QBE Insurance Group Annual report 2013

Made possible by QBE

For 127 years, marine insurance has been core to QBE's offering. We continue to be a leading provider of insurance for conventional and specialised cargo, commercial hull, marine liability and pleasure craft.

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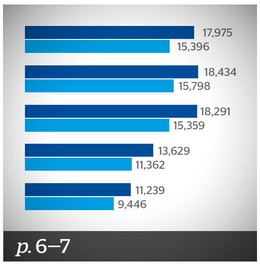

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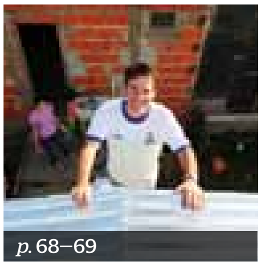

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> Having taken action in relation to our North American Operations, the Board believes we have the appropriate management, strategy and plans in place to rebuild the division and return it to profitability.

Belinda Hutchinson AM Chairman • QBE Insurance Group

A year of change and renewal

Your Board and management began 2013 with clear expectations of the year ahead and detailed implementation plans to continue the transformation of QBE's business into a truly global insurer and reinsurer that thinks and acts as one company. While progress was made towards these objectives, our work was overshadowed by a number of challenges which became apparent in our North American Operations.

It is disappointing to me and my fellow directors that, as a result of these challenges, QBE's performance fell well short of our expectations for 2013. Having now addressed these issues, I am confident that we have the management, business strategy and plans in place to return QBE to profitable growth.

In December last year, I announced that I would retire from the Board of QBE in March 2014 following three years as Chairman and 16 years as a director. It has been a privilege to serve over this period as QBE undertook significant international expansion and evolved from a mid-sized insurance business into one of the world's 20 largest insurance and reinsurance companies.

Despite this growth and development, there is no question that the last three years have been challenging and disappointing for the Group Board and management. In 2011, QBE was significantly impacted by a higher than expected frequency of catastrophes including the Australian floods, Christchurch earthquake, Japanese earthquake and tsunami, Thai floods and Hurricane Irene. In 2012, a major drought affected the US crop insurance business, while other detractors from the Group financial result included Superstorm Sandy and, of most concern, prior accident year claims development largely in the US program business. In 2013, QBE's performance again fell well short of our expectations as a result of further issues in our North American Operations. This is explained in more detail below.

The Board acknowledges that, while QBE's acquisition-based growth has seen the company establish strong specialist commercial insurance businesses and expand its geographic footprint, it has become apparent that some of this growth has come at a cost. In particular, a number of our past US acquisitions have been affected by tough operating conditions and have undermined the performance of the Group as a whole. In addition, the company has experienced a substantial decline in investment income due to the low interest rate environment, particularly in the US and Europe. It is clear that in the current global economic environment underwriting performance is vital – the company cannot rely on its investment income to support underperforming underwriting portfolios.

Developing QBE's platform for profitable growth

Over the last few years, global economic conditions, unusual frequency and severity of catastrophes and poor performing portfolios have weighed on the company's results. In light of this, the Board and management have worked hard to make the changes necessary to improve the company's performance. A great deal of time and effort has been dedicated to developing a new multi-year strategic plan and a culture change program that, together, provide a sound platform for delivering future profitable growth. The implementation of the strategic plan and culture change program, ONE QBE, commenced in late 2012. The strategic plan builds on the high quality franchise that QBE has established in selected markets around the world. It is also supported by the strong underwriting culture and performance that the vast majority of our underwriting businesses continue to demonstrate.

The key objective of our strategic plan, and of our vision, is to establish QBE as a truly global insurer and reinsurer that thinks and acts as one company rather than an aggregation of separate businesses. An important component of our strategic plan is management's operational transformation program. The first phase of this program was successfully implemented in 2013, with the establishment of the Group Shared Services Centre (GSSC) in Manila. The Board visited Manila in May and was impressed with the quality of the growing team of QBE employees dedicated to ensuring that services provided by the GSSC are seamlessly integrated with the operations of QBE's divisions. The operational transformation program is already delivering substantial savings and is on track to deliver annual operating cost savings in excess of $250 million by the end of 2015.

A key component of the strategic plan is maintaining our financial strength and flexibility, which is of critical importance to QBE's platform for profitable growth. The Board formed a new Risk and Capital Committee early in 2013 with responsibility for the Group's risk management framework and capital requirements.

In 2013, we further strengthened QBE's balance sheet and added flexibility through a number of initiatives including conversion and issuance of debt securities and the disposal of some non-core businesses.

All Australian authorised insurers and insurance groups became subject to more stringent Australian Prudential Regulation Authority (APRA) regulatory capital requirements from 1 January 2013. Under these new standards, QBE's indicative capital adequacy multiple at 31 December 2013 was 1.6 times the minimum requirement and is in line with our benchmark. During the year, our main rating agencies affirmed the insurer financial strength ratings of our major subsidiaries which are of significance to brokers and customers. In 2014, we will continue to work on capital enhancing initiatives to strengthen the key capital ratios, as assessed by our regulators and rating agencies.

2013 result and North American Operations review

It is deeply disappointing to each of your directors to report that QBE incurred a loss of $254 million after tax, which compares with a net profit after tax (NPAT) of $761 million in 2012. Adjusting for the after tax cost of amortisation and impairment of intangibles, the Group's 2013 cash NPAT was $761 million which compares with $1,042 million in 2012.

Australian & New Zealand and Asia Pacific Operations achieved strong underwriting results, with Asia Pacific Operations also reporting significant profitable growth. European Operations continued to produce satisfactory returns in a highly competitive market and economically challenging environment. The solid progress in these businesses was, however, overshadowed by issues that became apparent in our North American Operations.

In the second half of 2012, the then newly appointed Group Chief Executive Officer (CEO), John Neal, instigated an assessment by QBE's internal and external actuaries of underperforming and run-off portfolios in our US program business. This assessment identified a number of issues, which prompted a strengthening of the claims provisions which adversely impacted the 2012 financial result. After the emergence of these issues a new North American Operations CEO, David Duclos, was appointed in April 2013. David then recruited a new North American senior executive team. The highest priority for this new team was to undertake a thorough strategic and operational review of the division.

In December 2013, the Board was presented with the results of this review including management's analysis and recommendations. This led to our decision to further strengthen claims provisions for the US program business due to prior accident year claims development in long tail classes such as workers' compensation, general liability and construction defect risks. As a result of revised expectations for QBE's specialist lender-placed business, it was necessary to write-down identifiable intangibles and other assets as well as to write-down the carrying value of goodwill in North American Operations.

The North American review was a labour-intensive and exhaustive process for the division's new management team, as it has been for the Board and Group management. With action now having been taken in relation to North American Operations, the Board believes we have the appropriate management, business strategy and plans in place to rebuild the division and return it to profitability.

Board and management renewal

My decision to retire as Chairman comes at the end of a period during which I have had the privilege of leading the Board and management renewal that has been essential to position the Group for the next phase of its development.

In addition to the appointment of John Neal as Group CEO in 2012, management renewal has included the recent appointment of Pat Regan as Group Chief Financial Officer (CFO). Pat brings extensive global insurance experience to the Group, most recently as CFO at Aviva plc. Pat will succeed Neil Drabsch in June 2014. Neil has provided 22 years of loyal service to QBE and has made a significant and valuable contribution over this period. We have made a number of other significant divisional and Group appointments over the past two years. I am confident QBE now has outstanding Group and divisional executive teams committed to delivering profitable growth.

At the Board level, we have recruited four highly experienced non-executive directors – John Graf was appointed in 2012, and Margaret Leung and Marty Becker joined the Board in August 2013. More recently, we announced the appointment of Sir Brian Pomeroy CBE in February 2014.

Sir Brian is based in the UK and has served as non-executive Chairman of QBE Insurance (Europe) Ltd and QBE Underwriting Ltd for several years. He is a member of the board of the UK Financial Conduct Authority and was previously a nominated member of the Council of Lloyd's. He was the senior partner of Deloitte Consulting in the UK until 1999 when he took up a number of public, private and voluntary sector appointments.

Margaret Leung is our new Hong Kong-based director. She brings 35 years' experience with the global banking group HSBC, most recently as Chief Executive of Hang Seng Bank Limited. At HSBC, she had particular exposure to Asian markets, which are important for QBE's growth plans.

Marty Becker is based in the US and was appointed Deputy Chairman in December 2013 and will become Chairman when I retire next month. Marty has had a long and successful career in the insurance industry in the US, Bermuda and the UK, most recently as CEO of Alterra Capital Holdings. I am very pleased to be able to hand over to a new chairman of Marty's experience and capability. Supporting Marty as QBE's Australian-based Deputy Chairman will be long serving director, Duncan Boyle.

QBE's new board appointments reflect our ongoing commitment to improving the company's governance and performance, and ensuring your directors have the most appropriate mix of geographic and market experience.

In conclusion

While this will be my last report to shareholders as Chairman of QBE, I feel as enthusiastic about the company and its potential as I did the day I joined the Board in 1997. I believe that the progress we have made in addressing the challenges of the recent past will be reflected in QBE's performance in 2014 and beyond.

My special thanks to my fellow Board members for their constructive contribution, hard work and support throughout my term as Chairman. Further, I am confident that QBE now has a senior management team that is committed to the company's strategic objectives and has the experience and capabilities necessary to deliver upon them. On behalf of the Board, I would like to acknowledge and thank John Neal, our Group CEO, and the QBE team around the world for their hard work and valuable contribution in dealing with the challenges of 2013. I wish them every success as they implement the new strategic plans required to return QBE to profitable growth.

I would also like to thank Charles Irby who retired from the Board in March 2013 after more than 12 years of service as well as Irene Lee who stepped down in August 2013 after 11 years. Charles and Irene brought great depth of experience and unique skills to their roles on the Group Board and Board Committees. Their contribution will be missed.

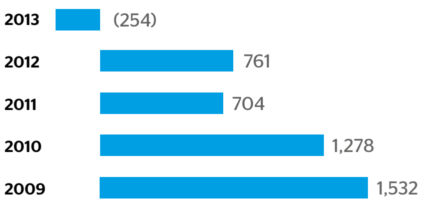
The Board is grateful to you, our shareholders, for your continued support. I am confident that QBE's performance in coming years will provide appropriate reward for your loyalty and patience.

Belinda Hutchinson AM
Chairman

2013 snapshot

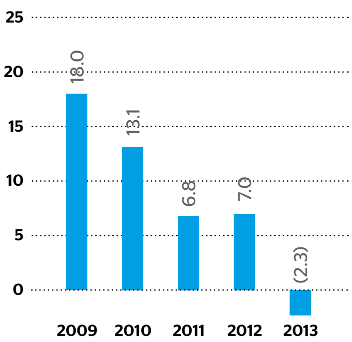
Performance

Net profit after income tax (US$M)

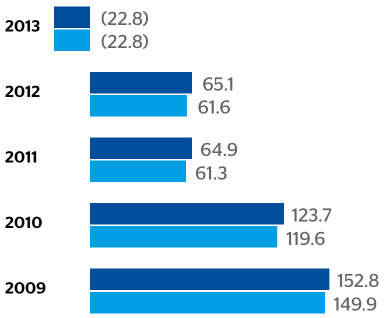


133%

Return on average shareholders' funds (%)



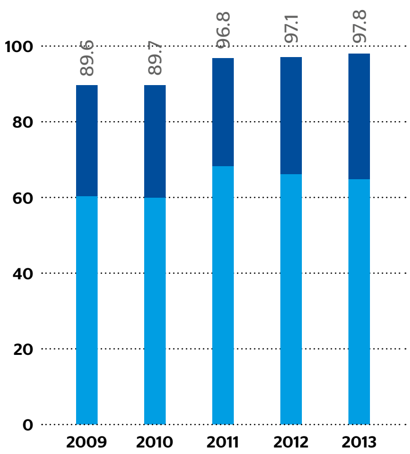
Earnings per share (EPS) (US¢)



Basic EPS

Diluted EPS

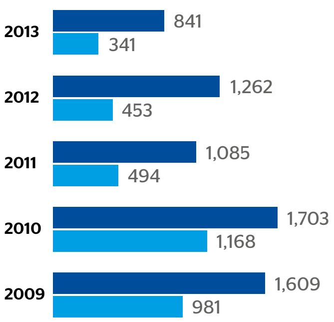
Combined operating ratio (COR) (%)



Combined commission and expense ratio

Net claims ratio

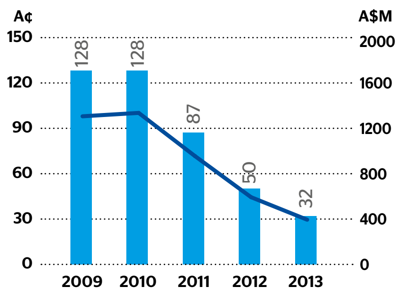
Insurance profit and underwriting result (US$M)



Insurance profit 33%

Underwriting result 25%

Dividend per share (A¢) and dividend payout (A$M)

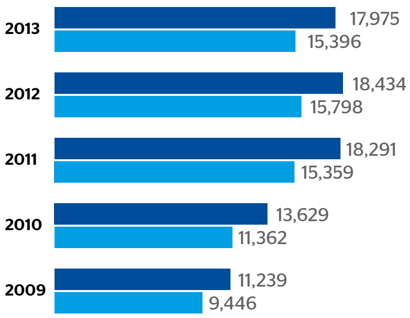


Dividend per share (A¢) 36%

Total dividend payout (A$M) 34%

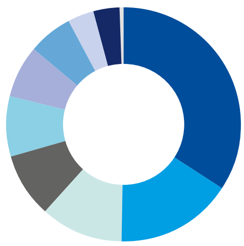
Profile

Gross written premium and net earned premium (US$M)



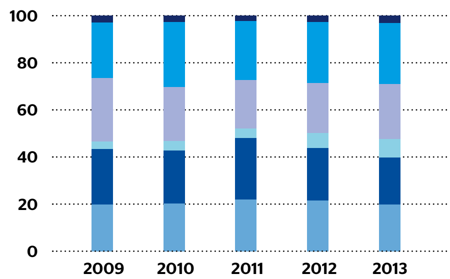
- Gross written premium ↓ 2%
- Net earned premium ↓ 3%

Gross earned premium by class of business



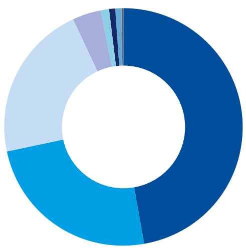
Property	34.2%
Motor & motor casualty	16.1%
Agriculture & bloodstock	11.4%
Public/product liability	8.9%
Workers' compensation	8.5%
Marine energy & aviation	7.1%
Professional indemnity	6.2%
Financial & credit	3.7%
Accident & health	3.6%
Other	0.3%

Divisional analysis of net earned premium (%)



- Equator Re
- North America
- Latin America
- Europe
- Australia & New Zealand
- Asia Pacific

Investments and cash at 31 December 2013



US$30.6 billion

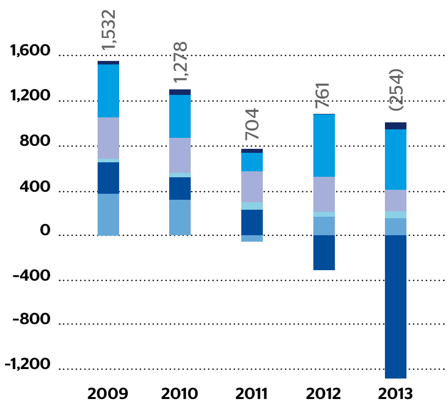
Corporate bonds	47.3%
Government bonds	24.6%
Short-term money	21.3%
Cash	4.0%
Property trust	1.0%
Equities	0.9%
Infrastructure debt	0.8%
Investment properties	0.1%

Net earned premium by type

92% direct and facultative insurance

8% inward reinsurance

Net profit after income tax by division (US$M)



- Equator Re
- North America
- Latin America
- Europe
- Australia & New Zealand
- Asia Pacific

> Our underlying insurance profit margin is in excess of 10% and our current accident year central estimate combined operating ratio is 92.5%. These key ratios enable us to project a markedly improved performance in 2014.

John Neal Group Chief Executive Officer • QBE Insurance Group

Time to look forward

On reflection, 2013 was a year of contrasts for QBE.

We took some great steps forward by introducing necessary changes to key management, repositioning and right-sizing underperforming businesses and making excellent progress with our global transformation program. This contrasts with continued disappointment from prior accident year claims development and our failure to meet financial targets. While the headline results are clearly frustrating, affected mainly by events of the past, our current accident year results and plans for the future give us encouragement that we are positioned for improved results and profitable growth.

We cannot hope to achieve global operational excellence without high calibre leadership and support teams. Management in all divisions has been strengthened with quality appointments, bringing in change where necessary and introducing a truly global vision based around a value creation model, with achievable short, medium and long term goals.

We have had to ask our shareholders to be patient through this period of change, particularly while dealing with legacy issues and reconstructing businesses that were not able to meet profit objectives. The path so far has been frustrating for both management and all our stakeholders, but the rewards will be there if we are decisive and diligent in the implementation of our strategy.

While the disappointing performance of our North American Operations dominated the 2013 financial results, we have taken necessary but painful action to address the issues and return this business to profit. Notwithstanding these issues, we must not lose sight of the significant progress that has been made in many other areas of our business across the globe. Central to this progress has been the implementation of the value creation model that we presented to shareholders in 2012. The value creation model identifies the key levers we have at our disposal to drive future value and growth and is underpinned by our focus on three main areas – performance, change and people. These are the focal points of my 2013 report.

Performance

Overview

Our Australian & New Zealand and Asia Pacific Operations produced excellent results, both in terms of premium growth in local currency and market-leading combined operating ratios. European Operations, while profitable, was below budget in the face of a highly competitive market and Latin America performed below expectations with only a modest insurance profit. Our North American result was poor, primarily due to the need to address prior accident year claims under-reserving largely in our program business and one-off costs associated with right-sizing the cost base against a backdrop of reducing premium in our lender-placed business. At the same time, crop insurance suffered a second year in succession of weather-related underperformance.

The divisional commentaries provide greater detail on each of our global operations and are set out on pages 32 to 67 of this report.

When looking at our key performance metrics, the Group's overall insurance profit was down 33% to $841 million although our combined operating ratio of 97.8% was up only slightly from 97.1% in 2012. While our investment performance was slightly above expectations, the non-recurrence of substantial investment gains, as experienced in 2012 due to narrowing credit spreads, resulted in a materially lower investment return and contributed to an insurance profit margin of only 5.5%, well down on 8.0% last year. The disappointing underwriting result was substantially due to adverse prior accident year claims development (predominately in North America) as reported to the market on 9 December 2013.

The extent of prior accident year central estimate claims development was a disappointment and well beyond our expectation. Mindful of the potential for volatility and uncertainty in our claims central estimates, we carry substantial risk margins. In response to that uncertainty, we strengthened risk margins by an additional $266 million during the year, which lifted the probability of adequacy of outstanding claims to 90.7%, up significantly from 87.5% a year earlier and, notably, above 90% for the first time since 2007.

While the Group's result is undoubtedly disappointing, our underlying insurance profit margin is in excess of 10% and our current accident year central estimate combined operating ratio is 92.5%. These key ratios are the best indicators of the growing strength of our core business and enable us to project a markedly improved performance in 2014.

Net profit after tax

Cash profit (net profit after tax adjusted for the after tax cost of amortisation and impairment of intangibles) was $761 million compared with $1,042 million last year. We reported an overall net loss after tax of $254 million due to the large one-off after tax costs of $1,332 million associated with our North American Operations, relating to prior year claims, the write-down of intangibles and restructuring costs.

Further details are included in the Group Chief Financial Officer's report on page 16.

Cash flow from operations was significantly lower than the prior year due to increased claims payments, income tax payments, costs of our transformation program and a reduced cash inflow from the US crop business due to 2012 losses settled in 2013.

Investment income was slightly ahead of expectations with a net investment yield of 2.6%, but well down on last year due to the absence of credit spread gains experienced in 2012. We remain cautious in our approach to investments, with a clear strategy to further diversify the portfolio to reduce volatility and enhance yield.

With the exception of Europe, the continuing historically low global interest rate environment has introduced more pricing discipline into the market with less reliance on investment income to supplement poor underwriting performance. Nevertheless, competition remains strong across global markets and risk selection is critical to achieve our desired margins.

Gross written premium was $18.0 billion, down from $18.4 billion in 2012. This was well below our premium target for 2013, largely due to a $715 million reduction in North American gross written premium compared with last year, with growth in the other divisions partially offset by translation to the stronger US dollar. Premium growth was assisted by an overall average premium rate increase of close to 4% on renewed business, reflecting relatively strong rate increases in Australia and North America. Europe remains a challenge with strong competition precluding any substantive rate increases.

At this stage of the insurance cycle, our focus remains on writing only profitable business and retaining longstanding, quality customers. We have already taken tough decisions on a number of portfolios with further remedial action required on some portfolios to ensure the business profiles are consistent with our strategy and plans. Top line premium income may suffer further during this process but with the ultimate benefit of an improved and sustainable underwriting profit.

Underwriting performance

While our combined operating ratio deteriorated only slightly to 97.8% from 97.1% last year, the result fell well short of our 92% combined operating ratio guidance, mainly due to the $482 million underwriting loss generated by our North American Operations. This was exacerbated by a higher frequency of large individual risk claims and prior year claims adjustments in our European Operations and by prior accident year claims deterioration in our Latin American Operations. The total shortfall in our prior accident year undiscounted net central estimate claims reserves amounted to $552 million compared with $464 million in 2012. These factors contributed adversely to the results of our captive reinsurer, Equator Re, which produced only a modest underwriting profit of $97 million compared with an expected underwriting profit of over $270 million.

The Australian & New Zealand and Asia Pacific Operations both produced outstanding underwriting results with combined operating ratios of 87.4% and 84.0% respectively. These businesses continue to grow and have the capacity for sustained outperformance.

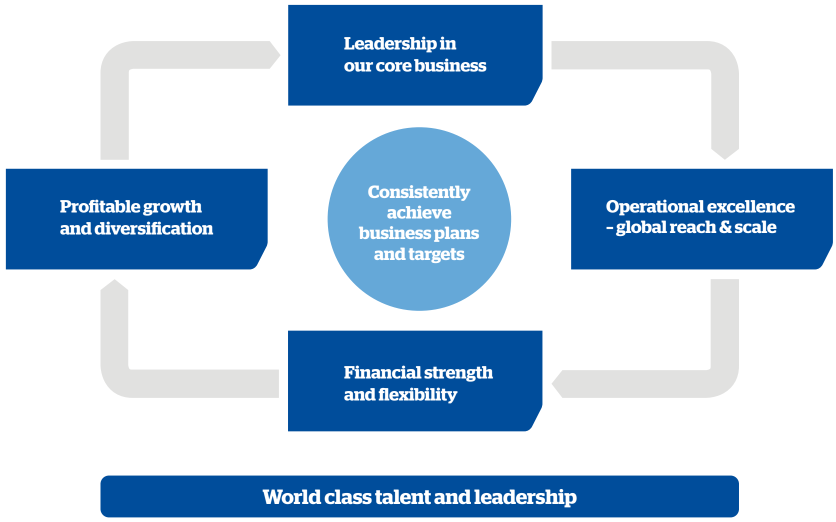
Management focus and actions in relation to the North American business have been intense throughout the year. While the introduction of a new CEO, with experience in the local market, and a highly experienced and broadly skilled executive leadership team was disruptive, it was necessary to rebase the business and embed the discipline to effect change. Although the extent of the underwriting loss in North America was disappointing, management responded swiftly by investigating and dealing with problem areas and by introducing stringent remedial action. We have completed a review of open claims and incurred but not reported (IBNR) reserves in our major run-off and select ongoing programs and are satisfied that there are no systemic problems in our claims liabilities and reserving practices. However, the nature of the portfolios in run-off, particularly with respect to the longer tail classes of business, gives rise to greater inherent uncertainty, thereby requiring greater vigilance and the need for increased risk margins.

Despite a headline $552 million shortfall in the undiscounted net central estimate of prior accident year claims reserves, our prudent approach of holding a sufficient level of risk margins in outstanding claims designed to offset uncertainty in the central estimate was effective in mitigating the net effect on the reported results for the year. Net of risk margin releases, discount and claims settlement costs, the impact on the underwriting result for prior accident year claims was a more modest $84 million compared with $309 million last year.

Although dissatisfied with our 2013 underwriting result, we have taken the necessary steps to deal with underperforming portfolios, completed an extensive program of management succession and are well on the way to implementing transformation programs that will provide a solid base for our business going forward. We have taken, and will continue to take, firm action to ensure the balance sheet is strong and flexible to meet our ongoing financial needs.

Further details on the underwriting result, net profit after tax and balance sheet are included in the Group Chief Financial Officer's report on pages 16 to 27.

Value creation model



Our change agenda

Leadership in our core businesses

"We will focus on core businesses where we are widely recognised as world-class and can lead the market. We will prioritise the allocation of capital to these businesses, thereby maximising our profitable growth potential."

During 2013, we concentrated our growth efforts on those businesses where QBE has a strong trading position in an attractive marketplace. In Australia and New Zealand, our leading market position allowed us to achieve strong rate increases and, consequently, outstanding results. In Asia Pacific, our growth strategy assisted in delivering premium growth of 26%, well ahead of the market. In Latin America, we increased our gross written premium by 13%, again well ahead of market growth rates, albeit assisted by the first full year impact of the La Buenos Aires (LBA) acquisition in Argentina.

Our strategy of targeted and selective top line growth is underpinned by a resolute focus on maintaining pricing discipline and generating an improved return for the level of risk accepted. Over the last two years, we have also reviewed our divisional portfolios to identify businesses which we believe cannot achieve the returns expected by our shareholders. This has resulted in a shift in weighting to preferred products and geographies, remediation across non-performing portfolios and the disposal of several small non-core portfolios. These improvement initiatives will continue into 2014.

Through a continued focus on investing in our core businesses, we believe that we can generate profitable organic premium growth over the medium-term. We envisage limited acquisition activity during 2014 and only if a compelling business case exists to support our pursuit of either leadership in established profitable business or profitable diversification.

Operational excellence

"By collaborating across our worldwide businesses and skill sets, we will achieve economies of scale and share best practice to ensure we operate more efficiently and effectively than our peers. This will in turn build our competitive advantage in terms of operations and service delivery and feed through to enhanced profit margins."

In early 2013, we established a Group Shared Service Centre in Manila which now employs over 1,000 staff. Our operational transformation program was initially spearheaded by Australian & New Zealand Operations, with significant cost savings and process efficiencies already achieved. North America and Europe are now following this lead. We have communicated to the market our expectations of annual operating cost savings in excess of $250 million by the end of 2015. One year into the project, implementation and restructuring costs are running some 10% better than budget, primarily from the success of the Australian redeployment strategy, and benefits are 20% ahead of plan, largely due to accelerated benefits arising from our Australian & New Zealand and North American Operations.

In order to drive operational excellence, we are developing a Group-wide information technology strategy to better leverage our technology spend, reduce costs and optimise technology investment in our change agenda. This strategy will not only reduce cost but will also make it easier for us to share resources across our global operations and to facilitate intra-divisional initiatives.

Collaboration continues to be a key theme in delivering on our operational excellence agenda. In 2013, we started to see significant new business opportunities through collaboration across QBE divisions. As an example, our Asia Pacific business is working more closely with our London market marine underwriting team to identify opportunities in the local marketplace. In addition, our divisional property underwriters continually share ideas, disciplines and best practice globally to optimise the performance of our overall property portfolio. Similarly, our European Operations' professional lines underwriters are now collaborating with their North American colleagues to build US presence in these classes.

We continue to work with our global trading partners to ensure that we properly understand how to best add value to our joint clients. We have undertaken further fine tuning of our global reinsurance program and, as a consequence, expect improved underwriting results in our captive reinsurer, Equator Re.

Financial strength and flexibility

"We will continue to manage our balance sheet to minimise risk and maintain the financial strength to meet all our stakeholder requirements and to provide flexibility for our future needs."

Despite recent challenges, a disciplined approach to balance sheet management ensured that the insurer financial strength ratings issued by our primary rating agencies were maintained. Whilst the absolute debt level was reduced, our debt to equity ratio was higher at year end due to the net asset impact of the 2013 reported loss and foreign exchange. Borrowings are weighted towards subordinated debt which supports financial strength and flexibility.

Although we maintain a cautious investment strategy, in 2013 we began implementing a strategy to diversify our investment portfolio to include additional asset classes such as infrastructure debt and property trusts. This resulted in investment returns for 2013 slightly above expectations, with further yield benefits anticipated in 2014 and beyond.

As discussed earlier, risk margins in outstanding claims have been materially increased and our probability of adequacy is in excess of 90% for the first time since 2007.

Profitable growth and diversification

"We will pursue our ambition for further growth and profitability by expanding into new products, markets and territories where we believe we can build leadership positions."

We have continued to develop our Asia Pacific Operations through a growth strategy focused on better exploiting our core product set, building on key intermediary relationships and utilising new electronic distribution channels. Our Asia Pacific strategy is explained in more detail on pages 28 to 31 of this report.

We will continually monitor global markets to identify opportunities to further expand our core businesses through new products, distribution channels or geographies.

Our people agenda

"Our value creation model is underpinned by one absolute belief – our ultimate key differentiator has to be our people."

Last year, we explained our reset vision and ONE QBE values. In 2013, we rolled the ONE QBE vision and values out across our business in a series of over 700 workshops capturing almost 16,000 employees, ensuring every employee understands what it will take for us to achieve our vision and how they can contribute to that goal.

In addition to our reset vision and ONE QBE values, our value creation model has been shared with key leaders across the organisation through a range of media to ensure they understand the implications for our business.

To continue to develop our people, we made a significant investment in establishing our own QBE leadership academy. We have worked with a number of specialist providers, including Duke University, to develop a range of programs targeting new leaders through to executive management across the organisation. The academy is already interacting with 700 leaders and we expect this number to exceed 1,400 by the end of 2015.

During 2013, we took significant steps to strengthen the depth and quality of our Group Executive. Three new and highly experienced chief executive officers were appointed – Dave Duclos in North America, David Fried in Asia Pacific and Richard Pryce in Europe. In January 2014, we announced the appointment of Pat Regan, a highly experienced and respected insurance finance professional, to succeed Neil Drabsch as our Group Chief Financial Officer. I am looking forward to forging a strong partnership with Pat in 2014 and, in particular, I would like to commend Neil on the dedicated service he has provided to QBE over the past 22 years and to me personally over the past two years.

When combined with the implementation of our purpose-built succession and talent development programs, we are confident that we are not only bringing the right people into our business but we are also ensuring that we are developing our next level of leaders and potential successors across all key roles.

Chairman transition

As Group CEO of QBE, I have been most fortunate to have the support and counsel of a strong board, led by Chairman Belinda Hutchinson. In December 2013, Belinda announced that she would be stepping down from the QBE Board after 16 years of service, including the last three years as Chairman. I would like to take this opportunity to thank Belinda for her outstanding service to QBE and, on a personal level, for the support she has given me since taking on the role of Group CEO in August 2012. All employees at QBE genuinely appreciate the dedication Belinda has shown and we wish her well across her many other corporate and philanthropic pursuits. We are deeply grateful for all she has done for QBE.

