QBE INSURANCE (INTERNATIONAL) PTY LIMITED

NEW ZEALAND BRANCH

(Formerly QBE Insurance (International) Limited)

FINANCIAL REPORT – 31 DECEMBER 2016

INDEX

QBE INSURANCE (INTERNATIONAL) PTY LIMITED
New Zealand Branch
(Formerly QBE Insurance (International) Limited)

STATEMENT BY DIRECTORS

For the year ended 31 December 2016

We, being two directors of QBE Insurance (International) Pty 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 2016.

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

the 28th day of April 2017.

DIRECTOR:

DIRECTOR:

Independent auditor's report

To the Directors of QBE Insurance (International) Pty Limited New Zealand Branch (previously known as QBE Insurance (International) Limited New Zealand Branch)

QBE Insurance (International) Pty Limited New Zealand Branch's (previously known as QBE Insurance (International) Limited New Zealand Branch) financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in balances due to Head Office for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of QBE Insurance (International) Pty Limited New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Branch in the areas of tax compliance and tax advice. The provision of these other services has not impaired our independence as auditors of the Branch.

Emphasis of matter

Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes the basis of preparation. The financial statements for the year ended 31 December 2016 have been prepared on a realisation basis. As disclosed in note 2 the business of the Branch has been transferred to another entity and it is the intention to wind the Branch down.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Branch, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Lisa Crooke.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 April 2017

Auckland

QBE INSURANCE (INTERNATIONAL) PTY LIMITED
New Zealand Branch
(Formerly QBE Insurance (International) Limited)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	NOTE	2016 $000's	2015 $000's
Gross written premium		-	353,444
Unearned premium movement	17	-	(13,073)
Gross earned premium revenue		-	340,371
Outward reinsurance premium		**1,925**	(166,469)
Deferred reinsurance premium movement	13	-	5,633
Outward reinsurance premium expense		**1,925**	(160,836)
Net earned premium		-	179,535
Gross claims incurred	8	-	(161,231)
Reinsurance and other recoveries revenue	8	-	91,499
Net claims incurred	8	-	(69,732)
Gross commission expense		-	(49,311)
Reinsurance commission revenue		-	16,572
Net commission		-	(32,739)
Deferred acquisition cost movement		-	2,894
Underwriting expenses	6	**(236)**	(48,520)
Underwriting profit		**1,689**	31,438
Sundry income	31	**1,177**	3,067
Investment income	7	-	16,072
Other expenses	7	-	(2,131)
Profit before income tax		**2,866**	48,446
Income tax expense	9	**(671)**	(14,234)
Profit for the year attributable to Head Office Account		**2,195**	34,212
Other comprehensive income after income tax		-	-
Total comprehensive income for the year attributable to Head Office Account		**2,195**	34,212

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

pwc

QBE INSURANCE (INTERNATIONAL) PTY LIMITED
New Zealand Branch
(Formerly QBE Insurance (International) Limited)

BALANCE SHEET
As at 31 December 2016

	NOTE	2016 $000's	2015 $000's
ASSETS			
Cash and cash equivalents	10	-	18,737
Investments	11	-	369,057
Trade and other receivables	12	**721**	153,411
Deferred insurance costs	13	-	52,619
Reinsurance and other recoveries on outstanding claims	18	-	213,154
Property, plant and equipment	14	-	1,544
Deferred tax assets	15	-	1,066
Total assets		**721**	809,588
LIABILITIES			
Trade and other payables	16	-	62,013
Current tax liabilities		**451**	4,220
Unearned premium	17	-	196,002
Outstanding claims	18	-	333,875
Deferred tax liabilities	15	-	10,348
Total liabilities		**451**	606,458
Net assets		**270**	203,130
Due to Head Office – Australia	20	**270**	203,130

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

pwc

QBE INSURANCE (INTERNATIONAL) PTY LIMITED
New Zealand Branch
(Formerly QBE Insurance (International) Limited)

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE
For the year ended 31 December 2016

HEAD OFFICE – AUSTRALIA	NOTE	2016 $000's	2015 $000's
Balance as at 1 January		**203,130**	190,579
Profit for the year		**2,195**	34,212
Total comprehensive income		**2,195**	34,212
Purchase of Net Assets by QIA	30	**(195,097)**	-
Dividend Paid		**-**	(24,357)
Current transactions with Head Office		**(9,958)**	2,696
Balance at 31 December	20	**270**	203,130

