QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

FINANCIAL STATEMENTS – 31 December 2015

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This financial report includes separate financial statements for QBE Lenders' Mortgage Insurance Limited, New Zealand Branch (the "branch") as an individual entity. The financial report is presented in New Zealand dollars.

The branch is a branch of QBE Lenders' Mortgage Insurance Limited (the "company") and is a reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. Its principal place of business is:

Level 6, AMP Centre, 29 Customs Street West,
Auckland 1010 New Zealand

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

STATEMENT BY DIRECTORS

We, being two directors of QBE Lenders' Mortgage Insurance 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 34 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 Lenders' Mortgage Insurance Limited authorised these statements for issue on February 2016.

Director 18.2.16

Director ....

Independent Auditor's Report to the Directors of QBE Lenders' Mortgage Insurance Limited – New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of QBE Lenders' Mortgage Insurance Limited - New Zealand Branch ("the Branch") on pages 4 to 34, which comprise the balance sheet as at 31 December 2015, the statement of comprehensive income and statement of changes in balances due to head office and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Branch's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the Branch. Other than in our capacity as auditors we have no relationships with, or interests in, the Branch.

Independent Auditor's Report to the Directors of QBE Lenders' Mortgage Insurance Limited – New Zealand Branch

Opinion

In our opinion, the financial statements on pages 4 to 34:

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

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Branch as at 31 December 2015, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2015:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Branch as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Directors of the Branch, as a body. Our audit work has been undertaken so that we might state to the Directors of the Branch those matters which we are required to state to them in an 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 Directors of the Branch, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
18 February 2016

Sydney

I, S J Hadfield, am currently a member of Institute of Chartered Accountant in Australia and my membership number is 276681.

PricewaterhouseCoopers Sydney was the audit firm appointed to undertake the audit of QBE Lenders' Mortgage Insurance Limited – New Zealand Branch for the year ended 31 December 2015. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on the 18 February 2016 and an unqualified opinion was issued.

SJHadfield

S J Hadfield
Partner

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	NOTE	2015 $	2014 $
Gross written premium		-	-
Unearned premium movement		2,482,742	5,774,680
Gross earned premium revenue	5(A)	2,482,742	5,774,680
Outward reinsurance premium		(363,340)	(774,452)
Deferred reinsurance premium movement		-	-
Outward reinsurance premium expense	5(B)	(363,340)	(774,452)
Net earned premium		2,119,402	5,000,228
Gross claims incurred	5(B)	(502,402)	(1,027,177)
Non-reinsurance recoveries revenue	5(A)	76,908	162,584
Net claims incurred	6(A)	(425,494)	(864,593)
Gross commission expense	5(B)	-	(3,159)
Other acquisition costs	5(B)	(321,310)	(697,060)
Underwriting and other expenses	5(B)	(208,798)	(318,161)
Underwriting result		1,163,800	3,117,255
Investment income on policyholders funds	5(A)	20,617	23,390
Insurance profit		1,184,417	3,140,645
Profit before income tax		1,184,417	3,140,645
Income tax expense	7	(331,591)	(879,381)
Profit after income tax		852,826	2,261,264
Other comprehensive income			
Other comprehensive income after income tax		-	-
Total comprehensive income after income tax		852,826	2,261,264
Profit after income tax attributable to Head Office Account		852,826	2,261,264
		852,826	2,261,264
Total comprehensive income after income tax attributable to Head Office Account		852,826	2,261,264
		852,826	2,261,264

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

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

BALANCE SHEET
As at 31 December 2015

	NOTE	2015 $	2014 $
ASSETS			
Cash and cash equivalents	8	**445,021**	597,742
Trade and other receivables	9	**7,002**	57,888
Non-reinsurance recoveries on outstanding claims	13(A)	**24,927**	22,797
Deferred insurance costs	10	**356,180**	677,490
Total assets		**833,130**	1,355,917
LIABILITIES			
Trade and other payables	12	**27,266**	67,248
Current tax liabilities		**249,730**	915,708
Deferred tax liabilities	11	**99,736**	189,703
Outstanding claims	13(A)	**1,233,260**	1,166,594
Unearned premium	14	**2,782,554**	5,266,956
Total liabilities		**4,392,546**	7,606,209
Net liabilities		**(3,559,416)**	(6,250,292)
Due to Head Office - Australia		**(3,559,416)**	(6,250,292)

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

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE
For the year ended 31 December 2015

	HEAD OFFICE ACCOUNT
2015	**$**
As at 1 January	**(6,250,292)**
Profit after income tax	**852,826**
Other comprehensive income	**-**
Total comprehensive income	**852,826**
Net funding movements	**1,838,050**
As at 31 December	**(3,559,416)**
2014	
As at 1 January	(9,598,341)
Profit after income tax	2,261,264
Other comprehensive income	-
Total comprehensive expense	2,261,264
Net funding movements	1,086,785
As at 31 December	(6,250,292)

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

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	NOTE	2015 $	2014 $
OPERATING ACTIVITIES			
Non-reinsurance recoveries received		**74,778**	167,871
Outward reinsurance paid		**(363,340)**	(774,452)
Claims paid		**(435,736)**	(1,236,836)
Insurance costs paid		**-**	(3,159)
Other underwriting costs (paid) refunded		**(199,554)**	157,319
Interest received		**20,617**	23,390
Income taxes paid		**(1,087,536)**	(357,231)
Net cash flows from operating activities	8(A)	**(1,990,771)**	(2,023,098)
INVESTING ACTIVITIES			
Net cash flows from investing activities		**-**	-
FINANCING ACTIVITIES			
Net funding received		**1,838,050**	1,086,785
Net cash flows from financing activities		**1,838,050**	1,086,785
Net movement in cash and cash equivalents		**(152,721)**	(936,313)
Cash and cash equivalents at the beginning of the financial year		**597,742**	1,534,055
Cash and cash equivalents at the end of the financial year	8	**445,021**	597,742

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 2015

Notes

1. 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.

