

QBE INSURANCE (INTERNATIONAL) LIMITED

NEW ZEALAND BRANCH

FINANCIAL REPORT – 31 DECEMBER 2015

INDEX

	<u>PAGE NO.</u>
Statement by Directors	1
Independent auditor's report	2-3
Financial report	
• Statement of comprehensive income	4
• Balance sheet	5
• Statement of changes in balances due to Head Office	6
• Statement of cash flows	7
• Notes to the financial statements	8-39

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

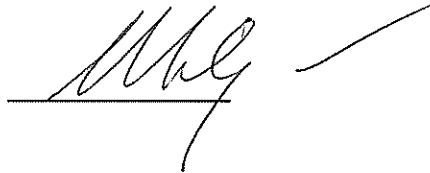
STATEMENT BY DIRECTORS
For the year ended 31 December 2015

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 4 to 39 are true copies of the Financial Statements of the New Zealand Branch of the Company for the year ended 31 December 2015.

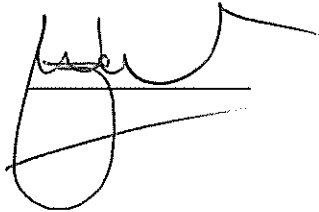
The Board of Directors of QBE Insurance (International) Limited authorised these statements for issue on

the 18 day of FEBRUARY 2016.

DIRECTOR:

A handwritten signature in black ink, appearing to be 'M. G.', written over a horizontal line.

DIRECTOR:

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



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 39 which comprise the balance sheet as at 31 December 2015, 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 are responsible on behalf of the Branch for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards 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). 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 and fair presentation of the financial statements 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 are independent of the Branch. Our firm carries out other services for the Branch in the areas of tax advice. The provision of these other services has not impaired our independence.

Opinion

In our opinion, the financial statements on pages 4 to 39 present fairly, in all material respects, the financial position of the Branch as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.



Independent Auditors' Report

QBE Insurance (International) Limited New Zealand Branch

Restriction on Use of our Report

This report is made solely to the Branch's Directors, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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 Branch and the Branch's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink, appearing to read "P. Smith", with a long, sweeping horizontal line extending to the right.

Chartered Accountants
18 February 2016

Auckland

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTE	2015 \$000's	2014 \$000's
Gross written premium		353,444	324,967
Unearned premium movement	17	(13,073)	(5,139)
Gross earned premium revenue		340,371	319,828
Outward reinsurance premium		(166,469)	(146,780)
Deferred reinsurance premium movement	13	5,633	(6,754)
Outward reinsurance premium expense		(160,836)	(153,534)
Net earned premium		179,535	166,294
Gross claims incurred	8	(161,231)	(184,152)
Reinsurance and other recoveries revenue	8	91,499	108,533
Net claims incurred	8	(69,732)	(75,619)
Gross commission expense		(49,311)	(38,899)
Reinsurance commission revenue		16,572	15,101
Net commission		(32,739)	(23,798)
Deferred acquisition cost movement		2,894	-
Underwriting expenses	6	(48,520)	(44,184)
Underwriting profit		31,438	22,693
Sundry income		3,067	1,122
Investment income	7	16,072	13,717
Other expenses	7	(2,131)	(12,239)
Profit before income tax		48,446	25,293
Income tax expense	9	(14,234)	(9,470)
Profit for the year attributable to Head Office Account		34,212	15,823
Other comprehensive income after income tax		-	-
Total comprehensive income for the year attributable to Head Office Account		34,212	15,823