Outlook for 2014

"Our priority for 2014 will be to deliver on our performance targets whilst continuing to build towards our value creation objectives.

2014 targets:

Gross written premium

US$16.8–17.3billion

Net earned premium

US$14.7–15.2billion

Combined operating ratio	Insurance profit margin
93%	**10%** of net earned premium

We remain highly focused on delivering our performance agenda and ensuring that the strategic imperatives of our business are being implemented, positioning QBE for success in both the near and medium-term.

We expect premium rates to firm further in 2014, albeit slightly less than 2013 at around 2.5%. Rate increases are expected to at least counter claims inflation in Australia, New Zealand and North America; however, pricing is expected to remain challenged in Europe with only marginal increases.

Our focus in 2014 will be on the delivery of our performance agenda. We are only supporting business growth initiatives in those areas that are performing well or above expectations today, notably Australian & New Zealand and Asia Pacific Operations. Our North American business remains focused on resetting its business mix in 2014 to consolidate its position as a commercial speciality insurer.

Consistent with our December 2013 market announcement, we are targeting a 2014 combined operating ratio of 93%.

We remain focused on improving our attritional claims ratio which is critical to achieving a sustainable improvement in underwriting profitability. Our large individual risk and catastrophe claims allowance is unchanged at 10.5% of net earned premium, supported by changes in our global reinsurance arrangements designed to provide more effective protection against such events.

Our operational transformation program is on track to reduce our expense ratio by 1% in each of the next two years and therefore promote further sustainable improvement in our combined operating ratio.

Based on our planned asset allocation and in light of current investment market conditions, we are budgeting a net investment return on policyholders' funds of 2.25% giving rise to an investment contribution to the insurance profit margin of around 3%.

Accordingly, we are targeting a 2014 insurance profit margin of around 10%.

Our objective is to achieve a further 2% improvement in our combined operating ratio over the next two to three years which will benefit return on equity. Any sustained increase in global interest rates will further enhance returns.

In 2014, we will continue work on capital enhancing initiatives to strengthen the key capital ratios as assessed by our regulators and primary rating agencies.

We firmly believe that the global reach and diversity of our insurance and reinsurance businesses create a unique advantage and will assist QBE to deliver consistent year on year returns for shareholders across insurance cycles and see us well positioned for success.

On behalf of our Group Executive, I would like to thank our employees who I know are wholeheartedly committed to meeting our short-term and medium-term objectives and to delivering value for all of our key stakeholders. I would also like to thank our shareholders for the patience and trust that you have shown. We are committed to ensuring that your confidence in us is repaid.

John Neal
Group Chief Executive Officer

Forward-looking statements assume: large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no overall reduction in premium rates; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts; recoveries from our strong reinsurance panel; and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described.

Divisions at a glance

North American Operations

General insurance and reinsurance in the US, through four specialist business units: Financial Partner Services (FPS), Property & Casualty (P&C), crop and reinsurance.

Latin American Operations

General insurance operations in seven countries throughout North, Central and South America, focused mainly on commercial classes of business.

European Operations

Commercial insurance and reinsurance principally in the Lloyd's market, the UK, Ireland and mainland Europe.

	North American Operations 2013	2012	Change	Latin American Operations 2013	2012	Change	European Operations 2013	2012	Change
Gross written premium (US$M)	**5,854**	6,569	↓ (11)%	**1,380**	1,223	↑ 13%	**5,225**	5,077	↑ 3%
Gross earned premium (US$M)	**6,107**	6,978	↓ (12)%	**1,342**	1,170	↑ 15%	**5,195**	4,854	↑ 7%
Net earned premium (US$M)	**3,051**	3,501	↓ (13)%	**1,208**	1,018	↑ 19%	**3,609**	3,331	↑ 8%
Combined operating ratio (%)	**115.8**	106.8	↑	**99.6**	94.7	↑	**96.1**	94.6	↑
Insurance profit (loss) (US$M)	**(445)**	(170)	↓ (162)%	**99**	121	↓ (18)%	**192**	327	↓ (41)%
Insurance profit margin (%)	**(14.6)**	(4.9)	↓	**8.2**	11.9	↓	**5.3**	9.8	↓
Staff numbers	**5,385**	6,449	↓ (16)%	**1,909**	1,782	↑ 7%	**2,663**	2,852	↓ (7)%

Major events impacting operations in 2013

North American Operations

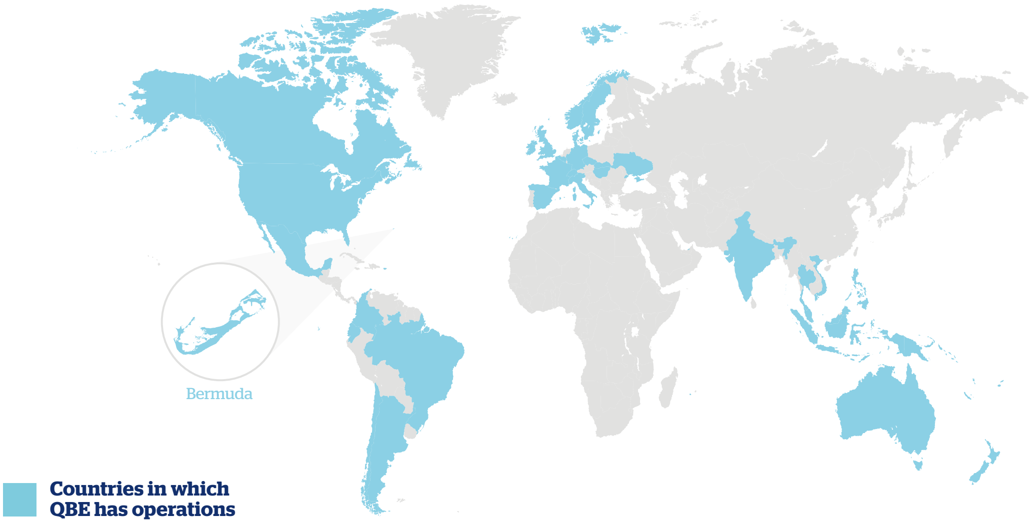
- Gross written premium was down, mainly due to a fall in premiums in the lender-placed and middle market businesses.
- The crop result was impacted by revenue protection claims due to lower commodity prices combined with disappointing yields, and preventative planting claims.
- Prior accident year claims development, mainly for program business, negatively impacted the underwriting result.
- Intangibles were written down, mainly due to lower budgeted revenue in lender-placed business.
- A new CEO, Dave Duclos, and executive management team were appointed.

Latin American Operations

- Gross written premium increased mainly from successful integration of 2012 acquisitions.
- QBE Argentina responded to approximately 1,000 motor claims resulting from March floods.
- Claims remediation activities implemented for Colombian SOAT business (compulsory third party motor).
- The management team was strengthened to assist with the growth strategy.
- Other than Argentine workers' compensation and Colombian SOAT business which were impacted by prior year development, all other business delivered an improved performance compared with last year.

European Operations

- Implementation of a revised underwriting structure with more emphasis on and better alignment with distribution and geography.
- Executive team at full strength following recruitment for vacant claims and operations posts. Seamless CEO transition from Steven Burns to Richard Pryce.
- Good progress on disposing of non-core portfolios with exits from Macedonia, Bulgaria, Romania and the Irish branch already completed.
- Successful focus on IT performance and stability to close out EO's local IT operating platform consolidation.



Australian & New Zealand Operations

General insurance operations throughout Australia and New Zealand, providing all major lines of insurance cover for personal and commercial risks.

	2013	2012		Change
Gross written premium (US$M)	4,786	4,987	↓	(4)%
Gross earned premium (US$M)	4,602	4,794	↓	(4)%
Net earned premium (US$M)	3,971	4,123	↓	(4)%
Combined operating ratio (%)	87.4	90.6	↓	
Insurance profit (loss) (US$M)	748	779	↓	(4)%
Insurance profit margin (%)	18.8	18.9	↓	
Staff numbers	4,016	4,623	↓	(13)%

Major events impacting operations in 2013

- Reported premium growth in US dollars was significantly impacted by the weaker Australian dollar.
- Successful implementation of transformational change, providing a robust platform for the delivery of strong, sustainable results.
- Establishment of our Manila Group Shared Services Centre with over 800 roles servicing claims, operations, procurement, finance and human resource functions.
- The transfer of the software development centre to Bangalore, providing access to a large and highly skilled workforce.
- Further improvement in the combined operating ratio driven by continued focus on pricing, portfolio management and expense management.

Asia Pacific Operations

General insurance in 15 countries in the Asia Pacific region providing personal, commercial and specialist insurance covers.

	2013	2012		Change
Gross written premium (US$M)	730	578	↑	26%
Gross earned premium (US$M)	643	545	↑	18%
Net earned premium (US$M)	500	415	↑	20%
Combined operating ratio (%)	84.0	85.8	↓	
Insurance profit (loss) (US$M)	87	66	↑	32%
Insurance profit margin (%)	17.4	15.9	↑	
Staff numbers	1,453	1,254	↑	16%

Major events impacting operations in 2013

- Strong top line growth achieved through ongoing success in the delivery of the five year strategic plan.
- Successful integration of Hang Seng Bank's Hong Kong general insurance operations.
- Established centres of excellence for underwriting and distribution to leverage expertise and enhance collaboration with major trading partners across the division.
- A new executive management team, including new CEO David Fried, appointed to deliver the growth strategy.

Equator Re

Based in Bermuda, Equator Re is QBE's captive reinsurer, providing reinsurance protection to all of the Group's operating divisions.

	2013	2012		Change
Gross written premium (US$M)	3,295	3,710	↓	(11)%
Gross earned premium (US$M)	3,361	3,712	↓	(9)%
Net earned premium (US$M)	3,057	3,410	↓	(10)%
Combined operating ratio (%)	96.8	99.7	↓	
Insurance profit (loss) (US$M)	160	139	↑	15%
Insurance profit margin (%)	5.2	4.1	↑	
Staff numbers	29	27	↑	7%

Major events impacting operations in 2013

- Top and bottom line performance adversely impacted by poor underwriting results from QBE's North American Operations.
- Benign catastrophe claims activity was offset by an increased frequency of large individual risk claims and adverse prior accident year development.
- Underwriting and risk management controls and the governance framework were significantly enhanced following strategic review of the company.
- Continued to provide extensive reinsurance to the operating divisions, below the retentions on the Group catastrophe and per risk programs.

Financial and operations overview

Despite the reported net loss for the year, refinancing initiatives, substantially strengthened reserves and reduced intangibles have strengthened the balance sheet.

General overview

In a year of solid improvement in our current accident year central estimate claims ratio, strengthening of our balance sheet and the successful launch of our global transformation program, it is disappointing that we continued to be hampered by prior year issues, particularly in our North American Operations.

While the headline net loss is disappointing, excluding the non-cash amortisation and impairment of intangibles net of tax, the business produced a cash profit of $761 million. Consequently, tier 1 capital levels increased slightly, supported by a more modest dividend payout policy.

Consistent with statements in the 2012 annual report, during the year we actively pursued initiatives to further strengthen our financial position. This included restructuring our borrowings by converting some debt securities into equity, and replacing subordinated debt with instruments that are Basel III compliant and which support the changing capital criteria for tier 2 instruments now required by regulators and rating agencies.

Key capital ratios improved marginally during the year with our indicative regulatory Common Equity Tier 1 (CET1) ratio now around 114% compared with the required minimum of 60%. Rating agencies affirmed our insurer financial strength ratings; however, a generally negative outlook exists on our ratings as a consequence of the December market announcement of revised 2013 earnings. A return to more normal levels of profitability should resolve the ratings outlook.

Our plan to reduce borrowings was achieved with a reduction of over 7%; however, the debt to equity ratio at year end did not meet our target of less than 40% largely due to reduced net assets following the large intangible write-downs and the impact of foreign exchange. Nevertheless, expected debt maturity and the achievement of our plans for 2014 are expected to remedy this situation. Further details are set out later in my report.

Cash flow from operations was a net inflow of $850 million compared with an inflow of $2,753 million last year, with the year on year reduction largely reflecting the timing of settlements with the Federal Crop Insurance Corporation (FCIC), a large tax payment to the Australian Taxation Office, the timing of claims payments reflecting increased management focus in North America on settling outstanding claims, lower premium volumes and costs associated with operational transformation. Details are set out in the consolidated statement of cash flows on page 121.

During 2013, we witnessed volatility in foreign exchange markets with the US dollar appreciating 14% against the Australian dollar. With significant revenue and net assets in Australian dollars, there were considerable movements impacting the income statement and balance sheet when translating to US dollars for reporting purposes. Refer to the table on page 23 for more details. Our policy is to match our operational foreign currency positions at entity level; however, our ultimate holding company, which has an Australian dollar functional currency, hedges its net investment in foreign operations only to the extent of available foreign currency borrowings.

Over the course of 2013, continued stimulus from central banks reduced political uncertainty in key markets and

"Board and management implemented a number of initiatives to strengthen the balance sheet, thereby ensuring that our regulatory and ratings agency capital levels were within our benchmark range.

Neil Drabsch Group Chief Financial Officer • QBE Insurance Group

generally positive economic data flow saw improved performance by the major industrialised economies. As a result, the US and Europe shrugged off a sluggish first half to record stronger growth in the second half of the year and China grew at a faster pace than the government's target. Australian growth is weaker as the economy transitions away from mining-led growth. These conditions are generally positive for growth in the global insurance markets notwithstanding a softer rate environment. Conversely, Latin America, particularly Argentina, is more volatile with variable real growth, inflation and political uncertainty prevailing.

Competition in the global insurance industry remains strong. After a number of years of price increases in Australia and New Zealand, mainly led by catastrophe events, the extent of rate increases in these markets is abating, and trending back towards inflationary levels. Similarly, the extent of rate increases in the North American market is expected to slowly reduce, fuelled by softening reinsurance pricing following another year of reduced catastrophe loss activity and perhaps with the promise of higher yields over the medium-term as the Federal Reserve tapers its quantitative easing program.

European pricing remains competitive and below inflation, requiring us to maintain an extremely defensive underwriting strategy as evidenced by our projected $0.6 billion reduction in 2014 gross written premium for our European Operations.

While pricing in Asia Pacific remains competitive, we are generating attractive underwriting margins in our targeted classes of business. We remain increasingly optimistic about our ability to successfully leverage the Group's global product and distribution expertise to achieve substantial and highly profitable growth in this region over the medium-term.

Our Latin American Operations has enjoyed strong growth; however, the recent deterioration in economic conditions in Argentina, where the largest proportion of our Latin American assets reside, warrants careful attention. While our Argentine peso denominated insurance liabilities are largely matched by peso denominated assets, the recent sell-off in the peso clearly holds adverse implications for the quantum of US dollar denominated premium income and profit likely to emerge from our Latin American Operations over the near term.

Operating and financial performance

Overview of the 2013 result

The net loss for the year of $254 million compares with a net profit of $761 million in 2012. The current year loss was primarily driven by significant upgrades to prior accident year claims reserves and the write-down of intangibles and other assets in our North American Operations.

North American Operations faced the perfect storm in 2013. Reserve upgrades and asset write-downs coincided with a disappointing crop year, primarily due to the collapse in corn prices late in the year and the rapid and severe decline in lender-placed premium which caused substantial expense strain and the consequential need to restructure and right-size the FPS business.

Australian & New Zealand Operations produced a stellar result despite the challenges associated with migration to the Group Shared Services Centre. Similarly, Asia Pacific Operations delivered a strong underwriting margin while achieving impressive premium growth. European Operations generated an underwriting profit, although below our target due to the higher than normal frequency of large individual risk claims and prior accident year central estimate claims development. Latin American Operations was adversely impacted by reserve upgrades largely associated with legislative changes impacting our Argentine workers' compensation portfolio. Despite the adverse contribution from North American Operations, Equator Re recorded an improved underwriting result reflecting higher divisional catastrophe retentions and relatively benign catastrophe experience.

Cash profit for the year was $761 million, down 27% from $1,042 million in 2012, largely due to a substantial fall in investment income as material credit spread gains reported in 2012 did not recur. Despite exceeding expectations and delivering a solid 2.6% net yield, investment income was $415 million lower at $801 million compared with $1,216 million in 2012.

Gross written premium fell 2% to $17,975 million, reflecting adverse foreign exchange movements. On a constant currency basis, premium income was stable year on year with a contraction in North American Operations, largely due to reduced lender-placed income offset by growth in all other operations. Group-wide rate increases averaged slightly less than 4%. Net earned premium declined 3%, consistent with the movement in gross written premium.

The combined operating ratio deteriorated marginally to 97.8% from 97.1% in 2012, reflecting the increased combined commission and expense ratio which rose to 33.3% from 31.1% a year earlier. Lower net earned premium coupled with a change in business mix, one-off restructuring and legal costs in North American Operations and costs associated with the operational transformation program gave rise to this outcome.

The net claims ratio improved to 64.5% from 66.0% in the prior year. Benign catastrophe experience, favourable discount rate movements and the impact of premium rate increases and portfolio remediation initiatives were largely offset by an increased frequency and severity of large individual risk claims, upgrades to prior accident year claims reserves and a significant increase in risk margins.

Significant items in 2013 result

Insurance profit fell 33% to $841 million, resulting in an insurance profit margin of 5.5% compared with 8.0% in 2012. There are a number of significant items in the results and financial statements that should be highlighted.

Amortisation and impairment of intangibles was $1,245 million, up from $407 million a year earlier, and a major driver of the current year loss. The $385 million increase in the amortisation charge was primarily driven by the substantial reduction in lender-placed premium and consequential need to rationalise and right-size the FPS business. Recognition of the recent poor performance of North American Operations more broadly and a reassessment of divisional forecast profitability gave rise to a $600 million goodwill impairment charge. Note 18 in the financial statements (pages 151 – 153) provides further details on intangibles and related sensitivity analysis.

We reported an income tax benefit of $204 million in 2013 compared with a tax expense of $161 million last year, largely reflecting the loss-making activities in North America including the $600 million goodwill impairment, of which only a portion was tax effected. Net deferred tax assets of $404 million are mainly the result of tax losses in our North American Operations. With recovery periods of up to 20 years, there is strong evidence to support recoverability. Note 4(F) in the financial report provides details of QBE's judgments in relation to the recoverability of deferred tax assets.

Significant items in profit before tax

FOR THE YEAR ENDED 31 DECEMBER	2013 US$M	2012 US$M
Realised and unrealised gains on investments	86	504
Cost of large individual risk and catastrophe claims (current accident year)	(1,493)	(1,643)
Amortisation and impairment of intangibles	(1,245)	(407)
Prior accident year undiscounted central estimate claims development [1]	(552)	(464)
Risk margin strengthening	266	88
Foreign exchange gain (loss)	24	(12)

1 Net of $69 million of discount movement in 2013 due to long tail classes (dust disease in Australia and workers' compensation in Argentina) where there is a close correlation between the significant movements in inflation and discount rates.

The Group is exposed to multiple risks in the conduct of its insurance business as evidenced by the 2013 results. Managing risk is central to the sustainability of QBE's business and is a core part of our governance framework and management processes. A summary of our key risks is set out on page 73 of this report.

Summary income statement

FOR THE YEAR ENDED 31 DECEMBER	2013 US$M	2012 US$M
Gross written premium	**17,975**	18,434
Gross earned premium	**17,889**	18,341
Net earned premium	**15,396**	15,798
Net claims incurred	**(9,931)**	(10,428)
Net commission	**(2,580)**	(2,560)
Underwriting and other expenses	**(2,544)**	(2,357)
Underwriting result	**341**	453
Investment income on policyholders' funds	**500**	809
Insurance profit	**841**	1,262
Investment income on shareholders' funds	**301**	407
Share of net profit of associates	**–**	3
Financing and other costs	**(345)**	(324)
Amortisation/impairment of intangibles	**(1,245)**	(407)
(Loss) profit before income tax	**(448)**	941
Taxation	**204**	(161)
(Loss) profit after tax	**(244)**	780
Non-controlling interests	**(10)**	(19)
Net (loss) profit after tax	**(254)**	761

Cash profit

FOR THE YEAR ENDED 31 DECEMBER	2013 US$M	2012 US$M
Net (loss) profit after tax	**(254)**	761
Add back: Amortisation/impairment of intangibles	**1,245**	407
Tax on amortisation/impairment of intangibles	**(230)**	(126)
Cash profit	**761**	1,042
Dividend payout ratio % of cash profit	**50%**	59%
Basic earnings per share – cash basis (US cents)	**62.9**	89.1

As part of our market update in December 2013, we estimated a cash profit of $850 million for 2013. The actual cash profit of $761 million was lower than expected primarily due to a change in the composition of the one-off FPS restructuring costs which were ultimately deemed to be "cash" rather than "non-cash" items and differences in the level of tax expense applicable to the amortisation and impairment of intangibles.

Premium income

Gross written premium was down 2% to $17,975 million from $18,434 million in 2012, reflecting adverse foreign exchange movements. The stronger cumulative average US dollar compared with the Australian dollar and, to a lesser extent, sterling impacted reported Australian & New Zealand and European Operations' premium income by $356 million and $18 million respectively. On a constant currency basis, gross written premium was stable, with reductions in North American premium volume essentially offset by rate increases and volume growth across all other divisions.

Group-wide premium rate increases averaged slightly less than 4%, dominated by average rate increases across North America (excluding FPS and crop) and Australian & New Zealand Operations of 5.1% and 5.6% respectively. Our European Operations continued to operate in an extremely competitive environment achieving an average overall rate increase below inflation at only 1.5%.

North American Operations gross written premium decreased $715 million largely due to a reduction in lender-placed premium following customer loan sales and the loss of key customers, due to market consolidation. Middle markets premium income within the P&C portfolio also declined due to remediation initiatives that affected customer retention.

Excluding foreign exchange impacts, Australian & New Zealand Operations achieved a gross written premium increase of 4% reflecting strong growth in CTP, lenders' mortgage insurance and New Zealand while corporate partners, specialty and trade credit were below prior year levels. Latin American Operations saw strong growth in Argentina with the first full year of operation of LBA, as well as expansion in Brazil, Chile, Mexico and Puerto Rico. Asia Pacific experienced a year of strong organic growth and the first full year of income from the HSBC acquisition in Hong Kong. European Operations saw positive movements in property, casualty and motor segments, partially offset by decreases in reinsurance and energy & marine.

Reduced North American Operations premium, coupled with higher divisional retentions, adversely impacted Equator Re's gross written premium income relative to 2012.

The reinsurance expense ratio was unchanged from 2012 at 13.9% of gross earned premium.

Net earned premium reduced by 3% to $15,396 million from $15,798 million in 2012, consistent with the movement in gross written premium and the stable reinsurance expense ratio.

Underwriting performance

Key ratios – Group

FOR THE YEAR ENDED 31 DECEMBER	2013 %	2012 %
Claims ratio	**64.5**	66.0
Commission ratio	**16.8**	16.2
Expense ratio	**16.5**	14.9
Combined operating ratio	**97.8**	97.1
Insurance profit margin	**5.5**	8.0

Divisional performance

Contributions by region

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 %	2012 %	2013 US$M	2012 US$M
North American Operations	**5,854**	6,569	**3,051**	3,501	**115.8**	106.8	**(445)**	(170)
Latin American Operations	**1,380**	1,223	**1,208**	1,018	**99.6**	94.7	**99**	121
European Operations	**5,225**	5,077	**3,609**	3,331	**96.1**	94.6	**192**	327
Australian & New Zealand Operations	**4,786**	4,987	**3,971**	4,123	**87.4**	90.6	**748**	779
Asia Pacific Operations	**730**	578	**500**	415	**84.0**	85.8	**87**	66
Equator Re	**3,295**	3,710	**3,057**	3,410	**96.8**	99.7	**160**	139
Elimination – internal reinsurance	**(3,295)**	(3,710)	**–**	–	**–**	–	**–**	–
Group	**17,975**	18,434	**15,396**	15,798	**97.8**	97.1	**841**	1,262
Direct and facultative	**16,610**	17,036	**14,156**	14,618	**99.8**	97.7	**490**	1,075
Inward reinsurance	**1,365**	1,398	**1,240**	1,180	**74.5**	90.3	**351**	187
Group	**17,975**	18,434	**15,396**	15,798	**97.8**	97.1	**841**	1,262

Incurred claims

The net claims ratio improved to 64.5% of net earned premium in 2013 compared with 66.0% for the prior year. Relatively benign catastrophe experience, a $272 million benefit from higher risk-free rates used to discount claims liabilities and the impact of the aforementioned premium rate increases and remediation initiatives were largely offset by increased frequency and severity of large individual risk claims, upgrades to prior accident year claims reserves and a $266 million charge to increase risk margins in outstanding claims.

Positive current accident year claims experience was overshadowed by prior accident year central estimate claims development, mainly in our North American Operations, particularly in the program segment. Upgrades were also required as a result of the Italian and Spanish medical malpractice portfolio deterioration in European Operations. In our Latin American Operations, additional provisions were required for prior accident year development in our Argentine workers' compensation portfolios as a result of court awards (and consequent claimant behaviour) as well as top-ups to our Argentine motor and Colombian SOAT portfolios.

The table following provides a summary of the major components of the net claims ratio.

Analysis of net claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2013 %	2012 %
Attritional claims	**49.6**	49.4
Large individual risk and catastrophe claims	**9.7**	10.4
Claims settlement costs	**2.6**	1.9
Claims discount	**(2.7)**	(2.2)
Net incurred central estimate claims ratio – current accident year	**59.2**	59.5
Changes in undiscounted prior accident year central estimate[1]	**3.6**	2.9
Other including claims settlement costs and discount	**–**	3.0
Net incurred central estimate claims ratio	**62.8**	65.4
Movement in risk margins	**1.7**	0.6
Net incurred claims ratio – current financial year	**64.5**	66.0

1 Net of $69 million of discount movement in 2013 due to long tail classes (dust disease in Australia and workers' compensation in Argentina) where there is a close correlation between the significant movements in inflation and discount rates.

Notwithstanding the aforementioned Group-wide premium rate increases, the attritional claims ratio deteriorated marginally to 49.6% in 2013 from 49.4% a year earlier.

Healthy improvements in the attritional claims ratio in Australia, New Zealand, Europe and North America (excluding crop and FPS) were negated at a Group level by business mix changes and a materially higher attritional claims ratio in our Asia Pacific Operations, reflecting a higher than usual frequency of risk claims with a cost of less than $2.5 million. Following the premium contraction in our North American Operations, divisional portfolios with an inherently higher attritional claims ratio (typically those with a higher weighting to casualty business) such as our Latin American and European Operations, are contributing an increased proportion of net earned premium, adversely impacting the Group's overall attritional claims ratio.

Our North American Operations (excluding crop and FPS) reported a promising improvement in the current year attritional claims ratio on the back of rate increases and remediation initiatives; however, the attritional claims ratio for North American Operations overall increased significantly year on year due to the material and relative decline in lender-placed income (historically the lowest attritional claims ratio portfolio) in favour of crop insurance (historically the highest attritional claims ratio at 67.0%). This shift in business mix was further exacerbated by a spike in lender-placed claims frequency experienced during 1H13 as a result of an accelerated inspection of properties in the lead up to loan sales by a major customer.

Excluding the US lender-placed and crop businesses, the Group's attritional claims ratio improved to 48.2% in 2013 from 49.8% in 2012.

The total net cost of large individual risk and catastrophe claims in 2013 was $1,493 million or 9.7% of net earned premium, within our 10.5% allowance. This compared favourably with a net cost of $1,643 million or 10.4% of net earned premium in 2012.

Excluding crop insurance, catastrophe experience was relatively benign during 2013 with a total net cost of catastrophes of $348 million or 2.2% of net earned premium compared with $630 million and 4.0% respectively in 2012.

Favourable catastrophe experience was largely offset by an increase in frequency and severity of large individual risk claims, especially in our European Operations and Australian & New Zealand Operations. The large individual risk claims amounted to $797 million or 5.2% of net earned premium in 2013 compared with $682 million and 4.3% respectively in 2012. After a particularly costly first six months, the frequency and severity of large individual risk claims returned to more normal levels during the second half of 2013.

The total net cost of large individual risk claims benefited from significant recoveries under the Group's aggregate risk reinsurance program.

Disappointingly, prior accident year central estimate claims development was again substantial, amounting to $552 million, or $621 million before a $69 million adjustment for discount of certain long tail portfolios, adding 3.6% to the net claims ratio compared with $464 million and 2.9% respectively in 2012. The adverse development was largely attributable to the following:

- Prior year development in our North American Operations of $412 million ($265 million net of internal reinsurance to Equator Re), primarily in our program business with some adverse development also in the inward reinsurance casualty book. Many of the programs have complex exposures that will take time to emerge and develop such as workers' compensation, construction defect, heavy motor liability and general liability. The recently appointed North American management team completely overhauled the claims management practices and undertook an extensive claim-by-claim file review during the second half of 2013 which supported the carrying value of reported claims. Regrettably, a re-evaluation of the appropriate level of IBNR reserves by the new management team, relying on more accurate and more timely data, aggregated on a class-of-business basis rather than program-by-program basis, led to a very substantial increase in IBNR reserves.
- European Operations experienced net prior year central estimate development of $27 million, largely unchanged from the first half, reflecting adverse development in the Italian and Spanish medical malpractice portfolios and an industry-wide deterioration in long tail disease (UK industrial deafness) claims due to court reforms, partly offset by positive claims development elsewhere in the portfolio.
- Our Latin American Operations experienced $59 million of prior year claims development, largely reflecting the impact of legislative changes on our Argentine workers' compensation portfolio as well as further deterioration in the Colombian SOAT business. Whilst volatile inflation remains a threat to the near term profitability of the Argentine workers' compensation portfolio, the risk of further deterioration in the Colombian SOAT portfolio has been mitigated by the withdrawal of distribution ties in certain problematic regions.

In light of such significant adverse prior accident year claims development, management took the decision to increase risk margins in outstanding claims by $266 million, adversely impacting the net claims ratio by 1.7%.

The weighted average risk-free rate used to discount outstanding claims increased to 2.77% compared with 2.16% at 31 December 2012 and 2.67% at 30 June 2013, and gave rise to a favourable full year impact on the underwriting result of $272 million, including $95 million since 30 June 2013.

Large individual risk and catastrophe claims

IN THE YEAR ENDED 31 DECEMBER 2013	COST US$M	% OF NEP
Cyclone Oswald (21 January)	67	0.4
Argentine floods (1 April)	43	0.3
European floods (9 February)	30	0.2
German hailstorm (27 July)	20	0.1
Hurricane Manuel – Mexico (15 September)	20	0.1
Typhoon Haiyan – Philippines (8 November)	18	0.1
Crop claims[1]	348	2.3
Other catastrophe claims including IBNR	150	1.0
Total catastrophe claims including IBNR	696	4.5
Large individual risk claims including IBNR	797	5.2
Total large individual risk and catastrophe claims including IBNR	1,493	9.7

1 Crop catastrophe claims are defined as claims in excess of a 67% net claims ratio.

Large individual risk and catastrophe claims

IN THE YEAR ENDED 31 DECEMBER 2012	COST US $M	% OF NEP
Superstorm Sandy (28 October)	335	2.1
US tornadoes (29 February, 3 March, 2 and 12 April)	47	0.3
Hurricane Isaac (29 August)	26	0.2
Italian earthquake (29 May)	27	0.2
Western Australia storms (10 June)	23	0.1
Midwest US hailstorm (28 April)	19	0.1
Cyclone Evan (14 December)	15	0.1
US east coast storms (2 July)	15	0.1
Victoria & NSW floods (16 March)	13	0.1
Crop claims[1]	331	2.1
Other catastrophe claims including IBNR	110	0.7
Total catastrophe claims including IBNR	961	6.1
Large individual risk claims incurred including IBNR	682	4.3
Total large individual risk and catastrophe claims including IBNR	1,643	10.4

Commission and expenses

The combined commission and expense ratio increased to 33.3% compared with 31.1% last year.