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

QBE INSURANCE (INTERNATIONAL) PTY LIMITED
New Zealand Branch
(Formerly QBE Insurance (International) Limited)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTE	2016 $000's	2015 $000's
OPERATING ACTIVITIES			
Premium received		-	329,833
Reinsurance and other recoveries received		-	131,238
Outwards reinsurance paid		-	(166,448)
Claims paid		-	(191,932)
Insurance costs paid		-	(37,512)
Interest received		-	12,457
Other operating income		-	28
Other operating payments		-	(31,290)
Income taxes paid		-	(12,810)
Net cash flows from operating activities	10	-	33,564
INVESTING ACTIVITIES			
Proceeds on sale of investments		-	437,103
Payments for purchase of investments		-	(458,921)
Payments for purchase of plant and equipment		-	(564)
Net cash flows from investing activities		-	(22,382)
FINANCING ACTIVITIES			
Cash transferred to QBE Insurance (Australia) Ltd NZ Branch	30	**(11,987)**	-
Parent company settlements	30	**(6,750)**	(8,960)
Net cash flows from financing activities		**(18,737)**	(8,960)
Net movement in cash and cash equivalents		**(18,737)**	2,222
Cash and cash equivalents at the beginning of the financial year		**18,737**	16,515
Cash and cash equivalents at the end of the financial year	10	-	18,737

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

pwc

1. GENERAL INFORMATION

QBE Insurance (International) Pty Limited (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 company was formerly known as QBE Insurance (International) Limited. The parent's name was changed on 5 August 2016. The Branch name was changed on the New Zealand Companies Office register on 10 April 2017

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 2016 and were authorised for issue by the directors on the day of February 2017.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(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 was a Licenced Insurer under the Insurance (Prudential Supervision) Act 2010 up until 16 February 2016, when the licence was revoked as a result of the transfer of the business to QBE Insurance (Australia) Ltd, refer note 30. It is the intention to wind the business down. The financial statements have been prepared on a net realisable basis.

(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.

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.

2. Summary of Significant Accounting Policies (Continued)

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

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.

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

2. Summary of Significant Accounting Policies (Continued)

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.

(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 Balance Sheet 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.

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 2015 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.

As a result of the transfer of the business on 1 January 2016 of the Branch to QBE Insurance (Australia) Limited New Zealand Branch, there are no outstanding claims as at 31 December 2016. The disclosures below relate to estimates and judgements for the year ended 31 December 2015.

Estimates of the outstanding claims as at 31 December 2015 has been carried out by Benoit Laganiere, 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;

pwc

4. Critical Accounting Estimate and Judgements (Continued)

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

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

(i) Central estimates

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

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

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.

pwc

4. Critical Accounting Estimate and Judgements (Continued)

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

(ii) Assets arising from contracts with reinsurers

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

and the contractual terms of the reinsurance contract. Counterparty and credit risk in relation to reinsurance assets is considered in note 5(C)(ii).

(iii) Risk margin

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

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

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

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.

4. Critical Accounting Estimate and Judgements (Continued)

The discount rates used in the measurement of outstanding claims and reinsurance recoveries for the succeeding year was 0% (2015: 2.42%) and subsequent years were 0% - 0% (2015: 2.59% - 3.49%).

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 0 years (2015: 1.45 years).

(v) Impact of changes in key variables on the outstanding claims provision
The impact of changes in key variables used in the calculation of the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation.

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

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

		FINANCIAL IMPACT PROFIT (LOSS)[1]	
	MOVEMENT IN VARIABLE %	2016 $000's	2015 $000's
Inflation rates	increase of 1%	-	(967)
	decrease of 1%	-	949
Discount rates	increase of 1%	-	915
	decrease of 1%	-	(950)
Claims expenses ratio	increase of 1%	-	(1,170)
	decrease of 1%	-	1,170
Weighted average term to settlement	+0.5 years	-	664
	-0.5 years	-	(671)

Determined at the Branch level net of reinsurance and taxation

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

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

5. RISK MANAGEMENT

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

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

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

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

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

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

5. Risk Management (Continued)

(A) Strategic risk

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

Capital management risk

The Branch is subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. QBE Group works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

(B) Insurance risk

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

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

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

(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.