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 2015

	NOTE	2015 \$000's	2014 \$000's
ASSETS			
Cash and cash equivalents	10	18,737	16,515
Investments	11	369,057	343,623
Trade and other receivables	12	153,411	135,397
Deferred insurance costs	13	52,619	39,319
Reinsurance and other recoveries on outstanding claims	18	213,154	244,810
Property, plant and equipment	14	1,544	1,637
Deferred tax assets	15	1,066	650
Total assets		809,588	781,951
LIABILITIES			
Trade and other payables	16	62,013	31,139
Current tax liabilities		4,220	4,529
Unearned premium	17	196,002	182,929
Outstanding claims	18	333,875	364,576
Deferred tax liabilities	15	10,348	8,199
Total liabilities		606,458	591,372
Net assets		203,130	190,579
Due to Head Office – Australia	20	203,130	190,579

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 2015

HEAD OFFICE – AUSTRALIA	NOTE	2015 \$000's	2014 \$000's
Balance as at 1 January		190,579	78,490
Profit for the year		34,212	15,823
Total comprehensive income		34,212	15,823
Loan settlement		-	102,000
Dividend Paid		(24,357)	-
Current transactions with Head Office		2,696	(5,734)
Balance at 31 December	20	203,130	190,579

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 2015

	NOTE	2015 \$000's	2014 \$000's
OPERATING ACTIVITIES			
Premium received		329,833	324,258
Reinsurance and other recoveries received		131,238	340,765
Outwards reinsurance paid		(166,448)	(135,681)
Claims paid		(191,932)	(427,946)
Insurance costs paid		(37,512)	(26,362)
Interest received		12,457	10,014
Other operating income		28	3,040
Other operating payments		(31,290)	(57,117)
Income taxes paid		(12,810)	(9,018)
Net cash flows from operating activities	10	33,564	21,953
INVESTING ACTIVITIES			
Proceeds on sale of investments		437,103	931,799
Payments for purchase of investments		(458,921)	(920,329)
Payments for purchase of plant and equipment		(564)	(250)
Net cash flows from investing activities		(22,382)	11,220
FINANCING ACTIVITIES			
Interest paid		-	(3,636)
Withholding tax and related expense		-	(8,144)
Parent company settlements		(8,960)	(11,321)
Net cash flows from financing activities		(8,960)	(23,101)
Net movement in cash and cash equivalents		2,222	10,072
Cash and cash equivalents at the beginning of the financial year		16,515	6,443
Cash and cash equivalents at the end of the financial year	10	18,737	16,515

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 2015

Note No.		Page No.
1	General information	9
2	Summary of significant accounting policies	9
3	New accounting standards and amendments	13
4	Critical accounting estimates and judgements	13
5	Risk management	16
6	Underwriting expenses	24
7	Investment income and other expense	25
8	Claims incurred	25
9	Income tax expense	27
10	Cash and cash equivalents	27
11	Investments	28
12	Trade and other receivables	29
13	Deferred insurance costs	29
14	Property, plant and equipment	30
15	Deferred income tax	31
16	Trade and other payables	32
17	Unearned premium	32
18	Outstanding claims	33
19	Solvency	36
20	Capital management and head office account	36
21	Key management personnel	37
22	Remuneration of auditor	37
23	Contingent liabilities	37
24	Capital expenditure commitments	37
25	Operating lease commitments	37
26	Related party disclosures	38
27	Credit rating	39
28	Events occurring after reporting date	39
29	Corporate governance	39

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015 and were authorised for issue by the directors on the 18 day of February 2016.

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. The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

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

The Branch is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and it is a Licenced Insurer under the Insurance (Prudential Supervision) Act 2010.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial 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 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
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Summary of Significant Accounting Policies (Continued)

(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
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Summary of Significant Accounting Policies (Continued)

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

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

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Summary of Significant Accounting Policies (Continued)

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

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

(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. 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 2015

2. Summary of Significant Accounting Policies (Continued)

(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) Rounding of amounts

Amounts in the financial statements have been rounded off in the financial statements to the nearest one thousand dollars.

(U) Comparatives

Where necessary, prior period comparative information has been amended to achieve consistency in disclosure with the current year.

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 2018. Introduces changes in the classification and measurement of financial assets and liabilities. Not expected to have a material impact on the financial statements.