The commission ratio increased slightly to 16.8% compared with 16.2% due to changes in product mix towards higher acquisition cost property business in European Operations and P&C lines in North American Operations, with a reduction in lower commission paying inward reinsurance business as pricing softened.

The underwriting expense ratio increased to 16.5% from 14.9% in the previous year, reflecting lower premium volumes, principally in North American Operations, coupled with one-off FPS restructuring and other charges of $134 million and a $135 million cost of investment in the Group's operational transformation program.

Absent these one-off costs, the combined commission and expense ratio would have been 31.5%, up slightly on 2012 due to the reduced premium income in North America.

Income tax expense

We reported an income tax benefit of $204 million in 2013 compared with a tax expense of $161 million last year.

The income tax benefit as a percentage of the accounting loss before tax was 46%, materially different to the effective tax expense rate of 17% in 2012, largely reflecting the underwriting loss in North America and the $600 million goodwill impairment of which only a portion was tax effected.

Tax expense benefited from a reduction in UK company tax rates, the release of provisions following completion of audit activity by taxation authorities and the settlement of tax disputes, as well as increased profits in lower tax-paying jurisdictions.

Income tax payments in Australia benefit our dividend franking account. As a significant portion of our 2013 result was derived in Australia, the expected higher level of Australian income tax will support the continued payment of fully franked dividends to shareholders in the near term.

Foreign exchange

The key exchange rates used in the preparation of the financial statements are set out in note 1 to the financial statements. The table below shows the impact of foreign exchange on the 2013 result and balance sheet.

Impact of exchange rate movements

	2013 ACTUAL US$M	2013 AT 2012 EXCHANGE RATES[1] US$M	EXCHANGE RATE IMPACT	
			US$M	%
Gross written premium	17,975	18,533	(558)	(3)
Gross earned premium	17,889	18,430	(541)	(3)
Net earned premium	15,396	15,908	(512)	(3)
Net loss after income tax	(254)	(187)	(67)	(26)
Total investments and cash	30,619	32,312	(1,693)	(6)
Total assets	47,271	49,490	(2,219)	(5)
Gross outstanding claims provision	21,669	22,516	(847)	(4)
Total liabilities	36,868	38,082	(1,214)	(3)

1 Income statement items are restated to 31 December 2012 cumulative average rates of exchange and balance sheet items to 31 December 2012 closing rates of exchange.

The impact of exchange rate movements on the 2013 result was a $24 million operational foreign exchange gain, with the net movement in the foreign currency translation reserve, share capital and other reserves due to foreign currency fluctuation being a $1,094 million negative impact on equity before tax.

Balance sheet

Capital management summary

During the year, the Board and management implemented a number of initiatives to improve the financial strength of the balance sheet thereby ensuring that our regulatory and ratings agency capital levels were within our benchmark range.

Major initiatives implemented during 2013 included:

- introduction of a lower dividend with the payout ratio policy reduced from 70% of reported profit to up to 50% of cash profit;
- continuation of the discount on our dividend reinvestment programs although at a lower discount of 1%;
- the issue of $498 million of ordinary shares following the senior convertible securities (SCSs) tender processes undertaken in June and December 2013; and
- the issue of $500 million of subordinated convertible debt that meets APRA tier 2 criteria and will receive S&P intermediate equity capital treatment.

Capital summary

CAPITAL SUMMARY	2013 US$M	2012 US$M
Net assets	10,403	11,417
Less: intangible assets	(4,480)	(6,054)
Net tangible assets	5,923	5,363
Add: borrowings	4,571	4,932
Total capitalisation	10,494	10,295

REGULATORY CAPITAL	2013 US$M	2012 US$M
APRA Prescribed Capital Amount (PCA)	5,624	5,663
QBE's regulatory capital base	8,955	8,888
PCA multiple	1.6	1.6

The Group's regulatory and rating agency capital levels remained at or above minimum benchmark levels, with an indicative APRA PCA multiple of 1.6 times at year end, in line with 31 December 2012.

As at 31 December 2013, our indicative CET1 ratio was 114%, up from 112% at 31 December 2012 and well in excess of the 60% minimum requirement.

Key financial strength ratios

	BENCHMARK	2013	2012
Debt to equity	<45%	44.1%	43.4%
Financial leverage	25% to 35%	28.3%	30.0%
PCA multiple	1.55x to 1.8x	1.6x	1.6x
Probability of adequacy of outstanding claims	>85%	90.7%	87.5%

Borrowings

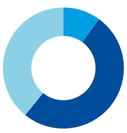
Total borrowings at 31 December 2013 were $4,571 million, down $361 million from $4,932 million a year earlier. During the year, we issued $600 million of senior debt and $500 million of subordinated convertible debt, the proceeds of which were used to fund part of the settlement of the SCSs and will be used for the repayment of senior debt maturing in March 2014.

As at 31 December 2013, the ratio of debt to equity was 44.1%, within our benchmark range but above our targeted level of 40% or less. While the reduction in absolute debt levels was broadly in accordance with plan, closing equity was adversely impacted by the substantial second half reported loss and foreign exchange movements.

The weighted average annual cost of borrowings outstanding at the balance date was 6.5%, up slightly from 6.1% at 31 December 2012, due to the redemption of the SCSs that incurred interest at 2.5% per annum.

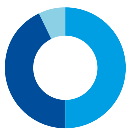
Borrowings maturity [1]

AS AT 31 DECEMBER	2013 %	2012 %
Less than one year	10	24
One to five years	51	35
More than five years	39	41



Borrowings profile

AS AT 31 DECEMBER	2013 %	2012 %
Subordinated debt	50	47
Senior debt	43	29
Hybrid securities	–	18
Capital securities	7	6



1 Based on first call date.

Further details of borrowings are set out in note 24 of the financial statements.

Insurance liabilities

The table below summarises our provisions for outstanding claims and unearned premium, separately identifying the central estimate and risk margins.

AS AT 31 DECEMBER	2013 US$M	2012 US$M	2011 US$M	2010 US$M	2009 US$M
Outstanding claims	**18,208**	18,412	16,984	15,017	12,864
Unearned premium net of deferred insurance costs [1]	**5,968**	6,023	5,929	4,785	4,374
	24,176	24,435	22,913	19,802	17,238
Central estimate – outstanding claims	**16,643**	17,079	15,783	13,747	11,847
Central estimate – unearned premium	**4,956**	5,024	5,062	3,901	3,487
Risk margin – outstanding claims	**1,565**	1,333	1,201	1,270	1,017
Risk margin – unearned premium [1]	**1,012**	999	867	884	887
	24,176	24,435	22,913	19,802	17,238
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,606**	1,374	1,152	1,353	1,198
	%	%	%	%	%
Probability of adequacy – outstanding claims	**90.7**	87.5	86.3	89.8	88.1
Probability of adequacy – total insurance liabilities	**95.3**	93.9	92.6	95.5	95.5
Weighted average discount rate	**2.8**	2.2	2.1	3.2	3.2
Weighted average term to settlement	**3.0**	2.9	2.9	3.0	2.8

1 Includes deferred reinsurance expense for future business not yet written of $5 million (2012 $70 million).

As required by Australian Accounting Standards, insurance liabilities are discounted applying sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate of our investments.

As at 31 December 2013, risk margins in outstanding claims were $1,565 million or 9.4% of the net discounted central estimate, up substantially from $1,333 million or 7.8% of the net discounted central estimate at 31 December 2012, following an explicit charge of $266 million, partially offset by the impact of foreign exchange. The probability of adequacy of the outstanding claims provision increased to 90.7% from 87.5% a year earlier, the highest level of outstanding claims provision adequacy since 2007, reflecting the increase in risk margins.

The probability of adequacy of total insurance liabilities was 95.3% compared with 93.9% at 31 December 2012, with the level of risk margins deemed appropriate to cover the inherent uncertainty in the net discounted central estimate.

Identifiable intangibles

As at 31 December 2013, the carrying value of intangibles was $4,480 million, down very substantially from $6,054 million at 31 December 2012.

The amortisation charge against identifiable intangibles was $642 million, up substantially from $257 million last year, mainly reflecting the accelerated amortisation of Balboa renewal rights, software and non-compete agreements ($300 million) and Sterling National distribution network and software ($113 million) following the substantial decline in lender-placed premium income and profitability.

A review of the carrying value of our North American Operations cash generating unit resulted in a $600 million impairment of goodwill, primarily arising from uncertainty over the impact of the projected profitability of QBE's lender-placed insurance business following a material reduction in gross written premium, coupled with a more conservative FY2014 – FY2016 North American business plan.

Total goodwill and intangibles pertaining to our North American Operations were $2,053 million as at 31 December 2013, down from $3,250 million as at 31 December 2012.

Reconciliation of movement in intangible assets

	31 DECEMBER 2013			31 DECEMBER 2012		
	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M
Opening balance	**1,240**	**4,814**	**6,054**	1,399	4,666	6,065
Acquisitions	**5**	**(3)**	**2**	204	142	346
Disposals	**(3)**	**(8)**	**(11)**	(6)	–	(6)
Additions/reclassifications	**8**	**(2)**	**6**	–	25	25
Amortisation/impairment	**(645)**	**(600)**	**(1,245)**	(354)	(53)	(407)
Foreign exchange	**(26)**	**(300)**	**(326)**	(3)	34	31
Closing balance	**579**	**3,901**	**4,480**	1,240	4,814	6,054

Investment performance and strategy

Investment returns were slightly ahead of expectations in 2013. Our short duration strategy insulated the portfolio from the negative returns experienced by most global fixed income indices, whilst the significant allocations to high quality credit bolstered yields. A modest exposure to equities also contributed to the overall result.

Positioning of our investment portfolio in 2013 reflected an expectation that global growth would continue to recover and inflation would remain benign, allowing central banks to keep monetary policy relatively loose. We saw this as an environment in which cash rates would stay low, possibly even falling where they had scope to, while bond yields would begin to normalise, increasing yields and generating poor if not negative returns as a consequence.

The short duration stance we adopted throughout the year protected our portfolios from the effects of the sharp rises in yields seen globally. We held sizeable allocations to high quality corporate bonds throughout the year, primarily for additional yield. The supportive liquidity conditions that we experienced in 2013 also saw these positions provide modest capital gains as credit spreads narrowed, albeit less than the significant gains as a result of narrowing credit spreads in 2012.

We chose to hold the majority of our corporate bond exposures in the form of floating rate notes which insulate overall returns from rising bond yields, and where market expectations of higher cash rates have a more direct flow through into investment returns.

Whilst the majority of the portfolio continued to be held in short duration high quality fixed and floating rate investments, our modest exposure to equity markets was beneficial in adding to returns, with most major markets posting strong gains over the year.

During the year we further diversified the investment portfolio, adding small exposures to unlisted property and senior secured loans financing infrastructure assets. This broadening of our strategic asset allocation is designed to generate stronger risk-adjusted returns over time, as asset classes with lower correlations to one another are introduced.

Total net investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL INVESTMENT INCOME	
FOR THE YEAR ENDED 31 DECEMBER	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
Equity income	**47**	46	**54**	37	**101**	83
Property trust income	**6**	–	**5**	–	**11**	–
Income on fixed interest securities, short-term money and cash	**447**	822	**223**	392	**670**	1,214
Foreign exchange gain (loss)	**24**	(12)	**–**	–	**24**	(12)
Property income	**1**	2	**–**	–	**1**	2
Other (loss) income	**(3)**	(5)	**29**	(4)	**26**	(9)
Gross investment income	**522**	853	**311**	425	**833**	1,278
Gain (loss) on sale of repurchased debt securities	**1**	(8)	**1**	(4)	**2**	(12)
Investment expenses	**(23)**	(36)	**(11)**	(14)	**(34)**	(50)
Net investment income	**500**	809	**301**	407	**801**	1,216

Gross and net yield

	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
FOR THE YEAR ENDED 31 DECEMBER	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
Gross [1]	**2.5**	4.2	**3.0**	4.4	**2.7**	4.3
Net [2]	**2.4**	4.0	**2.9**	4.2	**2.6**	4.1
Gross excluding foreign exchange gain/loss	**2.4**	4.3	**3.0**	4.4	**2.6**	4.3
Net excluding foreign exchange gain/loss	**2.3**	4.1	**2.9**	4.2	**2.5**	4.1

1 Gross yield is calculated with reference to gross investment income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

2 Net yield is calculated with reference to net investment income before borrowing costs as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

Total investments and cash

AS AT 31 DECEMBER	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 2013 US$M	2012 US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 2013 US$M	2012 US$M	TOTAL 2013 US$M	2012 US$M
Cash	**826**	1,369	**412**	656	**1,238**	2,025
Short-term money	**4,352**	5,520	**2,173**	2,646	**6,525**	8,166
Fixed interest securities and other	**14,829**	14,319	**7,407**	6,863	**22,236**	21,182
Equities	**103**	33	**185**	90	**288**	123
Property trust	**213**	–	**106**	–	**319**	–
Investment properties	**9**	20	**4**	9	**13**	29
Total investments and cash	**20,332**	21,261	**10,287**	10,264	**30,619**	31,525

Cash and fixed interest investments – security grading

AS AT 31 DECEMBER	2013 %	2012 %
Moody's rating		
Aaa	**31**	39
Aa	**36**	42
A	**28**	15
<A	**5**	4

Currency mix

AS AT 31 DECEMBER	MARKET VALUE OF EQUITIES 2013 %	2012 %	MARKET VALUE OF TOTAL INVESTMENTS AND CASH 2013 %	2012 %
US dollar	**22**	–	**31**	33
Australian dollar	**58**	77	**31**	33
Sterling	**12**	–	**19**	16
Euro	**8**	21	**9**	8
Other	**–**	2	**10**	10

Dividend

Our dividend policy is designed to ensure that we reward shareholders relative to profit and maintain sufficient capital for future investment and growth of the business. The final dividend for 2013 will be 12 Australian cents per share, following the 2013 interim dividend of 20 Australian cents per share, and compares with a 2012 total dividend of 50 Australian cents per share.

The payout for the 2013 full year is A$394 million or around 50% of cash profit calculated by converting cash profit to A$ at the cumulative average rate of exchange. The calculation of cash profit is shown on page 19.

The dividend will be franked at 100% and is due to be paid on 31 March 2014. The dividend reinvestment programs continue at a discount of 1%.

Closing remarks

Although it was an unsettling period for our shareholders, 2013 was also a year of significant achievement. While the headline underwriting and financial results are clearly disappointing, the diversity and resilience of the Group is such that it can withstand such events and has emerged in a stronger financial position than compared with 2012. We have made significant progress in introducing the necessary changes to management, dealt swiftly with difficult decisions in the operating divisions to right-size and re-position the businesses and made excellent progress in implementing our global transformation program.

2014 will be a year of continued transformation; however, the building blocks are in place and the balance sheet has been strengthened to support growth in an improving economic climate.

Neil Drabsch
Group Chief Financial Officer

> Profitable growth is a key component of our value creation model. With the expected opportunities in the insurance market in Asia Pacific, it is critical that QBE has a progressive plan in place to capitalise on these prospects.
>
> Having reviewed the Asia Pacific growth strategy with David and his team, the Board and I feel QBE has the strategy and expertise in place to make the most of the opportunities in this culturally and economically diverse region.
>
> **John Neal** Group Chief Executive Officer

Our Asia Pacific growth strategy

A key component of QBE's value creation model is our ambition to grow profitably in new products, markets and territories where a leadership position can be built. Asia Pacific is a core part of that growth strategy.

QBE's presence in Asia Pacific commenced over 125 years ago, with representation in Singapore since the late 1880s, and Indonesia and Malaysia since the early 1900s. In the Pacific region, QBE started trading in New Caledonia in 1887 and in Papua New Guinea in 1899 when the company began its local operations trading as The North Queensland Insurance Company.

Today, QBE's Asia Pacific Operations includes insurance businesses in 15 countries and territories, with more than 1,400 staff in 54 offices working across a region with more than 3,500 languages.

Each QBE Asia Pacific office is able to combine in-depth local knowledge and expertise developed in each market with the global resources of the entire Group. Each local team is therefore able to provide innovative solutions that are tailored to the needs of our customers, whilst offering a diverse range of insurance products that cover a breadth of complex risks.

Our policyholders, brokers and intermediaries recognise QBE's experience and strength in the Asia Pacific region, making QBE a top 10 insurer by premium income in most of our markets through both Asia and the Pacific regions. In the well-developed market of Hong Kong, QBE is now the third largest non-life insurer in a location with over 100 competitors, and we are a top five insurer in each of the six Pacific countries in which we operate.

In 2013, the achievements of our Asia Pacific Operations were publicly recognised by the insurance industry when QBE were the winners of the *"Excellence in Insurance – Overall Asia Pacific"* award, as judged by the International Alternative Investment Review in Hong Kong. Our success in individual markets was also recognised, winning the *"Non-life insurance award – Singapore"* by World Finance recognising our industry leadership, ability to deliver exceptional products and services and our genuine commitment to the development of our employees and the community.

The growth opportunity in Asia Pacific

Dynamic and culturally diverse, the Asia Pacific region has vast socio-economic differences, with individual countries and economic markets at various stages of development. Insurance markets range from the relative maturity of the major economic and business hubs of Hong Kong and Singapore, to the emerging markets of Vietnam and the Philippines.

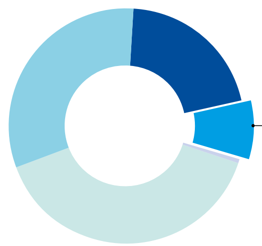
With a total population of over 3.1 billion[1] and an annual GDP of $12.7 trillion in 2012 [2], the GDP growth rate in the ASEAN countries and developing Asia is forecast to be in the range of 4.5% – 6.7% between 2014 – 2018.[3]

Given this growth trajectory, the Asian Development Bank forecasts $8 trillion spend between 2010 and 2020 on regional infrastructure initiatives.[4]

With the predicted population and economic expansion of the region, research indicates that Asia Pacific represents the world's fastest growing insurance market. It is expected that the region will offer continued growth opportunities across multiple product lines.[5]

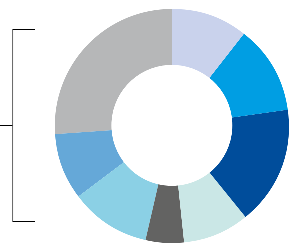
Although Asia Pacific accounts for a growing portion of the world's non-life insurance premiums today, insurance penetration rates (measured by premiums as a percentage of GDP) nevertheless remain low. In the major markets of Hong Kong, Singapore and Malaysia, non-life insurance penetration rates are below 2%.[6]

Composition of Asia Pacific non-life insurance GWP, 2016[4] (US$billion)



Identified as poor margin/low growth	132
Asia Pacific growth strategy target market	27
Long-term strategically significant markets (China, India)	72
QBE Lloyd's market	1.4
Non-core personal lines	106

QBE Asia Pacific target market by product, 2016[4] (US$billion)



Motor	2.9	Other	1.4
Property	3.3	Marine	3.0
A&H	4.4	CAR / EAR	2.5
Liability	2.5	Bancassurance	7.0

1 Worldbank.org: Population (Total) Databank.
2 Worldbank.org: GDP (Total) Databank.
3 OECD Economic Outlook for South East Asia, China and India 2014, 2013.
4 Infrastructure for a Seamless Asia. Asian Development Bank, 2009.
5 QBE commissioned research.
6 2013 Asia-Pacific insurance outlook. Ernst and Young, 2013.

> **With the combination of over 125 years of experience in Asia Pacific and our dynamic leadership team, QBE has the experience and people capable of driving growth in the region.**
>
> **Following a review of our current position in the market and understanding where we want to be in the future, we have implemented the Asia Pacific profitable growth strategy.**
>
> **I am confident that the execution of our strategy will see QBE become one of the most successful insurers in the region.**
>
> **David Fried** Chief Executive Officer, Asia Pacific Operations

Value creation model in action and the Asia Pacific growth strategy

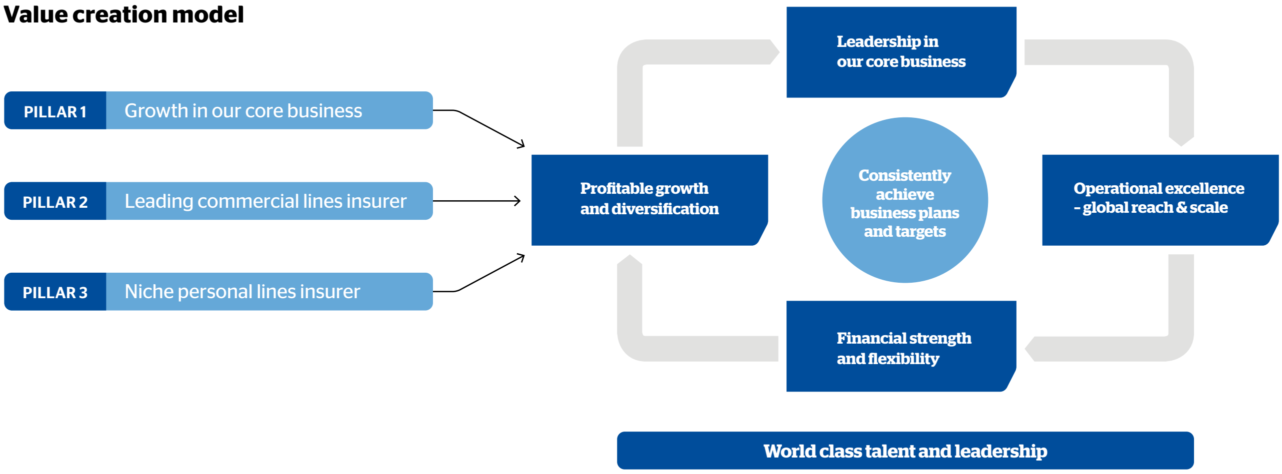
QBE commissioned research estimates that non-life gross written premiums will grow from the relatively low base of $220 billion in 2011 to reach $330 billion by 2016, representing a significant opportunity for QBE.

QBE reviewed the composition of the market with a view to understanding how best to add value to our customers and shareholders, leading to the development of our three pillar Asia Pacific profitable growth strategy. These three pillars are aligned to the value creation model (the Group strategy as outlined on page 11) and specifically the "profitable growth and diversification" element. The first pillar of the Asia Pacific profitable growth strategy will be to focus on growth in our core businesses. To achieve this goal, QBE aims to become a leading speciality insurer in all markets with a particular focus on marine, liability and construction all risk (CAR) and erection all risk (EAR) products.

The second pillar is to become a leading commercial lines insurer in Singapore, Hong Kong and Malaysia. To QBE this means being a leading electronic business solutions provider and a top P&C centre for brokers, creating insurance hubs in the main broking centres.

The third pillar to the Asia Pacific profitable growth strategy is to become a niche personal lines insurer through working with selected strategic partners.

Value creation model



QBE Asia Pacific target market by country, 2016[1] (US$)

1 QBE commissioned research.

Doing what we say

The three pillars of the Asia Pacific profitable growth strategy recognise both our long-term view of the region as well as identifying areas of our business where QBE can make significant progress in the short-term. In 2013, we took considerable steps towards achieving our strategy by taking tangible action against each pillar.

Sharpening the focus on our core business

Hong Kong's significant construction activity relies on a supply of high quality Contractor, Plant & Equipment (CP&E) insurance cover.

Recognising this opportunity, our segment leading CP&E underwriting business in Australia worked with our Hong Kong business to transfer expertise and experience to the local market.

Through this combined effort, QBE is launching a new product in Asia Pacific in Q1 2014. Our new cover will provide tailor-made insurance solutions for crane operators, civil contractors and road making contractors, reinforcing our commitment to the construction and engineering industries.

Leading insurer across commercial lines

Emphasising the importance of the second pillar in the growth strategy, the QBE Asia Pacific Broking Centre in Singapore was launched in 2013.

The centre offers brokers, and in turn our joint clients, a high quality service through a consistent and structured process. Features of the Broking Centre include product expertise in complex corporate and multinational domiciled risks, customised solutions, speed to the market, easy access to QBE's capacity and highly rated paper, and outstanding claims management service.

Transforming into a niche personal lines insurer

QBE will become a niche personal lines insurer through the exploration of opportunities such as our collaboration with Hang Seng Bank.

In Hong Kong, our exclusive distribution agreement with Hang Seng Bank becomes a platform to expand our Bancassurance capability.

This relationship will allow QBE to use the Bank's direct sales channel to distribute policies, leading to an increase in market reach in Hong Kong, Macau and mainland China.

Made possible by QBE:

North American Operations

Stepping up for our customers

QBE provides a safeguard to renters in Indiana against personal or property damage

When severe thunderstorms and high winds knocked out power to an insured rental community in Indiana, QBE was quick to take action. Recognising a higher number of calls than usual for this kind of event, two QBE claims representatives worked fast to contact nearly 200 insured building residents during the two-day outage. By offering proactive support and assistance with claims and queries, residents experienced firsthand our commitment to their 24 hour quick and easy claims service.

"When we receive notification that a loss has occurred and multiple policyholders may be impacted, we want to be proactive" said Matt Perrin, Financial Partner Services Vice President of Homeowners Claims. "Quick responses provide peace of mind to policyholders and it is an opportunity to show our personal lines clients how much we value their business. It differentiates us from our competitors."

Making the complex simple

QBE is a leading provider of lender-placed insurance in North America

Keeping track of the latest rules and regulations can be a challenge for our customers. To overcome this, Financial Partner Services (FPS) introduced ComplianceTrack, a database unique to QBE.

When a client has a regulatory enquiry, QBE can quickly access the relevant information. Using our proprietary system and dedicated compliance staff, QBE can provide each customer with a timely and thorough response.

FPS currently tracks more than 12 million loans, providing mortgage and auto lender-placed protection solutions, voluntary insurance products and loss-mitigation to all 50 states and Puerto Rico.

Keeping America in the air

QBE continues to establish itself as a major player in the US general aviation industry

QBE's presence in the aviation market has grown in 2013, adding to its portfolio Indiana State University, Kent State and Utah State college aviation programs. These three colleges join our long list of flight training operations, including Purdue University, the Central Texas College District and Doss Aviation, which conducts pilot screening for the US Air Force.

The highly specialist aviation team also provides aviation insurance to the government segment, including aircraft fleets for Palm Beach County Sheriff's Dept (Florida) and airports in Glendale (California), Detroit (Michigan), Phoenix (Arizona), San Jose (California) and the Commonwealth of Kentucky.

Redefining crop insurance

QBE agents can now underwrite insurance using their tablet

Traditionally, crop insurance has a high administrative component with agents carrying around large paper files. Now with QBE's EASYmobility, a new crop insurance app, the process is paperless and all agents need to carry is an iPad. The app allows insurance agents to view claim and policy information, get a quote, create and edit documents, electronically sign documents, access soil and topography maps and more.

The mobile software also makes it easier for insurance agencies to collect reliable and timely data on crop yields, enabling them to offer the best available premiums to farmers. The technology monitors claims for indemnity so that insured farmers receive faster claim settlement.

EASYmobility showcases the open minded and innovative approach staff at QBE have towards insurance products and our dedication to be at the forefront of the industry.

Currently there have been more than 800 downloads of the EASYmobility app.

North American Operations business review

North American Operations produced an unacceptable result in 2013, with continuing prior accident year claims development mainly from our program business, loss of business and related restructuring costs in our lender-placed insurance business, and a disappointing crop result.

David Duclos

Chief Executive Officer • North American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit (loss) US$ million
5,854	3,051	(482)	(445)
↓ 11% from 2012	↓ 13% from 2012	↓ $245M from 2012	↓ $275M from 2012
		Combined operating ratio 115.8% (2012 106.8%)	Insurance profit margin (14.6)% (2012 (4.9%))

Competitive landscape

In 2013, economic performance was sluggish, with general inflation and economic activity slowing. GDP growth was moderate, estimated at around 2% for the full year. Reduced interest rates kept the market focused on pricing and had some positive impact on premium rate levels in certain lines of business. We achieved an overall average premium rate increase of 4% across QBE's North American Operations. The pricing environment remains positive in many lines of business; however, we experienced increased competition towards the end of 2013, especially in the property market. We expect this trend to continue in 2014, challenging our ability to increase premium rates.

Underwriting performance

Despite a generally favourable pricing environment and relatively benign catastrophe experience (excluding crop), North American Operations' combined operating ratio deteriorated to 115.8% in 2013 from 106.8% in the prior year.

The poor result was due to deterioration in both premium income and underwriting margin, driven by operating challenges in our Financial Partner Services (FPS) business, prior accident year claims development principally in our program and inward reinsurance businesses and another disappointing crop result. Substantial one-off costs in FPS and costs associated with operational transformation, including the outsourcing of the claims function, negatively impacted the underwriting result. The decline in premium further exacerbated the increase in the expense ratio.

Harvest yields for our US crop business were disappointing. The extent of this did not become fully apparent until very late in 2013. As a result, our crop business reported a combined operating ratio of 102.8% before internal reinsurance to Equator Re. This was in line with the 2012 result but worse than the December guidance and well short of our long-term average underwriting result for this line of business. Record crop yields projected by the US Federal Government did not materialise, particularly in the major corn states of Minnesota and Iowa where QBE has a major market presence. Yield shortfalls, coupled with the collapse in crop prices, led to an increase in frequency and severity of revenue claims after early season preventative planting claims eroded the Federal Crop Insurance Corporation (FCIC) reinsurance deductible. The price of corn fell by nearly 11% in September 2013 alone, with the harvest price of $4.42 a bushel down 22% from the $5.65 price set by the FCIC in February 2013.

FPS recorded a 2013 combined operating ratio of 115.0% before internal reinsurance to Equator Re, up significantly from 79.7% in 2012, due to adverse fixed cost pressures associated with a very significant reduction in premium volumes in lender-placed insurance (LPI) as a result of customer loan sales and customer attrition following consolidation of the mortgage servicing industry. The combined commission and expense ratio for FPS rose to 65.4% from 39.8% last year, partly due to $134 million of one-off costs, largely related to restructuring and litigation expenses.

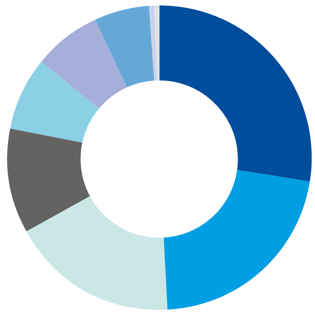
Several businesses recorded strong results in 2013 including the consumer business within FPS, specialty and major brokers.

