due to reinsurers	430	665
Other payables	22,397	17,667
Total trade and other payables	22,827	18,332

14. UNEARNED PREMIUM RESERVE

	2012 $000	2011 $000
Gross unearned premium reserve	168,403	145,485
Reinsurance unearned premium reserve	(21,772)	(20,080)
	146,631	125,405
Unearned premium at 1 January	125,405	94,506
Deferral of premiums on contracts written in the year	140,192	119,386
Earning of premiums written in previous and current year	(118,966)	(88,487)
Unearned premium at 31 December	146,631	125,405

15. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2012 $000	2011 $000
Gross outstanding claims	847,087	886,199
Claims settlement costs	8,533	7,393
	855,620	893,592
Discount to present value	(35,158)	(35,987)
Gross outstanding claims provision	820,462	857,605
Reinsurance and other recoveries on outstanding claims	(722,806)	(754,380)
Discount to present value	29,270	29,391
	(693,536)	(724,989)
Net outstanding claims	126,926	132,616
Central estimate	103,347	105,959
Risk margin	23,579	26,657
Net outstanding claims	126,926	132,616

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 2.83% (2011: 2.98%). 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 2.2 years (2011: 2.3 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% (2011 : greater than 80%).

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(B) Claims Development

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

	2006	2007	2008	2009	2010	2011	2012	TOTAL
	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of net ultimate claims cost:								
At end of accident year	65,506	57,499	58,099	48,184	60,995	62,659	54,423	
One year later	67,847	53,621	60,634	44,759	61,036	59,143		
Two years later	63,786	51,456	63,784	43,747	56,446			
Three years later	62,616	52,396	63,888	43,133				
Four years later	63,496	51,025	61,787					
Five years later	59,741	50,096						
Six years later	58,987							
Current estimate of net cumulative claims cost	58,987	50,096	61,787	43,133	56,446	59,143	54,423	384,015
Cumulative net payments	55,391	47,350	51,977	29,984	41,926	35,821	10,638	273,087
Net undiscounted outstanding claims for the seven most recent accident years	**3,596**	**2,746**	**9,810**	**13,149**	**14,520**	**23,322**	**43,785**	**110,928**

(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	110,928
Outstanding claims – accident years 2005 and prior	13,353
Claims settlements costs	8,533
Discount on outstanding claims	(5,888)
Net outstanding claims	**126,926**

16. DEFERRED ACQUISITION COSTS

	2012	2011
	$000	$000
Deferred costs at 1 January	21,946	20,931
Costs deferred in current year	21,853	20,801
Amortisation charged to Statement of Comprehensive Income	(20,500)	(19,786)
Deferred costs at 31 December	23,299	21,946

A liability adequacy test was performed which identified a surplus so no write down was required (2011: nil).

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17. RELATED PARTY DISCLOSURES

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

Related Party	Description	2012 $000	2011 $000
QBE Insurance Group Limited - (a)	Mandatory convertible notes	102,000	102,000
QBE Equator Re	Reinsurance expense	(10,046)	4,648
QBE Insurance (Australia) Limited	Reinsurance expense	646	730
QBE Lenders' Mortgage Insurance Ltd	Reinsurance recoveries	(63)	(80)
QBE Management (Ireland) Limited	Reinsurance recoveries	(833)	-
		91,704	**107,298**

(a) 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.

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

	2012 $000	2011 $000
Transactions with QBE Insurance Group Limited		
Interest on related party loan	6,187	6,306
Transactions with QBE Insurance (International) Limited		
Reinsurance expense less recoveries	92,412	63,532
Administration and management fees	3,861	3,703
Reimbursement of transactions with related parties	449	113
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	90,572	24,940
Tax (receivable)/payable through group offsets	(857)	(301)

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.

Due to the Christchurch earthquakes in 2011 the Branch purchased additional cover to reinstate its reinsurance position prior to these catastrophic events and the additional costs have been expensed in these financial statements.

19. CAPITAL COMMITMENTS

Capital commitments contracted at balance date were nil (2011: nil).

20. CONTINGENT LIABILITIES

Other than operating lease obligations there were no material contingent liabilities existing at balance date (2011: Nil).

21. OPERATING LEASE OBLIGATIONS

	2012 $000	2011 $000
Obligations payable after balance date on non cancellable operating leases are as follows:		
Within one year	2,302	2,362
One to two years	2,160	1,974
Two to five years	1,620	3,064
Over five years	195	7

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.

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22. CREDIT RATING

Standard & Poor's Ratings Services affirmed the financial strength rating of A+ with a stable outlook for QBE Insurance (International) Limited, New Zealand Branch, on 28 June 2012.

23. EVENTS AFTER BALANCE DATE

There have been no events since balance date that have significantly affected the Branch's operations or financial state of affairs.