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 2015 has been carried out by Benoit Laganier, Fellow of the Institute of Actuaries of Australia.

The actuarial assessments are in accordance with the standards and guidance of the Institute of Actuaries of Australia. The Actuary is satisfied the data is consistent, complete and accurate 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.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Critical Accounting Estimate and Judgements (Continued)

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.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Critical Accounting Estimate and Judgements (Continued)

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.

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 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 2.42% (2014: 3.54%) and subsequent years were 2.59% - 3.49% (2014: 3.56% - 3.76%).

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 1.45 years (2014: 1.47 years).

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Critical Accounting Estimate and Judgements (Continued)

(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).

	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT PROFIT (LOSS) ¹	
		2015 \$000's	2014 \$000's
Inflation rates	increase of 1%	(967)	(1,013)
	decrease of 1%	949	995
Discount rates	increase of 1%	915	915
	decrease of 1%	(950)	(949)
Claims expenses ratio	increase of 1%	(1,170)	(1,018)
	decrease of 1%	1,170	1,018
Weighted average term to settlement	+0.5 years	664	1,172
	-0.5 years	(671)	(1,192)

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).

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. Risk Management (Continued)

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 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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Risk Management (Continued)

environment in NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. QBE Group works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

(B) Insurance risk

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

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

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

(i) Underwriting risks

Selection and pricing of risks

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

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

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.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Risk Management (Continued)

Concentration risk

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

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

(ii) Claims management and claims estimation risks

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

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. Risk Management (Continued)

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.

(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 or in aggregate, 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 2015				
Cash and cash equivalents	-	17,580	1,157	18,737
Interest bearing investments	31,101	295,835	42,121	369,057
At 31 December 2014				
Cash and cash equivalents	-	16,132	383	16,515
Interest bearing investments	44,320	299,303	-	343,623

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

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. Risk Management (Continued)

The following table provides information regarding the ageing of the Branch's financial assets that are past due at the balance sheet date.

		PAST DUE BUT NOT IMPAIRED				
	PAST DUE BUT NOT IMPAIRED \$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	TOTAL \$000's
At 31 December 2015						
Amounts due from related entities	14	-	-	-	-	14
Premium receivable ¹	49,054	18,525	2,459	888	-	70,926
Other debtors	11,056	-	-	-	-	11,056
At 31 December 2014						
Amounts due from related entities	15	-	-	-	-	15
Premium receivable ¹	53,981	4,237	(685)	(12)	-	57,521
Other debtors	8,017	-	-	-	-	8,017

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:

- 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	2015	-	87,696	132,649	129	-	220,474
	2014	-	104,146	150,643	225	1	255,015
Reinsurance recoveries on paid claims ¹	2015	-	20,380	2,178	10	-	22,568
	2014	-	25,579	5,032	39	-	30,650

¹ Net of a provision for impairment.

There are no amounts past due. (2014: 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.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Risk Management (Continued)

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.

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 2015							
Fixed rate	\$000's	72,000	75,398	26,312	33,149	-	206,859
Weighted average interest rate	%	3.60%	3.20%	3.34%	3.76%	-	3.48%
Floating rate	\$000's	137,372	11,225	27,296	-	5,042	180,935
Weighted average interest rate	%	2.86%	3.37%	3.56%	-	3.91%	3.13%
At 31 December 2014							
Fixed rate	\$000's	26,302	25,000	37,692	11,030	43,449	143,473
Weighted average interest rate	%	3.66%	4.83%	4.37%	4.52%	4.46%	4.04%
Floating rate	\$000's	163,961	34,189	11,357	7,158	-	216,665
Weighted average interest rate	%	3.29%	4.07%	4.18%	4.38%	-	3.78%

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Risk Management (Continued)

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	
		2015 \$000's	2014 \$000's
Interest rate movement – interest-bearing financial assets	+0.50	(1,808)	(1,849)
	-0.50	1,808	1,849

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 2015, the Branch did not hold any investments in listed equities (2014: 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 \$(1,482) - \$1,460. 2014 (\$1,635) – \$1,527.

