

QBE INSURANCE (INTERNATIONAL) LIMITED

NEW ZEALAND BRANCH

FINANCIAL REPORT – 31 DECEMBER 2013

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QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch


STATEMENT BY DIRECTORS
For the year ended 31 December 2013

We, being two directors of QBE Insurance (International) Limited, certify that the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Balances Due To Head Office, Statement of Cash Flows and notes set out on pages 8 to 38 are true copies of the Financial Statements of the New Zealand Branch of the Company for the year ended 31 December 2013.

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

the 10th day of April 2014.

DIRECTOR:



DIRECTOR:





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 4 to 38, which comprise the balance sheet as at 31 December 2013, the statement of comprehensive income, the statement of changes in balances due to head office and the statement of cash flows, 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 advisers. These services have not impaired our independence as auditors of the Branch.



Independent Auditors' Report

QBE Insurance (International) Limited New Zealand Branch

Opinion

In our opinion, the financial statements on pages 4 to 38:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Branch as at 31 December 2013, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Branch as far as appears from an examination of those records.

Restriction on Use of our Report

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.

A large, stylized handwritten signature in red ink, appearing to be 'Munich' or similar, with a long horizontal flourish extending to the right.

Chartered Accountants
14 April 2014

Auckland

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	NOTE	2013 \$000's	2012 \$000's
Gross written premium		325,352	311,993
Unearned premium movement		(9,386)	(22,918)
Gross earned premium revenue		315,966	289,075
Outward reinsurance premium		(150,067)	(167,200)
Deferred reinsurance premium movement		(5,033)	1,692
Outward reinsurance premium expense		(155,100)	(165,508)
Net earned premium		160,866	123,567
Gross claims incurred	8	(113,963)	(293,425)
Reinsurance and other recoveries revenue	8	57,753	246,888
Net claims incurred	8	(56,210)	(46,537)
Gross commission expense		(44,297)	(42,026)
Reinsurance commission revenue		9,580	21,132
Net commission		(34,717)	(20,894)
Deferred acquisition cost movement		1,104	407
Underwriting expenses	6	(39,552)	(32,405)
Underwriting profit		31,491	24,138
Sundry income		1,448	454
Investment income	7	10,570	9,723
Interest expense		(5,960)	(6,187)
Investment expense	7	(767)	(279)
Profit before income tax		36,782	27,848
Income tax expense	9	(10,389)	(7,960)
Profit for the year attributable to Head Office Account		26,393	19,888
Other comprehensive income after income tax		-	-
Total comprehensive income for the year attributable to Head Office Account		26,393	19,888

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

BALANCE SHEET
As at 31 December 2013

	NOTE	2013 \$000's	2012 \$000's
ASSETS			
Cash and cash equivalents	10	6,443	37,815
Investments	11	351,390	271,944
Trade and other receivables	12	123,941	119,987
Deferred insurance costs	13	43,509	46,474
Reinsurance and other recoveries on outstanding claims	18	490,777	693,536
Property, plant and equipment	14	2,152	1,776
Total assets		1,018,212	1,171,532
LIABILITIES			
Trade and other payables	16	141,936	126,947
Current tax liabilities		4,469	3,855
Unearned premium	17	177,790	168,403
Outstanding claims	18	608,370	820,462
Deferred tax liabilities – net	15	7,157	5,246
Total liabilities		939,722	1,124,913
Net assets		78,490	46,619
Due to Head Office – Australia	20	78,490	46,619

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE
For the year ended 31 December 2013

HEAD OFFICE – AUSTRALIA	NOTE	2013 \$000's	2012 \$000's
Balance as at 1 January		46,619	25,142
Profit for the year		26,393	19,888
Total comprehensive income		26,393	19,888
Current transactions with Head Office		5,478	1,589
Balance at 31 December	20	78,490	46,619

The statement of changes in balances due to Head Office should be read in conjunction with the accompanying notes.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	NOTE	2013 \$000's	2012 \$000's
OPERATING ACTIVITIES			
Premium received		316,912	303,449
Reinsurance and other recoveries received		266,583	264,774
Outwards reinsurance paid		(146,616)	(183,890)
Claims paid		(326,055)	(330,568)
Insurance costs paid		(35,681)	(21,855)
Interest received		7,734	7,122
Other operating income		381	4,601
Other operating payments		(23,219)	(24,122)
Income taxes paid		(7,864)	(183)
Net cash flows from operating activities	10	52,175	19,328
INVESTING ACTIVITIES			
Proceeds on sale of investments		717,024	760,245
Payments for purchase of investments		(793,811)	(752,473)
Payments for purchase of plant and equipment		(800)	(237)
Net cash flows from investing activities		(77,587)	7,535
FINANCING ACTIVITIES			
Interest expense		(5,960)	(6,187)
Net cash flows from financing activities		(5,960)	(6,187)
Net movement in cash and cash equivalents		(31,372)	20,676
Cash and cash equivalents at the beginning of the financial year		37,815	17,139
Cash and cash equivalents at the end of the financial year	10	6,443	37,815

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. GENERAL INFORMATION

QBE Insurance (International) Limited (sometimes referred to as the Parent or Head Office), is a company incorporated in Australia and operates in New Zealand as a branch (the Branch).

The Branch is an insurer providing general insurance services. It is based at 29 Customs Street West, Auckland.

The financial statements of the Branch are for the year ended 31 December 2013 and were authorised for issue by the directors on the 10th day of April 2014.

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

(A) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit oriented entities. 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.

The financial statements of the Branch comply with International Financial Reporting Standards (IFRS).

In past years the Branch qualified for and applied the differential reporting exemptions allowed under the Framework for Differential Reporting. From 1 January 2013 however the Branch became an Issuer under the Financial Reporting Act 1993 as it became a licenced insurer under the Insurance (Prudential Supervision) Act 2010 during the year. From this date the Branch no longer qualified for nor applied any differential reporting exemptions.

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 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.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 4.

(B) Unearned premium

Unearned premium is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risks underwritten, using the daily pro-rata method or the 24ths method.

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The resulting deficiency is recognised immediately through the profit or loss.

QBE INSURANCE (INTERNATIONAL) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

(C) Premium revenue

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

(D) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Accordingly, a portion of outward reinsurance premium is treated as deferred reinsurance premium at the balance sheet date.

(E) Claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs. Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

(F) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

(G) Acquisition costs

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

(H) 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 net fair value gains or losses on financial assets in the Statement of Comprehensive Income.

(I) 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.

QBE INSURANCE (INTERNATIONAL) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that is not a business combination and at the time did not affect either accounting profit or taxable loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability on a net basis, or to realise the asset and settle the liability simultaneously.

(J) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements.

(K) Investments

Investments comprise interest-bearing assets. Investments are designated as at fair value through profit or loss on initial recognition. They are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. The policy of management is to designate a group of financial assets or financial liabilities as at 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 Branch's documented investment strategy.

Fixed and floating rate securities are valued using independently sourced valuations.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the Branch commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(L) Trade and other receivables

Trade and other receivables are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original term of the receivable. 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.

(M) Property, plant and equipment

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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.

(N) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows.

(O) Trade and other payables

Trade and other payables are measured at cost and are settled under standard terms and conditions. Related party payables are measured at cost and are repayable on demand.

(P) Foreign currency

(i) Functional and Presentation currency

The Branch's financial statements are presented in New Zealand dollars, being the functional and presentation currency of the Branch.

(ii) Translation of foreign currency transactions and balances

Foreign currency transactions are translated into New Zealand dollars at the spot rates of exchange applicable at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

(iii) Hedging transactions

Derivatives may be used to hedge the foreign exchange risk relating to certain transactions.

(Q) Employee benefits

(i) Superannuation

The Branch contributes to a privately administered pension plan on a mandatory, contractual or voluntary basis. The Branch has no obligation once the contributions have been paid. All contributions are recognised as an employee expense when they are due.

(ii) Share based payment

The employees of the branch 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.

(iii) Other

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

(R) 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.

(S) 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.

(T) Comparatives

Prior period comparative information has been amended to achieve consistency in disclosure with the current year.

(i) Presentation of The Statement of Comprehensive Income has been changed to align with the Parent company format.

(ii) Balance Sheet comparatives for the prior year have been reclassified by grossing up assets and liabilities previously offset. The impact of these movements is reflected in the table below:

	Dec 12 Restated \$000's	Dec 12 Prior Yr \$000's	Movement \$000's
Assets			
Cash and cash equivalents	37,815	37,815	-
Investments	271,944	271,944	-
Trade and other receivables	119,987	108,974	11,013
Deferred insurance costs	46,474	23,299	23,175
Reinsurance and other recoveries on outstanding claims	693,536	-	693,536
Property plant and equipment	1,776	1,776	-
Total assets	1,172,532	443,808	727,724
Liabilities			
Trade and other payables	126,947	114,531	12,416
Current tax liabilities	3,855	3,855	-
Unearned premium	168,403	146,631	21,772
Outstanding claims	820,462	126,926	693,536
Deferred tax liabilities	5,246	5,246	-
Total liabilities	1,124,913	397,189	727,724
Net assets/Due to Head Office	46,619	46,619	-

3. NEW ACCOUNTING STANDARDS AND AMENDMENTS

The following standards, amendments and interpretations to existing standards which have been published and are mandatory for the Branch's accounting periods beginning on or after 1 January 2014 have not been early adopted:

- NZ IFRS 9, Financial Instruments effective 1 January 2017. Introduces changes in the classification and measurement of financial assets and liabilities. Not expected to have a material impact on the financial statements.
- Amendment to IAS 32, Financial Instruments Presentation effective 1 January 2014. Clarifies some of the requirements for offsetting financial assets and liabilities in the balance sheet. Not expected to have a material impact on the financial statements.

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- Amendment to IAS 36, Impairment of Assets effective 1 January 2014. Addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Not expected to have a material impact on the financial statements.
- Amendment to IAS 39, Financial Instruments: Recognition and measurement effective 1 January 2014. Addresses the novation of derivatives and hedge accounting. Not expected to have a material impact on the financial statements.

The Branch has adopted the following new standards as of 1 January 2013:

- NZ IFRS 13, Fair Value Measurement effective 1 January 2013. Replaces the existing guidance with a single standard, and has no material impact on the financial statements other than additional disclosure requirements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates of the outstanding claims as at 31 December 2013 has been carried out by Kon Makris, Fellow of the Institute of Actuaries of Australia.

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

The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's obligations after having regard to the prevailing market environment and prudent industry practice.

The key areas in which critical estimates and judgments are applied are described as follows:

(A) Outstanding claims provision

The Branch's net outstanding claims provision comprises:

- the gross central estimate of expected future claims payments;
- amounts recoverable from reinsurers based on the gross central estimate;
- a reduction to reflect the discount to present value using risk-free rates of return to reflect the time value of money; and
- a risk margin that reflects the inherent uncertainty in the net discounted central estimate.

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the Branch requires a higher probability that estimates will be adequate over time, a risk margin is added to the net discounted central estimate to determine the outstanding claims provision.

(i) Central estimates

The provision for expected future payments includes those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs, being the indirect expenses incurred in the settlement of claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claims is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, typically display greater variability between initial estimates and final settlement due to delays in reporting claims, uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to more certainty. The estimation techniques and assumptions used in determining the central estimate are described below.

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For the year ended 31 December 2013

The Branch's process for establishing the central estimate involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes half yearly internal claims provisioning committee meetings attended by the senior management and the Appointed Actuary and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 5.

The determination of the amounts that the Branch will ultimately pay for claims arising under insurance and reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the central estimate on the Branch's profit or loss are summarised in note 4(A)(v).

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate.

The net central estimate is discounted at risk-free rates of return to reflect the time value of money. Details of the key assumptions applied in the discounting process are summarised in note 4(A)(iv).

(ii) Assets arising from contracts with reinsurers

Assets arising from contracts with the Branch's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance sheet date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty and credit risk in relation to reinsurance assets is considered in note 5(C)(ii).

(iii) Risk margin

Risk margins are determined by management and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- change in the mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement;
- prior accident year claims development; and
- the level of uncertainty in the net discounted central estimate due to actuarial estimation, data quality issues, variability of key discount and inflation assumptions and legislative uncertainty.

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

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

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

The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from the comparison of the risk margin with the net discounted central estimate. Using a range of outcomes, it allows a determination of the probability of adequacy represented by a risk margin. For example, a 90% probability of adequacy indicates that the outstanding claims provision is expected to be adequate nine times in ten. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

(iv) Financial assumptions used to determine the outstanding claims provision

Discount rates

NZ IFRS Standard 4 Insurance Contracts requires that the outstanding claims provision shall be discounted for the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations. The standard also states that government bond rates may be an appropriate starting point in determining a risk-free rate. The Branch generally uses currency specific risk-free rates to discount the outstanding claims provision.

The discount rates used in the measurement of outstanding claims and reinsurance recoveries for the succeeding year was 2.90% (2012: 2.53%) and subsequent years were 3.29% – 4.70% (2012: 2.53% – 3.71%).

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled. The weighted average term to settlement of the Branch's claims provision is 1.6 years (2012: 2.1 years).

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

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

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.

The impact of a change in interest rates on profit after tax due to market value movement on fixed interest securities is shown in note 5(D)(ii).

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	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT PROFIT (LOSS) ¹	
		2013 \$000's	2012 \$000's
Inflation rates	increase of 1%	(1,153)	(1,855)
	decrease of 1%	1,130	1,855
Discount rates	increase of 1%	1,081	1,828
	decrease of 1%	(1,124)	(1,828)
Claims expenses ratio	increase of 1%	(658)	(841)
	decrease of 1%	658	841
Weighted average term to settlement	+0.5 years	1,169	1,289
	-0.5 years	(1,189)	(1,289)

Determined at the Branch level net of reinsurance and taxation

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

(B) Liability adequacy test

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims, plus a risk margin to reflect the inherent uncertainty of the central estimate. Future claims are those claims expected to arise from claims events occurring after the balance sheet date. The assessment is carried out using the same methods described in note 4(A) above and 17(B).

5. RISK MANAGEMENT

QBE Group's risk management policy, strategy and framework are embedded in the head office and in each of the divisional operations and business units within each of the divisions, ensuring a consistent approach to managing risk across the organisation. The board annually approves a comprehensive risk management strategy (RMS), including a risk appetite statement and a reinsurance management strategy (REMS).

As a member of the QBE Group, the Branch has adopted the risk management policy of QBE Group where applicable. The Branch's risk management objectives are to:

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

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

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

QBE Group's global risk management framework defines the risks that QBE Group is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value of our shareholders. The framework is made up of complementary elements that are embedded

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throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self assessment, risk treatment, optimisation and ongoing improvement through management action plans, risk and performance monitoring.