The financial report includes financial statements for QBE Lenders' Mortgage Insurance Limited, New Zealand Branch (the "branch") as an individual entity. The branch is a branch of QBE Lenders' Mortgage Insurance Limited ("QBE LMI" or the "company") and is a reporting entity for the purposes of the *Financial Reporting Act 2013*.

For a complete understanding of the financial position of the company refer to the company's full financial statements as lodged with the Australian Securities and Investments Commission.

(A) Basis of preparation

The financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), other applicable Financial Reporting Standards, as appropriate for profit-oriented entities, the requirements of the *Financial Reporting Act 2013* and the *Financial Markets Conduct Act 2013*.

The sole shareholder of the company has exercised its right under section 211(3) of the *Companies Act 1993* and determined that these financial statements need not comply with paragraphs (a), and (e) to (j) of section 211(1) of the Act.

The company has applied for and has been granted an exemption from preparing consolidated financial statements by the Financial Markets Authority under the *Financial Reporting Act 2013* and the *Financial Markets Conduct Act 2013*. The company's ultimate parent, QBE Insurance Group Limited (QBE Group), prepares and will lodge consolidated financial statements with the Financial Markets Authority.

The financial statements have been prepared in accordance with the *Financial Reporting Act 2013*, the *Companies Act 1993* and the *Financial Markets Conduct Act 2013*.

(i) Compliance with IFRS

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

(ii) 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 recoveries at present value. Refer to note 3.

(iii) Critical accounting estimates and judgements

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

(iv) Going concern

With effect from September 2013, the branch ceased to write new insurance policies. The directors of the company believe that the branch has access to sufficient resources to meet its future liabilities and commitments. For this reason the directors continue to adopt the going concern assumption in the preparation of the branch's financial statements.

(B) Premium revenue

Premium comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable is recognised as revenue. Premium is treated as earned from the date of attachment of risk.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Insurance contracts

All of the insurance products offered or utilised by the branch meet the definition of insurance contracts under NZ IFRS, and are accounted for and reported in accordance with these standards. These products do not contain embedded derivatives or deposits that are required to be unbundled.

(D) Unearned premium

Unearned premium is calculated based on the term of the policies written and the likely pattern in which risk will emerge over that term.

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

(E) Outward reinsurance

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

(F) Claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ("IBNR"), and estimated claims handling costs. Claims expense represents claims payments adjusted for movements 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 non-reinsurance recoveries, to reflect the inherent uncertainty in the central estimate.

(G) Non-reinsurance recoveries

Non-reinsurance recoveries receivable on paid claims, reported claims not yet paid and IBNR 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.

(H) Acquisition costs

Acquisition costs are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business and are amortised on the same basis as the earning pattern of the premium, in accordance with the premium income earning pattern adjusted for policy terminations. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

(I) Investment income

Interest income is recognised on an accruals basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) Taxation

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

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

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

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

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

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

(K) Insurance profit

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

(L) Cash and cash equivalents

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

(M) Trade and other receivables

Trade receivables are recognised at amounts 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any increase or decrease in the provision for impairment is recognised in the 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 the profit or loss.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) Trade and other payables

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

(P) Functional and presentation currency

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

(Q) Goods and services tax ("GST")

GST incurred is not recoverable from the Inland Revenue Department. GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Payables in the balance sheet and commitments are shown inclusive of GST.

(R) Comparative figures

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

2. NEW ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations have been issued during the year but not currently effective. The new standards and amendments are not mandatory for the branch until the operative date required. Early adoption of the new standards and amendments has not been applied in the financial statements.

The company will apply the new standards and amendments for the reporting periods beginning on the relevant operative dates. An initial assessment of the financial impact of the new standards and amendments has been undertaken and they are not expected to have a material impact on the branch's financial statements or accounting policies.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company is a lenders' mortgage insurance company underwriting business in Australia and New Zealand. The branch underwrites all business in New Zealand and none in Australia.

The company has developed a strong, centralised risk management and policy framework, designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of the local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of claims provisions and investment management. In addition, assessment of the net outstanding claims provision set at a company and subsidiary level is subject to detailed head office review. The probability of adequacy of the company's insurance liabilities is measured by the company's senior actuaries.

The company makes estimates and judgements in respect of the reported amounts of certain assets and liabilities. These estimates and judgements are determined by qualified and experienced employees with reference to historical data and reasoned expectations of future events, and are continually updated. The key areas in which critical estimates and judgements are applied are described on the following pages.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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, borrowers and third parties 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 estimate

The provision for expected future payments includes those in relation to claims reported but not yet paid; IBNR; and estimated claims handling costs, being the direct and 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. The longer the delay between the event giving rise to the claim and final claim settlement, the greater the variability between initial estimates of the loss to be incurred and the final settlement amount, as a result of additional financing and settlement costs incurred by the lender and changes in property valuations.

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 regular internal claims review meetings attended by senior management and detailed review by an external actuary at least annually. The risk management procedures related to the actuarial function are explained further in note 4.