(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.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

5. 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 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.

6. UNDERWRITING EXPENSES

	2015 \$000's	2014 \$000's
Depreciation – leasehold improvements	376	381
Depreciation – property, plant & equipment	281	383
Employee benefit expenses	28,933	28,127
Lease and rental charges	1,939	1,808
Loss on sale of property, plant and equipment	1	1
Provision for doubtful debts	252	412
Head office charges	3,080	7,539
Retirement plan contributions	1,524	1,365
Other expenses	12,134	4,168
	48,520	44,184

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

7. INVESTMENT INCOME AND OTHER EXPENSES

	2015 \$000's	2014 \$000's
Investment income		
Interest received or receivable	12,457	10,014
Net fair value gains on financial assets	3,615	3,703
	16,072	13,717
Other expenses		
Interest expense	-	(3,636)
Withholding tax and related expense	-	(8,144)
Foreign exchange (losses)/profit	(1,764)	(139)
Investment expenses	(367)	(320)
	(2,131)	(12,239)

The Branch has potential exposures in relation to certain historic taxation matters regarding which the Commissioner of Inland Revenue has issued a Notice of Proposed Adjustment. The quantum of tax proposed by the Commissioner is \$8,936,000 before any available deductions. The Branch has estimated the use of money interest to be between \$1,000,000 - \$2,000,000 before any available deductions. The Branch continues to dispute this matter having obtained professional advice.

8. CLAIMS INCURRED

(A) Claims analysis

	2015 \$000's	2014 \$000's
Gross claims incurred and related expenses		
Direct	161,231	184,152
Reinsurance and other recoveries		
Direct	(91,499)	(108,533)
Net claims incurred	69,732	75,619

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. 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.

	CURRENT YEAR \$000's	2015 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2014 PRIOR YEARS \$000's	TOTAL \$000's
Gross claims incurred and related expenses						
Undiscounted	140,656	15,664	156,320	104,497	63,138	167,635
Discount	(2,606)	7,517	4,911	(3,160)	19,677	16,517
Gross claims incurred	138,050	23,181	161,231	101,337	82,815	184,152
Reinsurance and other recoveries						
Undiscounted	60,742	27,895	88,637	38,806	53,919	92,725
RI impairment	-	(22)	(22)	-	-	-
Discount	(1,991)	4,875	2,884	(1,329)	17,137	15,808
RI claims incurred	58,751	32,748	91,499	37,477	71,056	108,533
Net claims incurred						
Undiscounted	79,914	(12,209)	67,705	65,691	9,219	74,910
Discount	(615)	2,642	2,027	(1,831)	2,540	709
Net claims incurred	79,299	(9,567)	69,732	63,860	11,759	75,619

(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	2015 PRIOR YEARS \$000's	TOTAL \$000's	CURRENT YEAR \$000's	2014 PRIOR YEARS \$000's	TOTAL \$000's
Net undiscounted claims development – central estimate (note 18 (E))	66,220	(4,499)	61,721	55,905	14,839	70,744
Movement in claims settlement costs	4,519	1,465	5,984	1,965	2,201	4,166
Movement in discount	(615)	2,642	2,027	(1,831)	2,540	709
Movement in risk margin	9,175	(9,175)	-	7,821	(7,821)	-
Net claims incurred – discounted	79,299	(9,567)	69,732	63,860	11,759	75,619

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

9. INCOME TAX EXPENSE

Reconciliation of prima facie tax to income tax expense

	2015 \$000's	2014 \$000's
Profit before income tax	48,446	25,293
Prima facie tax payable at 28%	13,565	7,082
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	640	2,366
Prima facie tax adjusted for non-temporary differences	14,205	9,448
Under provision in prior years	29	22
Income tax expense	14,234	9,470
Analysed as follows:		
Current tax	12,500	9,078
Deferred tax	1,734	392
	14,234	9,470
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	(415)	(330)
Deferred tax liabilities recognised in profit or loss	2,149	722
	1,734	392