A fundamental part of the Branch's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The operating activities of the Branch expose it to risks such as market risk, credit risk and liquidity risk. The branch's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Branch has established internal controls to manage risk in the key areas of exposure relevant to its business.

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

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

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

(A) Strategic risk

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

Capital management risk

The Branch is subject to extensive prudential and other forms of regulation in 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 NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. QBE Group works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

(B) Insurance risk

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

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

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

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(i) Underwriting risks

Selection and pricing of risks

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

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

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

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

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

Concentration risk

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

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

(ii) Claims management and claims estimation risks

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

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

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Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons provided in note 4.

(iii) Reinsurance

Reinsurance is purchased to make the Branch's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The majority of reinsurance will be arranged on a non proportional excess of loss treaty basis. Facultative cover will only be used where the inclusion of certain risks in the treaty would have an undue effect on the treaty or where there was a specific exposure that could not be covered under the treaty.

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

The quality of the Branch's exposure to reinsurance counterparties is actively monitored at Branch level with reference to detailed counterparty analysis prepared using age of balance and rating agency analysis.

(C) Credit risk

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

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

- A QBE Group-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE group and establishes tolerance levels. Compliance with the policy is monitored and exposures and breaches are reported to the QBE Group investment committee.
- Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. The policy also sets out minimum credit ratings for investments.
- QBE Group has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which the Branch may transact. The Branch does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings and therefore does not require collateral or other security to support derivatives.
- Credit risk in respect of premium debtors and reinsurance receivables is actively monitored. Strict controls are maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is managed by adherence to counterparty limits. The provision for impairment is formally assessed by management at least four times a year.

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(i) Credit quality of financial assets

The following tables provide information regarding the Branch's aggregate credit risk exposure at the balance sheet date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they comprise of smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to Moody's counterparty credit ratings. Aaa is the highest possible rating.

	CREDIT RATING			
	Aaa \$000's	Aa \$000's	A \$000's	TOTAL \$000's
At 31 December 2013				
Cash and cash equivalents	-	6,208	235	6,443
Interest bearing investments	24,821	326,569	-	351,390
At 31 December 2012				
Cash and cash equivalents	-	37,657	158	37,815
Interest bearing investments	35,843	236,101	-	271,944

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure.

The following table provides information regarding the ageing of the Branch's financial assets that are past due but not impaired at the balance sheet date.

	PAST DUE BUT NOT IMPAIRED \$000's	PAST DUE BUT NOT IMPAIRED				TOTAL \$000's
		0 TO 3 MTHS \$000's	3 TO 6 MTHS \$000's	6 MTHS TO 1 YEAR \$000's	GREATER THAN 1 YEAR \$000's	
At 31 December 2013						
Amounts due from related entities	980	-	-	-	-	980
Premium receivable ¹	61,469	5,035	81	-	-	66,585
Other debtors	9,935	-	-	-	-	9,935
At 31 December 2012						
Amounts due from related entities	11,013	-	-	-	-	11,013
Premium receivable ¹	61,052	2,298	66	-	-	63,416
Other debtors	8,691	-	-	-	-	8,691

¹ Net of a provision for impairment

(ii) Reinsurance counterparty credit risk

The Branch's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the divisional security committee and is controlled by reference to the following protocols:

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- Treaty or facultative reinsurance is placed in accordance with the requirements of the Branch's reinsurance management strategy and Group security committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses and the Branch's maximum event retention.
- Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

The following table provides information about the quality of the Branch's credit risk exposure in respect of undiscounted reinsurance and other recoveries on outstanding claims at the balance sheet date. The analysis classifies the assets according to Standard and Poors counterparty ratings. AAA is the highest possible rating.

		CREDIT RATING					TOTAL \$000's
		AAA \$000's	AA \$000's	A \$000's	BBB \$000's	NOT RATED \$000's	
Reinsurance recoveries on outstanding claims ¹	2013	-	263,618	252,623	548	1	516,790
	2012	-	389,074	333,457	228	47	722,806
Reinsurance recoveries on paid claims ¹	2013	-	12,580	4,336	-	-	16,916
	2012	-	8,145	5,111	-	-	13,256

¹ Net of a provision for impairment.

There are no amounts past due. (2012: nil)

(D) Market risk

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

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

(i) Currency risk

The Branch's exposure to currency risk generally arises as a result of the translation of foreign currency amounts back to the functional currency of the Branch. There is no material currency risk exposure to the Branch.

(ii) Interest rate risk

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

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

The claims provision is discounted to present value by reference to risk-free interest rates. The Branch is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 4(A)(v). QBE Group has a policy of maintaining a relatively short duration for assets backing insurance liabilities in order to minimise any further potential volatility affecting insurance profit.

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The contractual maturity profile of the Branch's interest-bearing financial assets and hence its exposure to interest rate risk, and the effective weighted average interest rate for interest-bearing financial assets is analysed in the table below. The table includes investments at the maturity date of the security; however, many of the longer dated securities have call dates of relatively short duration.

INTEREST – BEARING FINANCIAL ASSETS MATURING IN							
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	TOTAL
At 31 December 2013							
Fixed rate	\$000's	229,089	16,701	-	-	-	245,790
Weighted average interest rate	%	2.85%	3.53%	0%	0%	0%	2.89%
Floating rate	\$000's	21,602	39,896	27,851	14,514	8,180	112,043
Weighted average interest rate	%	2.78%	3.19%	3.30%	3.44%	3.54%	3.19%
At 31 December 2012							
Fixed rate	\$000's	176,035	7,293	10,852	-	-	194,180
Weighted average interest rate	%	2.76%	3.26%	2.81%	-	-	2.78%
Floating rate	\$000's	54,393	15,043	21,549	12,430	12,164	115,579
Weighted average interest rate	%	2.56%	3.68%	3.91%	4.15%	4.18%	3.36%

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Branch at the balance sheet date is shown in the table below.

	SENSITIVITY %	PROFIT/(LOSS) & EQUITY ¹	
		2013 \$000's	2012 \$000's
Interest rate movement – interest-bearing financial assets	+0.50	(354)	(354)
	-0.50	354	354

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

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

At 31 December 2013, the Branch did not hold any investments in listed equities (2012: nil). The branch is exposed to price risk on its investment in corporate fixed interest and floating rate securities. All corporate securities are measured at fair value through profit or loss. Movements in credit spreads impact the value of corporate fixed interest and floating rate securities and therefore impact reported profit after tax. The profit/(loss) impact in \$000's of a plus or minus 0.5% change in credit spreads is (1,008) – 980, 2012 (859) – 859.

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(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 Branch's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the Branch's obligations including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for the Parent.

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

In addition to treasury cash held for working capital requirements, and in accordance with the Branch's liquidity policy, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations. The Branch has a strong liquidity position. The maturity of the Branch's interest-bearing financial assets is included in note 5(D)(ii).

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

The Branch has no significant concentration of liquidity risk.

The maturity profile of the Branch's net outstanding claims provision is analysed in note 18(B). All other financial liabilities have a contractual maturity profile of 1 year or less except for the Mandatory Convertible Notes (MCN's) which have a longer life.

The MCN's are subject to contractual interest obligations over the term of the facility. Interest payments are based on the Bloomberg 6 month mid rate for New Zealand Bank Bills plus a margin. Refer note 26 for further details.

(F) Operational risk

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

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

One of the cornerstones of the Branch's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices.

The Branch operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

(G) Group risk

Group risk is the risk to the Branch arising specifically from being part of the Group, including the financial impact and loss of support from the parent company.

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6. EXPENSES

	2013 \$000's	2012 \$000's
Depreciation – leasehold improvements	96	102
Depreciation – property, plant & equipment	323	255
Employee benefit expenses	26,997	25,090
Lease and rental charges	1,712	1,835
Loss on sale of property, plant and equipment	4	46
Provision for doubtful debts	15	13
Head office charges	5,969	3,861
Retirement plan contributions	1,131	1,407
Other expenses	3,305	(204)
	39,552	32,405

7. INVESTMENT INCOME AND EXPENSE

	2013 \$000's	2012 \$000's
Investment income		
Interest received or receivable	7,911	6,957
Net fair value gains on financial assets	2,659	2,765
	10,570	9,723
Investment expense		
Foreign exchange (losses)/profit	(454)	8
Investment expenses	(313)	(287)
	(767)	(279)
Net investment income	9,803	9,444

8. CLAIMS INCURRED

Claims analysis

	2013 \$000's	2012 \$000's
Gross claims incurred and related expenses		
Direct	113,963	293,425
Reinsurance and other recoveries		
Direct	57,753	246,888
Net claims incurred	56,210	46,537

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(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 years and include releases of risk margins as claims are paid.

	CURRENT YEAR \$000's	2013 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2012 PRIOR YEARS \$000's	TOTAL \$000's
Gross claims incurred and related expenses						
Undiscounted	94,866	15,613	110,479	109,331	183,265	292,596
Discount	(2,986)	6,470	3,484	(3,662)	4,491	829
	91,880	22,083	113,963	105,669	187,756	293,425
Reinsurance and other recoveries						
Undiscounted	28,746	25,750	54,496	44,203	202,564	246,767
Discount	(967)	4,224	3,257	(1,575)	1,696	121
	27,779	29,974	57,753	42,628	204,260	246,888
Net claims incurred						
Undiscounted	66,120	(10,137)	55,983	65,128	(19,299)	45,829
Discount	(2,019)	2,246	227	(2,087)	2,795	708
	64,101	(7,891)	56,210	63,041	(16,504)	46,537

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

The development of the net outstanding claims for the 10 most recent accident years is shown in note 18(E). This note is a reconciliation of the amounts included in the table in note 8(B) and the current financial year movements in the claims development table.

	CURRENT YEAR \$000's	2013 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2012 PRIOR YEARS \$000's	TOTAL \$000's
Net undiscounted claims development – central estimate (note 18 (E))	53,734	2,055	55,789	54,423	(11,643)	42,780
Movement in claims settlement costs	4,553	(3,924)	629	1,026	5,101	6,127
Movement in discount	(2,019)	2,246	227	(2,087)	2,795	708
Movement in risk margin	7,833	(8,268)	(435)	9,679	(12,757)	(3,078)
Net claims incurred – discounted	64,101	(7,891)	56,210	63,041	(16,504)	46,537

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9. INCOME TAX

Reconciliation of prima facie tax to income tax expense

	2013 \$000's	2012 \$000's
Profit before income tax	36,782	27,848
Prima facie tax payable at 28%	10,299	7,797
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	67	63
Prima facie tax adjusted for non-temporary differences	10,366	7,860
Under provision in prior years	23	100
Income tax expense	10,389	7,960
Analysed as follows:		
Current tax	8,478	4,895
Deferred tax	1,911	3,065
	10,389	7,960
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	958	2,686
Deferred tax liabilities recognised in profit or loss	953	379
	1,911	3,065

10. CASH AND CASH EQUIVALENTS

	2013 \$000's	2012 \$000's
Cash at bank and on hand	6,443	37,815

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

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

Reconciliation of profit after income tax to net cash flows from operating activities

	2013 \$000's	2012 \$000's
Profit after income tax	26,393	19,888
Depreciation of property, plant and equipment	419	357
Fair value movement of financial assets	(2,659)	(2,765)
Loss on sale of plant and equipment	4	47
Interest expense	5,960	6,187
Movement in trade and other payables	14,989	(151)
Movement in trade and other receivables	(3,954)	(27,770)
Movement in net outstanding claims	(9,332)	(5,690)
Movement in unearned premiums	9,287	22,918
Movement in deferred insurance costs	2,965	(3,059)
Movement in tax balances	2,525	7,777
Movement in Head Office account	5,478	1,589
Net cash flows from operating activities	52,175	19,328

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

11. INVESTMENTS

	2013 \$000's	2012 \$000's
Fixed interest rate		
Short term money	25,000	-
Government bonds	7,374	15,630
Corporate bonds	38,912	29,004
	71,286	44,634
Floating interest rate		
Short term money	174,630	150,091
Fixed interest trusts	105,474	77,219
	280,104	227,310
Total investments	351,390	271,944
Amounts maturing within 12 months	244,248	204,204
Amounts maturing in greater than 12 months	107,142	67,740
Total investments	351,390	271,944

Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Fixed and floating rate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Fair value hierarchy

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

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus price using broker quotes and valuation model with observable inputs.

Level 3: Valuation techniques are applied for which any significant input is not based on observable market data. There were no level 3 investments.

	2013			2012		
	LEVEL 1 \$000's	LEVEL 2 \$000's	TOTAL \$000's	LEVEL 1 \$000's	LEVEL 2 \$000's	TOTAL \$000's
Short-term money	25,128	174,502	199,630	545	149,546	150,091
Government bonds	7,374	-	7,374	15,630	-	15,630
Corporate bonds	-	144,386	144,386	-	106,223	106,223
Total investments	32,502	318,888	351,390	16,175	255,769	271,944

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

12. TRADE AND OTHER RECEIVABLES

	2013 \$000's	2012 \$000's
Trade debtors		
Premium receivable ¹	66,585	63,416
Reinsurance and other recoveries ¹	16,916	13,256
Unclosed premium	28,776	23,505
	112,277	100,177
Amounts due from related entities (Note 26)	980	11,013
Other debtors	9,935	8,691
Prepayments	749	106
Trade and other receivables	123,941	119,987
Receivable within 12 months	123,941	119,987
Receivable in greater than 12 months	-	-
Trade and other receivables	123,941	119,987

¹ Net of a provision for impairment

(A) Provision for general impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2013 \$000's	2012 \$000's	2013 \$000's	2012 \$000's
At 1 January	106	106	24	-
Amounts recognised in profit or loss	39	-	(24)	24
At 31 December	145	106	-	24

(B) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

(C) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Branch as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of balances in the table above, where relevant, is included in note 5(C). Note 5 also provides more information on the risk management policies of the Branch.