5. Risk Management (Continued)

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

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

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

Up until the date of the transfer of the business on 1 January 2016, the Branch had potential exposure to catastrophe losses. The Branch undertook probable maximum loss modelling to ensure the Branch operated 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 or 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.

5. Risk Management (Continued)

- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses based on realistic disaster scenarios.

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

(C) Credit risk

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

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

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

(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 generally cannot be rated as the receivables are due from numerous individual companies. 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 2016				
Cash and cash equivalents	-	-	-	-
Interest bearing investments	-	-	-	-
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

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

pwc

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.

	NEITHER PAST DUE BUT NOT IMPAIRED	PAST DUE BUT NOT IMPAIRED				TOTAL
		0 TO 3 MTHS	3 TO 6 MTHS	6 MTHS TO 1 YEAR	GREATER THAN 1 YEAR	
	$000's	$000's	$000's	$000's	$000's	$000's
At 31 December 2016	-	-	-	-	-	-
Amounts due from related entities	686	-	-	-	-	686
Reinsurance and other recoveries	-	-	-	-	-	-
Premium receivable [1]	-	-	-	-	-	-
Other debtors	35	-	-	-	-	35
At 31 December 2015						
Amounts due from related entities	14	-	-	-	-	14
Reinsurance and other recoveries	4,816	6,010	-	-	11,741	22,567
Premium receivable [1]	49,054	18,525	2,459	888	-	70,926
Other debtors	11,056	-	-	-	-	11,056

[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
		AAA	AA	A	BBB	NOT RATED	
		$000's	$000's	$000's	$000's	$000's	$000's
Reinsurance recoveries on outstanding claims[1]	2016	-	-	-	-	-	-
	2015	-	87,696	132,649	129	-	220,474
Reinsurance recoveries on paid claims[1]	2016	-	-	-	-	-	-
	2015		20,380	2,177	10	-	22,567

[1] Net of a provision for impairment.

There are no amounts past due. (2015: $17.7 million)

pwc

5. Risk Management (Continued)

(D) Market risk

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

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

(i) Currency risk

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

(ii) Interest rate risk

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

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

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

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.

pwc

5. Risk Management (Continued)

		INTEREST – BEARING FINANCIAL ASSETS MATURING IN					
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	TOTAL
At 31 December 2016							
Fixed rate	$000's	-	-	-	-	-	-
Weighted average interest rate	%	-	-	-	-	-	-
Floating rate	$000's	-	-	-	-	-	-
Weighted average interest rate	%	-	-	-	-	-	-
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%

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] 2016	2015
	%	$000's	$000's
Interest rate movement – interest-bearing financial assets	+0.50	-	**(1,808)**
	-0.50	-	**1,808**

[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 2016, the Branch did not hold any investments in listed equities (2015: 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 the credit spreads in 2015 is ($1,482) - $1,460.

5. Risk Management (Continued)

(E) Liquidity risk
Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors. This includes the risk associated with asset liability management. The key objective of the 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.

(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

	2016 $000's	2015 $000's
Depreciation – leasehold improvements	-	376
Depreciation – property, plant & equipment	-	281
Employee benefit expenses	-	28,933
Lease and rental charges	-	1,939
Loss on sale of property, plant and equipment	-	1
Provision for doubtful debts	236	252
Head office charges	-	3,080
Retirement plan contributions	-	1,524
Other expenses	-	12,134
	236	48,520

7. INVESTMENT INCOME AND OTHER EXPENSES

	2016 $000's	2015 $000's
Investment income		
Interest received or receivable	-	12,457
Net fair value gains on financial assets	-	3,615
	-	16,072
Other expenses		
Interest expense	-	-
Withholding tax and related expense	-	-
Foreign exchange (losses)/profit	-	(1,764)
Investment expenses	-	(367)
	-	(2,131)

The Branch has a dispute with Inland Revenue in relation to certain historic taxation matters for which a provision has previously been made. One of these matters was settled during the current year out of the provision. The Inland Revenue have issued a Statement of Position in relation to the other matter to which the Branch has responded and continues to take professional advice on. The balance of the provision has not been disclosed separately as this may prejudice QBE Insurance (International) Pty Limited New Zealand Branch's position in this matter.