The underwriting loss for the year and a reduced investment return on policyholders' funds, due to lower interest rates, resulted in a negative insurance profit margin of 14.6% compared with a negative 4.9% in the prior year.

Underwriting result

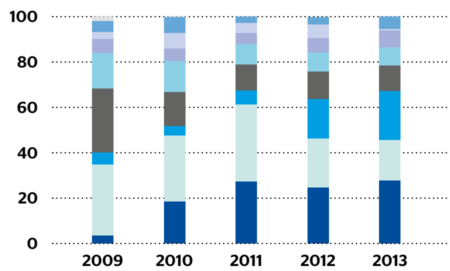
FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**5,854**	6,569	7,529	4,606	3,648
Gross earned premium	US$M	**6,107**	6,978	7,431	4,563	3,597
Net earned premium	US$M	**3,051**	3,501	4,018	2,555	2,211
Net incurred claims	US$M	**2,401**	2,717	2,622	1,594	1,370
Net commission	US$M	**135**	221	264	246	274
Expenses	US$M	**997**	800	754	436	324
Underwriting result	US$M	**(482)**	(237)	378	279	243
Claims ratio	%	**78.7**	77.6	65.2	62.4	61.9
Commission ratio	%	**4.4**	6.3	6.6	9.6	12.4
Expense ratio	%	**32.7**	22.9	18.8	17.1	14.7
Combined operating ratio	%	**115.8**	106.8	90.6	89.1	89.0
Insurance profit margin	%	**(14.6)**	(4.9)	11.0	13.9	14.7

Gross earned premium by class of business 2013



	2013 %	2012 %
Agriculture & bloodstock	27.7	24.5
Householders	21.5	17.5
Property	18.0	21.7
Motor & motor casualty	11.1	12.1
Public/product liability	7.7	8.3
Workers' compensation	7.3	6.4
Accident & health	5.6	3.2
Financial & credit	0.7	6.1
Other	0.4	0.2

Gross earned premium by class of business (%)



Premium income

Gross written premium was down 11% to $5,854 million compared with $6,569 million in the prior year, primarily due to a number of factors that negatively impacted FPS, middle market and crop in 2013. The favourable pricing environment which resulted in average premium rate increases of around 4% overall, and 5.1% excluding crop and FPS, was more than offset by the impact of client consolidation and the resulting reduction in gross written premium in the LPI business. Premium income was also affected by lower crop prices and reduced middle market income resulting from portfolio remediation efforts, including new pricing strategies and the discontinuance of unprofitable business.

Net earned premium declined by 13% to $3,051 million, broadly in line with the reduction in gross written premium.

Claims expense

The claims ratio was 78.7% compared with 77.6% last year. Despite strengthening prior accident year claims provisions in the program portfolios in 2012, we again required substantial IBNR claims upgrades in 2013 mainly to cover expected deterioration in longer tail classes after a thorough review of the program portfolio. Strengthened actuarial resources and the introduction of a new and highly experienced claims team to clean up data and claims files and introduce appropriate processes have provided the necessary confidence in the ongoing management of this portfolio. Nevertheless, the financial result was disappointing with prior accident year claims development of $412 million before internal reinsurance to Equator Re, including approximately $366 million attributed to program business.

Commission and expenses

The combined commission and expense ratio increased to 37.1%, up from 29.2% in 2012, primarily driven by a higher expense ratio of 32.7% compared with 22.9% last year. This was mainly due to reduced premium income and one-off costs associated with the restructuring of the FPS business referred to earlier, which more than extinguished early cost savings from our business transformation initiatives. Restructuring costs were incurred with respect to the fixed asset write-offs, severance and onerous leases. FPS also incurred costs associated with various class actions and the New York Department of Financial Services settlement. The higher expense ratio was partly offset by a lower commission ratio which fell to 4.4% compared with 6.3% in 2012, primarily due to a change in business mix.

Other results impacts

The amortisation and impairment charge was $1,197 million compared with $301 million last year. The increase of $896 million was predominantly due to:

- The amortisation charge for identifiable intangibles relating to the North American Operations of $597 million compared with $209 million last year. The increase of $388 million was predominantly as a result of accelerated amortisation for Balboa renewal rights, software and non-compete agreements ($300 million) and Sterling National ($113 million) following our review for indicators of impairment. Specifically, our projections of future profitability were impacted by the reassessment of our expectations for our specialist LPI business following a reduction in gross premium volumes as a result of customer loan sales and the loss of key clients due to market consolidation.
- Impairment testing in the North American Operations cash generating unit which resulted in an impairment charge of $600 million, reflecting the recent poor performance of this business and the forecast profit for FY14 – FY16 being significantly below previous expectations.

North American Operations has recognised a deferred tax asset (DTA) of $572 million, net of deferred tax liabilities, in respect of operating losses incurred in the US and timing differences. Tax losses are recoverable over a period of up to 20 years. Further details are shown in note 4(F) to the financial statements.

Strategy and road map to improvement

North American Operations has developed into a diverse, specialty insurance portfolio that operates in four major segments: FPS; P&C which includes program, middle markets, major brokers and specialty; crop; and reinsurance.

Our FPS segment, which includes LPI, generates business through its relationships with banks, mortgage servicers and other financial intermediaries. Crop and P&C historically sourced business through independent agents; however, P&C expanded its distribution in 2011 by establishing a major brokers unit and built further distribution capability in 2012. The program segment leverages our managing general agent relationships whereas the reinsurance segment works primarily with brokers through our global QBE Re operation.

North American Operations' aim is to be a top-quartile diversified specialty insurer in the markets in which we compete. The goal is to deliver sustainable, profitable growth with a strong underwriting margin. To reach that goal, we have embarked upon a journey to transform and improve every aspect of our performance. Comprehensive changes are being made to drive improvements, including right-sizing the organization to provide cost efficiencies, developing superior products, streamlining operations and strengthening the quality and capability of our teams. Our plan is to deliver consistent improvement every year, from now through 2016.

We are looking to create a multi-channel distribution platform capable of clearly presenting our market-leading product capabilities as widely as possible. We are emphasising a balance between being product-centric and customer-focused.

> There have been significant changes to our management structure with a number of quality external appointments who are now implementing changes to the business portfolios, structure, people and processes. Great progress has been made in implementing the change needed to protect and enhance our valuable US franchise, with the primary goal of returning the business to profit in 2014 and beyond.

There are three key dimensions to North American Operations' strategic focus

To complete the remediation of underperforming businesses

With respect to the program business, we aim to build on our improved program oversight, technical underwriting skills and cost discipline, targeting selective expansion in the niches that meet return on allocated capital requirements. To this end, we have recruited top quality leadership to run this business; have re-engineered the processes, through more aggressive audit and oversight, by which third party claims administrators will report claims, provide data to QBE and utilise legal and other vendors; and have strengthened internal risk and audit oversight.

We have taken action to restructure and right-size the FPS business to address its unacceptable expense ratio and accelerate the growth of the highly profitable consumer business.

Our focus in the middle market segment is to maintain a disciplined underwriting approach to pricing that is responsive to market change and improved expense management to ensure the business becomes more cost competitive.

To deliver operational excellence through organisational redesign and transformation

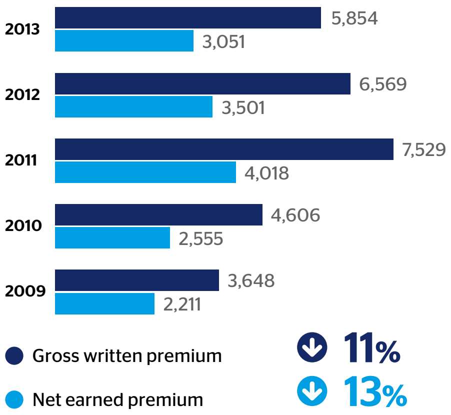
Operational transformation is a critical component of our strategy for achieving profitable and sustainable growth. We have already commenced our initiative to integrate and improve operational processes, systems and resources to drive significant performance benefits and profit outcomes from expense reductions and improved service delivery. The operational efficiency improvements achieved to date will be scaled up and more broadly applied across our North American Operations in 2014.

The implementation of a significantly more robust claims management model and the increased use of the Group Shared Services Centre will introduce high quality, standardised processes at lower cost.

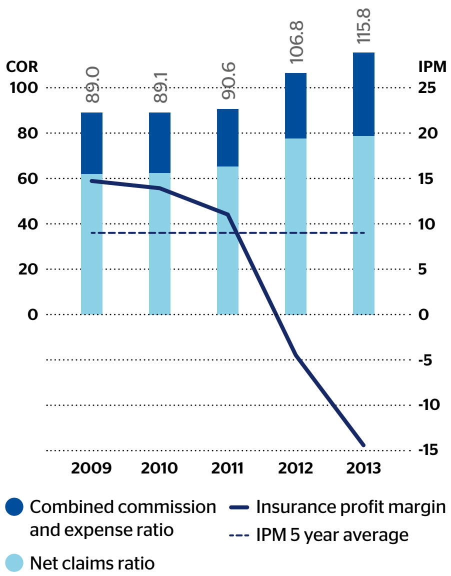
The current cost structures within some of our businesses are not sustainable. Operational transformation will enable us to drive expenses down in absolute dollar terms and as a ratio of net earned premium. High cost, low growth businesses will be re-engineered, with all strategic options being considered for those businesses that cannot achieve our required performance criteria.

Recognising the critical importance of the claims function to our result, substantial changes have been made to strengthen senior claims leadership and improve efficiencies while ensuring the delivery of exceptional service to agents, brokers and policyholders. Operational improvements include new systems designed to quickly identify large losses and swiftly respond to natural catastrophes. Systems will be upgraded to more effectively manage the actions of third party administrators. The claims function now reports directly to the divisional CEO, to ensure that we remain focused on building a best-in-class claims function.

Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



To drive profitable growth by expanding into profitable new lines of business

Profitable growth will be achieved through technical underwriting excellence and specialisation, and through tailored value propositions and aligned marketing and distribution activities.

A key part of this strategy is diversifying the portfolio with businesses that balance the largely short tail first-party exposures of the P&C, Crop and FPS segments with other longer tail casualty or specialty businesses. In order to create an appropriate mix of business, we are establishing a product centric business model and we will rely on a distribution approach that leverages four distinct channels (retail, wholesale, programs and internet) to appropriately deliver our products to market.

Diversification of our portfolio is aimed at supporting the delivery of a more predictable earnings stream and to better manage the volatility that is often associated with the standard commercial P&C classes that are exposed to natural catastrophes. Importantly, diversifying into longer tail specialty business lines permits us to hold earned premiums and claims provisions for a much longer duration, which is expected to have a positive impact on our earnings over time.

North American Operations has identified opportunities to expand into new specialty lines while growing and maintaining a number of our existing businesses. This may involve selective acquisitions that will enable us to increase our success in some businesses, such as crop, or rapidly expand others, such as new specialty lines. A pertinent example of this strategy is reflected in the establishment of the management liability & professional lines business which was initiated in September 2013. This venture brought together a talented team that was able to leverage deep relationships with clients and brokers to win significant new business in the last three months of 2013. The successful launch of management liability & professional lines will serve as a template to accelerate the launch of new specialty lines in 2014.

As we expand into new businesses, our commitment to superior technical underwriting and product leadership, along with our in-depth industry specialisation, will focus on customers first, marshalling all of our products and services to meet the needs of our customers in the wholesale, retail and program channels. Underwriting expertise and risk selection are essential to the success of this strategy.

> The pricing environment remains positive in many lines of business; however, we experienced increased competition towards the end of 2013, especially in the property market.

North American Operations
Outlook for 2014

2014 forecast gross written premium: **US$5.5–5.7billion**

FPS US$ million	P&C US$ million	Crop US$ million
900	1,400	1,600

Program US$ million	Reinsurance US$ million
1,500	300

2014 forecast net earned premium: **US$2.8billion**

The North American management team is committed to making the necessary changes in order to generate sustainable, quality earnings going forward.

This requires fundamental changes to the ways in which the division operates, many of which have been described previously. These changes will drive material improvement in underwriting profitability in 2014 and beyond.

We expect to see an improving expense ratio as we both right-size and re-engineer the North American operating platform. We will also see a more subtle improvement in the current accident year claims ratio as recent rate increases and improvements to underwriting practices and business mix impact favourably on the result. Some of the improvements will be masked as the FPS lender-placed business, a relatively low loss ratio business in historic terms, continues to reduce in size relative to the rest of the North American portfolio. The FPS consumer business is growing by around 20% per annum and accounts for around one third of FPS overall.

These actions are designed to enable the North American Operations to deliver a combined operating ratio in the mid to low 90% region by 2016.

Made possible by QBE:

Latin American Operations

Rapid response to floods

QBE moves quickly to help flood victims in Argentina

In the face of the devastating floods in La Plata in April 2013, QBE Seguros La Buenos Aires mobilised a large number of resources to ensure claims could be resolved as quickly as possible.

QBE brought together different parts of the business to create an extraordinary network of support for those affected. Working around the clock, additional staff were added, extra tow trucks hired and a record number of claims processed in the first week after the flooding.

Using the power of digital media and the internet, QBE provided updates and claim instructions to policyholders, enabling them to understand what was required to make a claim, and how to ensure their claim could be processed without delay.

Supporting victims' families

QBE has extensive experience in travel insurance and associated risks

From the moment QBE Brazil was advised of a hot air balloon accident in Turkey in May 2013, we kept in regular contact with the victims' families to ensure they had the emotional and financial support required during a distressing time.

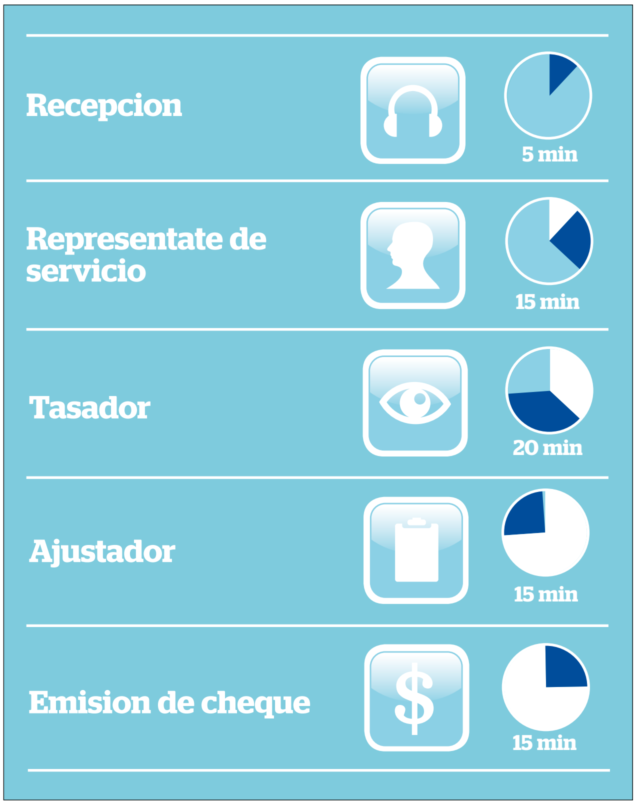
With extensive experience in travel insurance and the issues associated with accidents away from home, QBE expedited compensation to relieve any undue financial pressure on the families. We make it our business to be there when customers need us most.

Car rental innovation

QBE insures 15 leading car rental companies in Puerto Rico

Due to a change in US federal law, car rental companies are no longer liable for the accidents caused by vehicle lessees. In response to this regulatory change, QBE Puerto Rico created a new policy framework, aligning the needs of the car rental company and the lessees.

As a result, more companies are seeking QBE's innovative solutions to challenging regulatory changes. By applying our deep industry expertise, we will keep looking for ways to make it possible for this important industry to grow and prosper.



Enhanced auto insurance

QBE developed a new monitoring system for claims

To continuously improve our service to customers, QBE Puerto Rico has divided its auto insurance claims department into stations; reception, service representatives, appraisers, adjusters and payments. In this new structure, each station has a targeted timeframe in which to complete their stage of the claim process. This means that when the process is complete, we can determine whether we met the quality standards that our customers deserve and identify areas where we can improve response times and the service experience.

To ensure the escalation of appropriate claims, an automatic alert is sent to the mobile phone of the relevant QBE manager, so they can assist their teams in resolving customer enquiries. We understand that making an insurance claim can be a stressful experience and want to alleviate this as much as we can.

Using technology to improve the customer experience is a focus in Latin America as we seek to deliver outstanding service to all customers in every interaction they have with QBE.

Latin American Operations business review

> We continue to make progress operationally and strategically to position QBE as a leading insurer in Latin America during the next five years; however, 2013 was a disappointing year with results well below expectations and not reflective of the underlying quality of our Latin American Operations.

Jose Sojo

Chief Executive Officer • Latin American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
1,380	1,208	5	99
↑ 13% from 2012	↑ 19% from 2012	↓ 91% from 2012	↓ 18% from 2012
		Combined operating ratio 99.6% (2012 94.7%)	Insurance profit margin 8.2% (2012 11.9%)

Competitive landscape

The competitive landscape in Latin America remains challenging. It is our belief that these conditions will not change given the large amounts of capital available and limited pricing pressure in the absence of significant catastrophe losses in the region.

Competition is more aggressive in personal lines, particularly motor, which is the largest business line in the region. QBE is the second largest writer of motor business in Ecuador and the fourth largest in Argentina. In order to remain ahead of our peers and to produce acceptable returns in highly competitive market conditions, it is imperative that we apply strong underwriting and risk selection protocols.

Commercial insurance, particularly casualty lines, is the most profitable segment of the market. QBE is actively engaged in this market with strong underwriting expertise, above average reinsurance capacity and longstanding distribution relationships. We expect casualty lines to continue to evolve as the level of economic development in the region increases and leads to higher mandatory coverage requirements. The growing sophistication of customer purchasing patterns should also support commercial market pricing.

There are mixed views as to the future prospects of the Latin American economies. After many years of significant growth in the region on the back of a relatively low US dollar value and high commodity prices, macro-economic changes suggest a slowing in future growth expectations. Notwithstanding the low insurance penetration rates, maintaining real GDP growth is an extremely important factor in supporting the overall size of the industry. QBE will continue to monitor major economic trends and adjust its strategy accordingly.

Underwriting performance

The underwriting result for 2013 was below plan with a combined operating ratio of 99.6% compared with 94.7% in 2012. The underwriting result was affected by a $13 million flood loss in Argentina, net discounted prior year claims of $59 million mainly as a result of changes in Argentine work injury laws, adverse development on discontinued Colombian SOAT business and risk margin strengthening of $16 million.

Our Colombian business, with gross written premium of $235 million, produced an underwriting loss of $28 million due to poor claims experience in the SOAT portfolio, mainly driven by an unacceptable level of claims leakage in one of our distribution channels, resulting in our exit from this part of the business. Management has strengthened underwriting protocols and underwriting teams to improve the performance of this business going forward.

Argentina, the largest of our businesses, with gross written premium of $781 million or 57% of the total Latin American business, produced an underwriting profit despite significant adverse prior year development. The workers' compensation business, representing 36% of the Argentine portfolio, was hit with a prior year upgrade to claims provisions following court action to substantially increase the interest rate applied in calculating injury awards. Due to high inflation in Argentina, premium rates are adjusted each month to maintain margins and to reflect the impact of inflation, including superimposed inflation such as court awards.

Apart from Chile, which is still in development as a start up business, the other countries produced underwriting profits with a standout performance by our Mexican operations.

Premium income

Gross written premium increased by 13%, largely due to the acquisition of LBA in Argentina where we are now reporting a full year compared with eight months in 2012. Growth was negatively impacted by $175 million due to the stronger US dollar, particularly against the Argentine peso.

Excluding acquisitions, premium growth was 1% when measured in US dollars and 10% when measured using constant exchange rates. We target a long-term organic growth rate of between 9% and 11% per annum, or approximately two to four points higher than the average industry growth rate. The 2013 shortfall relative to target reflected portfolio remediation initiatives including the withdrawal from the Argentine extended warranty market, the revised Colombian SOAT strategy and the non-renewal of some Government accounts in Ecuador.

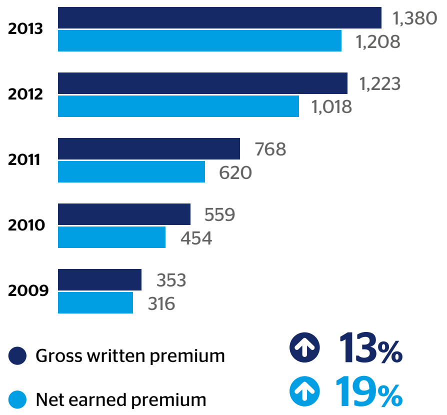
Claims expense

Our claims ratio deteriorated to 61.8% in 2013 compared with 55.7% in 2012, largely reflecting adverse prior accident year development in our Argentine workers' compensation business coupled with the deterioration in our Colombian SOAT portfolio as described above.

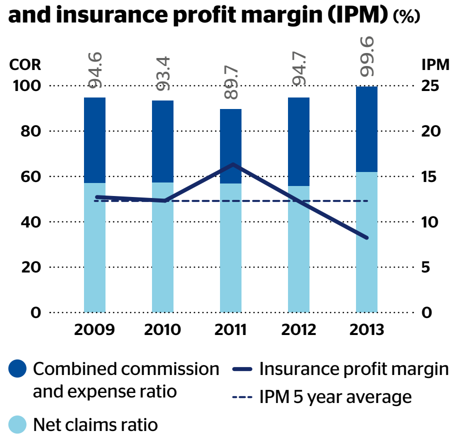
We incurred adverse discounted central estimate prior accident year claims costs of approximately $59 million partly due to adverse development in our Colombian SOAT portfolio but largely as a result of two industry developments impacting our Argentine workers' compensation business. Firstly, there was an increase in the court prescribed interest rate used in estimating certain types of claim settlements in the Buenos Aires Province. Secondly, and partly related to this, we have allowed for an increase in the average settlement for litigated claims as claimants are encouraged by the increased interest rate to reject up-front lump sum settlements in pursuit of larger, litigated settlements.

The division was also adversely impacted by large individual risk and catastrophe claims experience. In April 2013, Argentina suffered the worst floods on record which gave rise to a net cost of $13 million to Latin American Operations, our largest ever catastrophe claim. Given the significant contribution of Argentina to our Latin American gross written premium, QBE was relatively more affected than our

Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



competitors. Additionally, our Ecuadorian business incurred financial guarantee claims from a single insured totalling $9 million on policies that had been written several years ago. QBE no longer writes financial guarantee business in Ecuador; however, the impact of these claims was significant, both at a country and divisional level.

Commission and expenses

The combined commission and expense ratio decreased from 39.0% in 2012 to 37.8% in 2013. This was due partly to the better use of internal reinsurance which positively impacted net earned premium and thus our acquisition ratio. We also enjoyed the benefit of expense reductions, particularly in Ecuador where 2012 included abnormally high charges and Puerto Rico where a one-off revenue item was booked against expenses in 2013.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**1,380**	1,223	768	559	353
Gross earned premium	US$M	**1,342**	1,170	752	554	342
Net earned premium	US$M	**1,208**	1,018	620	454	316
Net incurred claims	US$M	**746**	567	351	260	180
Net commission	US$M	**262**	226	118	101	82
Expenses	US$M	**195**	171	87	63	37
Underwriting result	US$M	**5**	54	64	30	17
Claims ratio	%	**61.8**	55.7	56.7	57.3	57.0
Commission ratio	%	**21.7**	22.2	19.0	22.2	25.9
Expense ratio	%	**16.1**	16.8	14.0	13.9	11.7
Combined operating ratio	%	**99.6**	94.7	89.7	93.4	94.6
Insurance profit margin	%	**8.2**	11.9	16.3	12.3	13.0

Other developments

During 2013, we turned our focus internally towards long-term business development opportunities, performance improvement initiatives, completing the integration of businesses acquired in 2012 and finalising the reorganisation of QBE Ecuador.

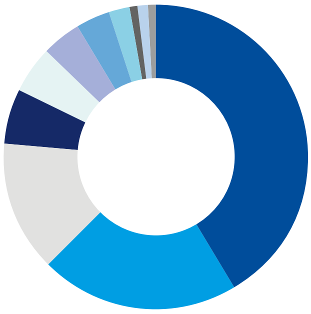
We have a number of long-term business development plans for the region based upon exploiting new distribution channels and reaching selected customers with a more granular risk-based pricing rationale. We intend to implement this approach in the motor insurance segment, which comprises 50% of the Latin American market.

SOAT in Colombia and workers' compensation and motor in Argentina are very significant to our overall business and we therefore need to ensure we correctly anticipate changing trends and are vigilant in taking the requisite pricing action. We have created a multi-country taskforce to monitor each of these portfolios, working within a robust framework for objective and timely decision making.

The Argentine businesses acquired from HSBC have been unified under a single brand and management team and are now operating as QBE Seguros La Buenos Aires. The QBE Optima team in Puerto Rico is now also fully integrated.

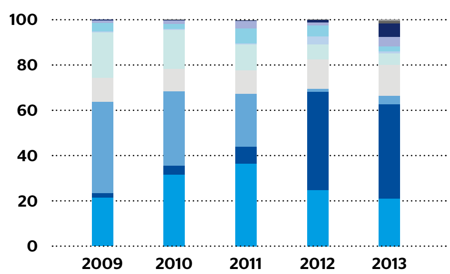
In 2012, we made significant changes in QBE Ecuador, replacing the entire management team of the company we acquired three years ago. The new management team has made material changes to underwriting protocols and the management of insurance liabilities, bringing QBE Ecuador up to the standard expected by QBE Group. The reorganisation of QBE Ecuador is now complete and the company is on track to deliver a return on allocated capital in excess of 20%.

Gross earned premium by class of business 2013



	2013 %	2012 %
Motor & motor casualty	41.6	43.3
Workers' compensation	21.0	24.7
Property	13.8	13.0
Householders	6.0	1.1
Life	4.9	6.5
Marine energy & aviation	4.2	1.5
Accident & health	3.7	1.5
Public/product liability	2.1	4.7
Financial & credit	1.0	0.1
Other	1.0	3.6
Agriculture & bloodstock	0.7	-

Gross earned premium by class of business (%)



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Our 2014 outlook reflects an expected return to higher profitability following remediation of a number of unprofitable portfolios and better leverage of the businesses acquired in 2012.

Latin American Operations

Outlook for 2014

2014 forecast gross written premium: US$1.2billion

Argentina US$ million **540**	Brazil US$ million **80**	Chile US$ million **30**	Colombia US$ million **250**
Ecuador US$ million **160**	Mexico US$ million **80**	Puerto Rico US$ million **60**	

2014 forecast net earned premium: US$1.0billion

Foreign exchange rates are a major threat to our budget figures and are the main reason for the decrease in GWP in Argentina. Additionally, currency fluctuations can have a significant effect on the overall economic situation in our region and affect our profitability.

Our focus for 2014 is the achievement of our regional profitability target, being a return on allocated capital in excess of 22%. At the same time, we will continue to invest in business development opportunities that bring us closer to the customer and allow us to target and price our products based on a more accurate assessment of the risk profile of these customers. Whilst these customer targeting initiatives will have only a marginal impact on underwriting performance in 2014, we anticipate them yielding significant long-term benefits to our business.

We have an ambitious business development target. QBE is relatively small in Brazil and Mexico, the two largest markets in the region, and there are opportunities for further selective growth in these countries. We remain interested in expanding our business through acquisition, provided that the targets fit our acquisition criteria and overall local and Group business strategy.

Finally, we believe the fundamentals of our business model are sound and we continue to select the segments and markets that we believe will produce more attractive and sustainable returns. Our business has grown significantly over the last few years and our management and dedicated team of around 2,000 employees in the region are committed to continuing to produce market-leading results on a long-term sustainable basis.

Made possible by QBE:

European Operations

Delivering Ford's Continued Service Plan

QBE Europe and Ford Extended Service Plan (ESP) North America join forces to offer Ford's Continued Service Plan (CSP) in the US

When a US Ford ESP owner reaches the end of their term of coverage, they will now be offered an opportunity to obtain similar service contract coverage through the Ford CSP program. Ford CSP is a Ford-branded annual renewal that is offered and underwritten by QBE's product protection team in London.

The opportunity to offer this product arose as the Ford ESP team experienced the quality of QBE's service in other parts of the world. QBE has been able to deliver a program of this magnitude because of the close collaboration between colleagues in London and North America, demonstrating the strength of a ONE QBE approach to provide innovative solutions for our customers.

Ford ESP worked with QBE to market the Ford CSP in a time critical manner and to offer the experience of deploying and maintaining online repair scheduling and billing across a dealer network. QBE's expertise and unique system allows us to technically price and manage the marketing and claims effectively. The Ford CSP program was initially piloted in September 2011 to 60,000 clients in the US and is now being rolled out across most of the nation.

The QBE team in London has helped bring a plan to market that provides existing Ford ESP customers with an opportunity to obtain affordable service contract coverage on their older model/higher mileage vehicles.

Clean water made possible

QBE covered LIFESAVER when other insurers weren't willing to take on the risk

LIFESAVER provides a solution to a lack of safe drinking water and was developed in the wake of the 2004 Indian Ocean tsunami. Featuring a nano-filtration system that removes all viruses, bacteria, spores and cysts from dirty water, LIFESAVER guarantees a limitless supply of sterile water.

The product was ready to launch in 2007, but one important pre-requisite was product liability cover; without it LIFESAVER would not be able to market its products. LIFESAVER was finding it impossible to secure an insurer until their broker talked to QBE.

With QBE's support and intelligent approach to underwriting, LIFESAVER is now thriving and its products are specified by the UK Department for International Development (DFID) as part of its Rapid Response Facility.

Helping combat fraud

Insurance fraud is on the rise and is estimated to cost the UK insurance industry £2.1 billion each year

Our dedicated counter-fraud team works with clients to detect and defeat fraud and has delivered significant success over the past 12 months.

In the first ever employer's liability contempt of court case, we recognised a mismatch between the triviality of an incident and the claim made, which was in excess of £500,000. Our robust defence of this fraud, co-ordinated by our Special Investigations Unit and claims teams, led to success at trial and a custodial sentence for the accused.

Leading an industry-wide operation, we established links between 79 motor accident claims against seven different insurers. This resulted in the defeat of an organised criminal gang who were staging motor accidents to elicit payouts from multiple insurance companies.

Specialist insight

QBE is the lead insurer for Southend Airport's liability program

Since it was acquired in 2008, over £120 million has been invested in London Southend Airport by owners Stobart Group. New facilities include a train station with a direct route to central London, an air traffic control tower, a new terminal building and runway extension, radar and a 4 star hotel.

In the first year following its redevelopment, London Southend Airport increased its annual number of passengers from 42,000 to 720,000 and was recently named best airport in Britain in the latest Which? Magazine airport passenger survey.

By working with our client, we identified and effectively monitored the changing risks as London Southend Airport transitioned to international classification. As well as tailored liability cover, we provided specialist risk management advice, helping them mitigate and manage risk in their business and realise the benefits of a reduction in management time and resources needed to handle incident administration.