13. DEFERRED INSURANCE COSTS

	2013 \$000's	2012 \$000's
Deferred reinsurance premium	16,739	21,772
Deferred commission	17,664	16,700
Deferred acquisition costs	9,106	8,002
Deferred insurance costs	43,509	46,474
To be expensed within 12 months	41,797	44,490
To be expensed in greater than 12 months	1,712	1,984
Deferred insurance costs	43,509	46,474

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITION COSTS	
	2013 \$000's	2012 \$000's	2013 \$000's	2012 \$000's	2013 \$000's	2012 \$000's
At 1 January	21,772	20,080	16,700	15,739	8,002	7,596
Costs deferred in financial year	15,722	20,546	16,742	15,668	9,106	7,586
Amortisation of costs deferred in previous financial years	(20,755)	(18,854)	(15,778)	(14,707)	(8,002)	(7,180)
At 31 December	16,739	21,772	17,664	16,700	9,106	8,002

14. PROPERTY, PLANT AND EQUIPMENT

2013	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,462	3,176	4,638
Additions	32	767	799
Disposals	-	(115)	(115)
At 31 December	1,494	3,828	5,322
Accumulated depreciation and impairment losses			
At 1 January	(661)	(2,201)	(2,862)
Disposals	1	110	111
Depreciation charge for the year	(96)	(323)	(419)
At 31 December	(756)	(2,414)	(3,170)
Carrying amount			
At 31 December	738	1,414	2,152

2012	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,400	3,322	4,722
Additions	102	183	285
Disposals	(40)	(329)	(369)
At 31 December	1,462	3,176	4,638
Accumulated depreciation and impairment losses			
At 1 January	(569)	(2,211)	(2,780)
Disposals	9	265	274
Depreciation charge for the year	(101)	(255)	(356)
At 31 December	(661)	(2,201)	(2,862)
Carrying amount			
At 31 December	801	975	1,776

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

15. DEFERRED INCOME TAX

	2013 \$000's	2012 \$000's
Deferred tax assets	320	1,278
Deferred tax liabilities	(7,477)	(6,524)
	(7,157)	(5,246)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2013 \$000's	2012 \$000's
Amounts recognised in profit or loss		
Provision for impairment	41	37
Employee benefits	272	1,156
Other	7	85
Deferred tax assets before set-off	320	1,278
Set-off of deferred tax liabilities	(320)	(1,278)
	-	-

Deferred tax assets before set off analysed as follows:

Recoverable within 12 months	320	1,278
Recoverable in greater than 12 months	-	-
	320	1,278

(ii) Movements

	2013 \$000's	2012 \$000's
At 1 January	1,278	4,821
Amounts recognised in profit or loss	(958)	(2,686)
Losses transferred to QBE LMI	-	(857)
At 31 December	320	1,278

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2013 \$000's	2012 \$000's
Amounts recognised in profit or loss		
Insurance provisions	(7,477)	(6,524)
Deferred tax liabilities before set-off	(7,477)	(6,524)
Set-off of deferred tax assets	320	1,278
	(7,157)	(5,246)

Deferred tax liabilities before set off analysed as follows:

Payable within 12 months	(7,477)	(6,524)
Payable in greater than 12 months	-	-
	(7,477)	(6,524)

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

(ii) **Movements:**

	2013 \$000's	2012 \$000's
At 1 January	(6,524)	(6,145)
Amounts recognised in profit or loss	(953)	(379)
At 31 December	(7,477)	(6,524)

16. TRADE AND OTHER PAYABLES

	2013 \$000's	2012 \$000's
Trade payables	5,718	3,625
Amounts due to related entities (Note 26)	102,033	102,717
Other payables	27,374	15,638
Accrued expenses	6,811	4,967
Trade and other payables	141,936	126,947
Payable within 12 months	39,936	24,947
Payable in greater than 12 months	102,000	102,000
Trade and other payables	141,936	126,947

17. UNEARNED PREMIUM

(A) **Unearned premium**

	2013 \$000's	2012 \$000's
At 1 January	168,403	145,485
Deferral of premium on contracts written in the period	170,247	160,738
Earning of premium written in previous periods	(160,860)	(137,820)
At 31 December	177,790	168,403
To be earned within 12 months	172,003	161,907
To be earned in greater than 12 months	5,787	6,496
Unearned premium	177,790	168,403

(B) **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 Branch.

NZ IFRS requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provisions, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Branch has adopted a risk margin of 7.8% (2012: 11.5%) for premium liabilities, for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in New Zealand and Australia.

The application of the liability adequacy test in respect of net premium liabilities identified a surplus at 31 December 2013 and 31 December 2012.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

18. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2013 \$000's	2012 \$000's
Gross outstanding claims provision	585,226	796,883
Risk margin	23,144	23,579
Outstanding claims	608,370	820,462
Reinsurance and other recoveries on outstanding claims	(490,777)	(693,536)
Net outstanding claims provision	117,593	126,926
Analysed as follows:		
Net undiscounted central estimate	100,110	109,235
Discount	(5,661)	(5,888)
Net central estimate	94,449	103,347
Risk margin	23,144	23,579
Net outstanding claims provision	117,593	126,926
 Gross outstanding claims	 635,627	 847,077
Claim settlement accrual	4,417	8,533
	640,044	855,610
Discount to present value	(31,674)	(35,148)
Gross outstanding claims provision	608,370	820,462
Less than 12 months	227,065	247,780
Greater than 12 months	381,305	572,682
Gross outstanding claims provision	608,370	820,462
 Reinsurance and other recoveries on outstanding claims	 516,790	 722,806
Discount to present value	(26,013)	(29,270)
Reinsurance and other recoveries on outstanding claims	490,777	693,536
Less than 12 months	173,797	202,512
Greater than 12 months	316,980	491,024
Reinsurance and other recoveries on outstanding claims	490,777	693,536

(B) Maturity profile of net outstanding claims

The expected maturity of the Branch's discounted net outstanding claims provision is analysed below.

		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2013	\$000's	53,268	28,999	18,576	7,895	4,396	4,459	117,593
At 31 December 2012	\$000's	47,728	26,320	18,601	12,585	7,705	13,987	126,926

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

(C) Risk margin

The process used to determine the risk margin is explained in note 4(A)(iii) and details of the risk-free discount rates adopted are set out in note 4(A)(iv).

The risk margin included in net outstanding claims is 24.5% (2012: 22.8%) of the central estimate. The increase in the risk margin reflects increased uncertainty in the net discounted central estimate at 31 December 2013. Assumptions regarding uncertainty for each business class were applied to the central estimates, allowing for diversification in order to arrive at an overall position, which is intended to have a probability of adequacy greater than 80% (2012: greater than 80%).

(D) Reconciliation of movement in discounted outstanding claims provision

	2013			2012		
	GROSS \$000's	REINSURANCE \$000's	NET \$000's	GROSS \$000's	REINSURANCE \$000's	NET \$000's
At 1 January	820,462	(693,536)	126,926	857,605	(724,989)	132,616
Increase in net claims incurred in current accident year	91,880	(27,779)	64,101	105,669	(42,628)	63,041
Movement in prior year claims provision	22,083	(29,974)	(7,891)	187,756	(204,260)	(16,504)
Incurring claims recognised in profit or loss	113,963	(57,753)	56,210	293,425	(246,888)	46,537
Prior year adjustment – risk margin *	(21,065)	21,065	-	-	-	-
Claim (payments) recoveries during the year	(304,990)	239,447	(65,543)	(330,568)	278,341	(52,227)
At 31 December	608,370	(490,777)	117,593	820,462	(693,536)	126,926

*In the prior year a portion of the risk margin was allocated to reinsurance.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

(E) Claims development – undiscounted net central estimate

	Prior Years	2004 \$000's	2005 \$000's	2006 \$000's	2007 \$000's	2008 \$000's	2009 \$000's	2010 \$000's	2011 \$000's	2012 \$000's	2013 \$000's	TOTAL \$000's
Net claims cost – central estimate:												
At end of accident year		43,462	49,245	68,486	61,424	53,337	40,821	50,805	52,500	44,970	53,734	518,784
One year later		46,452	53,482	52,535	48,484	33,476	41,159	56,241	54,416	40,954	-	449,199
Two years later		45,993	46,072	59,755	47,503	58,081	40,575	53,503	53,259	-	-	404,741
Three years later		44,255	47,465	60,672	50,128	60,665	40,479	55,668	-	-	-	359,332
Four years later		44,066	46,483	60,318	49,951	59,792	42,711	-	-	-	-	303,321
Five years later		44,077	47,503	58,802	49,588	60,974	-	-	-	-	-	280,944
Six years later		46,589	48,601	58,252	50,202	-	-	-	-	-	-	203,644
Seven years later		45,623	48,806	58,991	-	-	-	-	-	-	-	153,420
Eight years later		45,978	48,235	-	-	-	-	-	-	-	-	94,214
Nine years later		46,190	-	-	-	-	-	-	-	-	-	46,190
Current central estimate cost for the Ten most recent accident years		46,190	48,235	58,991	50,202	60,974	42,711	55,668	53,259	40,954	53,734	510,918
Cumulative net claims payments to date		(45,366)	(48,023)	(57,761)	(47,727)	(55,828)	(33,354)	(46,654)	(41,742)	(25,595)	(18,400)	(420,450)
Net undiscounted central estimate	5,225	824	212	1,230	2,475	5,146	9,357	9,014	11,517	15,359	35,334	95,693
Net undiscounted central estimate at 31 December 2013												95,693
Discount to present value	(446)	(47)	(3)	(26)	(106)	(210)	(476)	(539)	(697)	(1,091)	(2,020)	(5,661)
Risk margin	1,327	179	46	321	627	1,322	2,361	2,328	2,927	3,872	7,833	23,144
Claims settlement costs	177	21	6	42	117	245	444	438	561	761	1,605	4,417
Net outstanding claims at 31 December 2013												117,593
Net central estimate development												
Increase (decrease) in the year – current year minus prior year	656	211	(571)	739	514	1,182	2,232	2,165	(1,157)	(4,016)	53,734	55,789

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

19. SOLVENCY

On 4 March 2013 the Branch was granted a full licence under the Insurance (Prudential Supervision) Act 2010 ("the Act"). As the Branch is a branch of an overseas insurer it is exempt under the Act from complying with the Solvency Standard for Non-Life Insurance Business subject to the condition that the Company meets the equivalent Australian non-Life solvency standard.

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

	2013 AUD\$000's	2012 AUD\$000's
APRA prescribed capital amount	218,745	180,303
Capital surplus	212,136	230,633
Solvency coverage	1.97	2.28

20. CAPITAL MANAGEMENT AND HEAD OFFICE ACCOUNT

The Branch's objective when managing capital is to meet the solvency requirements and financial strength rating of the parent company.

Local management monitor key financial parameters to safeguard the Branch's ability to continue as a going concern and provide financial returns for the shareholder. The capital of the Branch comprises the Head Office account which consists of retained earnings and current account transactions between the Branch and Head Office. Current transactions with the Head Office include reinsurance, head office charges and other expenses which are settled on a regular basis.

21. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2013 and 2012 is set out below.

	2013 \$'000	2012 \$'000
Short Term employee benefits	3,235	2,063
Post employment benefits	147	141
Other long term employment benefits	11	10
Share based payments	204	140

22. REMUNERATION OF AUDITOR

	2013 \$'000	2012 \$'000
PricewaterhouseCoopers		
Audit and assurance services	232	231
Other services	37	37
	269	268

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

23. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2013 (2012: nil).

24. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no commitments for expenditure as at 31 December 2013 (2012: nil).

25. OPERATING LEASE COMMITMENTS

	2013 \$000's	2012 \$000's
Payable:		
Not later than one year	2,126	2,302
Later than one year but less than five years	2,046	3,780
Later than five years	75	195
Total future minimum lease payments under non-cancellable operating leases	4,247	6,277

26. RELATED PARTY DISCLOSURES

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

		2013 \$'000	2012 \$'000
Related party	Description		
QBE Insurance Group Limited (a)	Mandatory convertible notes	102,000	102,000
QBE Equator Re	Reinsurance	(432)	(10,046)
QBE Insurance (Australia) Limited	Reinsurance	33	646
QBE Lenders Mortgage Insurance Ltd	Reinsurance	(13)	(63)
QBE Management (Ireland) Limited	Reinsurance	(535)	(833)
		101,053	91,704
The outstanding related party balances are reported as:			
Trade and other payables		102,033	102,646
Trade and other receivables		(980)	(10,942)

- (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 Bank Bills Bloomberg rate plus a margin. The notes convert to ordinary shares on the 40th anniversary from the date of issue, 22 December 2006. The fair value of the MCN's is \$102 million.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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

	2013 \$'000	2012 \$'000
Transactions with QBE Insurance Group Limited		
Interest on related party loan	5,960	6,187
Transactions with QBE Insurance (International) Limited		
Reinsurance expense less recoveries	102,186	92,412
Administration and management fees	3,171	3,861
Reimbursement of transactions with related parties	1,260	449
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	35,495	90,572
Tax (receivable)/payable through group offsets	-	(857)

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ with a negative outlook for QBE Insurance (International) Limited, New Zealand Branch, on 12 December 2013.

28. EVENTS OCCURRING AFTER REPORTING DATE

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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



QBE INSURANCE (AUSTRALIA) LIMITED
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22 April 2014

Mr Terry Lawrence
Chief Financial Officer
QBE New Zealand
Level 9, AMP Centre
29 Customs Street West
Auckland

Dear Mr Lawrence

Re: QBE New Zealand Operations Actuarial Report at 31 December 2013.

Section 77 and 78 of the Insurance (Prudential Supervision) Act 2010 requires a licensed insurer to ensure that actuarial information included in the financial statements has been reviewed by the insurer's Appointed Actuary. As the Appointed Actuary for QBE New Zealand (QBENZ), I, Benoit Laganieri have conducted this review for QBENZ's financial statements for the period ending 31 December 2013.

This review involved ascertaining whether actuarial information used in the preparation of the financial statements has applied appropriately. No limitations were placed on me in conducting this review, and all information requested has been made available to me.

For the purposes of this review, actuarial information includes

- Outstanding claims liabilities
- Premium Liabilities
- Application of the Liability Adequacy Test
- Reinsurance and other recovery assets
- Deferred Acquisition Costs.

I am an employee of QBE Management Services (QMS), which is a related company to QBENZ in that both companies are fully owned by QBE Insurance Group. In addition to this, I held equity positions (current or deferred) in QBE Insurance Group securities at the date of this report. This holding is an immaterial proportion of the total shares issued by QBE.

From my review, it is my opinion that

- the actuarial information included in QBENZ's financial statements has been appropriately included;
- the actuarial information used to prepare the financial statements has been appropriately used; and
- it is understood that QBENZ was granted exemption from complying with the RBNZ solvency standards for non-life insurance business under Section 59 of the Insurance Act. QBENZ is currently a branch of QBE Insurance (International) Limited (QII) which is an APRA regulated entity. QBENZ is therefore dependent on QII's capital surplus to remain solvent under most adverse scenarios developed as part of QII's capital management plan.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Benoit Laganieri'.