The determination of the amounts that the branch will ultimately pay for claims arising under insurance 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 during the time that elapses before a definitive determination of the ultimate claims cost can be made;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example house price inflation, unemployment 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 3(A)(iv).

Central estimates 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 estimate is based on a judgemental consideration of the results of each method and qualitative information, for example:

- historical trends in the development and incidence of the numbers of defaults reported, numbers of defaults cured, numbers of properties taken into possession, numbers of such properties sold, numbers of claims arising from these sales, and the costs of those claims;
- exposure details, including policy counts, sums insured and various other characteristics of the borrowers and loans; and
- historical and likely future trends of expenses associated with managing claims to finalisation.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

(i) Central estimate (continued)

Central estimates are calculated gross of any non-reinsurance recoveries. Separate estimates are made of the amounts recoverable from borrowers and third parties based on the gross central estimate.

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

(ii) 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:

- 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 assumptions and legislative uncertainty.

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

Both the Reserve Bank of New Zealand ("RBNZ") and the Australian Prudential Regulation Authority ("APRA") require a probability of adequacy of 75% for the determination of minimum capital. For the actual probability of adequacy applied at the end of the financial year to the branch, refer to note 13(C).

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.

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

Key variables

	2015 %	**2014** %
Severity	**45.0**	45.0
Claim rates	**27.7**	53.9
Coefficient of variation	**53.0**	50.0

- Severity is a measure of the anticipated claims cost relative to the corresponding risk exposures;
- Claim rate is the percentage of current defaults that are expected to become claims; and
- The percentages adopted in the actuarial model are determined based on an analysis of historical experience combined with actuarial and management judgement of future trends.

Discount rates

The company generally uses risk-free rates to discount the outstanding claims provision.

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

	2015 %	**2014** %
Discount factor	**2.0**	2.3

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(A) Outstanding claims provision (continued)

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

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related recoveries, determined by the 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 net outstanding claims provision at the balance sheet date is 1.3 years (2014: 1.2 years).

(iv) 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.

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 may result in a decrease in the appropriate level of risk margins rather than in profit after tax, depending on the nature of the change in central estimate. Likewise, if the coefficient of variation were to increase by 1%, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax or to equity.

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

	SENSITIVITY	PROFIT (LOSS) [1] 2015	2014
	%	$	$
Severity	+20	**(175,223)**	(165,534)
	-20	**175,223**	164,836
Claim rates	+20	**(166,247)**	(144,013)
	-20	**175,639**	147,700
Discount factors	+5	**1,125**	1,052
	-5	**(1,129)**	(1,115)
Coefficient of variation	+20	**(36,451)**	(32,941)
	-20	**36,451**	30,314

[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 (note 14(D)). Future claims are those claims expected to arise from claims events occurring after the balance sheet date. The assessment is carried out using the same methods described in note 3(A).

NZ IFRS 4: Insurance Contracts requires that this test be carried out at the level of a "portfolio of contracts that are subject to broadly similar risks and are managed together in a single portfolio". As NZ IFRS 4 does not explicitly define "broadly similar risks" or "managed together as a single portfolio", and the branch is a monoline insurer, the branch has interpreted these terms to represent the entire portfolio.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(C) Unearned premium liabilities and deferred insurance costs

As highlighted in note 1, premium is earned and insurance costs recognised based on the term of the policies written and the likely pattern in which risk will emerge over that term. An actuarial analysis of the emergence of risk over the life of a policy is performed annually and is used to derive an earning pattern for each underwriting year. Premium is earned and insurance costs recognised in accordance with these patterns, adjusted for policy terminations.

During the year, in accordance with accounting standards, the company reassessed the expected pattern of risk emergence over the life of its portfolio. Actuarial analysis indicated that a greater proportion of risk of loss was encountered in the early years after policy inception than had previously been anticipated. Based on this and the benign economic conditions, it was appropriate to release a portion of previously deferred income and expenditure to profit. This decreased the unearned premium liability by $236,773 (2014: $1,549,308) and the deferred insurance costs by $21,092 (2014: $192,156).

4. RISK MANAGEMENT

QBE Group's risk management policy, strategy and framework are embedded in the head office function and in each of the divisional operations, ensuring a consistent approach to managing risk across the organisation. The board annually approves a comprehensive risk management strategy, and a reinsurance management strategy ("REMS"), both of which are lodged with APRA.

Risk management for the branch is managed by the company.

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

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

It is QBE Group's policy to adopt a rigorous approach to managing risk throughout the QBE Group of entities. 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 is 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 the company's governance structure and 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 QBE Group's risks to be managed in an integrated manner.

QBE Group's global risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for 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 and risk and performance monitoring.

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

4. RISK MANAGEMENT (CONTINUED)

The company'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, investment strategy and corporate governance. Of particular relevance is capital management risk.

(i) Capital management risk

The company is subject to extensive prudential and other forms of regulation in the jurisdictions in which it conducts business. Prudential regulation is generally designed to protect the policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations.

The regulatory environments in Australia and New Zealand continue 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.

In New Zealand, the Insurance (Prudential Supervision) Act 2010 provides the RBNZ regulatory authority over insurance companies. The branch has been given an exemption from compliance with the New Zealand solvency requirements on the basis of the company's compliance with the APRA solvency standards.

(B) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. This includes underwriting, insurance concentrations and reserving and reinsurance. 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 for a single contract. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

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

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

4. RISK MANAGEMENT (CONTINUED)

(B) Insurance risk (continued)
(i) Underwriting risks
Selection and pricing of risks
The branch provides lenders' mortgage insurance ("LMI") in New Zealand. In 2013, the branch ceased underwriting new policies.