European Operations business review

> We achieved good premium growth in 2013 from new business initiatives, despite a subdued premium rate environment and tough competition. In a year of lower catastrophe losses, the result was held back by a higher than normal level of large individual risk claims, legacy issues from some of our long tail portfolios and higher commissions.

Richard Pryce

Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
5,225	3,609	142	192
↑ 3% from 2012	↑ 8% from 2012	↓ 21% from 2012	↓ 41% from 2012
		Combined operating ratio 96.1% (2012 94.6%)	Insurance profit margin 5.3% (2012 9.8%)

Competitive landscape

An abundance of capacity in most sectors in which we operate has meant that competitive market conditions continue. Competition had tended to manifest itself in premium reductions rather than changing policy terms and conditions; however, the latter became more pronounced towards the end of the year. Our strong leadership position and diverse portfolio enabled European Operations to navigate this difficult trading environment relatively effectively. We are fortunate to have very strong trading and strategic relationships with our key broker partners which are a great benefit at this time in the cycle. Our core focus remains the retention of quality clients as we have an in depth understanding of the profitability of these businesses.

Our priority is to achieve a market-leading result in each of our business units and we will continue to exercise disciplined underwriting in all portfolios. In line with this performance management culture, we have thoroughly reviewed underperforming and non-core areas of our business. As a consequence, we closed our direct insurance operations in Ireland and Switzerland in the second half of the year, and recently entered into an agreement to dispose of our insurance operations in Bulgaria and Romania. In continental Europe, we continued our planned exit from motor classes and sold our Nordic Aviation portfolio. While the market remained competitive on new business, our renewed business achieved a modest average rate increase of 1.5% during the year. Premium rate increases for our motor, credit and marine business were well above average, in the range of 5% to 7%. The UK retail business was stable with less rate pressure. Reinsurance rates, previously benefiting from Superstorm Sandy claims, started to lose ground later in the year.

Underwriting performance

The combined operating ratio of 96.1% was up compared with 94.6% in 2012, largely due to an increase in the combined commission and expense ratio.

Whilst our inward reinsurance business recorded an excellent result due to the lower than normal levels of catastrophe activity, our direct property business experienced an increased frequency of smaller catastrophe claims, including the storm activity in the UK during December as well as a higher than usual frequency and severity of large individual risk claims.

All areas of our marine energy & aviation business unit had an improved performance compared with 2012, with an excellent result from this division. Property & casualty in the UK performed well and financial lines recorded another strong performance. Remediation of various portfolios in Europe contributed to a much improved result in most countries.

The most disappointing aspect of our 2013 performance has been the deterioration in our long tail Italian and Spanish medical malpractice prior year claims and the market-wide increase in deafness claims.

Premium income

Gross written premium increased by 4% or £130 million in local currency to £3,324 million. In US dollars, gross written premium increased by only 3% to $5,225 million reflecting the translation to a stronger US dollar. Most of the growth was attributable to distribution initiatives in the London market property portfolio and our Canadian liability business. Growth was diluted by softening property rates for inward reinsurance, competition in Europe and remedial action on our energy & marine and professional indemnity portfolios.

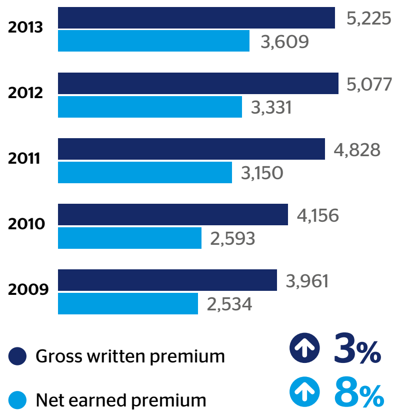
Net earned premium increased 10% to £2,296 million in local currency, or 8% to $3,609 million when translated to US dollars.

Much of our business continues to benefit from the Group's comprehensive global reinsurance program provided by Equator Re and high quality external providers. Reinsurance expense as a percentage of gross earned premium was 30.5% compared with 31.4% in 2012 reflecting the change in the mix of business ceded to Equator Re. Excluding proportional reinsurance with Equator Re, the reinsurance expense ratio was materially unchanged at 19.4% compared with 19.3% in 2012.

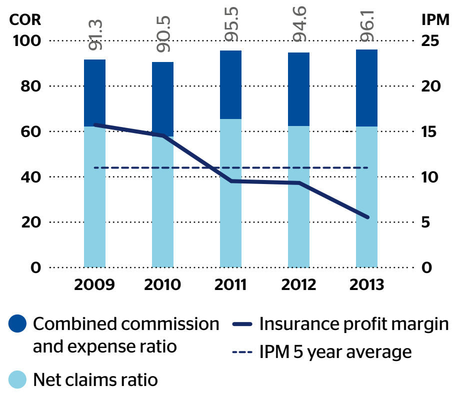
Claims expense

Our claims ratio of 62.0% was slightly improved compared with 62.4% in 2012. Current accident year attritional claims experience improved, and the benefit of relatively benign catastrophe activity was offset by an increase in frequency and severity of large property and casualty risk claims. As mentioned earlier, prior year claims provisions for Italian and Spanish medical malpractice and risks in the UK associated with exposure to industrial deafness claims were upgraded. These prior year losses were mostly offset by positive claims development elsewhere in the portfolio. Incurred claims benefited from higher risk-free rates used to discount outstanding claims provisions. Risk margins were also increased resulting in a slight strengthening of the division's probability of adequacy of outstanding claims.

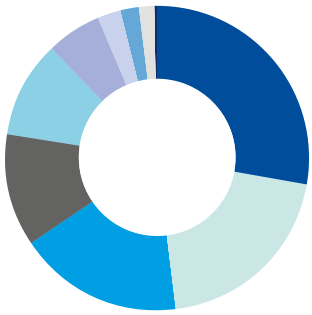
Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)

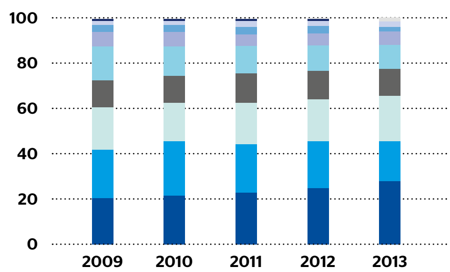


Gross earned premium by class of business 2013



	2013 %	2012 %
Property	27.9	24.8
Public/product liability	20.2	18.4
Marine energy & aviation	17.5	20.7
Motor & motor casualty	11.9	12.6
Professional indemnity	10.5	11.3
Workers' compensation	5.8	5.2
Accident & health	2.4	2.4
Financial & credit	2.1	3.3
Other	1.6	0.6
Agriculture & bloodstock	0.1	0.7

Gross earned premium by class of business (%)



Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**5,225**	5,077	4,828	4,156	3,961
Gross earned premium	US$M	**5,195**	4,854	4,635	4,008	3,892
Net earned premium	US$M	**3,609**	3,331	3,150	2,593	2,534
Net incurred claims	US$M	**2,233**	2,078	2,054	1,498	1,563
Net commission	US$M	**655**	567	536	437	421
Expenses	US$M	**579**	507	417	412	331
Underwriting result	US$M	**142**	179	143	246	219
Claims ratio	%	**62.0**	62.4	65.3	57.7	61.6
Commission ratio	%	**18.1**	17.0	17.0	16.9	16.6
Expense ratio	%	**16.0**	15.2	13.2	15.9	13.1
Combined operating ratio	%	**96.1**	94.6	95.5	90.5	91.3
Insurance profit margin	%	**5.3**	9.8	9.5	14.5	15.7

Commission and expenses

The combined commission and expense ratio was 34.1% compared with 32.2% in 2012.

The commission ratio increased to 18.1% from 17.0% in 2012 due to changes in business mix, primarily the expansion in higher commission paying property business, and the impact on net earned premium of reinsurance reinstatement costs payable as a result of the large risk claims in the property portfolio and in relation to the Argentine floods. We are generally seeing increased pressure for higher levels of commission in our insurance classes of business.

The expense ratio increased by 0.8% to 16.0% and was slightly above plan due to a few one-off items, including changes to indirect tax recovery percentages in certain countries, some property exit costs and reduced profit commission income on syndicate 386.

Other developments

In April, we completed the planned disposal of our operation in Macedonia as a result of our review of businesses considered non-core.

In the second half of 2012, QBE Re was launched. During 2013, the newly created entity has traded very effectively as the Group's global reinsurance franchise and is benefiting from its global co-ordination, branding and positioning.

In September, we announced a restructure of our insurance business with the creation of two new business units – retail and international markets. The primary focus was to create an appropriate platform to position European Operations to maximise its potential and deliver profitable growth over the next five years. The new structure has now been successfully embedded throughout our organisation and will be our trading platform for 2014 and beyond.

We have been reviewing our operational platform during the second half of 2013 in conjunction with the Group operational transformation program. As a consequence of this review, we will be embarking upon our local operational transformation program during the first quarter of 2014.

Finally, we have expanded and strengthened our executive team during 2013, with the appointments of a new Chief Operations Officer and Director of Claims.

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Our focus on performance management and disciplined underwriting, aligned with our leading presence in most areas of our business, means that in the short-term we are well prepared to withstand a challenging trading environment and in the long-term we are well positioned to benefit from an improvement in market conditions.

European Operations
Outlook for 2014

2014 forecast gross written premium: US$4.6billion

Retail distribution	International markets	Global Re
US$ million	US$ million	US$ million
2,300	1,500	800

2014 forecast net earned premium: US$3.6billion

Gross written premium for 2014 is estimated to be $4.6 billion, or £2.9 billion in local currency using budgeted rates of exchange. Overall, we anticipate minimal rate increases as we expect a more competitive market environment, particularly for our inward reinsurance business, QBE Re. The reduction in gross written premium reflects ongoing portfolio remediation and the disposal of non-core activities, combined with expected deterioration in market conditions for QBE Re and international markets. Where necessary, we will adopt a defensive position and at all times exercise disciplined underwriting. Organic growth opportunities continue to be available but on a very limited basis and no material acquisitions are planned.

We will continue with our commitment to learning and development programs for our key staff with a particular focus on developing our leadership for the future. The recruitment and retention of people of the highest quality will be a priority, as well as ensuring that we maintain a culture centred upon quality delivery in everything we do. Equally important will be to continue to build upon the collaborative approach that is key to all our relationships within European Operations and with our global colleagues.

Our loyal and committed people have dedicated significant skill, time and energy to enable this business to continue to be successful. I am extremely grateful to each and every one of them.

Made possible by QBE:

Australian & New Zealand Operations

Taking care of travellers

QBE Assist provides 24/7 worldwide medical and emergency assistance

A QBE customer found herself in serious trouble overseas, falling ill during a March 2013 trip to South Africa. With severe bronchopneumonia and septic shock, she was admitted to the intensive care unit of a local hospital. On being alerted to the situation, QBE Assist immediately began liaising with the hospital and doctors to obtain the necessary information to make sure payments for the patient's medical care were up to date.

QBE Assist was in constant contact with the patient and her travelling companion, providing them with updates on the case. After seven days, our customer was discharged from hospital, having incurred large medical costs, all covered by her QBE policy.

Following discharge, QBE remained in contact with the customer for progress updates and to provide assistance through a number of ongoing medical reviews and tests. Almost two months passed between the day of the initial call and when the customer returned home, during which time QBE Assist continued to provide guidance and advice to ensure a safe return home.

Cardboard Cathedral

QBE insures a significant model of architecture in New Zealand

In February 2011, the city of Christchurch suffered a catastrophic 6.3 magnitude earthquake. Many historic buildings were severely damaged, including the 19th century Christchurch Cathedral.

In 2012, a decision was made to start the deconstruction of the Cathedral and plans quickly emerged to create a "transitional" cathedral using cardboard tubes in its construction. It is now being cited internationally as a "must see" tourist site.

While this project was a challenging one, QBE understood the risks of this innovative venture and was pleased to help make this project happen.

Showcasing fine art

QBE insures the world class MONA gallery in Tasmania

Since its opening in 2011, QBE has been insuring the spectacular Museum of Old and New Art (MONA), providing industrial special risks, motor vehicle and workers' compensation insurance to safeguard what has become one of Tasmania's largest tourist attractions and a significant driver of its economy.

Widely considered to be one of the most visually striking and unconventional galleries in the world, the privately-funded MONA combines antiquities with contemporary art to attract more than 300,000 visitors every year, with 75% from outside Tasmania.

An Australian first

QBE and NIA launched Insurance Box, helping drivers save on their premiums

Through Insurance Box, QBE is making it possible for customers to become safer drivers and, in return, good driving behaviours will positively impact their motor premium.

In alliance with NIA Underwriting Agency, QBE launched Insurance Box in October 2013; an Australian-first in telematics capability. A private motor insurance product, Insurance Box is a small electronic unit that plugs in to your car to collect and transmit satellite navigation data.

The data collected outlines a customer's driving behaviour and car particulars, allowing QBE to appropriately assess the risks.

Insurance Box gives customers a DriveScore and the opportunity to receive feedback on how their performance can be improved to maximise savings on their premium and make their driving practices safer.

Insurance Box can also assist a customer in an emergency situation by alerting assistance services or providing a location lock on a stolen car.

QBE is always looking for opportunities to further innovate within the industry and to promote practices and products that have a positive impact on society and the customer experience.

Australian & New Zealand Operations business review

> An excellent result was achieved with a COR of 87.4%, combined with 4% GWP growth in local currency. Robust underwriting controls combined with ongoing change initiatives, enhanced expense management and transition to our Group Shared Services Centre in Manila underpinned our success this year.

Colin Fagen

Chief Executive Officer • Australian & New Zealand Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
4,786	3,971	499	748
↓ 4% from 2012	↓ 4% from 2012	↑ 29% from 2012	↓ 4% from 2012
		Combined operating ratio 87.4% (2012 90.6%)	Insurance profit margin 18.8% (2012 18.9%)

Competitive landscape

Economic conditions in Australia and New Zealand have stabilised but continue to reflect the uncertain global economic environment. Longer term interest rates improved slightly during 2013; however, shorter term rates continue to decline. A sense of caution continues to be evident throughout the market with GDP growth positive but heavily reliant on the mining sector. Australian insurers initially benefited from higher pricing, albeit strong competition in the second half eroded this position slightly. The industry is managing the impact of historically low investment returns, regulatory pressure to increase capital, reinsurers' expectations and political and market pressure from the recent history of rate increases. 2013 was a relatively benign catastrophe year which contributed to a slowing of rate increases in property classes. The industry continues to optimise cost structures balanced with the need to reduce pricing pressure to the community and improve customer service. In 2014, pricing is expected to approximately match claims inflation.

Underwriting performance

Our operations performed well throughout 2013, achieving a strong combined operating ratio of 87.4% and an insurance profit margin of 18.8% compared with 90.6% and 18.9% respectively in 2012. The longer tail portfolios performed to expectations, although declining short-term interest rates and historically low discount rates created some margin pressures.

Our detailed scenario planning throughout the year enabled timely underwriting and pricing action in response to changing economic fundamentals. Retaining profitable and high quality business with a diverse range of intermediaries remains a priority.

Our renewal retention improved to around 83% compared with 80% in 2012, notwithstanding our ongoing leading position on price in the commercial market. The combination of strengthening customer retention, appropriate pricing and our historically strong relationship management provided the foundation for an excellent result in terms of growth and profit.

Premium income

Gross written premium in local currency was up 4%, despite the impact of the removal of the Victorian fire service levy. Premium in US dollars fell by 4% to $4,786 million, reflecting the generally weaker Australian dollar. Underlying growth was positive, reflecting rate increases across most products averaging 5.6% overall, and new business growth, particularly in our lenders' mortgage insurance (LMI) and CTP portfolios. There was some softening in the market in the second half with corporate property moving most significantly.

Net earned premium in Australian dollars grew by A$156 million or 4% while in US dollars fell 4% to $3,971 million. Net earned premium benefited from lower reinsurance costs, with the reinsurance expense ratio reducing to 13.7% of gross earned premium compared with 14.0% in 2012. The lower reinsurance costs reflect the competitive reinsurance market, marginally more per risk retention across most classes and a slight change in the mix of business compared with prior years. We have worked hard to selectively reduce catastrophe accumulations across our portfolio.

Claims expense

The net claims ratio was 58.3%, a substantial improvement compared with 60.3% in 2012. This was largely due to a reduction in the attritional claims ratio due to premium rate increases, and disciplined underwriting controls and risk selection. Catastrophe claims totalled $93 million or 2.3% of net earned premium in 2013 compared with $63 million or 1.5% in 2012. Large individual risk claims across both long tail and short tail classes were broadly in line with expectations and the prior year.

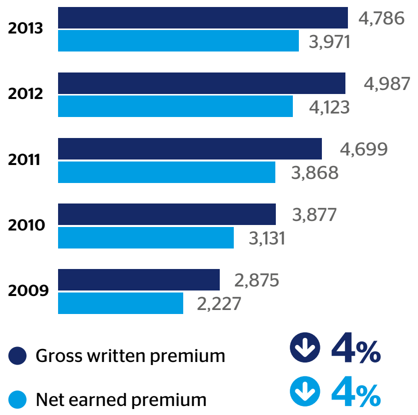
Individual products with net claims ratios that significantly outperformed expectations included public liability, aviation, surety, commercial motor, crop, householders and property. Those underperforming against expectations included engineering, marine and professional liability, with workers' compensation experiencing superimposed claims inflation in the Western Australian market.

The increase in yields on longer term government bonds used to discount outstanding claims assisted the net claims ratio by approximately $30 million or 0.8%; however, this was partly offset by a further $22 million strengthening of risk margins.

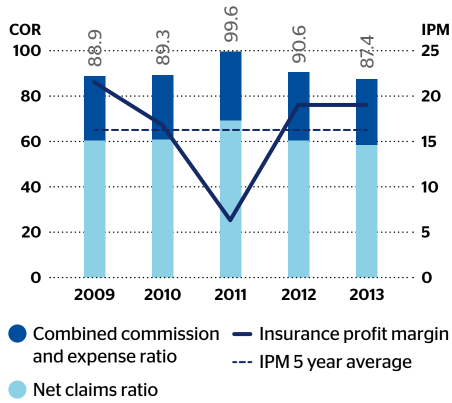
Commission and expenses

The combined commission and expense ratio was 29.1%, lower than 30.3% in 2012. This was primarily due to cost optimisation and process efficiencies from the centralisation of support services such as procurement, finance, human resources and claims functions. The outsourcing of our software development centre has provided access to a large and highly skilled workforce. The cost savings were partly offset by the establishment cost of the Group Shared Services Centre in Manila. Disciplined expense management remains a priority throughout 2014.

Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



Underwriting result

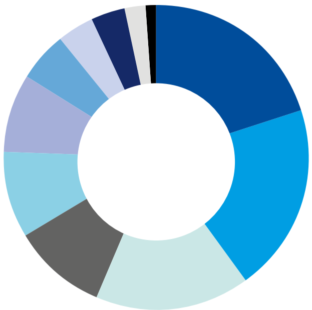
FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**4,786**	4,987	4,699	3,877	2,875
Gross earned premium	US$M	**4,602**	4,794	4,551	3,892	2,729
Net earned premium	US$M	**3,971**	4,123	3,868	3,131	2,227
Net incurred claims	US$M	**2,314**	2,487	2,674	1,899	1,344
Net commission	US$M	**593**	557	516	335	255
Expenses	US$M	**565**	691	661	562	381
Underwriting result	US$M	**499**	388	17	335	247
Claims ratio	%	**58.3**	60.3	69.2	60.7	60.3
Commission ratio	%	**14.9**	13.5	13.3	10.7	11.5
Expense ratio	%	**14.2**	16.8	17.1	17.9	17.1
Combined operating ratio	%	**87.4**	90.6	99.6	89.3	88.9
Insurance profit margin	%	**18.8**	18.9	6.3	16.8	21.5

Other developments

The successful implementation of our transformation program while maintaining customer focus was key to our success in 2013. The significant process improvements and the measurable cost savings will provide sustainable competitive advantage to enable the division to continue to grow and deliver strong and stable results in the future.

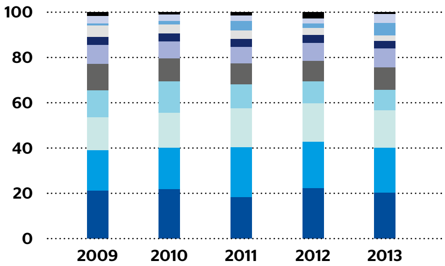
It was a challenging start to 2013, with ongoing uncertainty about economic conditions and increasingly cautious consumer sentiment. The September federal election brought a change of government, resulting in initiatives such as the detailed review of Australia's financial system, the first comprehensive review since 1997. Given the substantial changes within the financial sector since the global financial crisis and the considerable regulatory changes since the last inquiry, the industry should look to reduce the regulatory burden whilst preserving the ability of the sector to support ongoing economic growth. We welcome the inquiry as an opportunity to encourage a regulatory framework that promotes a globally competitive general insurance industry with products and services delivered cost effectively to our community.

Gross earned premium by class of business 2013



	2013 %	2012 %
Property	20.2	22.2
Motor & motor casualty	19.9	20.5
Householders	16.4	17.0
Financial & credit	9.9	9.2
Public/product liability	9.2	9.6
Workers' compensation	8.3	7.9
Agriculture & bloodstock	5.5	2.1
Accident & health	3.8	2.1
Marine energy & aviation	3.5	3.4
Professional indemnity	2.4	3.1
Other	0.9	2.9

Gross earned premium by class of business (%)



> We completed the major components of our transformation program in 2013 creating a robust and scalable platform which positions us to deliver growth and result stability in 2014 and beyond.

Australian & New Zealand Operations

Outlook for 2014

2014 forecast gross written premium: US$4.8billion

Intermediary distribution	Corporate partners & direct	Lenders' mortgage insurance
US$ million	US$ million	US$ million
2,200	1,700	500

Credit & Surety	New Zealand
US$ million	US$ million
100	300

2014 forecast net earned premium: US$3.9billion

We expect to build on the success of our transformed business model and our achievements in 2013 of growing new business selectively and profitably. Management of operating costs through a fundamentally changed expense structure is expected to add further value in 2014. Moreover, improving retention and modest rate increases will position us for ongoing positive results in a competitive market.

We expect interest rates to remain stable or increase marginally in 2014 and inflation to remain in the Reserve Bank of Australia's range of 2% – 3%. We anticipate that only inflation-matching premium rate increases will be required in 2014 to maintain our margins, subject to the usual caveats.

The significant amount of work undertaken in 2013 to achieve our transformation program has provided us with an established foundation for operational effectiveness and scalability in the year ahead. Our commitment to our redeployment program has been complex but incredibly positive. We will continue to create savings from this program and to provide our people with the opportunity to realise their full potential.

I commend the team for their dedication and increased effort throughout the year which has provided a stellar result. They should be proud of their achievements.

Made possible by QBE:

Asia Pacific Operations

Growing Asia's construction industry

QBE continues to support the growth of this booming industry

QBE General Insurance Hong Kong (QBE GIHK) and specialist underwriters from QBE Hong Kong & Shanghai Insurance (QBE HKSI) have worked closely together to apply our diverse experience to meet our customers' needs in Hong Kong and beyond.

By providing both specialist and general underwriting services, QBE continues to support the growth of the booming construction industry in Hong Kong and is dedicated to providing products designed to meet our clients' unique and evolving needs.

Through this combined approach, QBE was able to secure the account of SOCAM Development Limited, a member company of the Shui On Group and a listed company in Hong Kong with core business in construction and property management.
By applying our combined expertise, we are making it possible for SOCAM to achieve its goals, and for Hong Kong to continue to grow as a critical business and economic hub for the region.

New airport terminal

QBE Singapore facilitates an airport expansion

Singapore Changi Airport is the sixth busiest international airport in the world, serving more than 100 international airlines and flying to over 250 cities in 60 countries and territories worldwide. In 2012 alone, it handled more than 51 million passengers.

QBE has secured a share of the insurance for the project to build Terminal 4, which will take the airport's capacity to 82 million passengers each year. This terminal aims to redefine the passenger travel experience with premium design and process innovations.

QBE is proud to support regional growth, enabling more people to holiday and conduct business in Singapore and importantly help Changi Airport realise its aspirations.

Making holidays possible

QBE Insurance (Vanuatu) Limited is recognised as the country's largest non-life insurer

QBE has been active in the Vanuatu market since the 1920s, providing us with an in-depth knowledge of the risks to local businesses, particularly in the areas of commercial property and casualty.

By applying this expertise, QBE is now a major insurer of tourism and travel in Vanuatu, supporting this critical industry which accounts for over 50% of the country's GDP. As the insurer of the three international airports, and 13 of the 14 major hotels and resorts, QBE helps businesses manage their risks so they can focus on taking care of their visitors.

Facilitating trade

Applying QBE's local and global insurance expertise to container ports in Malaysia

Malaysia has seven major container ports that process approximately 20 million containers annually. Outside of China, Malaysia has two of the top 10 busiest container ports in the world.

The ports play a critical role in delivering on internal and external trade commitments for Malaysia. As the nation's economy and trading relationships grow, so too does the importance of these ports to the country and the communities in which they operate.

By applying local knowledge and understanding, QBE now provides insurance to four of the seven ports, either as lead insurer or via co-insurance. The ability to provide insurance to each of the ports is based on the depth of QBE's expertise in the specific classes of insurance combined with the capacity to insure the most critical risks for our customers.

QBE is proud to help insure Malaysia's trade assets, contributing positively to Malaysia and the region.

Asia Pacific Operations business review

> Asia Pacific Operations' underwriting and financial results surpassed both our growth and profit targets for 2013. We are on track to build on our longstanding and broadly distributed relationships across the key Asian and Pacific markets.

David Fried

Chief Executive Officer • Asia Pacific Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
730	500	80	87
↑ 26% from 2012	↑ 20% from 2012	↑ 36% from 2012	↑ 32% from 2012
		Combined operating ratio 84.0% (2012 85.8%)	Insurance profit margin 17.4% (2012 15.9%)

Competitive landscape

Asia accounts for approximately 20% of global non-life insurance premium and is expected to see compound premium growth in excess of 8% per annum between now and 2021, reflecting GDP growth along with increasing penetration of general insurance products. It was against this background that the Asia Pacific profitable growth strategy was developed and approved by the QBE Group Board in 2012, with execution commencing in 2013.

Whilst QBE does not have an operation in mainland China, Chinese GDP growth in excess of 7% per annum has had a strong positive flow-on impact on the economies across the region. However, despite this optimistic outlook, there are multiple risks to the global economy that may result in a slowdown in growth in the Asia region. Some developed markets in the region, such as Singapore and Hong Kong, have recorded a slowing of economic growth during the year. Nevertheless, QBE has been able to grow profitably throughout Asia through targeted and specific strategic investment in people, technology and products.

Following the acquisition of Hang Seng General Insurance in 2012, we are now the third largest non-life insurer in the Hong Kong market.

We are fortunate to have long established market leadership positions in many countries across the Pacific. Whilst growth opportunities are limited, we have been successful in leveraging our relationships with key global insurance brokers to grow our business. Given our long history in the region, our relationships with local brokers and agents remain strong, largely due to our excellent customer service and market-leading claims offerings.

Keen rate competition was experienced throughout Asia Pacific in 2013. A number of key players focused on top line opportunities with the expectation of increased future profitability. QBE, leveraging its deep understanding of local market conditions and adopting a strategic approach of working even closer with our intermediaries, was able to maintain and strengthen its market position and record strong organic growth.

Underwriting performance

Overall, we were pleased with our underwriting profitability while achieving strong growth in gross written premium and net earned premium in 2013. The combined operating ratio of 84.0% compares favourably with 85.8% in 2012, particularly in light of our up-front investment in the Asia Pacific growth strategy, staff costs associated with strengthening underwriting and distribution capacity, establishment of our divisional management head office in Hong Kong and a major IT investment. Consistent with our improved underwriting performance, the insurance profit margin increased to 17.4% from 15.9% last year, resulting in a healthy return on capital employed for the Asia Pacific region.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**730**	578	467	431	402
Gross earned premium	US$M	**643**	545	457	415	383
Net earned premium	US$M	**500**	415	341	322	283
Net incurred claims	US$M	**212**	176	149	139	128
Net commission	US$M	**109**	94	73	65	61
Expenses	US$M	**99**	86	76	68	61
Underwriting result	US$M	**80**	59	43	50	33
Claims ratio	%	**42.4**	42.4	43.7	43.2	45.1
Commission ratio	%	**21.8**	22.7	21.4	20.2	21.6
Expense ratio	%	**19.8**	20.7	22.3	21.1	21.6
Combined operating ratio	%	**84.0**	85.8	87.4	84.5	88.3
Insurance profit margin	%	**17.4**	15.9	17.6	20.5	13.4

Premium income

Gross written premium was up 26% to $730 million while net earned premium increased 20% to $500 million, reflecting the success of our targeted profitable growth strategy. We were particularly pleased with our strong organic growth in Hong Kong and Malaysia, as well as further strengthening of our position in Papua New Guinea through the acquisition of the Sumitomo Mitsui portfolio.

Our Asian operations generated $606 million of gross written premium in 2013, an increase of 30% on 2012. Hong Kong and Malaysia recorded solid growth of over 59% and 18% respectively. Marine and workers' compensation, which together comprise 39% of gross written premium in Asia in 2013, stood out as the leading classes of business with a strong track record of market-leading profitability.

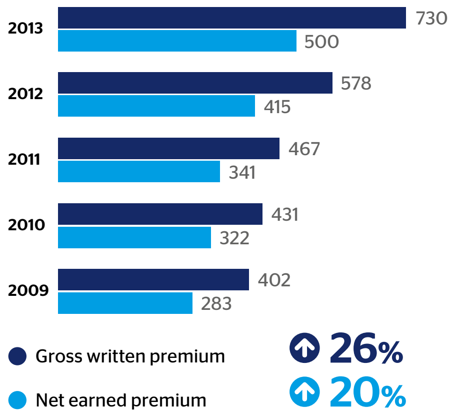
Premium growth of 10% in our Pacific Islands operation was pleasing, resulting in gross written premium of $124 million. Strong results in Fiji, New Caledonia, Papua New Guinea and Vanuatu, and continued positive results from all other operations, supported an excellent result from this region.

Claims expense

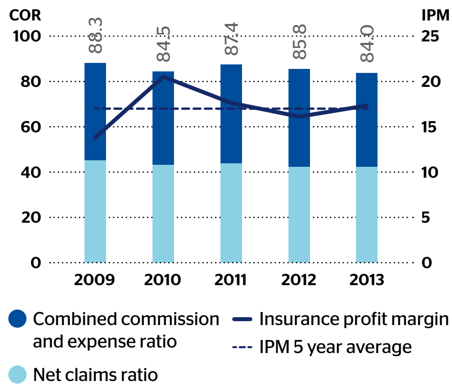
Our net claims ratio was unchanged from last year at 42.4%, with relatively favourable large individual risk and catastrophe claims experience offset by a higher than usual frequency of smaller risk claims with a cost of up to $2.5 million which adversely impacted the attritional claims ratio.