Benoit Laganieri
New Zealand Appointed Actuary of QBE Insurance (International) Limited
Fellow of the Institute of Actuaries of Australia

QBE INSURANCE (INTERNATIONAL) LIMITED

(A.C.N. 000 000 948)

FINANCIAL REPORT – 31 DECEMBER 2013

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This financial report includes separate financial statements for QBE Insurance (International) Limited (the company) as an individual entity. All amounts in the financial report are presented in Australian dollars unless otherwise stated.

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

Level 27, 8-12 Chifley Square
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 2 February 2014. The directors have the power to amend and reissue the financial report.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2013

Your directors present their report on QBE Insurance (International) Limited (the company) as at 31 December 2013 and for the year then ended.

Directors

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

S P Burns (appointed on 14 February 2014)
D L Fried (appointed on 12 April 2013)
G J Gilbert
The Hon. N F H Greiner
A G McGrath
J D Neal (resigned on 14 February 2014)
D A M Ramsay (resigned on 14 February 2014)
J E Skinner
V J Walter

Principal activity

The principal activity of the company continued to be underwriting 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:

	2013 \$M	2012 \$M
Gross written premium	493.0	429.9
Gross earned premium	476.9	405.5
Net earned premium	288.7	229.4
Net claims incurred	(115.6)	(90.8)
Net commission	(55.8)	(41.1)
Underwriting and other expenses	(66.1)	(56.4)
Net underwriting result	51.2	41.1
Net investment income on policyholders' funds	8.8	2.0
Insurance profit	60.0	43.1
Net investment income on shareholder's funds	12.5	6.7
Profit before income tax	72.5	49.8
Income tax expense	(16.5)	(14.9)
Net profit after tax	56.0	34.9

The net combined operating ratio slightly increased from 82.1% in 2012 to 82.4% in 2013; however the ratio is aligned with prior year.

Gross written premium increased by 14.7% from \$429.9 million in 2012 to \$493.0 million in 2013, due to increased growth business in Singapore and new business derived in New Zealand.

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2013

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 Level 27, 8-12 Chifley Square, Sydney, NSW 2000 Australia.

Employee numbers

At the reporting date the company employed 475 persons (2012: 521).

Dividends

The dividends paid or proposed during the year totalled \$5.3 million (2012: \$4.9 million).

Options

There were no options granted by the company during the year (2012: 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 the directors believe it 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 sheet date

At the date of this report, no matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

Environmental regulation

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

QBE INSURANCE (INTERNATIONAL) LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2013

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, P E Barnes, P Smiles and A R Croy. 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 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 directors' report. Amounts in the directors' report have been rounded off in accordance with that class order to the nearest one hundred thousand dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

Auditors

PricewaterhouseCoopers continues 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
20 February 2014 





Auditor's Independence Declaration

As lead auditor for the audit of QBE Insurance (International) Limited for the year ended 31 December 2013, 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.

A handwritten signature in black ink, appearing to be "J.W. Bennett", written over a horizontal line.

J.W. Bennett
Partner
PricewaterhouseCoopers

20 February 2014 Sydney

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTE	2013 \$M	2012 \$M
Gross written premium		493.0	429.9
Unearned premium movement		(16.1)	(24.4)
Gross earned premium revenue	5(A)	476.9	405.5
Outward reinsurance premium		(173.0)	(170.4)
Deferred reinsurance premium movement		(15.2)	(5.7)
Outward reinsurance premium expense	5(B)	(188.2)	(176.1)
Net earned premium		288.7	229.4
Gross claims incurred	5(B)	(194.8)	(295.2)
Reinsurance and other recoveries revenue	5(A)	79.2	204.4
Net claims incurred	7(A)	(115.6)	(90.8)
Gross commission expense	5(B)	(69.2)	(61.3)
Reinsurance commission revenue	5(A)	13.4	20.2
Net commission		(55.8)	(41.1)
Other acquisition costs	5(B)	(21.2)	(17.6)
Underwriting and other expenses	5(B)	(44.9)	(38.8)
Underwriting result		51.2	41.1
Investment and other income – policyholders' funds	6	9.0	2.2
Investment expenses - policyholders' funds	6	(0.2)	(0.2)
Insurance profit		60.0	43.1
Investment income and other income – shareholder's funds	6	12.8	6.9
Investment expenses – shareholder's funds	6	(0.3)	(0.2)
Profit before income tax		72.5	49.8
Income tax expense	8(A)	(16.5)	(14.9)
Profit after income tax		56.0	34.9
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve		42.8	8.5
Other comprehensive income after income tax		42.8	8.5
Total comprehensive income after income tax		98.8	43.4
Profit after income tax attributable to:			
Ordinary equity holder of the company		56.0	34.9
		56.0	34.9
Total comprehensive income after tax attributable to:			
Ordinary equity holder of the company		98.8	43.4
		98.8	43.4

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

QBE INSURANCE (INTERNATIONAL) LIMITED
BALANCE SHEET
As at 31 December 2013

	NOTE	2013 \$M	2012 \$M
ASSETS			
Cash and cash equivalents	9	61.6	82.5
Investments	10	715.6	469.2
Derivative financial instruments	11	0.8	0.1
Trade and other receivables	12	294.6	262.4
Reinsurance and other recoveries on outstanding claims	20(A)	498.6	582.9
Current tax asset		-	0.2
Deferred insurance costs	13	81.9	78.5
Property, plant and equipment	14	3.8	3.3
Deferred tax assets	15	4.6	4.8
Investments in controlled entities	16	72.5	72.7
Intangible assets	17	18.1	16.5
Total assets		1,752.1	1,573.1
LIABILITIES			
Derivative financial instruments	11	1.7	0.2
Trade and other payables	18	213.5	137.0
Current tax liabilities		9.8	7.0
Unearned premium	19	280.7	228.9
Outstanding claims	20(A)	751.3	802.9
Provisions	21	2.3	0.3
Deferred tax liabilities	15	11.3	8.8
Total liabilities		1,270.6	1,185.1
Net assets		481.5	388.0
EQUITY			
Share capital	22(A)	230.0	230.0
Reserves	22(D)	47.2	4.4
Retained profits	22(D)	113.1	62.4
Shareholder's funds		390.3	296.8
Mandatory convertible securities	23	91.2	91.2
Total equity		481.5	388.0

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

QBE INSURANCE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

2013	SHARE CAPITAL \$M	MANDATORY CONVERTIBLE SECURITIES \$M	RESERVES \$M	RETAINED PROFITS \$M	TOTAL EQUITY \$M
At 1 January	230.0	91.2	4.4	62.4	388.0
Profit after income tax	-	-	-	56.0	56.0
Movement in foreign currency translation reserve	-	-	42.8	-	42.8
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	42.8	56.0	98.8
Transactions with owners in their capacity as owners					
Dividends paid on ordinary shares	-	-	-	(5.3)	(5.3)
At 31 December	230.0	91.2	47.2	113.1	481.5

2012	SHARE CAPITAL \$M	MANDATORY CONVERTIBLE SECURITIES \$M	RESERVES \$M	RETAINED PROFITS \$M	TOTAL EQUITY \$M
At 1 January	230.0	91.2	(4.1)	32.4	349.5
Profit after income tax	-	-	-	34.9	34.9
Movement in foreign currency translation reserve	-	-	8.5	-	8.5
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	8.5	34.9	43.4
Transactions with owners in their capacity as owners					
Dividends paid on ordinary shares	-	-	-	(4.9)	(4.9)
At 31 December	230.0	91.2	4.4	62.4	388.0

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 2013

	NOTE	2013 \$M	2012 \$M
OPERATING ACTIVITIES			
Premium received		403.8	413.1
Reinsurance and other recoveries received		209.9	235.3
Outwards reinsurance paid		(184.4)	(285.6)
Claims paid		(337.2)	(339.3)
Insurance costs paid		(80.1)	(60.2)
Other underwriting costs		(22.3)	(44.9)
Interest received		7.6	6.4
Dividends received		13.0	1.5
Retirement benefit (received)/paid		(0.3)	0.1
Other operating income		1.2	1.6
Other operating payments		(0.1)	(0.1)
Income taxes paid		(6.2)	(5.4)
Net receipts from related entities		35.3	118.1
Net cash flows from operating activities	9(A)	40.2	40.6
INVESTING ACTIVITIES			
Proceeds on sale of investments		863.9	1,045.1
Proceeds on disposal of investments in controlled entities		0.8	2.7
Payments for purchase of investments		(926.3)	(1,052.3)
Payments for purchase of investments in controlled entities		(0.6)	(2.9)
Payment for purchase of intangibles		(1.6)	-
Payments for purchase of plant and equipment		(1.0)	(1.2)
Net cash flows from investing activities		(64.8)	(8.6)
FINANCING ACTIVITIES			
Dividends paid		(5.3)	(4.9)
Net cash flows from financing activities		(5.3)	(4.9)
Net movement in cash and cash equivalents		(29.9)	27.1
Cash and cash equivalents at the beginning of the financial year		82.5	53.3
Effect of exchange rate changes		9.0	2.1
Cash and cash equivalents at the end of the financial year	9	61.6	82.5

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

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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, and interpretations of the Australian Accounting Standards Board (AASB) and the *Corporation Act 2001*. The company is a for-profit entity for the purpose of preparing the financial statements.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies are consistent with those of the previous financial year except as set out below.

(i) New and amended standards adopted by the company

The company mandatorily adopted the following accounting policies which became effective for annual reporting period commencing 1 January 2013. These standards have introduced new disclosures but did not materially affect the amounts recognised in the financial statements.

Title	
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 127 (revised)	Separate Financial Statements
2011-8	Amendments to Australian Accounting Standards arising from AASB 13
2011-9	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income
2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
2012-2	Amendments to Australian Accounting Standards - Disclosure - Offsetting Financial Assets and Financial Liabilities
2012-5	Amendments to Australian Accounting Standards arising from the Annual Improvements 2009-2011 cycle
2012-10	Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments

The company has early adopted AASB 2013-3 Amendments to AASB136 - Recoverable Amount Disclosures for Non-Financial Assets. This standard amends the disclosure requirements of AASB 136, as a consequence of the issuance of IFRS 13.

(ii) Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and Australian Accounting Standards as issued by the AASB.

(iii) 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 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. Refer to note 3.

(iv) Critical accounting judgement and estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 3.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) Principles of consolidation

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 IFRS for public use, which can be obtained at www.qbe.com or Level 27, 8-12 Chifley Square, Sydney, NSW 2000 Australia.

Investments in controlled entities are held at cost and a list of controlled entities is set out in note 16. Dividends received from controlled entities are recognised in profit or loss, rather than being deducted from the carrying amount of these investments.

(C) Premium revenue

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

(D) Unearned premium

Unearned premium is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risks underwritten, using either the daily pro-rata method or the 24ths method, adjusted where appropriate for seasonality.

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the regional business segment level, being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio. If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The resulting deficiency is recognised immediately through the profit or loss.

(E) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance sheet date.

(F) 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.

(G) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) Acquisition costs

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

(I) Investment income

Interest income is recognised using the effective interest rate method. 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.

(J) Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are 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 foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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. Details of the tax funding and tax sharing agreements are included in note 8(B) to the financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) Insurance profit

Insurance profit is derived by adding investment income on assets backing policyholders' funds to the underwriting result.

(L) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements.

(M) Investments

Investments comprise interest-bearing assets, equities and equity derivative financial instruments. Investments are designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. 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. Fixed and floating rate securities are valued using independently sourced valuations. 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 asset has expired or has been transferred and the company has transferred substantially all the risks and rewards of ownership.

(N) Derivative financial instruments

The company is subject to currency, interest rate, price, credit and liquidity risks. Derivative financial instruments (derivatives) may be used to manage these risks

Derivatives are initially recognised at fair value, being generally the transaction price 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 assets are 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.

(O) Trade and other receivables

Trade and other receivables are recognised at amount receivable less a provision for impairment. A 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) Property, plant and equipment

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

Leasehold improvements, office equipment (including IT hardware and software), 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 10 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. For the purpose of impairment testing, goodwill is allocated to cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination. For this purpose, the cash generating unit, or group of units, is determined principally by reference to how goodwill is monitored by management. The recoverability of the goodwill is tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(ii) Identifiable intangible assets

Identifiable intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected benefit. Estimated useful lives are between three and 21 years. Identifiable 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. Identifiable intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(R) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows. Impairment testing of goodwill is explained in note 1(Q)(i).

(S) Trade and other payables

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

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(T) Foreign currency

(i) Presentation 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

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). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

(iii) Translation of overseas operations

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

- assets and liabilities are translated at the closing balance sheet date rates of exchange; and
- income and expenses are translated at cumulative average rates of exchange.

Exchange differences arising from the translation of the net investment in overseas operations, are recognised as other comprehensive income and taken to shareholder's equity. When an overseas operation is sold, these exchange differences are reversed out of the comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

(iv) Hedging transactions

Derivatives may be used to hedge the foreign exchange risk relating to certain transactions.

(v) Exchange rates

The principal exchange rates affecting the company were.

	2013		2012	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
NZ\$/A\$	0.850	0.921	0.783	0.797
SGD/A\$	0.833	0.887	0.773	0.787
€/A\$	1.385	1.541	1.247	1.269

(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.

(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 company, on or before the end of the financial year but not distributed at the balance sheet date.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

Defined contribution plans are post-employment benefit plans under which an entity pays a fixed contribution into a fund during the course of employment and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. 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 due to the achievement of vesting conditions. 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.

(v) 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 12 months after the balance sheet date are discounted to present value.

(Y) 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Z) Goods and services tax (GST)

Revenues, expenses and assets (except receivables) 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.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the balance sheet.

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.

(AA) 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 in the financial statements have been rounded off in the financial statements to the nearest one hundred thousand dollars or, in certain cases, to the nearest thousand dollars in accordance with the class order.

(AB) Comparatives

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

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. NEW ACCOUNTING STANDARDS AND AMENDMENTS

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2017
AASB 9 (revised)	Financial Instruments	1 January 2017
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2017
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2017
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2014
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014
2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
2013-5	Amendments to Australia Accounting Standards – Investment Entities	1 January 2014
2013-9	Amendments to Australian Accounting Standards – Conceptual Framework and Materiality	1 January 2014
2013-9	Amendments to Australian Accounting Standards – Financial Instruments	1 January 2017
2013-9	Amendments to Australian Accounting Standards arising from the Annual Improvements 2010-2012 cycle	1 January 2015
2013-9	Amendments to Australian Accounting Standards arising from the Annual Improvements 2010-2013 cycle	1 January 2015

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 except for AASB 2011-4, where early adoption is not 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 the standards and amendments has been undertaken and they are not expected to have a material impact on the company's financial statements or accounting policies.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 8 countries. The analysis of the company's gross written premium and net earned premium from insurance and reinsurance business is shown in note 5(A). The head office function is located in Australia and exists to support the activities of overseas operations.