10. CASH AND CASH EQUIVALENTS

	2015 \$000's	2014 \$000's
Cash at bank and on hand	18,737	16,515

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

	2015 \$000's	2014 \$000's
Profit after income tax	34,212	15,823
Depreciation of property, plant and equipment	656	764
Fair value movement of financial assets	(3,616)	(3,703)
Loss on sale of plant and equipment	1	1
Interest expense	-	3,636
Withholding tax and related expense	-	8,144
Movement in trade and other payables	20,869	(8,944)
Movement in trade and other receivables	(18,014)	(11,456)
Movement in net outstanding claims	955	2,173
Movement in unearned premiums	13,073	5,139
Movement in deferred insurance costs	(13,300)	4,190
Movement in tax balances	1,424	452
Movement in Head Office account	(2,696)	5,734
Net cash flows from operating activities	33,564	21,953

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. INVESTMENTS

	2015 \$000's	2014 \$000's
Fixed interest rate		
Short term money	12,000	25,000
Government bonds	18,080	17,245
Corporate bonds	176,779	101,228
	206,859	143,473
Floating interest rate		
Short term money	84,562	124,383
Floating rate notes	77,636	75,767
	162,198	200,150
Total investments	369,057	343,623
Amounts maturing within 12 months	190,635	173,748
Amounts maturing in greater than 12 months	178,422	169,875
Total investments	369,057	343,623

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 similar 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.

	2015			2014		
	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	15,431	81,131	96,562	25,065	124,318	149,383
Government bonds	18,080	-	18,080	17,245	-	17,245
Corporate bonds/other	-	254,415	254,415	-	176,995	176,995
Total investments	33,511	335,546	369,057	42,310	301,313	343,623

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

12. TRADE AND OTHER RECEIVABLES

	2015 \$000's	2014 \$000's
Trade debtors		
Premium receivable ¹	70,926	57,521
Reinsurance and other recoveries ¹	22,567	30,650
Unclosed premium	48,754	38,549
	142,247	126,720
Amounts due from related entities (Note 26)	14	15
Other debtors	11,056	8,017
Prepayments	94	645
Trade and other receivables	153,411	135,397
Receivable within 12 months	153,411	135,397
Receivable in greater than 12 months	-	-
Trade and other receivables	153,411	135,397

¹ Net of a provision for impairment

(A) Provision for general impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2015 \$000's	2014 \$000's	2015 \$000's	2014 \$000's
At 1 January	535	145	22	-
Amounts recognised in profit or loss	274	390	(22)	22
At 31 December	809	535	-	22

(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

	2015 \$000's	2014 \$000's
Deferred reinsurance premium	15,618	9,985
Deferred commission	25,001	20,228
Deferred acquisition costs	12,000	9,106
Deferred insurance costs	52,619	39,319
To be expensed within 12 months	50,304	36,920
To be expensed in greater than 12 months	2,315	2,399
Deferred insurance costs	52,619	39,319

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

13. Deferred Insurance Costs (Continued)

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITION COSTS	
	2015 \$000's	2014 \$000's	2015 \$000's	2014 \$000's	2015 \$000's	2014 \$000's
At 1 January	9,985	16,739	20,228	17,664	9,106	9,106
Costs deferred in financial year	12,220	9,148	24,295	19,637	11,757	8,759
Amortisation of costs deferred in previous financial years	(6,587)	(15,902)	(19,522)	(17,073)	(8,863)	(8,759)
At 31 December	15,618	9,985	25,001	20,228	12,000	9,106