Catastrophe activity included typhoons and earthquakes which impacted the Philippines, Indonesia and Vietnam. Overall, we regard 2013 as another benign year for catastrophe claims. The cost of claims in relation to Typhoon Haiyan in the Philippines and Vietnam was not significant for QBE, albeit that it caused tremendous devastation and loss of life in the two countries.

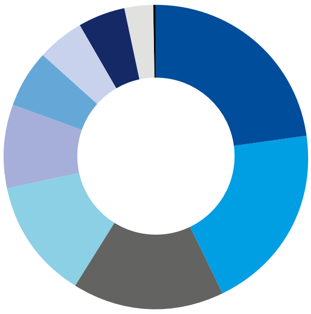
Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)

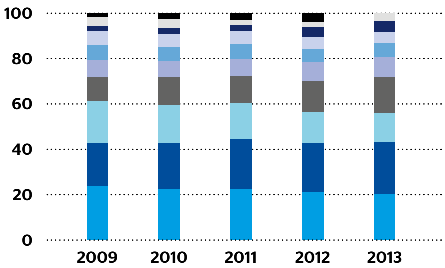


Gross earned premium by class of business 2013



	2013 %	2012 %
Marine energy & aviation	22.8	21.3
Property	20.2	21.3
Workers' compensation	16.1	13.6
Motor & motor casualty	12.8	13.8
Accident & health	8.7	8.3
Public/product liability	6.3	5.9
Professional indemnity	4.9	5.5
Householders	4.9	4.2
Financial & credit	3.2	2.2
Other	0.1	3.9

Gross earned premium by class of business (%)



Commission and expenses

Despite costs associated with the integration of Hang Seng General Insurance and investment in our profitable growth strategy as previously noted, the combined commission and expense ratio improved to 41.6% compared with 43.4% in 2012, reflecting scale efficiencies stemming from premium growth coupled with reduced profit commissions in Indonesia, Singapore and Hong Kong.

Implementing the Asia Pacific profitable growth strategy

We are focused on delivering against the Group's profitable growth and diversification strategy. Our analysis indicates that, within the overall Asia Pacific region, there is a general insurance premium pool of around $27 billion that meets our product and distribution criteria. In order to properly capitalise on our target market segments and clients, we intend investing up to $40 million during the period 2013 to 2015 to build our capabilities in front line underwriting, technology and infrastructure to ensure we continue to meet the needs of our stakeholders.

Our vision is to become one of the top three multinational players across the Asia Pacific region within this decade. Our ambition is to build a $1.1 billion business by 2016 while maintaining a portfolio return on allocated capital of more than 15%. In order to achieve this ambition, we aim to become a leading specialty insurer in our 15 key markets, focusing on commercial lines and niche personal lines.

In 2013, we established centres of excellence for underwriting and distribution to leverage our excellent working relationships with intermediaries, not only across the region, but also globally across the Group. We have strengthened our underwriting teams with the addition of more than 20 product specialists. Aligned distribution strategies have also been developed to further improve operational consistency, client experience and advocacy across our key distribution partners. A broking centre has been successfully established in Singapore to access the large offshore premium pool that now flows through that country.

Our investment in technology will come to fruition in 2014 with the launch of our commercial lines business-to-business platform. We believe this will be beneficial in delivering improved access, automation and operational efficiency for our distribution partners, initially in Singapore and Hong Kong.

Our strategy is now yielding results in terms of top line growth and the enhanced reputation of QBE across Asia and the Pacific. The Hang Seng Bank's general insurance operations have been successfully integrated. This provides us with immediate access to corporate customers and over three million personal customers through Hang Seng Bank's some 220 service outlets in Hong Kong. We have also acquired the business renewal rights from Seaboard Eastern Insurance Company and renamed our operation as QBE Seaboard Insurance Philippines, which will provide both commercial and retail products.

Multiple senior appointments were made during the year. The full executive management team, which is both results-oriented and comprised of strategic thinkers, is now on board and working together to deliver the growth strategy.

> While we expect markets to remain competitive, we will continue to pursue a minimum 15% return on allocated capital whilst growing our business through the delivery of our strategic plans, particularly in Asia.

Asia Pacific Operations

Outlook for 2014

2014 forecast gross written premium: US$**820**million

Asia	Pacific
US$ million	US$ million
700	120

2014 forecast net earned premium: US$**600**million

The outlook for Asia Pacific in 2014 and beyond remains positive as we expect economic growth in the region to continue. Our growth will benefit from continued government investment in major infrastructure projects in Asian countries, as well as the fundamental shift in trade flows in Asia Pacific.

Markets in the region remain competitive; however, we will continue to grow our business through the delivery of our strategic plans while maintaining a minimum 15% return on allocated capital.

We continue to assess the opportunities in mainland China. Beside the size of the country, we see a notable rise in personal disposable income and investment in infrastructure. As far as India is concerned, we have seen some growth in insurance premiums; however, the market structure and therefore industry profitability remains doubtful.

Natural hazards remain prevalent in the region. We have expanded our risk management function to work with the underwriting team to assist our customers to evaluate their potential risks. Separately, we will continue to evaluate the impact of changing insurance regulatory standards across the region as they apply to capital, risk management, governance and customers.

We would particularly like to thank our business partners across the region for their continued support of our Asia Pacific team and look forward to their future support as we continue to implement our profitable growth strategy.

My thanks and congratulations also go out to our dedicated staff for their continued efforts to set a solid foundation for future growth.

Equator Re business review

Equator Re is QBE's wholly-owned captive reinsurer, providing reinsurance protection exclusively to QBE's operating divisions. The captive reported an improved underwriting profit which was affected by a number of large individual risk claims and a share of the underperforming North American Operations result.

Jim Fiore

Group Chief Reinsurance Officer • Equator Re

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
3,295	3,057	97	160
↓ 11% from 2012	↓ 10% from 2012	↑ $87M from 2012	↑ 15% from 2012
		Combined operating ratio	Insurance profit margin
		96.8% (2012 99.7%)	5.2% (2012 4.1%)

Competitive landscape

Reinsurance rates were broadly flat in 2013. Following significant pricing increases as a result of catastrophe experience in the period between 2010 and 2012, a number of QBE's operating divisions decided to increase the retentions on their excess of loss reinsurance programs which resulted in a reduction in the overall premium income to the captive. Equator Re's reduced proportional reinsurance premium income compared with 2012 was mainly due to lower premium volumes in North American Operations.

Global economic conditions remained challenging. With global interest rates at historically low levels and a short duration investment portfolio weighted towards the US dollar, sterling and the Australian dollar, investment yields were substantially below what was achieved in 2012.

Underwriting performance

While below expectations, the 2013 combined operating ratio of 96.8% was nevertheless an improvement on the 99.7% reported in 2012. There were a number of factors which had a material impact on the result including prior accident year claims strengthening on a number of US portfolios, lower than expected returns on the US crop business due to lower commodity prices and a higher than average number of large risk claims. The excess of loss book performed ahead of expectations due to a lower than normal frequency of catastrophe claims.

Despite expected lower investment returns, insurance profit was an improvement at $160 million compared with $139 million in 2012, reflecting the improved underwriting performance.

1 Highlights & overview
2 Business review
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4 Directors' report
5 Financial report
6 Other information

Premium income

Gross written premium by source

FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
North American Operations	US$M	1,956	2,269	2,218	1,335	979
Latin American Operations	US$M	48	24	39	36	-
European Operations	£M	593	621	607	540	517
Australian & New Zealand Operations	A$M	271	318	454	214	200
Asia Pacific Operations	US$M	97	100	105	76	57
Total	US$M	3,295	3,710	3,807	2,479	1,994

Gross written premium fell by 11% to $3,295 million from $3,710 million last year. The reduction in premium income was mainly due to lower premium from North American Operations across a number of portfolios including lender-placed insurance, middle markets and program, as well as higher retentions across a number of divisional catastrophe and per risk excess of loss programs.

Net earned premium reduced by 10% to $3,057 million, down from $3,410 million in 2012. The outward reinsurance expense ratio increased to 9.0% of net earned premium compared with 8.1% in 2012 due to the reduction in premium income whilst the overall cost of reinsurance remained relatively stable compared with 2012. There was no material change to the reinsurance protections in 2013 compared with 2012.

All business written by Equator Re is benchmarked in terms of pricing and compared with open market rates using a number of third parties. Equator Re plays a key role in the overall reinsurance strategy of the Group by providing reinsurance capacity to the operating divisions below the global reinsurance programs and helping to optimise the capital required throughout the Group. The company continues to focus solely on providing protection to QBE's operating divisions and no external or third party business is written.

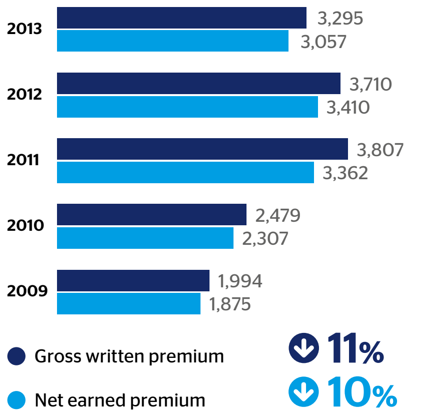
Claims expense

The net claims ratio was 66.2% compared with 70.5% last year, reflecting the significantly reduced catastrophe claims activity in 2013 compared with 2012 and the favourable impact of higher risk-free rates used to discount claims liabilities. The division was affected by a number of large individual risk claims, as well as claims strengthening on various portfolios in North American Operations which contributed significantly to the overall adverse prior accident year claims development. The reassessment of our required level of risk margin held against uncertainty of the central estimate resulted in a net increase in the level of margins retained.

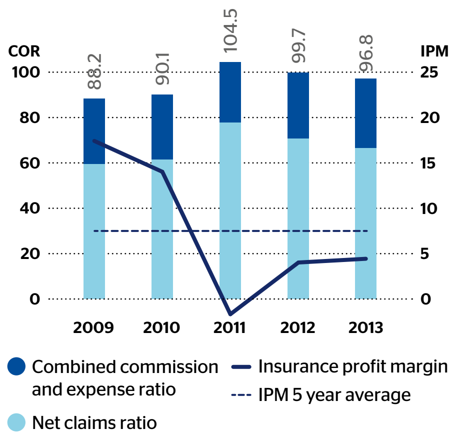
Commission and expenses

The combined commission and expense ratio was 30.6% compared with 29.2% last year. The increase in the commission ratio was due to a change in the business mix with a greater level of proportional covers that incur a higher commission cost. The expense ratio increased, reflecting the marginally higher cost of our heightened presence in Bermuda compared with significantly reduced net earned premium as already described.

Gross written premium and net earned premium (US$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



Underwriting result

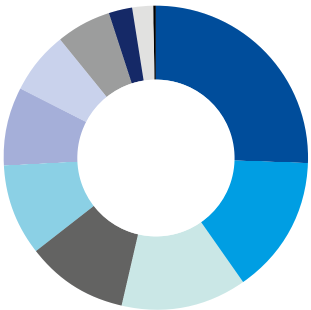
FOR THE YEAR ENDED 31 DECEMBER		2013	2012	2011	2010	2009
Gross written premium	US$M	**3,295**	3,710	3,807	2,479	1,994
Gross earned premium	US$M	**3,361**	3,712	3,697	2,363	1,918
Net earned premium	US$M	**3,057**	3,410	3,362	2,307	1,875
Net incurred claims	US$M	**2,025**	2,403	2,616	1,417	1,113
Net commission	US$M	**826**	895	784	575	440
Expenses	US$M	**109**	102	113	87	100
Underwriting result	US$M	**97**	10	(151)	228	222
Claims ratio	%	**66.2**	70.5	77.8	61.4	59.4
Commission ratio	%	**27.0**	26.2	23.3	24.9	23.5
Expense ratio	%	**3.6**	3.0	3.4	3.8	5.3
Combined operating ratio	%	**96.8**	99.7	104.5	90.1	88.2
Insurance profit margin	%	**5.2**	4.1	(1.7)	14.0	17.4

Other developments

QBE realigned its external reinsurance programs for 2014 to changing business needs and regulatory requirements resulting in the following key changes:

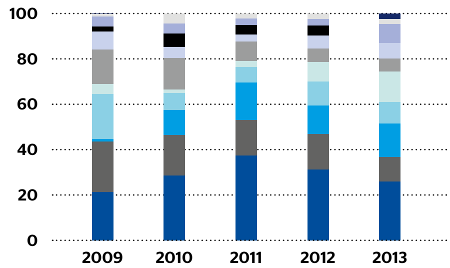
- The purchase of a multi-year program of which two thirds was acquired on a two year basis, providing us with certainty of cover and enabling us to lock in favourable rates, and the remainder renewing annually.
- The global catastrophe excess of loss retention has been increased by $100 million to $400 million for US wind and $300 million for all other global perils.
- The revised catastrophe retention is expected to be profit accretive without giving rise to an increase in volatility by virtue of:
  - the premium saving which is slightly more than the $100 million increase in retention. In the event of a first loss that exceeds the retained layer, the profit impact is at worst marginally positive. In the event of no losses or a minor first loss which does not reach the retained layer, the pre-tax profit impact is at best just over $100 million favourable; and
  - the increased occurrence retention which was coordinated with a decrease in aggregate retention which optimises the probability of aggregate recoveries. The risk of earnings volatility from multiple events is mitigated through the interplay between the lower attachment point on the Group aggregate catastrophe treaty, higher captive catastrophe retention and Equator Re's aggregate catastrophe cover.
- The FPS catastrophe limit has been reduced to $250 million from $700 million previously to reflect the significant reduction in primary exposure to this sector. Earnings volatility will not be impacted as FPS is still purchasing protection up to the same 1:250 year zonal measure as in previous years.
- A new catastrophe bond, providing an additional $250 million cover for US and Australian earthquake and Australian cyclone risks, at attractive rates and broadening QBE's reinsurance panel.

Gross earned premium by class of business 2013



	2013 %	2012 %
Property	25.8	31.2
Agriculture & bloodstock	14.6	12.7
Householders	13.3	8.6
Public/product liability	11.0	15.5
Motor & motor casualty	9.6	10.5
Professional indemnity	8.3	3.0
Workers' compensation	6.7	5.8
Marine energy & aviation	5.9	6.0
Other	2.5	-
Accident & health	2.2	2.4
Financial & credit	0.1	4.3

Gross earned premium by class of business (%)



> Equator Re aims to be QBE's reinsurer of choice for the divisions within the Group's net retention. Its role is to optimise the Group's management of risk and capital.

Equator Re

Outlook for 2014

2014 forecast gross written premium: **US$3.2billion**

2014 forecast net earned premium: **US$3.0billion**

2014 gross written premium and net earned premium are expected to remain largely unchanged at around $3.2 billion and $3.0 billion respectively.

Following a strategic review of its operations in 2013, Equator Re strengthened its presence in Bermuda with the hiring of a number of senior staff in the key areas of underwriting, risk management, claims and catastrophe modelling. The expansion of management capabilities and technical resources positions Equator Re to better manage the business and better support QBE Group's overall reinsurance strategy.

Following a decision by the Group to increase the retention on the 2014 global catastrophe program as discussed previously, it has been agreed that Equator Re will provide the additional cover required by each of the operating divisions. For 2014, the divisions are also expected to continue to increase the retentions on a number of the divisional catastrophe and per risk programs which will further reduce our potential claims exposure. Equator Re continues to purchase extensive reinsurance protections against both catastrophe and a frequency of large individual risk claims.

My sincere thanks to all of the team for their continued support and commitment as we look to ensure that Equator Re meets its targets and objectives for 2014.

The QBE Foundation

Supporting the communities in which we operate

In 2013, the QBE Foundation broadened its philosophy and focus from purely vocational charities to include any community or individual that is in some way disadvantaged and wants to live an independent, successful and productive life.

With this expanded focus, we believe QBE and our 17,000 employees worldwide will increase the contribution we are making to the communities in which we operate.

In 2014, we look forward to encouraging even more QBE Foundation activity through a renewed focus on our staff volunteering program, fundraising and matching the donations our employees make to specific charities and causes.

EUROPE

Haven away from home

Little Havens Hospice in the South East of England provides support to ill children and their families. In 2013, QBE UK chose Little Havens as its charity partner of the year. QBE employees were already volunteering and fundraising with this charity, so we knew it was a cause close to people's hearts. In one of many charity events, a group from QBE got together for a team volunteer day at the hospice. They helped with gardening activities, including cultivating a new vegetable patch in the rain. The team thought it was a great day and a very worthwhile experience.

AUSTRALIA & NEW ZEALAND

Providing food essentials

Foodbank SA's vision is to end hunger in South Australia (SA) by providing those in need with nutritious and affordable food. In our first year of partnering with Foodbank SA, a QBE Foundation grant funded the implementation of an "everyday hamper" food relief program, the first of its kind in SA. These hampers include core staple foods, recipes, and essential personal items that provide relief to the disadvantaged. Over a five month period, QBE employees volunteered each fortnight, packing over 2,100 hampers onsite that were distributed to those most in need within the community. This equates to more than 44,900 meals being provided to over 6,700 people.

GLOBAL

Global response to Typhoon Haiyan

QBE came together to respond to the devastation caused in the Philippines as a result of Typhoon Haiyan. The QBE Foundation provided a substantial grant to local relief efforts, supplying important hygiene products and shelter and repair kits to over 260 families.

Our Philippines office and Group Shared Services Centre also rallied by conducting a donation-matching program benefiting the Philippines Red Cross, including forgoing end of year celebrations to increase donations. Employees have also volunteered over 450 hours packing relief goods.

These local initiatives were supported by colleagues from across our global operations with all businesses launching fundraising appeals. In Asia, more than 500 staff participated in a donation-matching program and over 80 boxes of clothing and toiletries were donated by our Australian employees.

QBE is very proud and inspired by the generosity of our people, the empathy they showed for their colleagues and citizens in the Philippines and their genuine desire to help as much as possible.

NORTH AMERICA

New beginnings

Through Foundation grants, QBE was able to sponsor the building of two Habitat for Humanity homes, including one for a low-income family who moved from Ethiopia to Fort Worth, Texas. By December 2013, over 300 employees volunteered their time to help build homes, with some taking additional personal leave on top of their volunteer days. Habitat for Humanity provides safe and affordable housing to families in need, plus education on home ownership and managing finances to help put their best foot forward in their new home.

ASIA PACIFIC

Aiding youth education and health

The QBE Foundation helped LSM Edukasi Dasar, an Indonesian charity that provides education and nutrition support to poorer families. To offer education beyond the classroom, QBE donated text books, dictionaries, encyclopedias and storybooks. In the classroom we made important room repairs to increase safety, provided new furniture and offered bags packed with healthy food to supplement their diets.

LATIN AMERICA

Overcoming poverty

The QBE Foundation worked with youth-led organisation Techo, also known as “Un techo para mi pais” (“a roof for my country”), to build emergency relief housing for families living in extreme poverty. 70 QBE employees volunteered over 1,680 hours, working together with Techo volunteers and affected families to build 12 homes in Los Cedros, Buenos Aires. This program focuses on strengthening isolated communities to overcome poverty and exclusion.

Risk: Our business

QBE is in the business of managing risk. The Board and management are wholeheartedly committed to ensuring that our risk practices are globally leading. Our risk framework is supporting the turnaround in our North American business and, in 2014, will further evolve as we continue the focus on risk management and drive increasing certainty in performance.

QBE seeks to only take on risks that fall within the Group's stated risk appetite and aims to manage them in order to achieve an optimal return overall. The Group's risk management framework is designed to support this approach and to enhance decision making by our people. A strong approach to risk management informs our decision making and enables us to measure and judge our risk exposures. The Board and management believe that effective risk management is critical to the achievement of our strategic, business and capital plans.

Our risk management framework aims to ensure that decisions across all categories of risk are conscious and transparent across the Group. The framework seeks to embed risk-based decisions into all that we do.

The QBE Board monitors the Group's performance and, as such, takes a critical role in ensuring that an effective risk management strategy is established and maintained. In 2013, the Board established the Risk and Capital Committee that meets at least quarterly to review the businesses' performance against appetite and capital plans, and takes a critical role in ensuring that risk is being actively managed and monitored by the three lines of defence as outlined on page 72.

The Group recognises that risk management is only effective if it is embedded in the culture of an organisation, with clear ownership and accountability for risk across our entire workforce. It is the responsibility of every QBE employee to adopt a rigorous approach to managing risk and to adhere to QBE's risk management policy. For 2014, we are rolling out individual risk management performance objectives as part of our performance management processes.

Risk management involves good governance and ensuring that the decisions QBE makes are founded on solid risk assessment. This means clearly identifying the different types of risks and assessing and managing them against clear risk appetites.

For further information, refer to the relevant sections of the corporate governance statement on page 78 and in note 5 of the financial statements.

2013 performance and 2014 plans

Delivery against the 2013 plan, which was set in 2012, was extremely disappointing, with the main driver being the significant underperformance of North American Operations. More details of the areas of underperformance are provided in other sections of the annual report, including the Group CEO's report and the North American Operations report. The table below provides a summary of the events impacting 2013 performance; the relevant mitigation and controls in place as part of the risk framework aimed at dealing with these matters; and the actions taken in response to the underperformance.

The main causes of underperformance in our North American Operations:

EVENTS - CAUSES AND CONSEQUENCES	MITIGATION/CONTROL	ACTIONS
• unexpected and swift consolidation of the US mortgage servicing industry impacting our lender-placed insurer.	• Proactive regulatory engagement and cooperation in industry-wide regulatory review of LPI business.	• Settlement of LPI action brought by New York Department of Financial Services. • Expense reductions through right-sizing LPI business and other operational transformation initiatives. • Close monitoring of further industry consolidation and the potential impact on QBE.
• the impact of the 2012 US drought flowing through in 2013 and affecting commodity prices, and in turn farmers, in the US.	• Stop loss reinsurance placed for crop business to limit downside to small loss.	• Further modelling of crop for alternative approaches to yield/harvest price exposure management.
• increases in carrying value of claims provisions, predominantly on our US program business.	• Monitoring and escalation of performance issues to Group Executive and Board, with a focus on key risks including prior accident year claims deterioration and run-off program management. • Claims reserve committees at divisional level and independent third party actuarial assessment of claims provisions held. • Group actuarial oversight of reserve outcomes.	• Implementation of enhanced governance processes. • Claims review for major run-off programs and settlement or closure of more than 40% of the claims reviewed. • Upgrade of claims reserving processes and involvement of additional third party specialists to review longer tail classes.
• a detailed re-evaluation of the appropriate carrying values of goodwill and identifiable intangibles in our US business.	• Executive and Board oversight of strategic and business planning. • Challenge of plan assumptions through stress and scenario testing and market scans. • Detailed action plans to bridge performance gaps from forecast.	• Review of performance and refresh of Group strategy at the end of 2012. • New appointments to executive management teams during 2013. • Detailed North American Operations strategic review to create a balanced portfolio able to deliver more stable and sustainable returns without over reliance on individual business lines. • Updated 2014 strategic plan agreed and changes commenced Q4 2013.

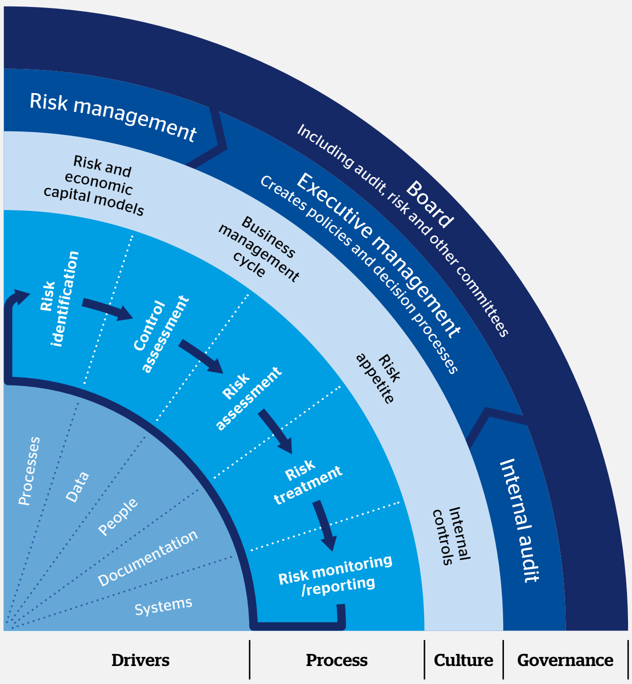
More generally, 2013 saw a repeat of the lower than expected catastrophe claims experience in 2012, offset by a higher than usual frequency of large individual risk claims. Overall catastrophe and large individual risk claims, net of the significant recovery under the Group's aggregate risk protection, were slightly better than the plan allowance.

Planned remediation actions across a number of portfolios have been largely successful in generating improved returns for the risk accepted. Several small non-core portfolios have been disposed of or discontinued.

The investment team continued to manage risk exposures proactively during the year and delivered an overall return which was slightly ahead of plan.

Actions to correct issues which emerged in 2012 and 2013 are continuing. We also continued to make improvements to our risk management approach and processes in 2013 to increase certainty on delivery of the strategy and 2014 plan and to develop mitigation and resilience against events which could result in a plan miss.

Risk management framework elements



Enhancing our risk management framework

QBE's risk management framework adopts the "three lines of defence" approach to risk management and clearly defines risk management responsibilities across QBE.

The **first line** generates most of the risk exposures and has primary responsibility for identifying, managing and owning risks.

The **second line** provides frameworks, policies, tools and processes to support the first line in delivering its responsibilities and also has oversight of the effective execution of those responsibilities, including through challenge of approaches and assumptions.

The **third line** of defence provides independent assurance over the first and second lines as to delivery of their responsibilities and the adequacy of the internal control environment.

QBE's Group Chief Risk Officer (CRO) has primary responsibility for developing and maintaining the risk management framework and strategy. At QBE, we continue to evolve and develop this strategy and have strengthened our tried and tested methodologies in a number of ways:

- the CRO Forum, comprised of the Group and divisional CROs, which supports the overall risk management strategy and specific initiatives of the Group;
- enhanced business plan stress testing and inclusion of corrective actions to offset potentially adverse outcomes;
- increased CRO focus on and involvement in strategic planning; and
- tailored divisional and Group risk assessment processes based on the new One ERM approach.

Within the three lines of defence, independent assurance on the management of risk is gained in several ways. These include regular and comprehensive internal audit reviews; the Group's outstanding claims provision being reviewed by internal actuarial staff who provide independent views separate from management; external actuarial review of QBE's central estimate claims provision; QBE's Audit Committee review of the internal audit and risk functions of the Group; and the external auditor's opinion on the Group's financial statements and the level of regulatory compliance of QBE's APRA licensed insurance entities.

Given the changing nature of the environment in which we operate, it is imperative that our risk management continues to evolve and adapt. We take a forward looking approach to managing risk and continually monitor our exposures against our stated risk appetites.

Risk appetite

Risk appetite is the level of risk that the Board and management are willing to take in pursuit of the Group's strategic objectives. Development of risk appetites as part of the strategic planning process creates clarity around the amount and types of risk that the Group willing and is prepared to take on. At Group level, risk appetite is assessed:

- through Board-approved risk appetite statements for each of the QBE risk categories;
- through the approved business plan objectives, including return on risk-adjusted capital, in terms of capital adequacy and through detailed risk limits;
- within the delegation of authority from the Board to the Group Chief Executive Officer; and
- within Group policies covering key risk areas.

The Group's risk appetite statements are reviewed by senior management at least once a year and approved by the Board.

One ERM

The One ERM initiative was started in 2012 and has been rolling out during 2013. This provides a refined approach to enterprise risk management (ERM), increasing consistency of approach and streamlining and enhancing risk management globally.

2014 will see us move to a more global risk management operating model, building on the enhanced ERM processes. InfoRM, our Group-wide risk management software system, supports sharing of leading practices and knowledge across all of QBE's divisions and geographies and is being enhanced to further support the improved processes under the One ERM.

Allocation of capital

QBE uses an economic capital model (ECM) to help assess risk and calculate the appropriate level of risk-based capital to allocate to all the risks to which the Group is exposed. This capital allocation is used in determining the required returns on capital for QBE's incentive schemes. The allocation of risk-based capital helps ensure that the risk taken by the Group is commensurate with required returns and is within the Board's risk appetite. Risk-based capital enables QBE to make decisions which involve quantitative risk /reward trade-offs.

Regulatory developments

The insurance regulatory environment in which QBE operates continues to evolve, with international developments around a common framework for supervision of international groups being particularly relevant. QBE takes a proactive approach to managing and mitigating insurance regulatory risk globally. We continue to believe that there is a material commercial benefit in adopting a "best practice before" rather than a "meet minimum after" approach to regulation. A proactive approach better enables QBE to develop practices which are suited to our business.

QBE is subject to more than 30 different local insurance regulatory capital requirements and various "whole-Group" requirements around the world.

Despite differences in the insurance regulatory frameworks across many jurisdictions, QBE's regulatory strategy remains consistent in providing assurance to senior management, the Group Executive and the Board regarding Group compliance with regulatory requirements; aiming to minimise regulatory burden and cost across the Group; and, supporting the efficient use of capital in line with regulatory and other requirements.

George Thwaites
Group Chief Risk Officer

Risks and mitigations

The following table provides some examples of the types of key risks QBE faces, drivers of these risks and mitigation. The section on 2013 performance above provides more detail on the actual application of the framework in mitigating risk and managing outcomes when events do occur.

RISK TYPE	KEY DRIVERS	MITIGATION
Strategic risk The current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change.	• Changes in the external environment including competitive landscape, customer behaviour and distribution models. • Business strategy and change, investment strategy and corporate governance. • Risks related to acquisitions and capital management.	• Considering strategic options in light of the impact on return volatility and capital requirements. • Scenario planning augmented by use of an economic capital model in assessing capital requirements and allocation for insurance, credit, market, liquidity and operational risks. • Planning and monitoring capital levels on an ongoing basis, with reference to regulatory and rating agency requirements and other benchmarks. • Assessing acquisition strategic fit and setting minimum requirements for conducting due diligence.
Insurance risk The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.	• Natural or man-made catastrophic events. • Pricing of individual insurance contracts. • Insurance claims.	• Maintaining historical pricing and claims analysis. • Setting a tolerance to concentration risk and aggregate monitoring. • Ensuring consistency of provisioning practices across all divisions. • Performance monitoring and management. • Reinsurance. • In-house and external actuarial review of claims provisions independent of underwriting teams.
Credit risk The risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality.	• Reduction or delay in repayments or interest payments from the default of a counterparty such as a bond issuer, policyholder or reinsurer.	• Group-wide credit risk policies. • Setting net exposure limits for each counterparty in relation to deposits and investments. • Strict guidelines covering limits and terms of net open derivative positions. • Maximising placement of reinsurance with highly rated and regarded counter parties and limiting concentration of exposure.
Market risk The risk of variation in the value of investments due to movements in market factors. Market factors include but are not limited to: interest rates, credit spreads, foreign exchange rates and equity prices.	• Market dynamics. • Change in market value and/or volatility of portfolios. • Changes in interest rates or shape of yield curve. • Changes in spot/forward currency rates, volatility and correlations.	• Active asset/liability management of major currency holdings in business units. • Tactical asset allocation and appropriate hedging. • Diversified portfolio. • Hedging net investments in foreign operations with foreign currency borrowings. • Monitoring residual exposure to net investment in foreign operations.
Liquidity risk The risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors.	• Cash inflows from premiums, investment income, capital injections, dividends and loans. • Cash outflows for claims and redemptions, debt service requirements, tax payments, dividends and expenses. • Cash collateral requirements.	• Stress testing of liquidity needs relative to major catastrophe events. • Holding a minimum percentage of consolidated investments and cash in liquid short-term money market securities. • Negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries. • Maintaining sufficient liquidity in investment portfolios to address claims needs. • Short-term borrowing facilities. • Management of asset maturity patterns.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events, including legal risk.	• Systems errors or failure in information that impacts delivery of services. • Failure of key processes and controls resulting in losses.	• Active monitoring of key processes. • Business continuity and disaster recovery planning and testing. • Scenario reviews to identify and quantify potential exposures for mitigation. • Use of external loss databases and shared learning from internal incidents and near misses. • Effective segregation of duties, access controls, authorisation and reconciliation.