In view of the 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 the claims provisions and investment management. In addition, assessment of the net outstanding claims provision set at a regional level is subject to detailed head office review. The probability of adequacy derived from the company's insurance liabilities is measured by the Appointed Actuary.

Given the centralised approach to many of company's activities and the product and geographic diversification, sensitivity analyses in respect of critical accounting estimates and judgments are presented at the company level in order to provide information and analysis which is meaningful, relevant, reliable and comparable year on year. Sensitivity disclosure at business segment or product level would not provide a meaningful overview given the complex interrelationships between the variables underpinning the company's operations. 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) Outstanding claims provision

The company's net outstanding claims provision comprises:

- the gross central estimate of expected future claims payments;
- amounts recoverable from reinsurers based on the gross central estimate;
- a reduction to reflect the discount to present value using risk-free rates of return to reflect the time value of money; and
- a risk margin that reflects the inherent uncertainty in the net discounted central estimate.

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the company requires a higher probability that estimates will be adequate over time, a risk margin is added to the net discounted central estimate to determine the outstanding claims provision.

(i) Central estimate

The provision for expected future payments includes those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER), and estimated claims handling costs, being the direct expenses incurred in the settlement of claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the 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 central estimate are described below.

The company's process for establishing the central estimate involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes half yearly internal claims provisioning committee meetings attended by the senior management and the Appointed Actuary and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 4

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

(i) Central estimate (continued)

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 sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages, and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the central estimate on the company's profit or loss are summarised in note 3(A)(v).

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgemental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate.

The net central estimate is discounted at risk-free rates of return to reflect the time value of money. Details of the key assumptions applied in the discounting process are summarised in note 3(A)(iv).

(ii) 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 sheet date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty and credit risk in relation to reinsurance assets is considered in note 4(C)(ii).

(iii) Risk margin

Risk margins are determined by management and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- change in the mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement;
- prior accident year claims development; and
- the level of uncertainty in the net discounted central estimate due to actuarial estimation, data quality issues, variability of key discount and inflation assumptions and legislative uncertainty.

The variability by class of business uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation. The potential impact of changes in the coefficient of variation assumptions on the company's profit or loss is summarised in note 3(A)(v).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

(iii) Risk margin (continued)

The appropriate risk margin for two or more classes of business combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, high correlation exists between classes of business affected by court cases involving bodily injury claims such as motor third party liability (CTP), workers' compensation and public liability.

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. 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 judgement of experienced and qualified actuaries.

The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from the comparison of the risk margin with the net discounted central estimate. Using a range of outcomes, it allows a determination of the probability of adequacy represented by a risk margin. For example, a 90% probability of adequacy indicates that the outstanding claims provision is expected to be adequate nine times in 10. The probability of adequacy is not of itself an accounting policy or estimate as defined by AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

(iv) Financial assumptions used to determine the outstanding claims provision

Discount rates

AASB 1023: General Insurance Contracts (AASB 1023) requires that the outstanding claims provision shall be discounted for the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations. The standard also states that government bond rates may be an appropriate starting point in determining a risk-free rate. The company generally uses currency specific risk-free rates to discount the outstanding claims provision.

The weighted average risk-free rates used to discount the outstanding claims provision are summarised below.

	2013 %		2012 %
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR
			SUBSEQUENT YEARS
New Zealand	2.90	3.29-4.70	2.53
Asia	0.08-0.30	0.23-2.61	0.00-0.23
Pacific	0.05-2.45	0.16-4.30	-0.01-2.85
			-0.04-3.33

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

(iv) Financial assumptions used to determine the outstanding claims provision (continued)

Weighted average term to settlement

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

	2013				2012			
	YEARS				YEARS			
	NZD	SGD	Other	Total	NZD	SGD	Other	Total
Asia	-	1.21	-	1.21	-	1.31	-	1.31
New Zealand	1.65	-	-	1.65	2.10	-	-	2.10
Pacific	-	-	2.23	2.23	-	-	2.58	2.58

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

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

The impact of a change in interest rates on profit after tax due to market value movement on fixed interest securities is shown in note 4(D)(ii).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

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

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2013 \$M	2012 \$M
Central estimate	+5	(8.8)	(7.7)
	-5	8.8	7.7
Inflation rate	+0.5	(1.3)	(1.4)
	-0.5	1.3	1.4
Discount rate	+0.5	1.3	1.4
	-0.5	(1.4)	(1.4)
Coefficient of variation	+1	(2.5)	(2.2)
	-1	2.5	2.2
Probability of adequacy	+1	(1.6)	(1.6)
	-1	1.4	1.4
Weighted average term to settlement years	+10	(0.8)	(0.7)
	-10	0.8	0.7

¹ Net of tax at the company's prima facie rate of 30%

(B) Liability adequacy test

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims, plus a risk margin to reflect the inherent uncertainty of the central estimate (refer note 19(D)). Future claims are those claims expected to arise from claims events occurring after the balance sheet date. The assessment is carried out using the same methods described in note 3(A) above.

AASB 1023 requires that this test be carried out at the level of a "portfolio of contracts that are subject to broadly similar risks and are managed together in a single portfolio". As AASB 1023 does not explicitly define "broadly similar risks" or "managed together as a single portfolio", the company has interpreted these terms in a way that reflects our day to day approach to managing the various risks to which the company is exposed that is at the regional segment level. The company's operating segments are structured in a way that facilitates the efficient and effective management of our insurance businesses, and recognises that these businesses are subject to broadly similar risks such as the interest and inflation rate environment; market risk factors; credit risk factors; social and political risk such as unemployment and social unrest; and common insurance risks such as exposure to weather-related or natural catastrophe risks.

(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 asset, the relevant cash generating unit or relevant group of cash generating units. For details of key assumptions and estimates used, refer to note 17(A).

The discount rates used to value cash generating units at 31 December 2013 as part of the impairment testing of goodwill are included in note 17(B). If the discount rate applied in these calculations was increased by 1% over the rates applied at 31 December 2013, the company would not be required to reflect an impairment charge (2012: nil).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT

QBE Group'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), including a risk appetite statement and a reinsurance management strategy (REMS), both of which are lodged with the Australian Prudential Regulation Authority (APRA).

As a member of the QBE Group, the company has adopted the risk management policy of QBE Group where applicable. The company's risk management objectives are to:

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

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

Risk management is a key part of 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 Group's global risk management framework defines the risks that QBE Group is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value of our shareholders. The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self assessment, risk treatment, optimisation and ongoing improvement through management action plans, risk and performance monitoring.

A fundamental part of the 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 Group's risk profile is described under the following broad risk categories:

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

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

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

(A) Strategic risk

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

(i) Acquisition risk

Acquisition risks are principally managed by QBE Group's control over the selection of potential acquisitions, due diligence, negotiation of warranties and indemnities and subsequent integration processes. QBE Group has experienced due diligence teams in each operating divisions and has documented minimum requirements for carrying out due diligence.

(ii) 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 Group works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements. Refer to note 22(E).

(B) Insurance risk

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified insurance 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 Group has established the following protocols to manage its insurance risk across the underwriting, claims, and outwards reinsurance.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(B) Insurance risk (continued)

(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 Group 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.

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 company operates. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio and this is combined with a detailed knowledge of the current developments in the respective markets and classes of business.

Concentration risk

The company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across 8 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.

	2013	2012
	\$M	\$M
GROSS EARNED PREMIUM		
Property	164.9	129.2
Marine, energy and aviation	83.7	61.4
Liability	79.3	42.5
Professional indemnity	39.6	49.7
Motor and motor casualty	38.4	30.3
Accident and health	37.2	33.2
Financial and credit	21.2	11.3
Engineering	7.4	23.9
Workers' compensation	4.3	13.5
Other	0.9	10.5
	476.9	405.5

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(B) Insurance risk (continued)

(i) Underwriting risks (continued)

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 Group determined probable maximum losses and various catastrophe models are calculated for each portfolio as part of 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 a one in 250 year natural catastrophes event. 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.

(ii) Claims management and claims estimation 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 valuation of the central estimate is primarily performed by actuaries who are not involved in the pricing function and who therefore provide an independent assessment;
- the determination of the risk margin is performed by senior management and the board with input from the Appointed Actuary;
- the aggregate outstanding claims provision for each controlled entity is assessed in a series of quarterly internal claims review meetings which are attended by senior management and the Appointed Actuary in order to ensure consistency of provisioning practices across all countries, and
- all the company's central estimate is reviewed by external actuaries at least annually.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons provided in note 3.

(iii) Outwards reinsurance

The company limits its exposure to an individual catastrophe or an accumulation of claims by reinsuring a portion of risks underwritten. In this way, the company can control exposure to insurance losses, reduce volatility of reported results and protect capital.

Effective governance and management of reinsurance protection is a fundamental part of the company's risk management practices. QBE Group has in place systems, internal controls and processes to ensure that its reinsurance arrangements are appropriate to enable the company to meet its obligations to policyholders, whilst protecting the wealth of its shareholders. This framework is outlined in the company's REMS which states that the company's maximum risk tolerance for an individual natural catastrophe at a 1 in 250 year probability is 8.25% of budgeted net earned premium.

The senior authority for purchasing reinsurance is the chief executive officer and/or the chief reinsurance officer, who generally act after consultation with and based on recommendations from the Group reinsurance forum (GRF).

The GRF determines the company's exposure to and appetite for catastrophes and individual risks net of reinsurance as part of the business planning process. The resulting strategy is recommended to the chief executive officer (previously the chief executive officer and/or the chief executive officer of global underwriting operations), who provides the final approval on the reinsurance purchasing strategy. The GRF monitors and reports on placement of reinsurance and oversees the relevant committees that monitor reinsurance credit risk and commutation risks, as well as the processes for evaluating the effectiveness of reinsurances purchased. Reinsurance counterparty credit risk is considered in note 4(C)(ii).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(B) Insurance risk (continued)

(iii) Outwards reinsurance (continued)

The company purchases significant levels of external reinsurance protection to ensure that the company's net retention is aligned with its risk tolerance. In addition, QBE Group retains a portion of its reinsurance placements through its captive, Equator Reinsurances Limited (Equator Re). Reinsurance cover provided by Equator Re gives reinsurance protection to the company enabling QBE Group to more effectively manage capital.

(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.

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

- A QBE Group-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE group and establishes tolerance levels. Compliance with the policy is monitored and exposures and breaches are reported to the QBE Group investment committee.
- Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. The policy also sets out minimum credit ratings for investments.
- QBE Group has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which the company may transact. The company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings and therefore does not require collateral or other security to support derivatives. The company only uses derivatives in highly liquid markets.
- Credit risk in respect of premium debtors and reinsurance receivables is actively monitored. Strict controls are maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is managed by adherence to counterparty limits. The provision for impairment is formally assessed by management at least four times a year.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(C) Credit risk (continued)

(i) Investment counterparty credit risk

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. Trade and other receivables are excluded from this analysis on the basis that they comprise of smaller credit risk items which generally cannot be rated and are not individually material. 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.

	CREDIT RATING				SPECULATIVE GRADE	NOT RATED	TOTAL
	Aaa	Aa	A	Baa			
	\$M	\$M	\$M	\$M			
At 31 December 2013							
Cash and cash equivalents	0.2	19.9	37.5	-	-	4.0	61.6
Interest bearing investments	274.0	415.1	25.3	-	-	1.2	715.6
Derivative financial instruments	-	0.2	0.6	-	-	-	0.8
At 31 December 2012							
Cash and cash equivalents	-	52.2	26.3	-	-	4.0	82.5
Interest bearing investments	213.1	229.8	25.2	-	-	1.1	469.2
Derivative financial instruments	-	0.1	-	-	-	-	0.1

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values. Further details are provided in note 11(A).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(C) Credit risk (continued)

(i) Investment counterparty credit risk (continued)

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

	NEITHER PAST DUE NOR IMPAIRED \$M	PAST DUE BUT NOT IMPAIRED				TOTAL \$M
		0 TO 3 MTHS \$M	3 TO 6 MTHS \$M	6 MTHS TO 1 YEAR \$M	GREATER THAN 1 YEAR \$M	
At 31 December 2013						
Amounts due from related entities	116.8	-	-	-	-	116.8
Premium receivable ¹	67.1	28.3	10.3	1.9	-	107.6
Other receivables	7.0	-	-	-	0.5	7.5
Amount due from controlled entities	15.9	-	-	-	-	15.9
At 31 December 2012						
Amounts due from related entities	117.6	-	-	-	-	117.6
Premium receivable ¹	58.4	20.8	5.9	1.9	0.4	87.4
Other receivables	18.1	-	-	-	0.6	18.7
Amount due from controlled entities	7.2	-	-	-	-	7.2

¹ Net of a provision for impairment

(ii) Reinsurance counterparty credit risk

The company's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the company's security committee and is controlled by reference to 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 ICRC (2012: MER); and
- Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(C) Credit risk (continued)

(ii) Reinsurance counterparty credit risk (continued)

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

		CREDIT RATING					NOT RATED	TOTAL
		AAA	AA	A	BBB	SPECULA -TIVE GRADE		
		\$M	\$M	\$M	\$M	\$M	\$M	\$M
Reinsurance recoveries on outstanding claims ¹	2013	-	244.1	267.9	0.5	-	10.7	523.2
	2012	-	295.7	305.4	0.1	-	5.4	606.6
Reinsurance recoveries on paid claims ¹	2013	-	13.7	4.8	-	-	-	18.5
	2012	-	6.7	5.1	-	-	-	11.8

¹ Net of a provision for impairment

The following table provides further information regarding the aging of reinsurance recoveries on paid claims at the balance sheet date.

		NEITHER PAST DUE NOR IMPAIRED	PAST DUE				TOTAL
			0 TO 3 MTHS	3 TO 6 MTHS	6 MTHS TO 1 YEAR	GREATER THAN 1 YEAR	
		\$M	\$M	\$M	\$M	\$M	\$M
Reinsurance recoveries on paid claims ¹	2013	16.2	-	0.1	-	2.2	18.5
	2012	10.5	-	0.6	0.2	0.5	11.8

¹ Net of a provision for impairment

(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.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(D) Market risk (continued)

(i) Currency risk

The company's exposure to currency risk generally arises as a result of 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.

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:

- The company manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, as far as is practicable, thus ensuring that any exposures to foreign currencies are minimised.
- Forward foreign exchange contracts are used where possible 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(N).