LMI insures the lender should the borrower default on repayment of the loan, and covers the remaining loan balance, plus selling costs and expenses, following the application of the proceeds from the sale of the security property.

LMI is characterised by coverage of 100% of the loan amount however, insurance coverage may also be "top cover", where the total loss (including expenses) is paid up to a prescribed percentage of the original loan amount. Typical top cover in New Zealand ranges from 20% to 30% of the original loan amount.

Key risk mitigation policies and procedures comprise:
- the pricing model measures return on capital and reflects risks on a long term cyclical performance basis for both standard and new products. Pricing tables are set according to appropriate risk characteristics, such as type of product, loan amounts and loan to valuation ratio;
- standard insurance agreements and documented underwriting policies and procedures are in place with allocation of delegated authority levels to approve applications; and
- quality assurance reviews of underwriting and claims management are conducted on a regular basis.

Concentration risk
Concentration risk is the risk of exposure due to concentration of activity in certain geographical locations, industries or counterparties. The company operates throughout all regions in Australia and New Zealand and therefore has limited geographic concentration risk on insurance contracts; exposures are monitored but not limited by region. The branch only insures risks in New Zealand. Limits, such as those placed on maximum aggregate exposures to individual borrowers and per property, are contained in underwriting policies and are embedded in systems and processes.

The company is exposed to the possibility of very large losses from economic events such as a significant increase in regional or nationwide unemployment levels, weakening in house prices, or a significant increase in interest rates over a short period of time. The company calculates its insurance concentration risk charge ("ICRC"), which is the estimated maximum net loss from significant economic events with an approximate return period of 200 years (2014: 200 years). The ICRC must be less than the company's concentration risk tolerance; otherwise, steps such as the purchase of additional reinsurance are taken to limit the exposure. As at 31 December 2015, the ICRC was AUD 759.9 million (2014: AUD 786.7 million) before tax benefit, which was less than the risk tolerance.

4. RISK MANAGEMENT (CONTINUED)

(B) Insurance risk (continued)

(ii) Claims management and claims estimation risks

The company's approach to determining the outstanding claims provision and the related sensitivities are set out in note 3. The company seeks to ensure the adequacy of its outstanding claims provision through the implementation of the following controls:

- experienced claims managers operate within policy and within the levels of authority delegated to them in respect of the settlement of claims;
- processes to ensure that all defaults are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced internal actuaries in conjunction with the product managers and underwriters for each class of business 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 senior actuaries; and
- the outstanding claims provision is assessed regularly by senior management and is reviewed by the external Appointed Actuary 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 set out in note 3(A).

(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, customers, mortgagees and reinsurers.

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

- A QBE Group-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE Group and establishes tolerance levels. Compliance with the policy is monitored and exposures and breaches are reported to the QBE Group investment committee;
- Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. The policy also sets out minimum credit ratings for investments. The branch did not enter into any forward foreign exchange contracts during the year; and
- QBE Group has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which the company may transact. The branch did not invest in derivatives during the year.

(i) Credit risk arising from insurance contracts

Credit risk arising from insurance contracts principally relates to the risk of default by the underlying borrowers.

As insurer, the company does not receive access to the current credit quality of performing insured loans but is provided with data on loans in default by insured lenders. The relevant LMI master policy defines "default" as the borrower's failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, however, the master policies require an insured to notify the insurer of a default within fourteen days of the end of the month when the total amount due is unpaid and in arrears by more than ninety days. For reporting and internal tracking purposes, the company does not consider a loan to be in default until it has been delinquent for three consecutive monthly payments.

Credit risk on LMI contracts is therefore principally managed up-front through the underwriting process, prior to the acceptance of risk. The company has a centralised credit risk function that incorporates pricing, claims liability modelling, credit policy, portfolio performance reporting and analysis, and underwriting quality assurance.

Acceptance of credit risk is managed primarily using two scorecards, built on credit bureau data and company portfolio history. Credit rules are used to support these two scorecards. The centralised credit risk unit manages and maintains the scorecards and a centralised underwriting policy and procedure.

4. RISK MANAGEMENT (CONTINUED)

(C) Credit risk (continued)
(i) Credit risk arising from insurance contracts (continued)
Lenders usually collect the single premium from a prospective borrower and remit the amount to the company; generally, under a standard LMI policy, premium payment is required before policy cover is incepted, which eliminates credit risk on premiums receivable.

The company does not hold any collateral as security against its exposures; however, in the event of a claim by the lender, the lender's rights as mortgagee are assigned to the company.

(ii) Investment counterparty credit risk
The company's principal exposure to credit risk from financial instruments arises from the company's holdings of fixed and floating interest rate securities and short term money market securities. Additional credit risk arises in respect of cash holdings and trade and other receivables. The branch's principal exposures related to cash.

The following table provides information regarding the aggregate credit risk exposure at the balance sheet date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they comprise of smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to Standard and Poor's (2014: Moody's) counterparty credit ratings. AAA (2014: Aaa) is the highest possible rating. Rated assets falling outside the range of AAA to BBB (2014: Aaa to Baa) are classified as speculative grade.

	CREDIT RATING						
	AAA $	AA $	A $	BBB $	SPECULATIVE GRADE $	NOT RATED $	TOTAL $
At 31 December 2015							
Cash and cash equivalents	-	**445,021**	-	-	-	-	**445,021**
	Aaa	Aa	A	Baa	SPECULATIVE GRADE	NOT RATED	TOTAL
At 31 December 2014							
Cash and cash equivalents	-	597,742	-	-	-	-	597,742

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

None of the branch's financial assets are past due or impaired or have terms that have been renegotiated and would otherwise have been past due or impaired (2014: nil).