Skills, experience & knowledge

Belinda Hutchinson AM

BEC, FCA, FAICD

Chairman

Age 60

Belinda Hutchinson is based in Australia and was appointed as an independent non-executive director of QBE in September 1997 and became Chairman in July 2010. Belinda is a member of the Audit, Investment, Remuneration and Risk and Capital Committees.

Belinda is a director of AGL Energy. She is also Chancellor of the University of Sydney. Belinda was previously a director of Telstra, Coles Myer, Energy Australia, TAB Limited, Crane Group and Sydney Water.

During her executive career, Belinda was an executive director of Macquarie Group and, prior to this, a vice president at Citibank Australia.

Marty Becker

JD, BSBA

Non-executive director and Deputy Chairman

Age 61

Marty Becker is based in both West Virginia and Florida in the US. He was appointed as a non-executive director of QBE in August 2013 and Deputy Chairman in December 2013. Marty is a member of the Risk and Capital Committee.

Marty previously served as President and Chief Executive Officer of Alterra Capital Holdings Limited and is the current Chairman of West Virginia Media Holdings. Marty has over 35 years experience in general insurance, reinsurance, investment banking and private equity and has held various insurance and reinsurance executive positions.

Duncan Boyle

BA, FCII, FAICD

Non-executive director

Age 62

Duncan Boyle is based in Australia and was appointed as an independent non-executive director of QBE in September 2006. Duncan is Chairman of the Audit Committee and a member of the Remuneration Committee.

Duncan is a director of Clayton Utz lawyers and Stockland Trust Group. He started his career as an underwriter in London and Melbourne with a focus on large commercial risks including workers' compensation, liability, motor and property. He progressed to CEO of RSA UK, which was at the time the second largest commercial and third largest personal lines insurer in that market.

John Graf

BA

Non-executive director

Age 54

John Graf is based in the US and was appointed as an independent non-executive director of QBE in August 2012. John is Chairman of the Investment Committee and a member of the Risk and Capital Committee.

John is a non-executive director of the financial services company Global Atlantic Financial Group Ltd. John has over 32 years experience in the US financial services industry including senior executive positions with AXA Financial Inc., American General Corporation, Conseco Inc. and John Hancock Financial Services.

John M Green

B JURIS/LLB, FAICD, SF FIN

Non-executive director

Age 61

John M Green is based in Australia and was appointed as an independent non-executive director of QBE in March 2010. John is Chairman of the Risk and Capital Committee and a member of the Investment and Remuneration Committees.

John is a non-executive director of WorleyParsons Limited, a member of the Takeovers Panel in Australia, a member of the Council of the National Library in Australia, a book publisher at Pantera Press, a novelist and a business writer. As an executive director at Macquarie Bank and before that as a partner at two major law firms, John advised numerous insurance and financial services companies.

Isabel Hudson

MA, FCII

Non-executive director

Age 54

Isabel Hudson is based in the UK and was appointed as an independent non-executive director of QBE in November 2005. Isabel is Chairman of the Remuneration Committee and is a member of the Audit Committee.

Isabel is Chairman of the National House Building Council and a director of Phoenix Group Holdings and the Pensions Regulator in the UK. She is also an ambassador for the UK charity Scope. Isabel has 33 years experience in the insurance industry in the UK and mainland Europe.

Margaret Leung

BEcon

Non-executive director

Age 61

Margaret Leung is based in Hong Kong, and was appointed as a non-executive director of QBE in August 2013. Margaret is a member of the Audit Committee and the Risk and Capital Committee.

Margaret was previously the Chief Executive Officer of Hang Seng Bank Limited, a position she held from February 2009 to May 2012. Margaret is a director of China Construction Bank Corporation, Chong Hing Bank, Hong Kong Exchanges and Clearing Limited, Sun Hung Kai Properties, Li & Fung Ltd and First Pacific Company Limited.

John Neal

Group Chief Executive Officer

Age 49

John Neal joined QBE in 2003 and was appointed Group Chief Executive Officer in August 2012. Prior to his current role, John held the position of Chief Executive Officer of Global Underwriting Operations and previously held several leadership positions in QBE's European Operations, most recently as Chief Underwriting Officer.

John has over 26 years experience in the insurance industry and, before joining QBE, John was the Chief Executive Officer of Ensign, a Lloyd's managing agent. John developed Ensign to become the UK's leading commercial motor insurance brand. QBE acquired Ensign in 2003.

Making it happen

John Neal

Group Chief Executive Officer

Age 49

John Neal joined QBE in 2003 and was appointed Group Chief Executive Officer in August 2012. Prior to his current role, John held the position of Chief Executive Officer of Global Underwriting Operations and previously held several leadership positions in QBE's European Operations, most recently as Chief Underwriting Officer.

John has over 26 years experience in the insurance industry and before joining QBE, John was the Chief Executive of Ensign, a Lloyd's managing agent. John developed Ensign to become the UK's leading commercial motor insurance brand. QBE acquired Ensign in 2003.

Neil Drabsch

FCA, FAICD, FCIS

Group Chief Financial Officer

Age 65

Neil Drabsch joined QBE in 1991 and was appointed Group Chief Financial Officer in 1994. Prior to his current role, Neil was Group Company Secretary.

Neil has more than 47 years experience in insurance and reinsurance management, finance and accounting, including 24 years as a practicing chartered accountant. Neil participates in a number of representative committees for the Insurance Council of Australia in relation to finance and industry matters and the development of Australian accounting standards for general insurance.

David Duclos

BSBA

Chief Executive Officer, North American Operations

Age 56

David Duclos was appointed Chief Executive Officer of QBE's North American Operations in April 2013. Before joining QBE, David held various management positions at XL, most notably as Chief Executive of Insurance in which he was responsible for all global insurance operations.

David has more than 30 years experience in the insurance industry. He began his career at INA/CIGNA as an underwriter, where he spent 21 years, rising to a variety of regional and national management roles. David also worked in senior level positions at Kemper Insurance.

Colin Fagen

B COM, MBA

Chief Executive Officer, Australian & New Zealand Operations

Age 46

Colin Fagen joined QBE in 1998 and was appointed Chief Executive Officer, Australian Operations in 2011. This was expanded to include New Zealand Operations in 2012. Prior to his current role, Colin was the Executive General Manager, Intermediary Distribution for Australian Operations.

Colin has 23 years experience in the general insurance industry, having held a variety of operational roles. Colin is a director of the Australian and New Zealand Institute of Insurance and Finance and the Insurance Council of Australia.

David Fried

ECON/ POL. SCIENCE

Chief Executive Officer, Asia Pacific Operations

Age 52

David Fried joined QBE in April 2013 when he was appointed Chief Executive Officer, Asia Pacific Operations.

Prior to joining QBE, David was the Regional Chief Executive Officer of Allianz Asia Pacific, where he was responsible for the insurer's life and non-life business across 14 countries. David was previously at HSBC for 27 years, where he worked in numerous senior management and global strategic roles, including as the Group Head of Insurance where he managed HSBC's insurance operations across 54 countries.

Richard Pryce

B HIS (HONS)

Chief Executive Officer, European Operations

Age 54

Richard joined QBE in September 2012 and was appointed Chief Executive Officer, European Operations in October 2013.

Richard began his underwriting career with R.W Sturge syndicate in Lloyd's where he became Claims Director. In 1996, Richard moved to Oakham (which was subsequently acquired by ACE) as Professional Lines Class Underwriter for Syndicate 204. Richard went on to run their Financial Lines business in London before becoming President of ACE UK. Richard has worked in the London insurance market for 30 years.

Jenni Smith

MBA

Group Executive Officer, People and Communications

Age 51

Jenni Smith joined QBE in 2003 and holds the role of Group Executive Officer, People and Communications. Jenni is also the Chair of the QBE Foundation.

Jenni has substantial international experience, having held executive roles in the UK advertising and television industry. Before joining QBE, Jenni held the position of General Manager Human Resources, International at Telstra Corporation.

Jose Sojo

B BUS, M ECON/POL. SCIENCE

Chief Executive Officer, Latin American Operations

Age 42

Jose Sojo joined QBE in 2001 and was appointed Chief Executive Officer, Latin American Operations in 2011. Prior to his current role, Jose was General Manager, Latin America where he was responsible for QBE´s expansion from a one country operation to the current business in seven countries in Latin America.

Jose currently chairs the Group´s Underwriting and Distribution Forum, working on several global initiatives for QBE. Jose has been involved in the insurance industry for 18 years, gaining underwriting and management experience at Gen Re and HIH Argentina. It was QBE's acquisition of HIH Argentina in 2001 that brought Jose to QBE.

George Thwaites

B ENG (HONS), ACA

Group Chief Risk Officer

Age 48

George Thwaites joined QBE in 1999 and was appointed Group Chief Risk Officer in 2005. Prior to his current role, George was Financial Controller for QBE's Asia Pacific Operations.

George has been involved in the insurance industry for over 18 years and previously worked in the accounting profession. George has gained extensive global experience advising financial institutions across the UK, Canada and Australia.

Corporate governance statement

QBE places importance on robust corporate governance and being a good corporate citizen. The Group has a vision and six ONE QBE values that recognise its customers, people, shareholders and the community. QBE believes that a culture that rewards transparency, integrity and performance will promote its long-term sustainability and the ongoing success of its business.

This corporate governance statement aims to disclose in summary form as clearly and objectively as possible QBE's corporate governance standards and practices so that they can be readily understood by our shareholders, policyholders and other stakeholders. QBE also continues to focus on other equally important issues such as the strength of its outstanding claims provision and the quality of its reinsurance protections.

The ASX Corporate Governance Council (ASX CGC) has issued eight principles and, as part of them, made 30 recommendations. Each principle is discussed below:

ASX CGC principle 1: lay solid foundations for management and oversight

Board functions

In accordance with its charter, the Board:

- oversees corporate governance;
- selects and supervises the Group Chief Executive Officer;
- provides direction to management;
- approves the strategies and major policies of the Group;
- monitors performance against plan;
- considers regulatory compliance;
- monitors people-related strategies (including people development and succession planning); and
- reviews information technology and other resources.

The Board ensures it has the information it requires to be effective including, where necessary, independent professional advice. A non-executive director may seek such advice at the company's cost with the consent of the Chairman. All directors would receive a copy of such advice. Non-executive directors may attend relevant external training courses at QBE's cost with the consent of the Chairman.

Strategic issues are reviewed at least annually by the Board. To help the Board maintain its understanding of the business and to effectively assess management, directors have regular presentations by the divisional chief executive officers and other senior managers of the various divisions on topics, including budgets, three year business plans and operating performance. The Board receives updated forecasts during the year. They have contact with senior employees at numerous times and in various forums during the year. Visits by non-executive directors to the Group's offices in key locations are encouraged. The Board meets regularly in Australia and, due to QBE's substantial overseas operations, usually spends time in the UK and the US each year. The Board visited the Group's operations in London and Brussels in June and in New York and Irvine, California in October.

The Board also met in Manila in May to review the new Group Shared Services Centre.

Each meeting normally considers reports from the Group Chief Executive Officer and the Group Chief Financial Officer, together with other relevant reports. The Board regularly meets in the absence of management. The Chairman and Group Chief Executive Officer in particular, and Board members in general, have substantial contact outside Board and Committee meetings.

The Board delegates responsibility to the Group Chief Executive Officer for management of the business on a day to day basis.

Committees

The Board is supported by several committees which meet regularly to consider audit, risk management, investments, remuneration and other matters. The main Committees of the Board are the Audit, Investment, Remuneration and Risk and Capital Committees. Committees operate under a written charter approved by the Board. Any non-executive director may attend a Committee meeting. The Committees have free and unfettered access to QBE's senior managers during their meetings and may consult external advisers at QBE's cost, including requiring their attendance at Committee meetings. Committee membership is reviewed regularly. The Chairman of the Investment Committee changed in August 2013 following Ms IYL Lee's retirement.

A report on each Committee's last meeting is provided to the next Board meeting. The Company Secretary acts as secretary to all of the Committees. Details of directors' attendance at Board and Committee meetings are outlined in the table of meeting attendance set out in the directors' report on page 86.

Delegated authorities

QBE has operated under an extensive written system of delegated authorities for many years. In particular, a written delegated authority with specified limits is approved by the Board each year to enable the Group Chief Executive Officer to conduct the Group's business in accordance with detailed budgets and business plans. This authority deals with topics such as underwriting, reinsurance protection, claims, investments, acquisitions and expenses. The Group Chief Executive Officer delegates his authority to management throughout the Group on a selective basis taking into account expertise and past performance. Compliance with delegated authorities is closely monitored by management and adjusted as required for actual performance, market conditions and other factors. Management and the Group's internal audit teams review compliance with delegated authorities and any breach can lead to disciplinary procedures, including dismissal in serious cases.

Evaluating senior executives

The Remuneration Committee receives information on the performance of the Group Executive, being the senior executives as defined by the ASX CGC (namely those employees who have the opportunity to materially influence the integrity, strategy, operation and financial performance of the QBE Group).

A performance development plan (PDP) involves a meeting between the relevant member of the Group Executive, the Group Chief Executive Officer and the Group Executive Officer, People and Communications to:

- review past performance;
- discuss career opportunities; and
- consider areas of further development.

PDPs occur periodically in accordance with the process above, and several took place in 2013. In addition, the Board continually monitors the performance of the Group Executive through regular contact and reporting.

ASX CGC principle 2: structure the Board to add value

Board of directors

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Group's insurance activities. Details of individual directors are included on pages 74 and 75 and can also be found on the QBE website at www.qbe.com. The Board currently comprises eight directors including an independent Chairman, the Group Chief Executive Officer and six independent non-executive directors applying the "independence" definition of the ASX CGC. Applying this definition, the Board has determined that a non-executive director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of revenue.

The roles of Chairman and Group Chief Executive Officer are not exercised by the same individual.

The period for which a director has served on a board is not part of the ASX CGC's independence definition. Nevertheless, as a general guide, the Board has agreed that a non-executive director's term should be approximately 10 years. The Board considers that a mandatory limit on tenure would deprive the Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. Ms BJ Hutchinson AM has been a non-executive director since September 1997 and Chairman since July 2010. She was re-elected as a director at the 2012 AGM. QBE's other directors believe that Ms Hutchinson AM continues to exercise independent judgment and, through her QBE experience, makes an important contribution. They also believe that the Chairman's experience gained from directorships in other businesses provides an advantage to QBE.

In December 2013, Ms BJ Hutchinson announced her retirement as Chairman effective 31 March 2014. Mr WM Becker was appointed Deputy Chairman and will succeed her. Mr DM Boyle will then become Deputy Chairman.

The Chairman oversees the performance of the Board, its committees and each director. The Board regularly reviews its performance. The Chairman reports the overall result to the Board and it is discussed by all directors. Recommendations for either improvement or increased focus are agreed and then implemented. The board review procedure includes written answers and questions completed confidentially by each director. The board review will be completed in accordance with the process above in April 2014. The board review includes the Audit, Investment, Remuneration and Risk and Capital Committees. As part of the current board review, the other directors determined to support, via the notice of meeting, the election of Mr WM Becker and Ms MMY Leung as directors at the 2014 AGM.

QBE's constitution provides that no director, except the Group Chief Executive Officer, shall hold office for a continuous period in excess of three years or past the third AGM following a director's appointment, whichever is the longer, without submission for re-election at the next AGM. Under QBE's constitution, there is no maximum fixed term or retirement age for non-executive directors.

Directors advise the Board on an ongoing basis of any interest they have that they believe could conflict with QBE's interests. If a potential conflict does arise, either the director concerned may choose not to, or the Board may decide that he or she should not, receive documents or take part in board discussions whilst the matter is being considered.

Board selection process

The Board believes that its composition, including selection, appointment, renewal and retirement of members, is of such importance that it is the role of the Board as a whole to review. As a result, all directors are members of the new Nomination Committee that was established in May 2013.

The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. Directors consider the size and composition of the Board regularly and at least once a year as part of the Board review procedure. The Board has a skills matrix covering the competencies and experience of each member. When the need for a new director is identified, the required experience and competencies of the new director are defined in the context of this matrix and any gaps that may exist. Generally a list of potential candidates is identified based on these skills required and other issues such as geographic location and diversity criteria. External consultants may be employed where necessary to search for prospective board members. Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates are sought who have insurance experience, a proven track record in creating shareholder value, utmost integrity, a commitment to corporate governance, the required time to commit to the position, a strategic mindset, a preparedness to constructively question and challenge and an independence of mind. The Board adopted revised non-executive director nomination, performance evaluation and tenure guidelines in May 2013.

In accordance with QBE's constitution, the number of directors shall not be more than the number as determined by the current directors.

During the year, Mr CLA Irby and Ms IYL Lee retired as directors in March and August respectively and Mr WM Becker and Ms MMY Leung were appointed as directors in August 2013.

ASX CGC principle 3: promote ethical and responsible decision making

Group governance framework

The Board approved a new framework in May 2013. In particular, this includes:

- revised roles for the boards of divisional holding companies and divisional insurers;
- divisions having committees similar to the Group Board; and
- revamped executive committees at Group and divisional levels.

The framework has largely been implemented in terms of divisional insurer boards and their committees. New non-executive directors have been appointed. Each divisional insurer board for Australia and New Zealand, Asia Pacific, Europe and North America is now chaired by an independent non-executive director who lives locally and includes at least another two local independent non-executive directors.

The composition of a divisional insurer board includes non-executive directors and divisional executives, who meet at least four times a year.

The linkages between the Board, divisional holding company directors and divisional insurer directors have been increased by having common directors. Mr WM Becker was and Mr JA Graf is currently a director of the holding and insurer boards in North American Operations.

The Board meets separately with local non-executive directors once a year.

Corporate governance statement CONTINUED

These changes followed a review of governance at Group and divisional levels.

As a result of the review, five principles were agreed dealing with the role of the board; board composition; board committees – role, nature and composition; executive committees – role, nature and composition; and service company governance arrangements. Reporting mechanisms and information flows remain under consideration.

Insurance and other regulation

General insurance and, to a lesser extent, reinsurance are heavily regulated industries. In addition to accounting, legal, tax and other professional teams, QBE has personnel who focus on regulatory matters. Regulators in Australia include the Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission, APRA, the Australian Privacy Commissioner and relevant state authorities for compulsory third party motor insurance and workers' compensation insurance. These regulatory bodies enforce laws which deal with a range of issues, including capital requirements and consumer protection. Similar local laws and regulations apply to the Group's operations outside Australia.

Group guidelines

The Group has adopted a revised code of business ethics and conduct for employees and non-executive directors and involving both legal obligations and the reasonable expectations of stakeholders. This code requires that business be carried out in an open and honest manner with our customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with confidentiality, conflicts of interest and related matters.

Divisions may develop codes of conduct based on the Group code above, with some differences to allow for the requirements of the particular countries in which the division operates.

There are other policies covering anti-discrimination, employment, harassment, QBE values and behaviours, health and safety, privacy, whistle-blowing and many other business practices. These policies, like the code of business ethics and conduct, are underpinned by the Group's vision and values statements. The vision and values statements form part of the induction information given to new employees.

QBE in Australia follows the general insurance code of practice, a self-regulated code developed by the Insurance Council of Australia (ICA) relating to the provision of products and services to customers of the general insurance industry in Australia. The code was reviewed by an independent consultant for the ICA during 2013. A revised code was adopted by the ICA in February 2014, to commence on 1 July 2014 with a 12 month transition period.

QBE in Australia is a member of the Financial Ombudsman Service, an ASIC approved external dispute resolution body which deals with general insurance disputes between consumers and insurers.

Similar insurance practice rules apply to the Group in certain other countries outside Australia.

The following documents are available either in the corporate governance area of QBE's website or on request from a company secretary:

- Board charter;
- Audit, Investment, Remuneration, Risk and Capital and Nomination Committee charters;
- non-executive director nomination, performance evaluation and tenure guidelines;
- trading policy for dealing in securities of QBE Insurance Group Limited or other entities by directors and senior Group executives;
- code of business ethics and conduct;
- workforce diversity policy;
- continuous disclosure guidelines;
- shareholder communication guidelines; and
- QBE's constitution.

Diversity and inclusion

The Group aims to create a workplace that is fair, diverse and inclusive in order to attract and retain the best people. QBE in Australia has been assessed as compliant with the Workplace Gender Equity Act (for locally-based employees) for 2013.

In 2010, QBE considered changes to the ASX CGC's Principles and Recommendations with regard to gender diversity. These changes were integrated into the workforce diversity policy that was first approved by the Remuneration Committee in December 2010 under its charter from the Board. The policy has been communicated to employees across the Group to promote awareness and proactive management practices regarding workplace diversity and inclusion. The Group embraces diversity, including differences in ethnic background, gender, age, sexual orientation, religion and disability.

QBE has the unique opportunity to generate real value from diversity of thought and experiences. We operate in 43 countries and our aim is to leverage this footprint for the benefit of our customers and our people. We are actively creating collaboration opportunities to generate this diversity of thought and ensure that areas of strong organisational capability are leveraged as widely as possible. Our global mobility program creates opportunities to accelerate the value that can be created from our global footprint.

Divisional CEOs manage divisional diversity and inclusion plans aimed at creating a work environment that realises the value that is created from building a diverse and inclusive workplace.

Specific objectives include:

- reasonable participation of women in senior leadership roles;
- participation of women in accelerated talent programs that provide development focused on attainment of leadership roles;
- regular monitoring and management of pay equity between women and men within job families in each region;
- improved awareness of options for flexible working arrangements and family support programs available in each region; and
- availability of employee education specific to the benefits of work force diversity and manager education, focusing on work force diversity management, including role redesign to encourage flexible working arrangements.

In 2013, strong momentum has been established in each of the divisions in QBE through targeted areas of focus including:

- the proactive career development of identified high potential females with the aim of creating an environment where these high potentials are championed into critical experiences and roles;
- the launch of business resource groups that create network and connecting points across different segments of our workforce; and
- using e-learning to share the value and impact a diverse and inclusive workforce generates and the role each of our people plays to create a culture that truly embraces diversity in all of its forms.

1 Highlights & overview
2 Business review
3 Governance
4 Directors' report
5 Financial report
6 Other information

In order to leverage the momentum established in the divisions and to make diversity and inclusion integral to the culture of QBE, QBE has established a Group Diversity Council. The Council is responsible for reviewing and making recommendations to the Remuneration Committee on the Group's workforce diversity and inclusion practices and objectives. This Council is chaired by the Group Chief Executive Officer and consists of senior executives from each of the divisions to ensure key initiatives are implemented at a local level.

The Council will be supported by a Group Head of Diversity and Inclusion to develop and implement the diversity and inclusion strategy across all of QBE. Her primary focus will be to ensure that diversity and inclusion initiatives and policies are aligned globally, as well as building and sustaining strategic alliances with diversity and inclusion organisations and networks to share learnings and insights.

Building on the progress in 2013, a plan has been put in place for 2014 to continue the positive momentum across QBE in the area of diversity and inclusion. The plan has three key components:

1. **Embedding** diversity in to our key processes;
2. **Developing** our leaders and broader workforce to embrace diversity and inclusion in all of its forms; and
3. **Taking** a visible and strong stand on diversity and inclusion, both internally and externally.

Diversity measurement

Given QBE's commitment to creating a culture of diversity and inclusion around the Group, we have put in place measurable objectives for fostering inclusive, diverse workgroups. These measures will be added to performance objectives for leaders at the top three levels of the organisation.

Additionally, QBE has set specific targets to ensure gender diversity across the Group. The target remains for 25% of all senior head office roles and 20% of all senior roles within the divisions to be held by females. A summary of women's roles at QBE is provided below:

DIVERSITY OBJECTIVE	31 DECEMBER 2013	31 DECEMBER 2012
Women in workforce	**56%**	56%
Group Board positions	**38%**	38%
Group Executive positions	**11%**	11%
Senior executive positions (Group head office)	**23%**	24%
Senior executive positions (divisions)	**19%**	19%

The focus on gender diversity will continue as a matter of priority across the Group.

Share trading policy

QBE revised its policy in 2013 for directors and senior Group executives relating to the purchase and sale of QBE securities. This is in addition to the insider trading provisions of the *Corporations Act 2001*. In particular, the policy states that directors and senior Group executives should:

- never actively trade the company's securities;
- not hedge unvested entitlements as well as not hedge vested entitlements counting towards an executive's minimum shareholding requirement;
- notify any intended transaction to nominated people within the Group, including notification of any hedging; and
- QBE will disclose any hedging in the remuneration report.

The policy identifies set periods during which directors or senior Group executives may buy or sell QBE's securities, being one to 30 days after each of the release of QBE's half year results, the release of QBE's annual report and the date of the AGM, and also one day after the issue of any prospectus until the closing date. The policy also allows for trading after exceptional circumstances. Any QBE share dealings by directors are promptly notified to the ASX.

ASX CGC principle 4: safeguard integrity in financial reporting

Audit Committee

The membership of the Audit Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr DM Boyle (Chairman), Ms IF Hudson, Ms BJ Hutchinson AM and Ms MMY Leung.

The role of the Audit Committee is to oversee the integrity of QBE's financial reporting process. This includes review of:

- financial reporting to APRA, ASIC, the ASX and shareholders;
- financial reporting risks;
- the Group's accounting policies, practices and disclosures; and
- the scope and outcome of external and internal audits.

This Committee's scope includes reviewing the financial statements (including items such as the outstanding claims provision and reinsurance recoveries), internal controls, financial reporting, tax compliance and significant changes in accounting policies.

Other non-executive directors normally attend Audit Committee meetings which consider the 30 June and 31 December financial reports. Meetings of this Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Actuary, the Group Chief Risk Officer, the Group Head of Internal Audit and the external auditor. As appropriate, other relevant senior managers also attend.

The Audit Committee has free and unfettered access to the external auditor. The external auditor, the Group Head of Internal Audit and the Group Chief Actuary have free and unfettered access to the Committee.

External auditor independence

QBE firmly believes that the external auditor must be, and must be seen to be, independent. The external auditor confirms its independence in relation to the 30 June and 31 December financial reports and the Audit Committee confirms this by separate enquiry. The Audit Committee has contact with the external auditor in the absence of management in relation to the 30 June and 31 December financial reports and otherwise as required. The external auditor normally confers with the Audit Committee in the absence of management as part of each meeting.

QBE has issued an internal guideline on external auditor independence. Under this guideline, the external auditor is not allowed to provide the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, it cannot act in a management capacity, as a custodian of assets or as share registrar.

The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. QBE may engage the external auditor for non-audit services other than 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.

Corporate governance statement CONTINUED

The external auditor has been QBE's auditor for many years. As a diverse international group, QBE requires the services of one of a limited number of international accounting firms to act as auditor. The Audit Committee approves the audit plan each year and receives regular information on the external auditor's fees. QBE also considers the terms of engagement of the external auditor every few years, the last occasion concluding in January 2012. The *Corporations Act 2001*, Australian professional auditing standards and the external auditor's own policy deal with rotation and require rotation of the lead engagement partner after five years. In accordance with such policy, the lead engagement partner of the external auditor rotated in 2009 and will rotate again in 2014.

Actuarial review

It is a longstanding practice of the directors to ensure that the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims provision is reviewed by experienced internal actuarial staff. Actuarial staff are involved in forming an independent view, separate from management, of the central estimate and the probability of adequacy of the outstanding claims provision and premium liabilities, premium rates and related matters. Approximately 96% of QBE's central estimate is also reviewed by external actuaries. External actuaries are generally from organisations which are not associated with the external auditor.

CEO/CFO certificates

The Group Chief Executive Officer and Group Chief Financial Officer provide the Board with certificates in relation to risk management and internal control as recommended by the ASX CGC and on the financial reports as required by the *Corporations Act 2001*.

Internal audit

A global internal audit function is critical to the risk management process. QBE's internal audit function reports to senior management and the Audit Committee on the monitoring of the Group's worldwide operations. Internal audit provides independent assurance that the design and operation of the controls across the Group are effective. The internal audit function operates under a written charter from the Audit Committee. Other governance documents include a reporting protocol, internal audit manual, internal audit issue rating system, internal audit opinion levels and internal audit timetables. A risk-based internal audit approach is used so that higher risk activities are reviewed more frequently. The Group's internal audit teams work together with the external auditor to provide a wide audit scope.

Investment Committee

The membership of the Investment Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr JA Graf (Chairman), Mr JM Green and Ms BJ Hutchinson AM. Meetings of the Investment Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Investment Officer and the Group Chief Financial Officer. As appropriate, other relevant senior managers also attend.

The role of the Investment Committee is to oversee QBE's investment activities. This includes review of:

- investment strategy;
- investment risk management; and
- investment exposures across asset classes and counterparties.

The Investment Committee's scope includes review of economic and investment conditions as they relate to QBE and overseeing investment performance, including the performance of any defined benefit superannuation funds sponsored by QBE.

ASX CGC principle 5: make timely and balanced disclosure

Continuous disclosure

ASX Listing Rule 3.1 requires QBE to inform the ASX immediately once QBE is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of QBE's shares. Procedures are in place to ensure that items which potentially require announcement to the ASX are promptly notified to Group head office for assessment and released as required. Depending upon content, either the Board or the Group Chief Executive Officer is responsible for authorising market releases. All market releases are posted to the Group's website.

QBE takes the spirit of its continuous disclosure obligations seriously and issues market releases during the year to satisfy those obligations. A list of the material releases made since 1 January 2013 is included on page 188.

ASX CGC principle 6: respect the rights of shareholders

Communication with shareholders

The *Corporations Act 2001* no longer requires QBE to distribute an annual report to all shareholders except to those who elect to receive it. QBE also produces a half year report which is sent to all shareholders who elect to receive it. Both reports are available on the QBE website. The website also contains historical and other details on the Group. Shareholders can discuss their shareholding with either the shareholder services department or the share registrar, both located in Sydney.

The AGM is held in Sydney each year, usually in April; in 2014, it will be held on 2 April. Shareholders are encouraged to attend the AGM in person or by proxy. Most resolutions in the notice of meeting have explanatory notes. During the AGM, shareholders may ask questions of either the Chairman or the external auditor.

Communications with analysts, investors, media, rating agencies and others

The Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group General Counsel and Company Secretary, Global Head of Investor Relations, divisional chief executives and divisional finance officers generally deal with analysts, investors, media, rating agencies and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the Group's website. The 30 June and 31 December presentations are also webcast live and subsequently archived on the Group's website.