8. CLAIMS INCURRED

(A) Claims analysis

	2016 $000's	2015 $000's
Gross claims incurred and related expenses		
Direct	-	161,231
Reinsurance and other recoveries		
Direct	-	(91,499)
Net claims incurred	-	69,732

pwc

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.

	2016			2015		
	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's
Gross claims incurred and related expenses						
Undiscounted	-	-	-	140,656	15,664	156,320
Discount	-	-	-	(2,606)	7,517	4,911
Gross claims incurred	-	-	-	138,050	23,181	161,231
Reinsurance and other recoveries						
Undiscounted	-	-	-	60,742	27,895	88,637
RI impairment	-	-	-	-	(22)	(22)
Discount	-	-	-	(1,991)	4,875	2,884
RI claims incurred	-	-	-	58,751	32,748	91,499
Net claims incurred						
Undiscounted	-	-	-	79,914	(12,209)	67,705
Discount	-	-	-	(615)	2,642	2,027
Net claims incurred	-	-	-	79,299	(9,567)	69,732

(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.

	2016			2015		
	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's	CURRENT YEAR $000's	PRIOR YEARS $000's	TOTAL $000's
Net undiscounted claims development – central estimate (note 18 (E))	-	-	-	66,220	(4,499)	61,721
Movement in claims settlement costs	-	-	-	4,519	1,465	5,984
Movement in discount	-	-	-	(615)	2,642	2,027
Movement in risk margin	-	-	-	9,175	(9,175)	-
Net claims incurred – discounted	-	-	-	79,299	(9,567)	69,732

9. INCOME TAX EXPENSE

Reconciliation of prima facie tax to income tax expense

	2016 $000's	2015 $000's
Profit before income tax	**2,866**	48,446
Prima facie tax payable at 28%	**802**	13,565
Tax effect of non-temporary differences:		
Non-allowable expenses and non-taxable income	**(131)**	640
Prima facie tax adjusted for non-temporary differences	**671**	14,205
Under provision in prior years	**-**	29
Income tax expense	**671**	14,234
Analysed as follows:		
Current tax	**671**	12,500
Deferred tax	**-**	1,734
	671	14,234
Deferred tax expense comprises:		
Deferred tax assets recognised in profit or loss	-	(415)
Deferred tax liabilities recognised in profit or loss	-	2,149
	-	1,734

10. CASH AND CASH EQUIVALENTS

	2016 $000's	2015 $000's
Cash at bank and on hand	-	18,737

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

	2016 $000's	2015 $000's
Profit after income tax	**2,195**	34,212
Depreciation of property, plant and equipment	-	656
Fair value movement of financial assets	-	(3,616)
Loss on sale of plant and equipment	-	1
Interest expense	-	-
Withholding tax and related expense	-	-
Movement in trade and other payables	-	20,869
Movement in trade and other receivables	**(721)**	(18,014)
Movement in net outstanding claims	-	955
Movement in unearned premiums	-	13,073
Movement in deferred insurance costs	-	(13,300)
Movement in tax balances	**451**	1,424
Movement in Head Office account	**(1,925)**	(2,696)
Net cash flows from operating activities	-	33,564

pwc

11. INVESTMENTS

	2016 $000's	2015 $000's
Fixed interest rate		
Short term money	-	12,000
Government bonds	-	18,080
Corporate bonds	-	176,779
	-	206,859
Floating interest rate		
Short term money	-	84,562
Floating rate notes	-	77,636
	-	162,198
Total investments	-	369,057
Amounts maturing within 12 months	-	190,635
Amounts maturing in greater than 12 months	-	178,422
Total investments	-	369,057

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.