4. RISK MANAGEMENT (CONTINUED)

(C) Credit risk (continued)
(iii) Reinsurance counterparty credit risk
Reinsurance risk management is the process of transferring insurance risk to another insurer for a price. The company reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital.

The company's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:
- reinsurance is placed in accordance with the requirements of the company's REMS and security committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical and potential future losses and the company's ICRC; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

The branch has no reinsurance recoveries receivable on paid or outstanding claims at 31 December 2015 (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, credit spreads, 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 maintained within the company's risk appetite.

(i) Currency risk
The company's exposure to currency risk generally arises as a result of the translation of foreign currency amounts back to the functional currency. The branch's exposure to currency risk generally arises in respect of amounts due from or payable to related parties denominated in Australian dollars. Foreign currency balances are actively monitored and exposures kept to acceptable levels.

(ii) Interest rate risk
Financial instruments with a floating rate interest rate expose the company to cash flow interest rate risk, whereas fixed interest rate instruments expose the company to fair value interest rate risk.

QBE Group's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The company predominately invests in high quality, liquid interest-bearing securities and cash and may use derivative financial instruments to manage the interest rate risk of the fixed interest portfolio. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board and other management reporting. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored.

The claims provision is discounted to present value by reference to risk-free interest rates. The company is therefore exposed to potential underwriting result volatility as a result of interest rate movements. The company has a policy of maintaining a relatively short duration for assets backing policyholders' funds in order to minimise any potential volatility affecting insurance profit.

4. RISK MANAGEMENT (CONTINUED)

(D) Market risk (continued)

(ii) Interest rate risk (continued)

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.

	INTEREST BEARING FINANCIAL ASSETS MATURING IN						
	1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2015							
Floating rate ($)	**445,021**	-	-	-	-	-	**445,021**
Weighted average interest rate (%)	**1.55%**	-	-	-	-	-	**1.55%**
At 31 December 2014							
Floating rate ($)	597,742	-	-	-	-	-	597,742
Weighted average interest rate (%)	3.16%	-	-	-	-	-	3.16%

Movements in interest rates impact the interest income on 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 date is shown in the table below.

	SENSITIVITY	PROFIT (LOSS) [1] 2015	2014
	%	$	$
Interest rate movement	+0.5	**1,602**	2,152
Interest-bearing financial assets	-0.5	**(1,602)**	(2,152)

[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.

The branch had no price risk at the end of either the current or prior financial year.

(E) Liquidity risk

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

Liquidity must be sufficient to meet both planned and unplanned cash requirements. The nature of the business is that cash is received by way of single premiums at the inception of insurance contracts and is invested to fund future claims. The company is exposed to liquidity risk mainly through its obligations to make payments in relation to its insurance activities.

In addition to treasury cash held for working capital requirements, and in accordance with the company's liquidity policy, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. The company has a strong liquidity position. The maturity of the branch's interest-bearing financial assets is included in note 4(D)(ii).

Surplus cash flows are transferred to the company in Australia, and conversely cash flow deficits, if any, are supported by the company.

4. RISK MANAGEMENT (CONTINUED)

(E) Liquidity risk (continued)

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

	1 YEAR OR LESS $	1 TO 3 YEARS $	3 TO 5 YEARS $	OVER 5 YEARS $	TOTAL $
As at 31 December 2015					
Trade and other payables	**27,266**	**-**	**-**	**-**	**27,266**
As at 31 December 2014					
Trade and other payables	67,248	-	-	-	67,248

The branch has no significant concentration of liquidity risk.

The maturity profile of the branch's net outstanding claims provision is analysed in note 13(B).

(F) Operational risk

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

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

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

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

(G) Group risk

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

5. INCOME AND EXPENSES

(A) Income summary

	2015 $	2014 $
Gross earned premium revenue		
Direct	2,482,742	5,774,680
	2,482,742	5,774,680
Other revenue		
Non-reinsurance recoveries	76,908	162,584
	76,908	162,584
Other income		
Interest income	20,617	23,390
	20,617	23,390
Income	2,580,267	5,960,654

(B) Expenses summary

	2015 $	2014 $
Outward reinsurance premium expense	363,340	774,452
Gross claims incurred	502,402	1,027,177
Gross commission expense	-	3,159
Other acquisition costs	321,310	697,060
Underwriting expenses	208,798	318,161
Expenses	1,395,850	2,820,009
Profit before income tax	1,184,417	3,140,645

6. CLAIMS INCURRED

(A) Claims analysis

	2015 $	2014 $
Gross claims incurred and related expenses		
Direct	502,402	1,027,177
Non-reinsurance recoveries		
Direct	(76,908)	(162,584)
Net claims incurred	425,494	864,593

6. 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 the previous reporting periods and include release of risk margins as claims are paid. Refer to note 6(C).