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent 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 aim is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level. From time to time, the company may maintain an operational foreign currency exposure to offset currency volatility arising from translation of foreign currency forecast profits, subject to senior management approval and adherence to board approved limits.

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 the company is 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(D) Market risk (continued)

Operational currency risk (continued)

EXPOSURE CURRENCY	SENSITIVITY	RESIDUAL EXPOSURE		PROFIT (LOSS) ¹	
		2013	2012	2013	2012
	%	\$M	\$M	\$M	\$M
NZ dollar	+10	115.8	87.1	7.4	5.5
	-10	94.8	71.2	(7.4)	(5.5)
Singapore dollar	+10	9.3	3.3	0.6	0.2
	-10	7.6	2.7	(0.6)	(0.2)
Euro	+10	9.9	16.3	0.6	1.0
	-10	8.1	13.4	(0.6)	(1.0)

¹ Net of tax at the company's prima facie rate of 30%

(ii) Interest rate risk

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

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

The claims provision is discounted to present value by reference to risk-free interest rates. The 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)(v). QBE Group 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 in the table below. The table includes investments at the maturity date of the security; however, many of the longer dated securities have call dates of relatively short duration. At 31 December 2013, the average modified duration of cash and fixed interest securities was 0.29 years (2012: 0.27 years).

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(D) Market risk (continued)

(ii) Interest rate risk (continued)

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2013								
Fixed rate	\$M	581.6	15.4	2.0	4.1	0.1	1.8	605.0
Weighted average interest rate	%	1.36	3.53	0.86	0.86	5.83	3.15	1.42
Floating rate	\$M	61.7	46.9	37.9	13.4	7.5	4.8	172.2
Weighted average interest rate	%	1.08	2.57	2.43	3.44	3.54	1.39	2.08
At 31 December 2012								
Fixed rate	\$M	400.8	5.8	8.7	2.0	5.2	0.1	422.6
Weighted average interest rate	%	1.23	3.26	2.81	0.56	0.68	5.26	1.28
Floating rate	\$M	80.3	12.0	17.2	9.9	9.7	-	129.1
Weighted average interest rate	%	1.83	3.68	3.91	4.15	4.18	-	2.63

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the company at the balance sheet date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2013 \$M	2012 \$M
Interest rate movement – interest-bearing financial assets	+0.5	(1.1)	(0.7)
	-0.5	0.9	0.5

¹ Net of tax at the company's prima facie rate of 30%

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(D) Market risk (continued)

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market

The company is exposed to price risk on its investment in equities and 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 2013, the company did not hold any investments in listed equities (2012: nil).

All equities are measured at fair value through profit or loss. 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.

The company is also exposed to price risk on its investment in corporate fixed interest and floating rate securities. All corporate securities are measured at fair value through profit or loss. Movements in credit spreads impact the value of corporate fixed interest and floating rate securities and therefore impact reported profit after tax.

This risk is managed by investing in high quality, liquid interest-bearing corporate securities and by managing the credit spread duration of the corporate securities portfolio

The impact of a 0.5% increase or decrease in credit spreads on corporate fixed interest and floating rate securities owned by the company at the balance sheet date is shown in the table below.

	SENSITIVITY	PROFIT (LOSS) ¹	
		2013	2012
	%	\$M	\$M
Interest rate movement – interest-bearing	+0.5	(1.4)	(0.8)
financial assets	-0.5	1.2	0.7

¹ Net of tax at the company's prima facie rate of 30%

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. RISK MANAGEMENT (CONTINUED)

(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 the company'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 the 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. The company has a strong liquidity position. The maturity of the company's interest-bearing financial assets is included in note 4(D)(ii).

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 reinsurance recoveries.

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

	1 YEAR OR LESS \$M	1 TO 3 YEARS \$M	3 TO 5 YEARS \$M	OVER 5 YEARS \$M	NO TERM \$M	TOTAL \$M
At 31 December 2013						
Trade payables	14.1	-	0.5	-	-	14.6
Amounts due to controlled entities	-	-	-	-	-	-
Amounts due to related entities	104.0	-	-	-	-	104.0
Other payables	83.4	-	-	-	-	83.4
Accrued expenses	11.5	-	-	-	-	11.5
Financial guarantees	-	2.3	13.4	-	-	15.7
Provisions	2.0	0.3	-	-	-	2.3
At 31 December 2012						
Trade payables	23.3	-	0.5	-	-	23.8
Amounts due to controlled entities	0.2	-	-	-	-	0.2
Amounts due to related entities	55.7	-	-	-	-	55.7
Other payables	47.7	-	-	-	-	47.7
Accrued expenses	9.6	-	-	-	-	9.6
Financial guarantees	-	-	13.1	-	-	13.1
Provisions	0.1	0.2	-	-	-	0.3

The company has no significant concentration of liquidity risk.

The maturity profile of the company's net outstanding claims provision is analysed in note 20(B). For the maturity profile of derivative financial instruments refer to note 11.

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4. RISK MANAGEMENT (CONTINUED)

(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 programs with risks.

One of the cornerstones of the company's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices.

The company operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

(G) Group risk

Group risk is the risk to a division arising specifically from being part of the wider Group, including the financial impact and loss of support from the parent company.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. INCOME AND EXPENSES

(A) Income summary

	2013 \$M	2012 \$M
Gross earned premium revenue		
Direct and facultative	476.9	404.4
Inward reinsurance	-	1.1
	476.9	405.5
Other revenue		
Reinsurance and other recoveries revenue	79.2	204.4
Reinsurance commission revenue	13.4	20.2
	569.5	630.1
Other income		
Interest, dividends and other income	20.6	7.9
Net fair value gains on financial assets	2.7	3.8
Realised gain on sales of related entities	0.2	-
	23.5	11.7
Income	593.0	641.8

(B) Expenses summary

	2013 \$M	2012 \$M
Outward reinsurance premium expense	188.2	176.1
Gross claims incurred	194.8	295.2
Gross commission expense	69.2	61.3
Other acquisition costs	21.2	17.6
Underwriting and other expenses	44.9	38.8
Investment expenses	0.5	0.4
Foreign exchange losses	1.7	2.6
Expenses	520.5	592.0
Profit before income tax	72.5	49.8

(C) Specific items

	2013 \$M	2012 \$M
Payments on operating leases	3.8	1.7
Depreciation of property, plant and equipment	1.0	0.8
Loss on sale of plant and equipment	0.1	0.1

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. INVESTMENT AND OTHER INCOME

	2013 \$M	2012 \$M
Interest, dividend and other income		
Dividends received from controlled entities	13.0	1.5
Interest received or receivable	7.6	6.4
	20.6	7.9
Net fair value gains on financial assets		
Fixed interest and other	2.7	3.8
Sale of related entities	0.2	-
	2.9	3.8
Foreign exchange (losses)	(1.7)	(2.6)
Investment and other income	21.8	9.1
Investment expenses	(0.5)	(0.4)
Net investment and other income	21.3	8.7

	POLICYHOLDERS' FUNDS		SHAREHOLDER'S FUNDS		INVESTMENT INCOME	
	2013 \$M	2012 \$M	2013 \$M	2012 \$M	2013 \$M	2012 \$M
Investment and other income	9.0	2.2	12.8	6.9	21.8	9.1
Investment expense	(0.2)	(0.2)	(0.3)	(0.2)	(0.5)	(0.4)
Net investment and other income	8.8	2.0	12.5	6.7	21.3	8.7

7. CLAIMS INCURRED

(A) Claims analysis

	2013 \$M	2012 \$M
Gross claims incurred and related expenses		
Direct and facultative	197.7	300.2
Inward reinsurance	(2.9)	(5.0)
	194.8	295.2
Reinsurance and other recoveries		
Direct and facultative	79.1	205.1
Inward reinsurance	0.1	(0.7)
	79.2	204.4
Net claims incurred	115.6	90.8

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. CLAIMS INCURRED (CONTINUED)

(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 years and include releases of risk margins as claims are paid. Refer note 7(C).

	CURRENT YEAR \$M	2013 PRIOR YEARS \$M	TOTAL \$M	CURRENT YEAR \$M	2012 PRIOR YEARS \$M	TOTAL \$M
Gross claims incurred and related expenses						
Undiscounted	190.4	(27.0)	163.4	177.0	116.7	293.7
Discount	(3.1)	34.5	31.4	(3.2)	4.7	1.5
	187.3	7.5	194.8	173.8	121.4	295.2
Reinsurance and other recoveries						
Undiscounted	37.5	15.4	52.9	57.8	146.9	204.7
Discount	(1.8)	28.1	26.3	(1.3)	1.0	(0.3)
	35.7	43.5	79.2	56.5	147.9	204.4
Net claims incurred						
Undiscounted	152.9	(42.4)	110.5	119.2	(30.2)	89.0
Discount	(1.3)	6.4	5.1	(1.9)	3.7	1.8
	151.6	(36.0)	115.6	117.3	(26.5)	90.8

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

The development of the net outstanding claims for the 10 most recent accident years is shown in note 20(E). This note is a reconciliation of the amounts included in the table in note 7(B) and the current financial year movements in the claims development table.

	CURRENT YEAR \$M	2013 PRIOR YEARS \$M	TOTAL \$M	CURRENT YEAR \$M	2012 PRIOR YEARS \$M	TOTAL \$M
Net undiscounted claims development – central estimate (note 20 (E))						
Foreign exchange	-	(5.8)	(5.8)	-	(8.1)	(8.1)
Movement in claims settlement costs	12.9	(10.9)	2.0	5.8	2.6	8.4
Movement in discount	(1.3)	6.4	5.1	(1.9)	3.7	1.8
Movement in risk margin	13.0	(15.1)	(2.1)	11.5	(14.9)	(3.4)
Net claims incurred – discounted						
	151.6	(36.0)	115.6	117.3	(26.5)	90.8

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. INCOME TAX EXPENSE

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

	2013 \$M	2012 \$M
Profit before income tax	72.5	49.8
Prima facie tax payable at 30%	21.7	14.9
Tax effect of non-temporary differences:		
Differences in tax rates	(0.7)	(0.8)
Other, including non-allowable expenses and non-taxable income	(4.4)	1.0
Prima facie tax adjusted for non-temporary differences	16.6	15.1
Overprovision in prior years	(0.1)	(0.2)
Income tax expense	16.5	14.9
Analysed as follows:		
Current tax	13.9	11.7
Deferred tax	2.7	3.4
Overprovision in prior years	(0.1)	(0.2)
	16.5	14.9
Deferred tax expense (credit) comprises:		
Deferred tax assets recognised in profit or loss	0.7	3.6
Deferred tax liabilities recognised in profit or loss	2.0	(0.2)
	2.7	3.4

(B) Tax consolidation legislation

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

QBE Insurance Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing and tax funding agreement under which the wholly-owned entities are required to fully compensate QBE Insurance Group Limited for any current tax payable and are compensated by QBE Insurance Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to QBE Insurance Group Limited under the tax consolidation legislation.

The head entity, QBE Insurance Group Limited, and the controlled entities in the tax consolidated group allocate compensation based on a notional stand-alone tax calculation done as if each entity in the tax consolidated group was a stand-alone taxpayer in its own right. The assets and liabilities arising under the arrangement are recognised as inter-company assets and liabilities in the balance sheet of each Australian company.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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9. CASH AND CASH EQUIVALENTS

	2013 \$M	2012 \$M
Cash at bank and on hand	41.7	54.0
Overnight money	0.2	0.2
Cash management trust	0.4	-
Term deposits	19.3	28.3
	61.6	82.5
Analysed as follows:		
Fixed interest rate	19.3	28.3
Floating interest rate	42.3	54.2
	61.6	82.5

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

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

(A) Reconciliation of cash flows from operating activities to profit after income tax

	2013 \$M	2012 \$M
Net cash flows from operating activities	40.2	40.6
Depreciation of property, plant and equipment	(1.0)	(0.8)
Amortisation of premium/discount on fixed interest securities	(0.9)	(0.5)
Increase in net amounts receivable from controlled entities	5.0	1.4
Loss on sale of plant and equipment	(0.1)	(0.1)
Net foreign exchange loss	(1.7)	(2.5)
Other gains on financial assets	8.2	2.4
(Increase)/decrease in net outstanding claims	(3.0)	3.7
Increase in unearned premiums	(16.1)	(24.4)
Decrease in deferred insurance costs	(8.7)	(3.8)
Increase in trade debtors	59.6	22.2
Decrease in net operating assets	(0.5)	(1.2)
(Increase)/decrease in trade payables	(14.7)	7.4
Increase in tax liabilities	(10.3)	(9.5)
Profit after income tax	56.0	34.9

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. INVESTMENTS

	2013 \$M	2012 \$M
Fixed interest rate		
Short term money	493.0	322.1
Government bonds	47.2	53.1
Corporate bonds	45.4	19.1
	585.6	394.3
Floating interest rate		
Short term money	1.2	4.1
Fixed interest trusts	-	1.2
Corporate bonds	128.8	69.6
	130.0	74.9
Total investments	715.6	469.2
Amounts maturing within 12 months	581.7	398.7
Amounts maturing in greater than 12 months	133.9	70.5
Total investments	715.6	469.2

(A) Charges over investments and other assets

An encumbered asset with a market value of \$2.6 million and face value of \$2.5 million at 31 December 2013 was held in the investment portfolio of QBE Insurance (Australia) Limited on behalf of QBE Insurance (International) Limited (2012: market value \$2.6 million; face value \$2.5 million).

(B) Fair value hierarchy

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

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus price using broker quotes and valuation model with observable inputs.

Level 3: Valuation techniques are applied for which any significant input is not based on observable market data.

	2013				2012			
	LEVEL 1 \$M	LEVEL 2 \$M	LEVEL 3 \$M	TOTAL \$M	LEVEL 1 \$M	LEVEL 2 \$M	LEVEL 3 \$M	TOTAL \$M
Short-term money	62.8	431.4	-	494.2	17.5	308.7	-	326.2
Government bonds	6.8	39.1	1.3	47.2	37.0	15.0	1.1	53.1
Fixed interest trusts	-	-	-	-	-	1.2	-	1.2
Corporate bonds	-	174.2	-	174.2	-	88.7	-	88.7
Total investments	69.6	644.7	1.3	715.6	54.5	413.6	1.1	469.2

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. INVESTMENTS (CONTINUED)

(C) Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Fixed and floating rate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Group Investments' independent control team values each asset, as described above, in accordance with the Group's investment valuation policy. The Group's investment valuation policy is reviewed at least annually and any changes are approved by the Group Chief Investment Officer, who reports directly to the Group Chief Financial Officer.