14. PROPERTY, PLANT AND EQUIPMENT

2015	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,494	3,836	5,330
Additions	227	790	1,017
Disposals	-	(458)	(458)
At 31 December	1,721	4,168	5,889
Accumulated depreciation and impairment losses			
At 1 January	(1,137)	(2,556)	(3,693)
Disposals	-	4	4
Depreciation charge for the year	(261)	(395)	(656)
At 31 December	(1,398)	(2,947)	(4,345)
Carrying amount			
At 31 December	323	1,221	1,544

2014	LEASEHOLD IMPROVEMENTS \$000's	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS \$000's	TOTAL \$000's
Cost or valuation			
At 1 January	1,494	3,828	5,322
Additions	-	256	256
Disposals	-	(248)	(248)
At 31 December	1,494	3,836	5,330
Accumulated depreciation and impairment losses			
At 1 January	(756)	(2,414)	(3,170)
Disposals	-	241	241
Depreciation charge for the year	(381)	(383)	(764)
At 31 December	(1,137)	(2,556)	(3,693)
Carrying amount			
At 31 December	357	1,280	1,637

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

15. DEFERRED INCOME TAX

	2015 \$000's	2014 \$000's
Deferred tax assets	1,066	650
Deferred tax liabilities	(10,348)	(8,199)
	(9,282)	(7,549)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2015 \$000's	2014 \$000's
Amounts recognised in profit or loss		
Provision for impairment	227	156
Employee benefits	338	342
Other	144	152
Deferred tax assets	709	650
Deferred tax assets analysed as follows:		
Recoverable within 12 months	1,066	650
Recoverable in greater than 12 months	-	-
	1,066	650

(ii) Movements

	2015 \$000's	2014 \$000's
At 1 January	650	320
Amounts recognised in profit or loss	416	330
At 31 December	1,066	650

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2015 \$000's	2014 \$000's
Amounts recognised in profit or loss		
Insurance provisions	(10,348)	(8,199)
Deferred tax liabilities	(10,348)	(8,199)
Deferred tax liabilities analysed as follows:		
Payable within 12 months	(10,348)	(8,199)
Payable in greater than 12 months	-	-
	(10,348)	(8,199)

(ii) Movements:

	2015 \$000's	2014 \$000's
At 1 January	(8,199)	(7,477)
Amounts recognised in profit or loss	(2,149)	(722)
At 31 December	(10,348)	(8,199)

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

16. TRADE AND OTHER PAYABLES

	2015 \$000's	2014 \$000's
Trade payables	17,540	8,790
Amounts due to related entities (Note 26)	10,185	180
Other payables	32,008	19,840
Accrued expenses	2,280	2,329
Trade and other payables	62,013	31,139
Payable within 12 months	62,013	31,139
Payable in greater than 12 months	-	-
Trade and other payables	62,013	31,139

17. UNEARNED PREMIUM

(A) Unearned premium

	2015 \$000's	2014 \$000's
At 1 January	182,929	177,790
Deferral of premium on contracts written in the period	186,867	176,876
Earning of premium written in previous periods	(173,794)	(171,737)
At 31 December	196,002	182,929
To be earned within 12 months	188,358	175,714
To be earned in greater than 12 months	7,644	7,215
Unearned premium	196,002	182,929

(B) Liability adequacy test

The probability of adequacy of the unearned premium liability differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net unearned premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Branch.

NZ IFRS requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provisions, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Branch has adopted a risk margin of 6.7% (2014: 7.8%) 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 unearned premium liabilities identified a surplus at 31 December 2015 and 31 December 2014.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

18. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2015 \$000's	2014 \$000's
Gross outstanding claims provision	310,731	341,432
Risk margin	23,144	23,144
Outstanding claims	333,875	364,576
Reinsurance and other recoveries on outstanding claims	(213,154)	(244,810)
Net outstanding claims provision	120,721	119,766
Analysed as follows:		
Net undiscounted central estimate	100,503	101,574
Discount to present value	(2,926)	(4,952)
Net discounted central estimate	97,577	96,622
Risk margin	23,144	23,144
Net outstanding claims provision	120,721	119,766
Gross undiscounted central estimate	348,583	383,400
Claim settlement accrual	(4,462)	(3,667)
	344,121	379,733
Discount to present value	(10,246)	(15,157)
Gross discounted central estimate	333,875	364,576
Less than 12 months	176,272	179,092
Greater than 12 months	157,603	185,484
Gross discounted central estimate	333,875	364,576
Reinsurance and other recoveries on outstanding claims	220,474	255,015
Discount to present value	(7,320)	(10,205)
Reinsurance and other recoveries on outstanding claims	213,154	244,810
Less than 12 months	110,449	121,265
Greater than 12 months	102,705	123,545
Reinsurance and other recoveries on outstanding claims	213,154	244,810

(B) Maturity profile of net outstanding claims provision

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

		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2015	\$000's	69,099	25,040	12,088	6,431	3,850	4,213	120,721
At 31 December 2014	\$000's	61,620	30,163	13,979	6,974	3,799	3,231	119,766

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 2015

18. Outstanding Claims (Continued)

(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% (2014: 24%) of the central estimate. Assumptions regarding uncertainty for each business class were applied to the central estimates, allowing for diversification in order to arrive at an overall position, which is intended to have a probability of adequacy greater than 80% (2014: greater than 80%).

(D) Reconciliation of movement in discounted outstanding claims provision

	2015			2014		
	OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's	OUTSTANDING CLAIMS \$000's	REINSURANCE \$000's	NET \$000's
At 1 January	364,576	(244,810)	119,766	608,370	(490,777)	117,593
Increase in net claims incurred in current accident year	138,050	(58,751)	79,299	93,516	(37,477)	56,039
Movement in prior year claims provision	23,181	(32,748)	(9,567)	90,636	(71,056)	19,580
Incurring claims recognised in profit or loss	161,231	(91,499)	69,732	184,152	(108,533)	75,619
Claim (payments) recoveries during the year	(191,932)	123,155	(68,777)	(427,946)	354,500	(73,446)
At 31 December	333,875	(213,154)	120,721	364,576	(244,810)	119,766

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

18. Outstanding Claims (Continued)

(E) Claims development – undiscounted net central estimate

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

	Prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
End of accident year		68,486	61,424	53,337	40,821	50,805	52,500	44,970	53,734	55,905	66,220	548,202
1 year later		52,535	48,484	53,476	41,159	56,241	54,416	40,954	58,347	61,531		467,143
2 years later		59,755	47,503	58,081	40,575	53,503	53,258	47,757	57,699			418,131
3 years later		60,672	50,128	60,665	40,479	55,668	56,515	46,218				370,345
4 years later		60,318	49,951	59,792	42,711	58,683	54,073					325,528
5 years later		58,802	49,588	60,974	42,257	56,254						267,875
6 years later		58,252	50,202	62,350	40,309							211,113
7 years later		58,991	48,837	61,951								169,779
8 years later		58,464	48,552									107,016
9 years later		58,466										58,466
Current central estimate cost for the ten most recent accident years		58,466	48,552	61,951	40,309	56,254	54,073	46,218	57,699	61,531	66,220	551,273
Cumulative net claims payments to date		58,282	47,781	60,562	38,755	53,444	48,892	37,087	44,053	36,099	32,584	457,539
Net undiscounted central estimate	2,307	184	771	1,389	1,554	2,810	5,181	9,131	13,646	25,432	33,636	96,041
Discount to present value	46	0	2	18	41	73	220	316	525	1,068	617	-2,926
Risk Margin		560	176	314	347	627	1,136	2,123	3,018	5,668	9,175	23,144
Claims settlement costs	67	0	30	54	60	107	195	363	520	1,167	1,899	4,462
Net Outstanding Claims at 31 December 2015												120,721
Net movement	-75,108	-527	-1,365	1,376	-454	3,015	3,257	6,803	4,613	53,891	66,220	61,721

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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.