	2015 CURRENT YEAR $	2015 PRIOR YEARS $	2015 TOTAL $	2014 CURRENT YEAR $	2014 PRIOR YEARS $	2014 TOTAL $
Gross claims incurred and related expenses						
Undiscounted	**1,336,704**	**(832,802)**	**503,902**	1,772,138	(752,513)	1,019,625
Discount	**(24,054)**	**22,554**	**(1,500)**	(20,995)	28,547	7,552
	1,312,650	**(810,248)**	**502,402**	1,751,143	(723,966)	1,027,177
Non-reinsurance recoveries						
Undiscounted	**(23,282)**	**(53,692)**	**(76,974)**	(19,723)	(142,639)	(162,362)
Discount	**612**	**(546)**	**66**	510	(732)	(222)
	(22,670)	**(54,238)**	**(76,908)**	(19,213)	(143,371)	(162,584)
Net claims incurred						
Undiscounted	**1,313,422**	**(886,494)**	**426,928**	1,752,415	(895,152)	857,263
Discount	**(23,442)**	**22,008**	**(1,434)**	(20,485)	27,815	7,330
	1,289,980	**(864,486)**	**425,494**	1,731,930	(867,337)	864,593

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

The development of the net outstanding claims provision for the four most recent accident years is shown in note 13(E). This note is a reconciliation of the amounts included in the table in note 6(B) and the current financial year movements in the claims development table.

	2015 CURRENT YEAR $	2015 PRIOR YEARS $	2015 TOTAL $	2014 CURRENT YEAR $	2014 PRIOR YEARS $	2014 TOTAL $
Net undiscounted claims development – central estimate (note 13(E))	**1,053,018**	**(651,440)**	**401,578**	1,509,846	(607,720)	902,126
Movement in claims settlement costs	**30,185**	**(29,205)**	**980**	49,781	(53,769)	(3,988)
Movement in discount	**(23,442)**	**22,008**	**(1,434)**	(20,485)	27,815	7,330
Movement in risk margin	**230,219**	**(205,849)**	**24,370**	192,788	(233,663)	(40,875)
Net claims incurred - discounted	**1,289,980**	**(864,486)**	**425,494**	1,731,930	(867,337)	864,593

7. INCOME TAX EXPENSE

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

	2015 $	2014 $
Profit before income tax	1,184,417	3,140,645
Prima facie tax payable at 28%	331,637	879,381
Tax effect of non-temporary differences:		
Non allowable expenses and non-taxable income	(46)	-
Prima facie tax adjusted for non-temporary differences	331,591	879,381
Income tax expense	331,591	879,381
Analysed as follows:		
Current tax	421,558	1,074,557
Deferred tax	(89,967)	(195,176)
	331,591	879,381
Deferred tax credit comprises:		
Deferred tax liabilities recognised in profit or loss	(89,967)	(195,176)
	(89,967)	(195,176)

8. CASH AND CASH EQUIVALENTS

	2015 $	2014 $
Cash at bank and on hand	333,842	127,016
Overnight money	111,179	470,726
Cash and cash equivalents	445,021	597,742

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

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

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

	2015 $	2014 $
Cash flows from operating activities	(1,990,771)	(2,023,098)
(Increase) decrease in net outstanding claims	(66,666)	209,659
Decrease in unearned premiums	2,484,402	5,774,680
Decrease in deferred insurance costs	(321,310)	(697,060)
Increase (decrease) in non-reinsurance recoveries	2,130	(5,287)
Decrease in trade and other receivables	(50,886)	(481,431)
Decrease in trade and other payables	39,982	5,951
Decrease in deferred tax liabilities	89,967	195,177
Decrease (increase) in amounts due tax authorities for current tax	665,978	(717,327)
Profit after income tax	852,826	2,261,264

9. TRADE AND OTHER RECEIVABLES

	2015 $	2014 $
Amounts due from related parties	**7,002**	57,888
Trade and other receivables	**7,002**	57,888
Amounts maturing within 12 months	**7,002**	57,888
Amounts maturing in greater than 12 months	**-**	-
Trade and other receivables	**7,002**	57,888

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

(B) Risk
The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables have been pledged by the branch as collateral for liabilities or contingent liabilities. No receivables are past due or impaired (2014: nil).

10. DEFERRED INSURANCE COSTS

	2015 $	2014 $
Deferred acquisition costs	**356,180**	677,490
Deferred insurance costs	**356,180**	677,490
To be expensed within 12 months	**169,343**	281,929
To be expensed in greater than 12 months	**186,837**	395,561
Deferred insurance costs	**356,180**	677,490

	DEFERRED ACQUISITION COSTS	
	2015 $	2014 $
At 1 January	**677,490**	1,374,550
Amortisation of costs deferred in previous financial years	**(300,218)**	(504,904)
Release deferral (note 3(C))	**(21,092)**	(192,156)
At 31 December	**356,180**	677,490

11. DEFERRED INCOME TAX

	2015 $	2014 $
Deferred tax liabilities	**99,736**	189,703

(A) Tax jurisdiction

The branch qualifies as a permanent establishment for New Zealand tax purposes, and consequently lodges income tax returns and pays income tax in New Zealand as though it were a separate entity.