(D) Movements in level 3 investments

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

	2013	2012
Level 3	\$M	\$M
At 1 January	1.1	-
Reclassification to level 3 investments	-	-
Purchases	1.1	1.1
Disposals	(1.1)	(0.1)
Net fair value unrealised gains recognised in profit or loss	0.2	0.1
At 31 December	1.3	1.1

(E) Restrictions in use

In 2013, the New Zealand branch of the company is no longer required to have a security deposit with the New Zealand Public Trust Office (2012: NZ\$0.125 million).

The France branch of the company has €45.6 million (\$70.2 million) in investment (2012: \$64.0 million) with the French insurance authority and controller to cover technical reserves.

QBE INSURANCE (INTERNATIONAL) LIMITED

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For the year ended 31 December 2013

11. DERIVATIVE FINANCIAL INSTRUMENTS

	ASSETS		LIABILITIES	
	2013 \$M	2012 \$M	2013 \$M	2012 \$M
Maturing within 12 months				
Forward foreign exchange contracts	0.8	0.1	1.7	0.2

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

(A) 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(D). Undiscounted contractual amounts to sell \$28.3 million (2012: \$12.9 million) were outstanding at the balance sheet date. All these contracts mature within 12 months of the balance sheet date.

(B) Credit risk

Credit risk may arise on forward foreign exchange contracts if the counterparty fails to meet its contractual settlement obligations. The unrealised gains of \$0.8 million (2012: \$0.1 million) represent the company's exposure to credit risk on forward foreign exchange contracts at the balance sheet date.

(C) Fair value hierarchy

The company's accounting policy in relation to the valuation of derivatives is set out in note 1(N). Derivatives are analysed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The hierarchy is explained in more detail in note 10(B).

	2013				2012			
	LEVEL 1 \$M	LEVEL 2 \$M	LEVEL 3 \$M	TOTAL \$M	LEVEL 1 \$M	LEVEL 2 \$M	LEVEL 3 \$M	TOTAL \$M
Assets								
Forward foreign exchange contracts	0.8	-	-	0.8	0.1	-	-	0.1
Liabilities								
Forward foreign exchange contracts	1.7	-	-	1.7	0.2	-	-	0.2

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. TRADE AND OTHER RECEIVABLES

	2013 \$M	2012 \$M
Trade receivables		
Premium receivable ¹	107.6	87.4
Reinsurance and other recoveries ¹	18.5	11.8
Unclosed premium	27.5	19.5
	153.6	118.7
Other receivables	7.5	18.7
Prepayments	0.8	0.2
Amounts due from controlled entities	15.9	7.2
Amounts due from related entities	116.8	117.6
Trade and other receivables	294.6	262.4
Receivable within 12 months	292.3	261.4
Receivable in greater than 12 months	2.3	1.0
Trade and other receivables	294.6	262.4

¹ Net of a provision for impairment

(A) Provision for impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2013 \$M	2012 \$M	2013 \$M	2012 \$M
At 1 January	0.3	0.5	1.7	1.0
Amounts recognised in profit or loss	-	-	0.5	0.7
Other movements	0.2	(0.2)	(0.1)	-
At 31 December	0.5	0.3	2.1	1.7

(B) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

(C) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the 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(C). Note 4 also provides more information on the risk management policies of the company.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. DEFERRED INSURANCE COSTS

	2013 \$M	2012 \$M
Deferred reinsurance premium	38.9	46.6
Deferred net commission	30.5	22.4
Deferred acquisition costs	12.5	9.5
Deferred insurance costs	81.9	78.5
To be expensed within 12 months	75.7	72.3
To be expensed in greater than 12 months	6.2	6.2
Deferred insurance costs	81.9	78.5

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2013 \$M	2012 \$M	2013 \$M	2012 \$M	2013 \$M	2012 \$M
At 1 January	46.6	50.6	22.4	19.6	9.5	8.8
Costs deferred in financial year	35.3	49.3	27.4	21.2	3.8	9.0
Amortisation of costs deferred in previous financial years	(48.4)	(55.0)	(23.0)	(19.3)	(2.4)	(8.7)
Foreign exchange	5.4	1.7	3.7	0.9	1.6	0.4
At 31 December	38.9	46.6	30.5	22.4	12.5	9.5

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT

2013	LEASEHOLD IMPROVEMENTS	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS	MOTOR VEHICLES	TOTAL
	\$M	\$M	\$M	\$M
Cost or valuation				
At 1 January	1.2	7.0	0.7	8.9
Additions	-	0.9	0.1	1.0
Disposals	-	(0.2)	(0.2)	(0.4)
Foreign exchange	0.2	1.2	0.1	1.5
At 31 December	1.4	8.9	0.7	11.0
Accumulated depreciation and impairment losses				
At 1 January	(0.6)	(4.6)	(0.4)	(5.6)
Disposals	-	0.2	0.2	0.4
Depreciation charge for the year	(0.1)	(0.8)	(0.1)	(1.0)
Foreign exchange	(0.1)	(0.8)	(0.1)	(1.0)
At 31 December	(0.8)	(6.0)	(0.4)	(7.2)
Carrying amount				
At 31 December	0.6	2.9	0.3	3.8

2012	LEASEHOLD IMPROVEMENTS	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS	MOTOR VEHICLES	TOTAL
	\$M	\$M	\$M	\$M
Cost or valuation				
At 1 January	1.1	6.3	0.7	8.1
Additions	0.1	1.1	-	1.2
Disposals	-	(0.6)	-	(0.6)
Foreign exchange	-	0.2	-	0.2
At 31 December	1.2	7.0	0.7	8.9
Accumulated depreciation and impairment losses				
At 1 January	(0.5)	(4.2)	(0.4)	(5.1)
Disposals	-	0.4	0.1	0.5
Depreciation charge for the year	(0.1)	(0.6)	(0.1)	(0.8)
Foreign exchange	-	(0.2)	-	(0.2)
At 31 December	(0.6)	(4.6)	(0.4)	(5.6)
Carrying amount				
At 31 December	0.6	2.4	0.3	3.3

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. DEFERRED INCOME TAX

	2013 \$M	2012 \$M
Deferred tax assets	4.6	4.8
Deferred tax liabilities	11.3	8.8

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2013 \$M	2012 \$M
Amounts recognised in profit or loss		
Provision for impairment	0.1	0.2
Employee benefits	0.4	1.1
Insurance provisions	0.9	1.4
Investment related	2.3	2.1
Other	0.9	0.5
Deferred tax assets before set-off	4.6	5.3
Set-off of deferred tax liabilities	-	(0.5)
	4.6	4.8

Deferred tax assets analysed as follows:

Recoverable within 12 months	1.2	0.5
Recoverable in greater than 12 months	3.4	4.8
	4.6	5.3

(ii) Movements

	2013 \$M	2012 \$M
At 1 January	5.3	8.9
Amounts recognised in profit or loss	(0.7)	(3.6)
At 31 December	4.6	5.3

(B) Tax losses

The company has no tax losses brought to account in 2013 (2012: nil).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. DEFERRED INCOME TAX (CONTINUED)

(C) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2013 \$M	2012 \$M
Amounts recognised in profit or loss		
Insurance provisions	8.7	6.7
Investment related	2.5	2.5
Depreciation	0.1	0.1
	11.3	9.3
Deferred tax liabilities before set-off	11.3	9.3
Set-off of deferred tax assets	-	(0.5)
	11.3	8.8
Deferred tax liabilities analysed as follows:		
Payable within 12 months	2.0	1.8
Payable in greater than 12 months	9.3	7.4
	11.3	9.3

(ii) Movements:

	2013 \$M	2012 \$M
At 1 January	9.3	9.5
Amounts recognised in profit or loss	2.0	(0.2)
At 31 December	11.3	9.3

16. INVESTMENTS IN CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	INVESTMENT		EQUITY HOLDING	
		2013 \$M	2012 \$M	2013 %	2012 %
QBE Insurance (Malaysia) Berhad	Malaysia	44.0	44.0	100	100
PT Asuransi QBE Pool Indonesia	Indonesia	5.8	5.2	55	55
QBE Insurance (Vietnam) Company Ltd	Vietnam	18.3	18.3	100	100
QBE Marine Underwriting Agency Pte. Limited	Singapore	-	0.8	-	100
QBE Insurance (Singapore) Pte. Limited	Singapore	0.2	0.2	100	100
QBE Insurance (Thailand) Co Limited ¹	Thailand	4.2	4.2	40.8	40.8
		72.5	72.7		

¹For accounting purposes, the group has management control of QBE Insurance (Thailand) Co Limited.

During the year, investments of \$0.6 million (2012: \$2.9 million) and disposal of \$0.8 million (2012: \$2.7 million) were made in controlled entities.

QBE INSURANCE (INTERNATIONAL) LIMITED

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For the year ended 31 December 2013

17. INTANGIBLE ASSETS

2013	SOFTWARE \$M	GOODWILL \$M	TOTAL \$M
Cost			
At 1 January	-	16.5	16.5
Additions	1.6	-	1.6
At 31 December	1.6	16.5	18.1
Accumulated amortisation			
At 1 January	-	-	-
Impairment losses	-	-	-
Amortisation for the year	-	-	-
At 31 December	-	-	-
Carrying amount			
At 31 December	1.6	16.5	18.1

2012	SOFTWARE \$M	GOODWILL \$M	TOTAL \$M
Cost			
At 1 January	-	16.5	16.5
Additions	-	-	-
At 31 December	-	16.5	16.5
Accumulated amortisation			
At 1 January	-	-	-
Impairment losses	-	-	-
Amortisation for the year	-	-	-
At 31 December	-	-	-
Carrying amount			
At 31 December	-	16.5	16.5

(A) Goodwill

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units reflect the level at which goodwill is monitored by management. 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 and/or the allocation of goodwill to those cash generating units.

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

The company's accounting policy in respect of impairment testing of goodwill is set out in note 1(R). The recoverable amount of each cash generating unit has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow projections based on the latest three year business plan which has been approved by the board. Cash flow forecasts are based on a combination of historical performance combined with management's expectations of future performance based on prevailing and anticipated market factors;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. Growth rate reflects the long-term average of the country relevant to the cash generating unit and is sourced from observable market information. The terminal growth rate used in management's impairment testing is 2.5% (2012: 2.5%).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. INTANGIBLE ASSETS (CONTINUED)

(B) Impairment testing of goodwill (continued)

- discount rates reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit.

The pre-tax discount rates used to value significant cash generating units at 31 December 2013 were 9.6% for New Zealand branch and 11.1% for other branches (2012: 9.2% for all branches).

18. TRADE AND OTHER PAYABLES

	2013 \$M	2012 \$M
Trade payables	14.6	23.8
Amounts due to related entities	104.0	55.7
Amounts due to controlled entities	-	0.2
Other payables	83.4	47.7
Accrued expenses	11.5	9.6
Trade and other payables	213.5	137.0
Payable within 12 months	213.0	136.5
Payable in greater than 12 months	0.5	0.5
Trade and other payables	213.5	137.0

19. UNEARNED PREMIUM

(A) Unearned premium

	2013 \$M	2012 \$M
At 1 January	228.9	195.8
Deferral of premium on contracts written in the period	253.0	218.8
Earning of premium written in previous periods	(236.9)	(194.4)
Acquisition of entities	0.4	-
Foreign exchange	35.3	8.7
At 31 December	280.7	228.9
To be earned within 12 months	265.5	216.4
To be earned in greater than 12 months	15.2	12.5
Unearned premium	280.7	228.9

(B) Net premium liabilities

	NOTE	2013 \$M	2012 \$M
Unearned premium		280.7	228.9
Deferred insurance costs	13	(81.9)	(78.5)
Net premium liabilities		198.8	150.4

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

	2013 \$M	2012 \$M
Undiscounted central estimate	179.0	139.5
Risk margin	10.9	9.3
	189.9	148.8
Discount to present value	(1.9)	(1.7)
Expected present value of future cash flows for future claims including risk margin	188.0	147.1

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. UNEARNED PREMIUM (CONTINUED)

(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 the outstanding claims provisions, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The company has adopted a risk margin of 6.2% (2012: 6.7%) for premium liabilities, for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA. Without allowing for diversification benefits, the application of the 6.0% (2012: 4.3%) risk margin to the premium liabilities is estimated to achieve a probability of adequacy of 73.0% (2012: 70.0%) on premium liabilities on a standalone basis.

The application of the liability adequacy test in respect of net premium liabilities identified a surplus at 31 December 2013 and 31 December 2012.

(E) Risk margin

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

The risk margin in expected future cash flows for future claims as a percentage of the discounted central estimate is 6.2% (2012: 6.7%)

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2013 \$M	2012 \$M
Gross outstanding claims provision	714.1	767.8
Risk margin	37.2	35.1
Outstanding claims	751.3	802.9
Reinsurance and other recoveries on outstanding claims	(498.6)	(582.9)
Net outstanding claims provision	252.7	220.0
Analysed as follows:		
Net undiscounted central estimate	222.2	190.5
Discount	(6.7)	(5.6)
Net central estimate	215.5	184.9
Risk margin	37.2	35.1
Net outstanding claims provision	252.7	220.0
 Gross outstanding claims	 769.8	 816.0
Claims settlement costs	12.8	16.2
	782.6	832.2
Discount to present value	(31.3)	(29.3)
Gross outstanding claims provision	751.3	802.9
Less than 12 months	336.5	281.2
Greater than 12 months	414.8	521.7
Gross outstanding claims provision	751.3	802.9
 Reinsurance and other recoveries on outstanding claims ^{1 2}	 523.2	 606.6
Discount to present value	(24.6)	(23.7)
Reinsurance and other recoveries on outstanding claims	498.6	582.9
Less than 12 months	186.2	183.8
Greater than 12 months	312.4	399.1
Reinsurance and other recoveries on outstanding claims	498.6	582.9

¹ Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of nil (2012: nil).

² In 2013, Letters of Credit (LOC) have been issued to the company by Commonwealth Bank to the value of NZ\$116.8 million (\$107.6 million) (2012: \$139.5 million) for an external non related party recovery, and Citibank N.A. Sydney Branch to the value of \$134.6 million (2012: \$138.8 million) for a related party recovery. In addition a further LOC from a non related party of NZ\$17.0 million (\$15.7 million) (2012: \$3.9 million) has been issued to support reinsurance recoveries outstanding from a non-APRA authorised reinsurer).

QBE INSURANCE (INTERNATIONAL) LIMITED

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For the year ended 31 December 2013

20. OUTSTANDING CLAIMS (CONTINUED)

(B) Maturity profile of net outstanding claims

The expected maturity 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 2013	\$M	132.9	54.0	26.8	20.0	8.3	10.7	252.7
At 31 December 2012	\$M	104.3	44.2	25.5	15.7	14.4	15.9	220.0

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

(C) Risk margin

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)(iv).