	2016			2015		
	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
Government bonds	-	-	-	18,080	-	18,080
Corporate bonds/other	-	-	-	-	254,415	254,415
Total investments	-	-	-	33,511	335,546	369,057

12. TRADE AND OTHER RECEIVABLES

	2016 $000's	2015 $000's
Trade debtors		
Premium receivable[1]	-	70,926
Reinsurance and other recoveries[1]	-	22,567
Unclosed premium	-	48,754
	-	142,247
Amounts due from related entities (Note 26)	**686**	14
Other debtors	**35**	11,056
Prepayments	-	94
Trade and other receivables	**721**	153,411
Receivable within 12 months	**721**	153,411
Receivable in greater than 12 months	-	-
Trade and other receivables	**721**	153,411

[1] Net of a provision for impairment

(A) Provision for general impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2016 $000's	2015 $000's	2016 $000's	2015 $000's
At 1 January	**809**	535	-	22
Transfer of Balance (Note 30)	**(809)**	-	-	-
Amounts recognised in profit or loss	-	274	-	(22)
At 31 December	-	809	-	-

(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

	2016 $000's	2015 $000's
Deferred reinsurance premium	-	15,618
Deferred commission	-	25,001
Deferred acquisition costs	-	12,000
Deferred insurance costs	-	52,619
To be expensed within 12 months	-	50,304
To be expensed in greater than 12 months	-	2,315
Deferred insurance costs	-	52,619

pwc

13. Deferred Insurance Costs (Continued)

	DEFERRED REINSURANCE PREMIUM		DEFERRED COMMISSION		DEFERRED ACQUISITION COSTS	
	2016 $000's	2015 $000's	2016 $000's	2015 $000's	2016 $000's	2015 $000's
At 1 January	**15,618**	9,985	**25,001**	20,228	**12,000**	9,106
Transfer of Balance (Note 30)	**(15,618)**	-	**(25,001)**	-	**(12,000)**	-
Costs deferred in financial year	-	12,220	-	24,295	-	11,757
Amortisation of costs deferred in previous financial years	-	(6,587)	-	(19,522)	-	(8,863)
At 31 December	-	15,618	-	25,001	-	12,000

14. PROPERTY, PLANT AND EQUIPMENT

2016	LEASEHOLD IMPROVEMENTS	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS	TOTAL
	$000's	$000's	$000's
Cost or valuation			
At 1 January	**1,721**	**4,168**	**5,889**
Transfer of Balance (Note 30)	**(1,721)**	**(4,168)**	**(5,889)**
Additions	-	-	-
Disposals	-	-	
At 31 December	-	-	-
Accumulated depreciation and impairment losses			
At 1 January	**(1,398)**	**(2,947)**	**(4,345)**
Transfer of Balance (Note 30)	**1,398**	**2,947**	**4,345**
Disposals	-	-	-
Depreciation charge for the year	-	-	-
At 31 December	-	-	-
Carrying amount			
At 31 December	-	-	-

2015	LEASEHOLD IMPROVEMENTS	IT/OFFICE EQUIPMENT/ FIXTURES & FITTINGS	TOTAL
	$000's	$000's	$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

15. DEFERRED INCOME TAX

	2016 $000's	2015 $000's
Deferred tax assets	-	1,066
Deferred tax liabilities	-	(10,348)
	-	(9,282)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2016 $000's	2015 $000's
Amounts recognised in profit or loss		
Provision for impairment	-	227
Employee benefits	-	338
Other	-	501
Deferred tax assets	-	1,066
Deferred tax assets analysed as follows:		
Recoverable within 12 months	-	1,066
Recoverable in greater than 12 months	-	-
	-	1,066

(ii) Movements

	2016 $000's	2015 $000's
At 1 January	**1,066**	650
Transfer of Balance (Note 30)	**(1,066)**	
Amounts recognised in profit or loss	-	416
At 31 December	-	1,066

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2016 $000's	2015 $000's
Amounts recognised in profit or loss		
Insurance provisions	-	(10,348)
Deferred tax liabilities	-	(10,348)
Deferred tax liabilities analysed as follows:		
Payable within 12 months	-	(10,348)
Payable in greater than 12 months	-	-
	-	(10,348)

(ii) Movements:

	2016 $000's	2015 $000's
At 1 January	**(10,348)**	(8,199)
Transfer of Balance (Note 30)	**10,348**	-
Amounts recognised in profit or loss	-	(2,149)
At 31 December	-	(10,348)