(B) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2015 $	2014 $
Amounts recognised in profit or loss		
Insurance assets	**99,736**	189,703
	99,736	189,703
Deferred tax liabilities as follows:		
Payable within 12 months	**47,192**	79,378
Payable in greater than 12 months	**52,544**	110,325
	99,736	189,703

(ii) Movements:

	2015 $	2014 $
At 1 January	**189,703**	384,879
Amounts recognised in profit or loss	**(89,967)**	(195,176)
At 31 December	**99,736**	189,703

12. TRADE AND OTHER PAYABLES

	2015 $	2014 $
Amounts due to related entities	**14,215**	15,342
Other payables	**13,051**	51,906
Trade and other payables	**27,266**	67,248
Amounts payable within 12 months	**27,266**	67,248
Amounts payable in greater than 12 months	**-**	-
Trade and other payables	**27,266**	67,248

13. OUTSTANDING CLAIMS

(A) Net outstanding claims

	2015 $	2014 $
Gross outstanding claims provision	**980,131**	937,835
Risk margin	**253,129**	228,759
Outstanding claims	**1,233,260**	1,166,594
Non-reinsurance and other recoveries on outstanding claims	**(24,927)**	(22,797)
Net outstanding claims provision	**1,208,333**	1,143,797
Analysed as follows:		
Net undiscounted central estimate	**980,351**	938,751
Discount	**(25,147)**	(23,713)
Net discounted central estimate	**955,204**	915,038
Risk margin	**253,129**	228,759
Net outstanding claims provision	**1,208,333**	1,143,797
Gross undiscounted central estimate	**982,652**	939,836
Claims settlement costs	**23,298**	22,318
	1,005,950	962,154
Discount to present value	**(25,819)**	(24,319)
Gross discounted central estimate	**980,131**	937,835
Payable within 12 months	**522,025**	523,448
Payable in greater than 12 months	**458,106**	414,387
Gross discounted central estimate	**980,131**	937,835
Non-reinsurance recoveries on outstanding claims	**25,599**	23,403
Discount to present value	**(672)**	(606)
Non-reinsurance recoveries on outstanding claims	**24,927**	22,797
Payable within 12 months	**13,275**	12,724
Payable in greater than 12 months	**11,652**	10,073
Non-reinsurance recoveries on outstanding claims	**24,927**	22,797

(B) Maturity profile of net outstanding claims

The expected maturity of the branch's 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	**643,566**	**351,274**	**124,036**	**43,548**	**19,096**	**26,813**	**1,208,333**
At 31 December 2014	638,405	332,162	107,175	36,791	15,071	14,193	1,143,797

(C) Risk margins

The process used to determine risk margins is explained in note 3(A)(ii) and details of the risk-free discount rates adopted are set out in note 3(A)(iii).

The probability of adequacy at 31 December 2015 is 75.0% (2014: 75.0%) - 75.0% is a recognised industry benchmark in New Zealand and Australia, being the minimum probability of adequacy required for licensed insurers by RBNZ and APRA. The risk margin included in net outstanding claims is 26.5% (2014: 25.0%) of the central estimate.

13. OUTSTANDING CLAIMS (CONTINUED)

(D) Reconciliation of movement in outstanding claims provision

	2015 GROSS $	2015 RECOVERIES $	2015 NET $	2014 GROSS $	2014 RECOVERIES $	2014 NET $
At 1 January	**1,166,594**	**22,797**	**1,143,797**	1,376,253	28,084	1,348,169
Increase in net claims incurred in current accident year	**1,312,650**	**22,670**	**1,289,980**	1,751,143	19,213	1,731,930
Movement in prior year claims provision	**(810,248)**	**54,238**	**(864,486)**	(723,966)	143,371	(867,337)
Incurred claims recognised in profit or loss	**502,402**	**76,908**	**425,494**	1,027,177	162,584	864,593
Claims payments	**(435,736)**	**(74,778)**	**(360,958)**	(1,236,836)	(167,871)	(1,068,965)
At 31 December	**1,233,260**	**24,927**	**1,208,333**	1,166,594	22,797	1,143,797

(E) Claims development – undiscounted net central estimate

Net undiscounted central estimate of outstanding claims for the branch for the four most recent accident years.

	2011 & PRIOR YEARS $	2012 $	2013 $	2014 $	2015 $	TOTAL $
Estimate of net ultimate claims cost:						
At end of accident year		1,703,059	1,114,047	1,509,846	1,053,018	
One year later		1,699,928	897,637	1,064,384		
Two years later		1,385,699	797,452			
Three years later		1,341,780				
Current central estimate cost for the four most recent accident years		**1,341,780**	**797,452**	**1,064,384**	**1,053,018**	**4,256,634**
Cumulative net claims payments to date		1,341,780	797,452	977,761	182,588	3,299,581
Net undiscounted central estimate	-	-	-	**86,623**	**870,430**	**957,053**
Discount to present value						**(25,147)**
Risk margin						**253,129**
Claims settlement costs						**23,298**
Net outstanding claims						**1,208,333**
Net central estimate development Increase(decrease) in the year	**(61,874)**	**(43,919)**	**(100,185)**	**(445,462)**	**1,053,018**	**401,578**

A reconciliation of the net claims development in the table above to net incurred claims in the income statement is included in note 6(C).

The development of claims from prior accident years was better than expected at 31 December 2015, leading to an overall release of the central estimate for prior years of $651,440. The majority of this release related to the 2014 accident year primarily as claim volumes experienced were lower than anticipated at 31 December 2015.

Uncertainty surrounding claims development for the company is materially resolved within four years, and for the branch the accident years 2013 and prior are fully developed - no undiscounted central estimate is considered necessary at 31 December 2015 in respect of remaining defaults (2014: accident years 2011 and prior).

Conditions and trends that have affected the development of the liabilities in the past may, or may not, occur in the future, and accordingly, conclusions about future results may not necessarily be derived from the information presented in the tables.