The risk margin included in net outstanding claims is 17.3% (2012: 19.0%) of the central estimate. The level of uncertainty in the net discounted central estimate at 31 December 2013 has reduced, mainly due to increased scale and lower volatility in New Zealand. As a consequence, the probability of adequacy at 31 December 2013 is 93.8% (2012: 93.7%) which is above APRA's 75% benchmark. Net profit after tax would have increased by \$0.2 million if the probability of adequacy was maintained at 93.7%.

(D) Reconciliation of movement in discounted outstanding claims provision

	2013			2012		
	GROSS \$M	REINSURANCE \$M	NET \$M	GROSS \$M	REINSURANCE \$M	NET \$M
At 1 January	802.9	582.9	220.0	812.8	597.2	215.6
Increase in net claims incurred in current accident year	187.3	35.7	151.6	173.8	56.5	117.3
Movement in prior year claims provision	7.5	43.5	(36.0)	121.4	147.9	(26.5)
Incurring claims recognised in profit or loss	194.8	79.2	115.6	295.2	204.4	90.8
Claim (payments) recoveries during the year	(340.4)	(224.6)	(115.8)	(333.3)	(244.8)	(88.5)
Foreign exchange (intercompany movement)	94.0	61.1	32.9	28.2	26.1	2.1
At 31 December	751.3	498.6	252.7	802.9	582.9	220.0

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20. OUTSTANDING CLAIMS (CONTINUED)

(E) Claims development – undiscounted net central estimate

	2003 & prior \$M	2004 \$M	2005 \$M	2006 \$M	2007 \$M	2008 \$M	2009 \$M	2010 \$M	2011 \$M	2012 \$M	2013 \$M	TOTAL \$M
Net claims cost – central estimate:												
At end of accident year		90.5	83.7	103.5	106.6	99.5	91.3	99.3	107.5	107.1	127.0	1,016.0
One year later		90.7	85.1	83.9	91.7	96.8	88.8	102.0	107.9	102.4	-	850.3
Two years later		87.2	80.1	79.9	83.0	98.4	85.6	98.2	103.0	-	-	716.2
Three years later		85.9	82.3	88.0	84.8	100.0	83.6	97.8	-	-	-	622.4
Four years later		85.2	79.1	87.8	84.3	98.1	84.5	-	-	-	-	519.0
Five years later		82.4	79.6	85.8	82.8	98.2	-	-	-	-	-	428.8
Six years later		82.9	79.7	84.8	82.7	-	-	-	-	-	-	330.1
Seven years later		81.2	79.1	85.0	-	-	-	-	-	-	-	245.3
Eight years later		81.4	78.6	-	-	-	-	-	-	-	-	160.0
Nine years later		81.5	-	-	-	-	-	-	-	-	-	81.5
Current central estimate cost for the ten most recent accident years		81.5	78.6	85.8	82.7	98.2	84.5	97.8	103.0	102.4	127.0	940.7
Cumulative net claims payments to date		(80.1)	(78.1)	(83.4)	(79.4)	(91.6)	(72.6)	(85.6)	(84.4)	(67.2)	(39.9)	(761.3)
Net undiscounted central estimate	14.6	1.4	0.5	1.6	3.3	6.6	11.9	12.2	18.6	35.2	88.1	194.0
Foreign exchange												15.4
Net undiscounted central estimate at 31 December 2013												209.4
Discount to present value												(6.7)
Risk margin												37.2
Claims settlement costs												12.8
Net outstanding claims at 31 December 2013												252.7
Net central estimate development												
Increase (decrease) in the year – current year minus prior year	(1.4)	0.1	(0.5)	0.2	(0.1)	0.1	0.9	(0.4)	(4.9)	(4.7)	127.0	116.4

A reconciliation of the net central estimate development to the net incurred claims in the income statement is included in note 7(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 central estimate claims cost and cumulative claims payments for the ten most recent accident years reported in functional currencies other than Australian dollars have been translated to Australian dollars using the 2013 cumulative average rate of exchange.

The central estimate claims development table is presented net of reinsurance. With operations in 8 countries, hundreds of products, various reinsurance arrangements and with the company's risk tolerance managed on a consolidated net basis, it is not considered meaningful or practicable to provide this information other than on a net accident year basis.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. PROVISIONS

2013	PROVISION FOR LONG SERVICE LEAVE	OTHER PROVISIONS	TOTAL PROVISIONS
	\$M	\$M	\$M
At 1 January	0.2	0.1	0.3
Other movement	-	2.0	2.0
At 31 December	0.2	2.1	2.3
Payable within 12 months	0.1	1.9	2.0
Payable in greater than 12 months	0.1	0.2	0.3
At 31 December	0.2	2.1	2.3

2012	PROVISION FOR LONG SERVICE LEAVE	OTHER PROVISIONS	TOTAL PROVISIONS
	\$M	\$M	\$M
At 1 January	0.1	0.1	0.2
Other movement	0.1	-	0.1
At 31 December	0.2	0.1	0.3
Payable within 12 months	0.1	-	0.1
Payable in greater than 12 months	0.1	0.1	0.2
At 31 December	0.2	0.1	0.3

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. EQUITY

(A) Share capital

2013	NUMBER OF SHARES MILLIONS	\$M
Issued ordinary shares, fully paid at 1 January	230.0	230.0
Issued ordinary shares, fully paid at 31 December	230.0	230.0

2012	NUMBER OF SHARES MILLIONS	\$M
Issued ordinary shares, fully paid at 1 January	230.0	230.0
Issued ordinary shares, fully paid at 31 December	230.0	230.0

(B) Movements in share capital

There were no movements in share capital during the year (2012: nil)

(C) Contributed equity

Ordinary shares in the company have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Ordinary shareholders rank after all creditors and are entitled to any residual proceeds

(D) Reserves

	2013 \$M	2012 \$M
Realised capital profits		
At 1 January	27.9	27.9
At 31 December	27.9	27.9
Foreign currency translation		
At 1 January	(25.3)	(33.8)
Other comprehensive income for the year	42.8	8.5
At 31 December	17.5	(25.3)
Other		
At 1 January	1.8	1.8
At 31 December	1.8	1.8
Total reserves at 31 December	47.2	4.4

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. EQUITY (CONTINUED)

(E) Capital risk management

As a member of the wholly owned group, the company has adopted the risk management policies and framework of the QBE Group. QBE Group's objective when managing capital is to maintain an optimal balance of debt and equity in the 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 company is subject to, and complies with, various externally imposed regulatory capital requirements. These requirements are designed to ensure a sufficient solvency margin is maintained in order to provide adequate protection for 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.

From 1 January 2013, a board approved Internal Capital Adequacy Assessment Process (ICAAP) has been in place following the introduction of the new Life and General Insurance Capital standards (LAGIC). The objective of the company's ICAAP is to ensure that there is an integrated and embedded framework to manage risk and capital in place in order to support QBE's strategic objectives and business plans and to ensure that adequate capital is maintained against the risks associated with QBE's activities. The ICAAP ensures the company's capital is managed in line with its capital management framework that includes capital targets, triggers and associated capital actions. The capital targets are set in the context of QBE's risk profile, the board's risk appetite and regulatory capital requirements.

The company uses an economic capital model (ECM) that is used across the QBE Group to assess the level of capital required for the underwriting, claims estimation, credit market, liquidity and operational risks to which it is exposed. 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 ultimate policyholder obligations in relation to all insurance contracts issued on or before the end of the business plan year. The ECM is used by management to help in the determination of the strategic capital allocation, business planning, underwriting performance, pricing, reinsurance and aggregate management. It also assists in determining regulatory capital. Capital across the QBE Group 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. In the event of a significant change in the company's risk profile, the ECM will be recalculated and 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. EQUITY (CONTINUED)

(E) Capital risk management (continued)

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

- The company actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. Having determined that the current risk appetite of the company remains appropriate, management has set the target level of regulatory capital for 2013 at around 1.8 - 2.2 times the Prescribed Capital Amount (PCA), including the full Insurance Concentration Risk Charge requirements which take effect 1 January 2014. Management monitors capital and solvency against capital target and annual rolling three years capital plans.
- The company is subject to regulatory requirements 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 fully complies with and meets or exceeds 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.

In addition to the management reporting and planning processes, the company has dedicated staff responsible for understanding the regulatory capital requirements of its operations. The quality of assets (particularly investments and reinsurance recoveries) held by the company is continuously monitored to ensure any potential issues are identified and remedial action, where necessary, is taken to restore effective capital performance and levels.

23. MANDATORY CONVERTIBLE SECURITIES

	2013 \$M	2012 \$M
Mandatory convertible securities		
December 2046 NZ\$102 million	91.2	91.2

In December 2006, the company issued NZ\$102 million 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 Holdings (AAP) Pty 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

24. APRA CAPITAL ADEQUACY

Australian Prudential Regulation Authority (APRA) Prudential Standard GPS 110 Capital Adequacy for General Insurance requires that the company maintain a capital base in excess of its minimum capital requirement as defined under the Prudential Standards.

The following table shows the capital adequacy calculation in accordance with APRA prudential framework. The 2013 position reflects the 2013 quarter APRA return (unaudited).

	2013 \$M	2012 \$M
Eligible Tier 1 Capital as defined by APRA		
Contributed equity ³	230.0	230.0
Retained profit ^{1,2}	160.3	66.8
Insurance liability surplus	20.3	39.6
Total equity	410.6	336.4
Additional Tier 1 Capital	82.1	91.2
Less: APRA deductions	(61.8)	(16.7)
Total APRA capital base	430.9	410.9
 APRA prudential capital requirement ⁴	 218.9	 180.3
 APRA capital adequacy multiple	 1.97	 2.28

¹ Retained profits are in accordance with APRA Prudential Standards.

² Dividends of \$5.3 million were paid during the year (2012: \$4.9 million)

³ Retained profits are in accordance with APRA Prudential Standards.

⁴ The company has calculated the 2013 prudential capital requirement in accordance with the new LAGIC standards, which came into effect on 1 January 2013. The prudential capital requirement amount for 2012 was not calculated under the new LAGIC standards; hence, the prudential capital requirement and the capital adequacy multiple will not be comparable between current and prior year periods. The prudential capital requirement in 2012 is referred to as "minimum capital requirement" and "prescribed capital amount" in 2013.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. 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.

Certain directors of the company are also directors of other subsidiaries of QBE Insurance Group Limited, the ultimate parent company. Their remuneration, which is paid by a related company, has been apportioned to the company on a basis consistent with the level of management effort.

Key management personnel compensation for the years ended 31 December 2013 and 2012 is set out below.

	2013 \$'000	2012 \$'000
Short-term employee benefits	5,834	3,367
Post employment benefits	247	202
Other long-term employment benefits	30	57
Termination benefits	195	471
Share based payments	232	303
	6,538	4,400

26. REMUNERATION OF AUDITORS

	2013 \$'000	2012 \$'000
PricewaterhouseCoopers (PwC) – Australian firm¹		
Audit of financial reports	215	208
Audit of statutory returns	119	78
	334	286
Related practices of PwC – Australian firm (including overseas PwC firms)		
Audit of financial reports	313	297
Audit of statutory returns	41	89
Taxation services	33	76
Other consulting and advisory	62	-
	449	462
	783	748
Audit and assurance services	688	672
Other services	95	76
	783	748

¹ The board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. The company may engage the external auditor for non-audit services other than the excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in one financial year. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, PwC 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.

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. CONTINGENT LIABILITIES

	2013 \$M	2012 \$M
The company had the following unsecured contingent liabilities:		
Security deposit in overseas branch	0.7	0.6
Bankers guarantee to overseas branch	1.6	1.0
Guarantee to related entities	13.4	11.5
	15.7	13.1

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.

28. CAPITAL EXPENDITURE COMMITMENTS

The company had no commitments for expenditure as at 31 December 2013 (2012: nil).

29. OPERATING LEASE COMMITMENTS

	2013 \$M	2012 \$M
Payable:		
Not later than one year	4.2	3.7
Later than one year but less than five years	4.2	7.0
Later than five years	0.1	0.2
Total future minimum lease payments under non-cancellable operating leases	8.5	10.9

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

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. RELATED PARTIES

(A) Parent entity

The parent entity is QBE Holdings (AAP) Pty Limited and the ultimate parent entity is QBE Insurance Group Limited.

(B) Controlled entities

Interests in controlled entities are set out in note 16.

(C) Transactions with related parties

The following material transactions occurred with related parties:

	2013 \$'000	2012 \$'000
Revenue		
Gross earned premium – inward reinsurance	20	1,112
Reinsurance and other recoveries - undiscounted	17,704	106,589
Reinsurance commission	1,021	6,974
Dividends received	12,987	1,539
Payments received for management services	725	2,163
Expenses		
Outward reinsurance premium	77,584	154,403
Payments made for management services	17,713	14,152
Other transactions		
Dividends paid	5,253	4,882

(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:

	2013 \$'000	2012 \$'000
Current assets		
Reinsurance and other recoveries	124,320	281,301
Trade and other receivables	-	2,056
Current liabilities		
Trade and other payables	3,167	19,704

(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, except for reinsurance recoveries that are secured by LOCs as explained in note 20(A).

QBE INSURANCE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. RELATED PARTIES (CONTINUED)

(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
Interest received or receivable from controlled entities	Note 6
Tax sharing agreement	Note 8(B)
Amounts due from controlled and related entities	Note 12
Investments in controlled entities	Note 16
Amounts due to controlled and related entities	Note 18
Outstanding claims	Note 20
Mandatory convertible securities	Note 23
Remuneration of key management personnel	Note 25
Guarantees in respect of related entities	Note 27

31. EVENTS OCCURRING AFTER REPORTING DATE

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

QBE INSURANCE (INTERNATIONAL) LIMITED

(A.C.N. 000 000 948)

DIRECTORS' DECLARATION
For the year ended 31 December 2013

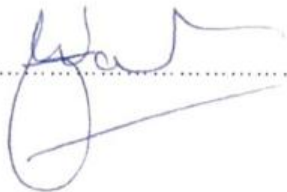
In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 65 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 2013 and of its performance 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.

Note 1(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 20 day of February 2014 in accordance with a resolution of the directors.

Director



Director





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 2013, the statement of comprehensive income, statement of 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.

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. Those 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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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 2013 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*.
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1(A).

A handwritten signature in black ink, appearing to be 'PwC' or similar, written over a horizontal line.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'J.W. Bennett', written over a horizontal line.

J.W. Bennett
Partner

Sydney
20 February 2014

PricewaterhouseCoopers, ABN 52 780 433 757

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