16. TRADE AND OTHER PAYABLES

	2016 $000's	2015 $000's
Trade payables	-	17,540
Amounts due to related entities (Note 26)	-	10,185
Other payables	-	32,008
Accrued expenses	-	2,280
Trade and other payables	-	62,013
Payable within 12 months	-	62,013
Payable in greater than 12 months	-	-
Trade and other payables	-	62,013

17. UNEARNED PREMIUM

(A) Unearned premium

	2016 $000's	2015 $000's
At 1 January	**196,002**	182,929
Transfer of Balance (Note 30)	**(196,002)**	-
Deferral of premium on contracts written in the period	-	186,867
Earning of premium written in previous periods	-	(173,794)
At 31 December	-	196,002
To be earned within 12 months	-	188,358
To be earned in greater than 12 months	-	7,644
Unearned premium	-	196,002

(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. In 2015 the Branch has adopted a risk margin of 6.7% for premium liabilities, for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in 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.

18. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2016 $000's	2015 $000's
Gross outstanding claims provision	-	310,731
Risk margin	-	23,144
Outstanding claims	-	333,875
Reinsurance and other recoveries on outstanding claims	-	(213,154)
Net outstanding claims provision	-	120,721
Analysed as follows:		
Net undiscounted central estimate	-	100,503
Discount to present value	-	(2,926)
Net discounted central estimate	-	97,577
Risk margin	-	23,144
Net outstanding claims provision	-	120,721
Gross undiscounted central estimate	-	348,583
Claim settlement accrual	-	(4,462)
	-	344,121
Discount to present value	-	(10,246)
Gross discounted central estimate		333,875
Less than 12 months	-	176,272
Greater than 12 months	-	157,603
Gross discounted central estimate	-	333,875
Reinsurance and other recoveries on outstanding claims	-	220,474
Discount to present value	-	(7,320)
Reinsurance and other recoveries on outstanding claims	-	213,154
Less than 12 months	-	110,449
Greater than 12 months	-	102,705
Reinsurance and other recoveries on outstanding claims	-	213,154

(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 2016	**$000's**	-	-	-	-	-	-	-
At 31 December 2015	$000's	69,099	25,040	12,088	6,431	3,850	4,213	120,721

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

(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).

In 2015 the risk margin included in net outstanding claims was 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%.

(D) Reconciliation of movement in discounted outstanding claims provision

	2016			2015		
	OUTSTANDING CLAIMS $000's	REINSURANCE $000's	NET $000's	OUTSTANDING CLAIMS $000's	REINSURANCE $000's	NET $000's
At 1 January	**333,875**	**(213,154)**	**120,721**	364,576	(244,810)	119,766
Transfer of Balance (Note 30)	**(333,875)**	**(213,154)**	**(120,721)**	-	-	-
Increase in net claims incurred in current accident year	-	-	-	138,050	(58,751)	79,299
Movement in prior year claims provision	-	-	-	23,181	(32,748)	(9,567)
Incurred claims recognised in profit or loss	-	-	-	161,231	(91,499)	69,732
Claim (payments) recoveries during the year	-	-	-	(191,932)	123,155	(68,777)
At 31 December	-	-	-	333,875	(213,154)	120,721

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) Pty Limited which includes the Branch as calculated under the Australian APRA requirements.

	2016 AUD$000's	2015 AUD$000's
APRA prescribed capital amount	**61,926**	159,061
Capital surplus	**162,272**	249,714
Solvency coverage	**3.62**	2.57

pwc

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.

Prior to the transfer of the insurance business as per the terms of the Portfolio Assumption Deed, referred to below, local management monitored 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) Pty Limited and QBE Insurance (Australia) Limited, effective 1 January 2016, the insurance business of QBE Insurance (International) Pty Limited New Zealand Branch was transferred to QBE Insurance (Australia) Limited New Zealand Branch. 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) Pty Limited New Zealand Branch will be carried out by QBE Insurance (Australia) Limited New Zealand Branch.

21. KEY MANAGEMENT PERSONNEL

Compensation of key management personnel employed by the New Zealand Branch for the years ended 31 December 2016 and 2015 is set out below.