14. UNEARNED PREMIUM

(A) Unearned premium

	2015 $	2014 $
At 1 January	**5,266,956**	11,041,636
Earning of premium written in previous periods	**(2,247,629)**	(4,225,372)
Release deferral (note 3(C))	**(236,773)**	(1,549,308)
At 31 December	**2,782,554**	5,266,956
Amounts to be earned within 12 months	**1,370,663**	2,248,425
Amounts to be earned in greater than 12 months	**1,411,891**	3,018,531
Unearned premium	**2,782,554**	5,266,956

(B) Net premium liabilities

	2015 $	2014 $
Unearned premium	**2,782,554**	5,266,956
Deferred insurance costs (note 10)	**(356,180)**	(677,490)
Net premium liabilities	**2,426,374**	4,589,466

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

	2015 $	2014 $
Undiscounted central estimate	**174,919**	437,737
Discount to present value	**(72,038)**	(97,683)
	102,881	340,054
Risk margin	**41,153**	136,022
Expected present value of net future cash flows for future claims including risk margin	**144,034**	476,076

(D) Liability adequacy test

The probability of adequacy of the unearned premium liability may differ from the probability of adequacy of 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 liability whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the branch.

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a surplus at 31 December 2015 and 2014.

(E) Risk margin

The process used to determine the risk margins is explained in note 3(A)(ii).

The risk margin in expected net future cash flows for future claims as a percentage of the discounted central estimate is 40.0% (2014: 40.0%).

15. CAPITAL RISK MANAGEMENT

Capital is managed at a company level.

As a member of the wholly owned group, the company has adopted the risk management policies and framework of the QBE Group. QBE Group's objective when managing capital is to maintain an optimal balance of debt and equity in the capital structure to reduce the cost of capital whilst meeting capital adequacy requirements, providing security for policyholders and continuing to provide sufficient returns to shareholders.

Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the company's activities. In order to maintain or adjust the capital structure, the company has the option to adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or vary the level of outward reinsurance.

The company is subject to, and complies with, various externally imposed regulatory capital requirements. These requirements are designed to ensure a sufficient solvency margin is maintained in order to provide adequate protection for policyholders. In addition, the company aims to maintain a strong credit rating and insurer financial strength rating, along with robust capital ratios in order to support its business objectives and maximise shareholder wealth.

Capital across the QBE Group is allocated to business units, divisions and ultimately to underwriting portfolios according to the associated risk. The minimum target risk adjusted return on capital is 15%. The business plans include net asset projections, dividends, issued share projections and solvency projections.

Management monitors the company's capital levels on an ongoing basis, with particular focus on the following performance indicators which were updated during 2015:

- The company is subject to regulatory requirements that a minimum level of capital is maintained to meet obligations to policyholders. It is the company's policy to maintain a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds regulatory requirements; and
- Insurer financial strength ratings provided by the major rating agencies which demonstrate the company's financial strength and claims paying ability.

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

16. SOLVENCY

The table below discloses the solvency coverage for the company which includes the branch as calculated under the Australian APRA requirements.

	2015 AUD$000'S	2014 AUD$000'S
APRA prescribed capital amount	**916,885**	951,653
Capital surplus	**537,240**	484,489
Solvency coverage	**1.59**	1.51

17. REMUNERATION OF THE AUDITOR

Audit fees for the company incorporate the New Zealand branch and are paid by the company. Amounts received by the company's auditors are as follows:

	2015 $	2014 $
PricewaterhouseCoopers (PwC) – Australian firm		
Audit or review of financial reports of the entity	**525,352**	523,347
Special audits required by regulators	**152,985**	150,501
	678,337	673,848
Related practices of PricewaterhouseCoopers (including overseas PricewaterhouseCoopers firms)		
Actuarial peer review	**-**	-

The board believes some non-audit services are appropriate given the external auditor's knowledge of the QBE Group. The company may engage the external auditor for non-audit services other than the excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, PwC cannot provide the excluded services of preparing accounting records or financial reports, asset or liability valuations, acting in a management capacity, acting as a custodian of assets or acting as share registrar.

18. CONTINGENT LIABILITIES

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

19. CAPITAL EXPENDITURE COMMITMENTS

The branch had no capital commitments as at 31 December 2015 (2014: nil).

20. RELATED PARTY DISCLOSURES

(A) Parent and ultimate parent

The branch forms part of QBE LMI, a company incorporated and domiciled in Australia.

The company's ultimate parent is QBE Group, incorporated in Australia.

(B) Transactions with related parties

The following material transactions occurred with related parties:

	2015 $	2014 $
Expenses		
Payments made for management fees and cost allocations to related entities	**159,530**	161,912
Payments made for management fees and cost allocations to Head Office	**11,962**	97,533
Outwards reinsurance premium (net of no claims bonus)	**363,340**	774,452

20. RELATED PARTY DISCLOSURES (CONTINUED)

(C) Outstanding balances arising from transactions with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2015 $	2014 $
Assets		
Trade and other receivables	**7,002**	57,888
Liabilities		
Trade and other payables	**14,215**	15,342

(D) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and repayable in cash.

(E) Other related party disclosures

All other material information required to be disclosed under the NZIAS 124: Related Party Disclosures has been included in the financial statements as follows:

	Reference
Trade and other receivables	Note 9
Trade and other payables	Note 12

21. EVENTS OCCURRING AFTER REPORTING DATE

The following events have occurred after balance date

(i) the company revised its reinsurance strategy and program entering into new reinsurance contracts effective 1 January 2016. Under the revised program, claims paid after 2015 on all policies written prior to 2016 will be reinsured to a level of 45% with a related party.

There is, at the date of these statements, no other 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;
(ii) the results of those operations in future financial years; or
(iii) the branch's state of affairs in future financial years.

22. CORPORATE GOVERNANCE

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