	2015 AUD\$000's	2014 AUD\$000's
APRA prescribed capital amount	159,061	206,451
Capital surplus	249,714	268,277
Solvency coverage	2.57	2.29

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.

Under the terms of a Portfolio Assumption Deed between the two parties QBE Insurance (International) Limited and QBE Insurance (Australia) Limited, effective 1 January 2016, the insurance business of QBE Insurance (International) Limited New Zealand Branch was transferred to QBE Insurance (Australia) Limited. All appropriate regulatory approvals have been received to effect the transfer and as from 1 January 2016, the insurance business that was previously carried out by QBE Insurance (International) Limited New Zealand Branch will be carried out by QBE Insurance (Australia) Limited New Zealand Branch.

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

21. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2015 and 2014 is set out below.

	2015 \$'000	2014 \$'000
Short term employee benefits	2,824	3,377
Post employment benefits	198	152
Share based payments	-	368
	3,022	3,897

22. REMUNERATION OF AUDITOR

	2015 \$'000	2014 \$'000
PricewaterhouseCoopers		
Audit of financial reports	305	291
Taxation services	49	66
	354	357

23. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2015 (2014: nil).

24. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no commitments for expenditure as at 31 December 2015 (2014: nil).

25. OPERATING LEASE COMMITMENTS

	2015 \$000's	2014 \$000's
Payable:		
Not later than one year	2,321	2,205
Later than one year but less than five years	3,711	4,973
Later than five years	453	-
Total future minimum lease payments under non-cancellable operating leases	6,485	7,178

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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:

		2015 \$'000	2014 \$'000
Related party	Description		
QBE Equator Reinsurances Limited	Reinsurance	2,101	98
QBE Insurance (Australia) Limited	Reinsurance	8,084	82
QBE Lenders Mortgage Insurance Ltd	Expenses	(14)	(15)
		10,171	165
The outstanding related party balances are reported as:			
Trade and other payables		10,185	180
Trade and other receivables		(14)	(15)

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

	2015 \$'000	2014 \$'000
Transactions with QBE Insurance Group Limited		
Interest on related party loan	-	3,636
Transactions with QBE Insurance (International) Limited		
Reinsurance expense less recoveries	66,756	65,552
Administration and management fees	3,080	6,497
Reimbursement of transactions with related parties	983	729
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	(13,386)	74,203

QBE INSURANCE (INTERNATIONAL) LIMITED
New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ for QBE Insurance (International) Limited, New Zealand Branch, on 27 May 2015: A+ (2014: A+)

28. EVENTS OCCURRING AFTER REPORTING DATE

Under the terms of a Portfolio Assumption Deed between the two parties QBE Insurance (International) Limited and QBE Insurance (Australia) Limited, effective 1 January 2016, the insurance business of QBE Insurance (International) Limited New Zealand Branch was transferred to QBE Insurance (Australia) Limited. All appropriate regulatory approvals have been received to effect the transfer and as from 1 January 2016, the insurance business that was previously carried out by QBE Insurance (International) Limited New Zealand Branch will be carried out by QBE Insurance (Australia) Limited New Zealand Branch.

Other than the above, there is, at the date of this report, no matter or circumstance that has arisen since 31 December 2015 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.

29. CORPORATE GOVERNANCE

Information regarding the corporate governance policies, practices and processes of QBE Insurance (International) Limited is available from www.group.qbe.com/investor-centre/corporate-governance.



4 March 2016

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 2015.

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 2015.

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 now a branch of QBE Insurance (Australia) Limited (QIA) which is an APRA regulated entity. QBENZ is therefore dependent on QIA's capital surplus to remain solvent under most adverse scenarios developed as part of QIA'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 (Australia) Limited
Fellow of the Institute of Actuaries of Australia

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