	2016 $'000	2015 $'000
Short term employee benefits	-	2,824
Post employment benefits	-	198
Share based payments	-	-
	-	3,022

22. REMUNERATION OF AUDITOR

	2016 $'000	2015 $'000
PricewaterhouseCoopers		
Audit of financial reports	-	305
Taxation services	-	49
	-	354

23. CONTINGENT LIABILITIES

The Branch had no contingent liabilities as at 31 December 2016 (2015: nil).

24. CAPITAL EXPENDITURE COMMITMENTS

The Branch had no commitments for expenditure as at 31 December 2016 (2015: nil).

pwc

25. OPERATING LEASE COMMITMENTS

	2016 $000's	2015 $000's
Payable:		
Not later than one year	-	2,321
Later than one year but less than five years	-	3,711
Later than five years	-	453
Total future minimum lease payments under non-cancellable operating leases	-	6,485

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:

		2016 $'000	2015 $'000
Related party	**Description**		
QBE Equator Reinsurances Limited	Reinsurance	-	2,101
QBE Insurance (Australia) Limited	Reinsurance/Expenses	686	8,084
QBE Lenders Mortgage Insurance Ltd	Expenses	-	(14)
		-	
		686	10,171
The outstanding related party balances are reported as:			
Trade and other payables		-	10,185
Trade and other receivables		686	(14)

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

	2016 $'000	2015 $'000
Transactions with QBE Insurance (Australia) Limited		
Purchase of Net Assets by QIA (refer Note 30)	195,097	-
Transactions with QBE Insurance (International) Pty Limited		
Reinsurance expense less recoveries	3,209	66,756
Administration and management fees	-	3,080
Reimbursement of transactions with related parties	-	983
Transactions with other related parties of ultimate parent		
Reinsurance expense less recoveries	(598)	(13,386)
Reimbursement of transactions with related parties	686	-

27. CREDIT RATING

Standard & Poors' Rating Services affirmed the financial strength of A+ for the year 2016 for QBE Insurance (International) Pty Limited, New Zealand Branch (2015: A+).

28. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, no matter or circumstance that has arisen since 31 December 2016 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) Pty Limited is available from www.group.qbe.com/investor-centre/corporate-governance.

30. ACQUISITION OF NET ASSETS BY QBE INSURANCE (AUSTRALIA) LIMITED NEW ZEALAND BRANCH

The table below summarises the Net Assets transferred to QBE Insurance (Australia) Limited New Zealand Branch by QBE Insurance (International) Pty Limited New Zealand Branch. The Net Assets figure available for transfer before adjustments ($203.13 million) is the closing balance of Net Assets of QBE Insurance (International) Pty Limited New Zealand Branch as at 31 December 2015 (refer comparatives).

No Cash was paid by QBE Insurance (Australia) Limited New Zealand Branch to QBE Insurance (International) Pty Limited New Zealand Branch for the Net Assets acquired (of $195.097 million). Cash was paid by the Parent of QBE Insurance (Australia) Limited New Zealand Branch to the Parent of QBE Insurance (International) Pty Limited New Zealand Branch.

	$000's
Net Assets Balance – QII NZ – 31 December 2015	203,130
Cash reduction, settlement of Head Office account balance	(6,750)
Retention of Intercompany Reinsurance Debtor	(1,283)
Balance of Net Assets acquired by QBE Insurance (Australia) Limited NZ Branch	195,097

Cash transferred to QBE Insurance (Australia) Limited New Zealand Branch of $11.987m represents cash on hand at 31 December 2015 of $18.737m less cash reductions, being settlement of Head Office Account balance of $6.75m.

QBE Insurance (International) Pty Limited and its New Zealand Branch has also retained all exposures in respect of historic taxation matters of which the Commissioner of Inland Revenue has issued a Notice of Proposed Adjustment (refer note 7). QBE Insurance (International) Pty Limited has also retained some bad debts and non-insurance related income. The transfer has been accounted for as a common control transaction specifically as a capital reorganisation.

pwc

31. SUNDRY INCOME

The Sundry Income for the Branch relates to a recovery from QBE Insurance (Australia) Limited New Zealand Branch ("QIA") for costs incurred during the 2015 financial period related to the setup of QIA, and the transfer of the insurance business of the Branch to QIA.