ASX CGC principle 7: recognise and manage risk

Risk and Capital Committee

This Committee had its first meeting in June 2013 (the previous Funding Committee had its last meeting in February 2013).

The membership of the Risk and Capital Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr JM Green (Chairman), Mr WM Becker, Mr JA Graf, Ms BJ Hutchinson AM and Ms MMY Leung. Meetings of the Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Financial Officer and Group Chief Risk Officer. As appropriate, other relevant senior managers also attend.

The role of the Risk and Capital Committee is to oversee the design and implementation of QBE's risk management framework together with the Group's capital requirements.

The Committee's scope includes reviewing:

- the process of risk identification, its assessment and management actions as a consequence;
- material risks, including emerging risks;
- QBE's internal capital adequacy assessment process, including its economic capital model as well as its stress and scenario testing; and
- rating agency and regulatory criteria on capital.

Risk management

QBE's core business is the underwriting of risk.

It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of quality business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE'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.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of proven employees skilled in such products allows QBE to lead underwrite in many of the markets in which we operate. Geographic diversification is achieved by operating in 43 countries.

QBE has a global risk management framework that defines the risks that QBE is in business to accept and those that we are not, together with the material business risks that QBE needs to manage and the framework and standards of control that are needed to manage those risks.

The foundation of our risk management is the obligation and desire to manage our future and create wealth for our shareholders by maximising profitable opportunities through:

- achieving competitive advantage through better understanding of the risk environment in which we operate;
- optimising risk and more effectively allocating capital and resources by assessing the balance of risk and reward;
- adequate pricing of risk;
- avoiding unwelcome surprises by reducing uncertainty and volatility, such as by controlling aggregate exposures and maintaining sound reinsurance arrangements;
- complying with laws and internal procedures; and
- improving resilience to external events.

The Group has established internal controls to manage material business risks in the key areas of exposure relevant to QBE. The broad risk categories are strategic risk, insurance risk, credit risk, market risk, liquidity risk, operational risk and group risk. Internal controls and systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and foreign exchange exposures are within predetermined guidelines.

The Board approves a comprehensive risk management strategy (RMS) and reinsurance management strategy (REMS), both of which are lodged with APRA. The RMS outlines the principles, framework and approach to risk management adopted by the Group, deals with all areas of significant business risk to the Group and outlines the Group's risk appetite. The REMS covers topics such as the Group's strategy in respect of the selection, approval and monitoring of all reinsurance arrangements. The Group's reinsurance management framework is made up of the Group Reinsurance Forum (determines risk appetite and reinsurance strategy), the Group Security Committee (assesses reinsurer counterparty security), the Group Aggregate Management Committee (monitors aggregate accumulation), the Group Technical Committee (controls the adequacy of reinsurance coverage) and finally the Group Commutations Committee (facilitates Group commutation opportunities). The Committees meet regularly throughout the year and report as required to the Group Reinsurance Forum.

While the RMS and REMS are approved by the Board, QBE believes that managing risk is the day to day responsibility of the Group head office and the business units, and that all staff need to understand and actively manage risk. The business units are supported by risk management teams, compliance teams and by senior management. Further information on risk management is provided on pages 70 to 73 of the annual report and in note 5 to the financial statements.

Management has reported to either the Risk and Capital Committee or the Board on the effectiveness of QBE's management of its material business risks.

Environmental risk management

QBE is a corporation involved in an industry that seeks to play a role, in conjunction with governments, individuals and organisations, in managing and reducing environmental risk. In an initiative to collaborate with the United Nations Environment Program, QBE, together with a number of other major international insurers, is a signatory to a statement of environmental commitment by the insurance industry.

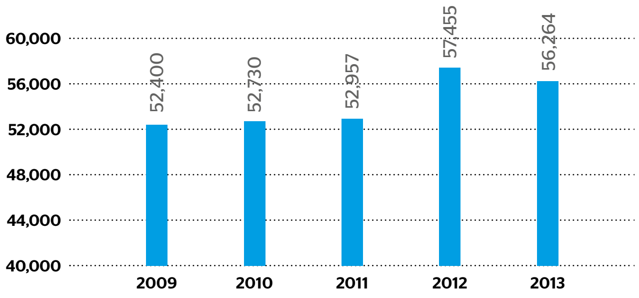
The Group Chief Risk Officer is responsible for monitoring and managing ongoing risks and opportunities relating to climate change in order to mitigate any adverse effect on QBE's businesses and to protect shareholders' funds. Reports have been provided to the former Audit and Risk Committee.

Measurement of the Group's environmental impact to date has focused on two key carbon emission metrics, being business air travel and electricity usage. Based on these key metrics, the Group's estimated carbon emissions (CO_2e) for 2013 were 56,264 tonnes (2012 57,455 tonnes), a decrease of 2%. This can be summarised as:

- 1,019 tonnes of scope 1 direct greenhouse emissions due to natural gas and oil consumption used for heating (2012 1,160 tonnes);
- 33,639 tonnes of scope 2 indirect greenhouse emissions from electricity consumption (2012 36,396 tonnes); and
- 21,606 tonnes of scope 3 other indirect greenhouse emissions, defined as emissions relating to travel (2012 19,899 tonnes).

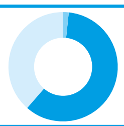
Corporate governance statement CONTINUED

Group carbon emissions (CO_2e) (tonnes)



2%

Carbon emissions by scope



	2013 TONNES
Scope 1	1,019
Scope 2	33,639
Scope 3	21,606
Total	**56,264**

QBE is a participant in the annual Carbon Disclosure Project (CDP) survey. The CDP is an independent, not-for-profit organisation which acts as an intermediary between shareholders and corporations on all climate change related issues, providing climate change data from the world's largest corporations to the global market place.

QBE's response to the latest CDP questionnaire, CDP2013, was published in October 2013, and is available on our website in the investor information section.

ASX CGC principle 8: remunerate fairly and responsibly

Remuneration Committee

The membership of the Remuneration Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Ms IF Hudson (Chairman), Mr DM Boyle, Mr JM Green and Ms BJ Hutchinson AM. Meetings of the Remuneration Committee usually include, by invitation, the Group Chief Executive Officer and the Group Executive Officer, People and Communications. As appropriate, other relevant senior managers also attend.

QBE's governance of remuneration focuses on aligning the remuneration and reward strategy and frameworks with robust risk management practices and strong governance principles.

The role of the Remuneration Committee is to oversee QBE's major remuneration practices. This includes recommendations to the Group Board on:

- the employment arrangements of the Group Chief Executive Officer and any executives reporting to him;
- the remuneration of any other persons or categories of persons covered by the QBE Group remuneration policy; and
- non-executive director remuneration.

The Remuneration Committee, in particular, assesses the appropriateness of remuneration frameworks and practices in order to fairly and responsibly reward the Group Chief Executive Officer and other members of the Group Executive. The Remuneration Committee ensures rewards are commensurate with performance and that remuneration levels are competitive in the various markets in which QBE operates. The Remuneration Committee has access to detailed external research from independent consultants.

The Remuneration Committee recognises that the key to achieving sustained performance is to motivate and retain quality employees and align executive reward with changing shareholder wealth. The Remuneration Committee has the discretion to reduce deferred equity awards to the Group Executive where financial results subsequently deteriorate.

QBE has operations and staff in 43 countries with differing laws and customs. QBE's remuneration policy therefore reflects the fact that QBE is a global organisation, whilst also taking into account local remuneration levels and practices.

Details of remuneration

Details of remuneration of executives and non-executive directors, such as employee entitlements under the Employee Share and Option Plan, deferred equity awards and superannuation are included in the remuneration report on pages 88 to 114 and in notes 30 and 31 to the financial statements.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2013

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of or during the year ended 31 December 2013.

Directors

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

DM Boyle
JA Graf
JM Green
IF Hudson
BJ Hutchinson AM (Chairman)
JD Neal

Mr CLA Irby and Ms IYL Lee were directors from the beginning of the financial year until their retirement on 31 March 2013 and 21 August 2013 respectively.

Mr WM Becker and Ms MMY Leung were appointed to the Board as directors on 21 August 2013 and will offer themselves for election at the AGM.

Details of the directors and their qualifications are provided on pages 74 and 75.

Consolidated results

	2013 US$M	2012 US$M
Gross written premium	**17,975**	18,434
Unearned premium movement	**(86)**	(93)
Gross earned premium revenue	**17,889**	18,341
Outward reinsurance premium	**(2,347)**	(2,360)
Deferred reinsurance premium movement	**(146)**	(183)
Outward reinsurance premium expense	**(2,493)**	(2,543)
Net earned premium	**15,396**	15,798
Net claims incurred	**(9,931)**	(10,428)
Net commission	**(2,580)**	(2,560)
Underwriting and other expenses	**(2,544)**	(2,357)
Underwriting result	**341**	453
Net investment income on policyholders' funds	**500**	809
Insurance profit	**841**	1,262
Net investment income on shareholders' funds	**301**	407
Financing and other costs	**(345)**	(324)
Share of net profits of associates	**–**	3
Amortisation and impairment of intangibles	**(1,245)**	(407)
(Loss) profit before income tax	**(448)**	941
Income tax credit (expense)	**204**	(161)
(Loss) profit after income tax	**(244)**	780
Net profit attributable to non-controlling interests	**(10)**	(19)
Net (loss) profit after income tax	**(254)**	761

Result

The directors are disappointed to report a net loss after income tax of $254 million for the year ended 31 December 2013, down from a net profit of $761 million last year. The underwriting result was significantly impacted by prior accident year claims development, particularly in our North American Operations, and the net loss after tax includes the write-down of intangibles and other assets relating to underperforming businesses in the US.

Net investment income of $801 million was down compared with $1,216 million last year but was in line with our expectations. Prior year investment income benefited significantly from fair value gains as a result of narrowing credit spreads, which have remained stable in the current year.

Dividends

The directors announce a final dividend of 12 Australian cents per share, up from the final dividend of 10 Australian cents per share last year. The dividend will be franked at 100%. The total dividend payout is A$394 million compared with A$593 million in 2012. The bonus share and dividend reinvestment plans continue with a discount of 1.0%.

Activities

The principal activities of QBE during the year were underwriting general insurance and reinsurance risks, management of Lloyd's syndicates and investment management.

Presentation currency

The Group has presented this financial report in US dollars. The US dollar is considered to be most relevant for measuring performance given that over 50% of annualised gross written premium is derived in US dollars.

Operating and financial review

Information on the operations (including the results of those operations) and financial position of the Group is set on pages 9 to 67 of this annual report. These pages also deal with the Group's business strategies and prospects for future financial years.

Outstanding claims provision

The net central estimate of outstanding claims is determined by the Group Chief Actuary after consultation with internal and external actuaries. The assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries, future interest and inflation factors.

As in previous years, the directors consider that substantial risk margins are required over the net discounted central estimate to mitigate the potential for uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 31 December 2013 was 90.7% compared with 87.5% last year. The APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Group indemnities

Article 115 of the company's constitution provides that the company indemnifies past and present directors, secretaries or other officers against any liability incurred by that person as a director, secretary or other officer of the company or its controlled entities. The indemnity does not apply to any liability (excluding legal costs):

- owed to the company or its controlled entities (e.g. breach of directors' duties);
- for a pecuniary penalty or compensation order under the *Corporations Act 2001*; or
- which did not arise out of conduct in good faith.

The indemnity extends to legal costs other than where:

- in civil proceedings, an exclusion above applies;
- in criminal proceedings, the person is found guilty;
- the person is liable for civil remedies in proceedings brought by the Australian Securities and Investments Commission, a corresponding regulator in another jurisdiction or a liquidator (unless as part of the investigation before proceedings are commenced); or
- the court does not grant relief after an application under the *Corporations Act 2001* or corresponding legislation in another jurisdiction that the person acted honestly and having regard to all the circumstances ought fairly to be excused for negligence, default, breach of trust or breach of duty in civil proceedings.

Directors' report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

In addition, a deed exists between the company and each director which includes an indemnity in similar terms to article 115 of the company's constitution.

Directors' and officers' insurance

QBE pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the Group together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the Group's employees against liabilities past, present or future. The officers of the Group covered by the insurance contract include the directors listed on pages 74 and 75, the secretary, DA Ramsay, and deputy secretary, P Smiles.

In accordance with normal commercial practice, disclosure of the amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No such insurance cover has been provided for the benefit of any external auditor of the Group.

Significant changes

There were no significant changes in the Group's state of affairs during the financial year, other than as disclosed in this annual report.

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on pages 32 to 67 of this annual report.

Material business risks

As a global insurance and reinsurance business, QBE is subject to substantial risks. The Board believes that effective management of these risks is critical to delivering value for QBE's stakeholders. It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of QBE's governance structure, QBE's broader business processes and, most importantly, QBE's culture.

Some of the material business risks that QBE faces include strategic risk, insurance risk, credit risk, market risk, liquidity risk and operational risk. Explanations of these risks and their mitigations are set out in more detail in note 5 of the financial statements which we would urge you to read. Further details of how QBE manages risk are set out in pages 70-73 of this annual report and that part of the Corporate Governance Statement in respect of ASX CGC Principle 7: recognise and manage risk on pages 82-83 of the annual report.

The 2013 result has been overshadowed by the significant impact of prior accident year claims development, the impact of remediation and right-sizing of underperforming businesses and the costs associated with writing-down the carrying value of intangibles. Details of these impacts are set out in the review of operations on pages 9 to 67. Having taken action to deal with these matters including the review of our business plan for 2014, the Board believes that we have the appropriate management, strategy and plans in place to return the result to profitability. Nonetheless, as we progress through this period of change, we remain aware of the many risks and uncertainties inherent in any global insurance or reinsurance business of this nature.

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth, State or Territory legislation.

Meetings of directors

	FULL MEETINGS OF DIRECTORS[1]	MEETINGS OF NON-EXECUTIVE DIRECTORS	MEETINGS OF COMMITTEES				
			AUDIT	INVESTMENT	NOMINATION	REMUNERATION	RISK & CAPITAL
Number of meetings held	12	10	7	4	2	7	4
Number attended							
WM Becker (appointed 21 August 2013)	5	3	–	–	–	–	1
DM Boyle	12	10	7	–	2	6	–
JA Graf	12	10	5	4	2	–	4
JM Green	12	10	–	4	2	7	4
IF Hudson	12	10	7	–	2	7	–
BJ Hutchinson AM	12	10	7	4	2	7	4
CLA Irby (retired 31 March 2013)	3	3	–	1	–	–	–
IYL Lee (retired 21 August 2013)	6	6	5	2	2	–	3
MMY Leung (appointed 21 August 2013)	6	4	2	–	–	–	1
JD Neal[2,3]	12	–	–	–	2	–	–

1 Included a one day meeting in Manila and meetings in the UK and the US.
2 Mr Neal attended Audit and Remuneration Committee meetings by invitation, not being a member of these committees.
3 Similar to other committees, Mr Neal is no longer a member of the Investment Committee from 2013, although he attended meetings by invitation.

Further meetings occurred during the year, including meetings of the Chairman and Group Chief Executive Officer and meetings of the directors with management. From time to time, directors attend meetings of committees of which they are not currently members.

Directorships of listed companies held by the members of the Board

From 1 January 2011 to 25 February 2014, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
DM Boyle			
Stockland Trust Group	Director	7 August 2007	–
JM Green			
WorleyParsons Limited	Director	11 October 2002	–
IF Hudson			
Phoenix Group Holdings plc	Director	18 February 2010	–
BJ Hutchinson AM			
AGL Energy Limited	Director	22 December 2010	–
MMY Leung			
China Construction Bank	Director	12 December 2013	–
Chong Hing Bank Limited	Director and deputy chairman	14 February 2014	–
First Pacific Company Limited	Director	21 December 2012	–
Hong Kong Exchanges and Clearing Limited	Director	24 April 2013	–
Li & Fung Ltd	Director	1 April 2013	–
Sun Hung Kai Properties Limited	Director	1 March 2013	–

Qualifications and experience of directors

The qualifications and experience of each director are set out on pages 74 to 75 of this report.

Qualifications and experience of company secretaries

DA Ramsay B COMM, LLB, LLM, ANZIIF(FELLOW), FCIS
Mr Ramsay is Group General Counsel and Company Secretary of QBE Insurance Group Limited. His legal career commenced in March 1986 with Freehills, where he worked in the general commercial and litigation areas. In June 1993, he joined QBE as General Counsel. Since May 2001, he has acted as General Counsel and Company Secretary for the Group. He is also a director or secretary of a number of QBE controlled entities and acts as chairman of the policy committee for the QBE sponsored superannuation plan in Australia.

P Smiles LLB, MBA, ACIS
Mr Smiles is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 22 years insurance experience, which includes 16 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Mr Smiles worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he acts as a corporate lawyer advising QBE Group head office departments and Asia Pacific offices.

Directors' interests and benefits

(A) Ordinary share capital

Directors' relevant interests in the ordinary share capital of the company at the date of this report are as follows:

DIRECTOR	2013 NUMBER	2012 NUMBER
WM Becker	**45,000**	–
DM Boyle	**19,019**	19,019
JA Graf	**29,600**	15,100
JM Green	**37,258**	37,258
IF Hudson	**11,737**	11,737
BJ Hutchinson AM	**113,648**	105,148
JD Neal	**170,662**	138,258

(B) Options and conditional rights

At the date of this report, Mr Neal had 104,697 (2012 136,763) options over ordinary shares of the company and 288,305 (2012 283,338) conditional rights to ordinary shares of the company. Details of the schemes under which these options and rights are granted are provided in the remuneration report and in note 29 to the financial statements.

The names of all persons who currently hold options granted under the Employee Share and Option Plan (the Plan) and conditional rights to ordinary shares of the company are entered in the registers kept by the company pursuant to section 168 of the *Corporations Act 2001* and the registers may be inspected free of charge.

(C) Loans to directors and executives

Information on loans to directors and executives are set out in note 30(C) to the financial statements.

(D) Related entity interests

Details of directors' and executives' interests with related entities are provided in note 30 to the financial statements.

Remuneration report

To our shareholders:

On behalf of the Board, I am pleased to present the remuneration report for 2013 to you as Chairman of the Remuneration Committee. The Board is committed to presenting this important subject in a manner that is easily understood and transparent for all stakeholders.

2013 performance and remuneration

2013 has undoubtedly been a challenging year for QBE. As detailed in the Chairman's message and the reports of the Group Chief Executive Officer and Group Chief Financial Officer, our results have not met expectations primarily due to the necessary decision to increase claims provisions and write-down intangibles and other assets in our US business. It is particularly disappointing that issues relating to the past have emerged in a year where we have made much progress in strengthening our balance sheet, successfully launched our operational transformation program and strengthened our executive team. We believe these initiatives will deliver long-term value to our shareholders.

Due to our disappointing result for 2013, no incentives under the QIS-cash and QIS-deferred equity award were made to the Group Chief Executive Officer or other head office executives – this being the third successive year of no awards under our incentive plans. With the exception of North American Operations, all divisions met or exceeded minimum performance thresholds and short-term incentives were awarded to divisional executives.

We believe that the remuneration outcomes for 2013 demonstrate that there is a close alignment between shareholders' interests and executive incentive rewards, with executives rewarded for the delivery of superior financial performance.

> “There is a close alignment between shareholders' interests and executive incentive rewards, with executives rewarded for the delivery of superior financial performance.

Changes in key management personnel

The QBE Group Executive Committee was strengthened in 2013 with the appointments of David Duclos (CEO, North American Operations), David Fried (CEO, Asia Pacific Operations) and Richard Pryce (CEO, European Operations).

Two long serving executives ceased employment with the Group in 2013 – John Rumpler (CEO, North American Operations) and Steven Burns (CEO, European Operations). As announced on 17 October 2013, Steven Burns decided to retire from full-time executive duties on 31 December 2013, and not take up the role of Group Chief Financial Officer as had been previously announced. Neil Drabsch agreed to continue in the role until February 2015, thereby delaying his proposed retirement date by up to 12 months. Following a global search for Neil Drabsch's successor, Pat Regan was recently appointed and is expected to commence in the first half of 2014. Steven Burns will remain with QBE serving in a part-time capacity as both a non-executive director on divisional boards in Australia and Asia Pacific as well as providing project-based support to the Group Chief Executive Officer.

Details of termination benefits paid to executives in 2013 are set out on page 106 of this report.

Remuneration arrangements for 2014

As I announced in last year's report, in 2013 the Remuneration Committee undertook a comprehensive strategic review of the remuneration structure across the QBE Group. This review was driven by our refreshed ONE QBE vision, values and strategy and was conducted in a deliberate and considered manner with input from each member of the Committee, its independent adviser and a range of executives. During the review process, meetings were held with proxy advisers and other stakeholders to seek feedback on our proposed changes.

Our guiding principles in conducting the review were to develop a remuneration framework that reflects our ONE QBE values, is linked to strategy, is simple and globally competitive but not excessive, and which motivates executives while aligning their interests with those of our shareholders.

In summary, as a result of the review:

- We have simplified the remuneration structure by combining the separate QIS-cash and QIS-DEA schemes into one globally consistent short-term incentive (STI) plan that consists of a cash and deferred equity component. We have also introduced phased vesting to provide a smoother payment profile.
- We have expanded participation in the long-term incentive (LTI) plan to approximately 60 senior executives who we believe can directly support and influence the delivery of the strategic priorities that underpin our value creation model.

- We have improved alignment with our long-term strategy and shareholder interests by re-balancing the remuneration mix for executives from STI to LTI, reducing the STI opportunity and increasing the minimum shareholding requirement for the Group Chief Executive Officer from 100% to 150% of fixed remuneration.
- In re-balancing the remuneration mix, the aggregate maximum incentive opportunity has increased; however, superior performance needs to be achieved for maximum awards to be earned, with such awards made in the form of equity that vests over five years.
- We have increased the focus on global performance and strategic goals by introducing a Group-based performance measure in the STI plan for all senior leaders globally.
- 80% of the STI will be based on clear financial targets, with the other 20% based on performance against a balanced scorecard which includes objectives linked to QBE's strategic priorities in relation to value creation, performance, transformation, people and risk management.
- We have refreshed the LTI performance measures to include an absolute Group statutory return on equity (ROE) target and a relative total shareholder return measure. Targets have been set for the 2014 grant such that full vesting will only occur in the event of sustained superior performance.
- We have increased transparency by adopting performance measures such as the use of the Group statutory ROE instead of the management ROE which we have used previously.

The detailed changes to be implemented for 2014 are set out on pages 91 to 94 of this report. Overall, the Remuneration Committee believes that these changes strike an appropriate balance in providing a remuneration structure which is:

- aligned to the ONE QBE strategy and enhances the current performance culture;
- consistent with evolving best practice;
- underpinned by a governance structure that empowers the Remuneration Committee, through the use of appropriate discretion, to act in the best interests of shareholders; and
- responsibly competitive against ASX30 companies and other relevant market benchmarks. In particular, the remuneration of the Group Chief Executive Officer remains below the median for CEOs of ASX30 companies.

Group statutory ROE targets for 2014

The Group statutory ROE target range to apply for the 2014 STI plan is 7% to 15.3% with on-target performance, determined in the context of the 2014 business plan, set at 10.3% (at which 66.7% of the maximum STI opportunity for the Group component may be awarded).

The equivalent range on the previous management ROE basis would have been 7.9% to 16.2%. This target range has not changed significantly from the previous year and remains, in our view, a challenging target.

The Group statutory ROE target range to apply for the 2014 LTI grant is 12.1% (at which point vesting commences at 50%) to 15.2% (for full vesting). Group statutory ROE for LTI purposes is calculated as the average of the three year statutory return on average shareholders' funds results over the performance period. The range has been set in the context of the three year business plan. Given the intent of the LTI grant is to reward superior performance from management and the fact that any future change in the risk-free rate is both beyond the influence of management and that the ultimate results will be heavily influenced by movements in interest rates, the Remuneration Committee has specifically reserved (and intends to apply) discretion, when assessing the extent to which the statutory ROE performance target has been met, to adjust the vesting outcome upwards or downwards in circumstances where there has been a material variance in the risk-free rate over the performance period from that assumed when setting the target.

I trust that you will agree that the new remuneration framework for 2014 onwards strengthens the alignment of our executives with the long-term success of the company and its shareholders.

Isabel Hudson
Chairman, Remuneration Committee

Contents

1. Executive summary

QBE's remuneration strategy is designed to provide a market competitive remuneration structure that motivates and retains our executives, while aligning their remuneration with the creation of sustained shareholder value. Our approach to achieving this is set out in detail in this report which describes the fixed remuneration paid, the short-term cash incentives, the three and five year deferred equity awards and the five year LTI plan, all of which applied in 2013. A detailed description of these schemes can be found on pages 98 to 103.

This report also summarises key changes to the remuneration structure that will apply from 2014.

Introducing the new 2014 executive remuneration framework

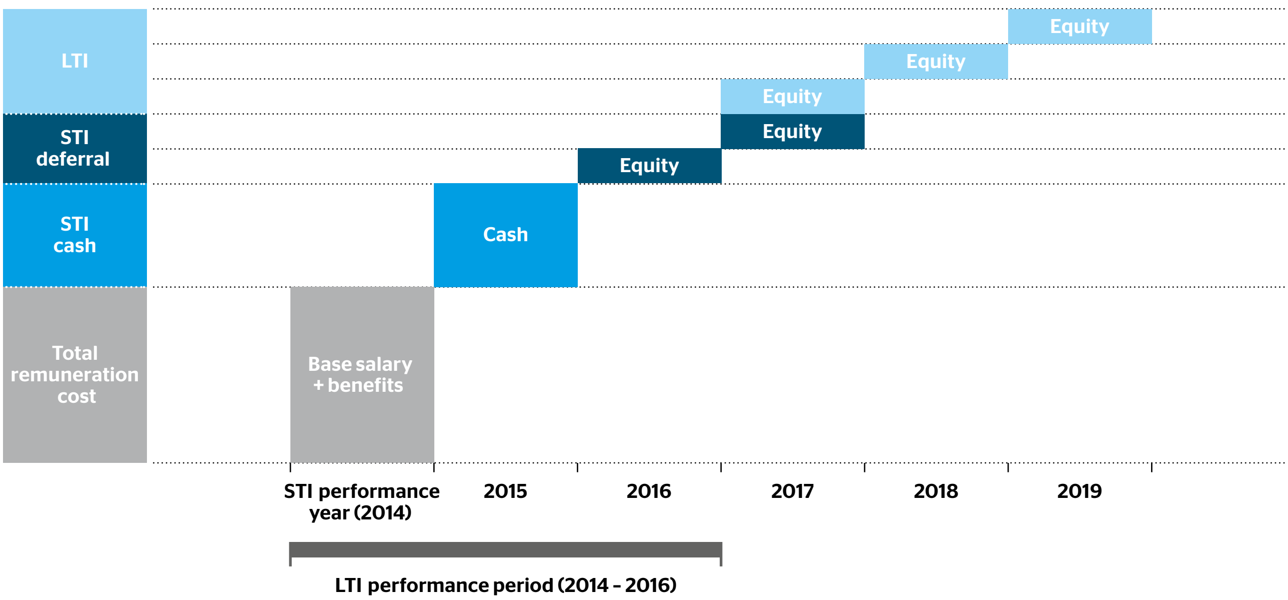
During 2013, the Remuneration Committee conducted a thorough review of our global remuneration framework. As a result of this review, we have implemented changes to apply from 2014 to strengthen the alignment of our remuneration structures with our refreshed ONE QBE vision, values and strategy. We believe the new remuneration framework reflects evolving best practice and continues to meet the requirements of the APRA prudential standard on governance (CPS 510).

Our guiding principles and remuneration framework overview

Our guiding principles in conducting the review were to develop a remuneration structure where:

Reflect ONE QBE	**Simple**	At-risk reward methodology is easily understood by internal stakeholders with transparency for external shareholders.
	Linked to strategy	Incentive performance measures provide significant alignment and linkage to QBE's key strategic priorities.
	Globally competitive	A common global remuneration design that provides flexibility to calibrate local financial targets, enabling QBE to compete in key markets.
	Motivating	At-risk reward schemes combine "stretch" targets and performance measures linked to statutory disclosures and business plans, which improves the line of sight and leverages participant motivation.
	Shareholder aligned	Delivery of equity awards with significant levels of deferral and financial measures linked to key investor metrics align reward arrangements to shareholder interests. Executive minimum shareholding requirements further link their interests to those of shareholders.

The diagram below illustrates the payment profile of the new remuneration framework to apply in 2014.



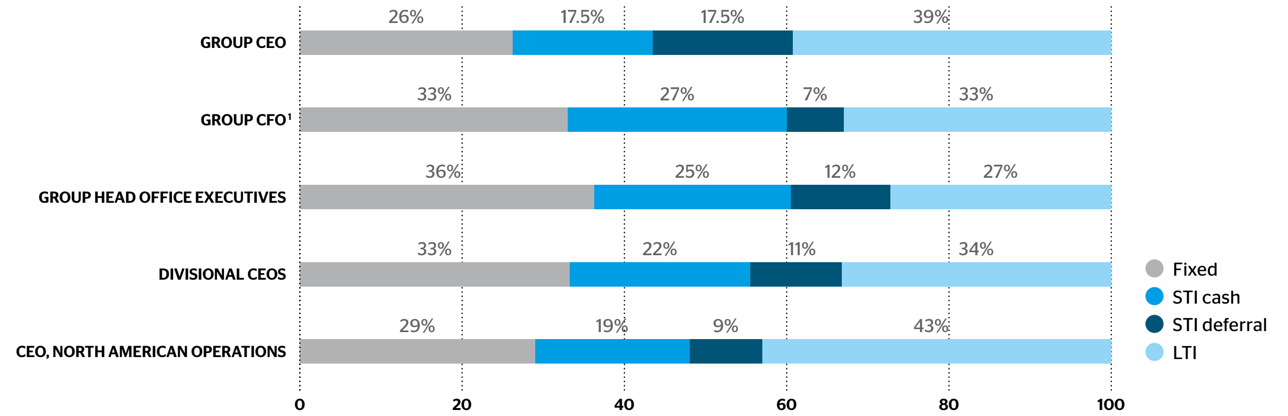
Remuneration report CONTINUED

1. Executive summary CONTINUED

Target remuneration mix

The target remuneration mix under the new framework will have greater focus on long-term performance. The mix between short-term cash, deferred STI and LTI will be re-balanced towards the longer term, enhancing alignment with the delivery of our long-term strategy and shareholder interests.

The diagram below shows the remuneration mix for 2014, assuming on-target performance.



1 Represents the target remuneration mix for Neil Drabsch. The target remuneration mix for Pat Regan will be 28% fixed, 20% STI cash, 10% STI deferral, and 42% LTI.

Comparison of 2014 and 2013 maximum incentive opportunity

The table below shows that, although in some (but not all) cases the maximum incentive opportunity has increased, there is a significant increase in the LTI opportunity, offset by a significant reduction in the STI opportunity.

The table below compares the 2014 and 2013 maximum incentive opportunity.

	2014 INCENTIVE OPPORTUNITY AS A % OF FIXED REMUNERATION			2013 INCENTIVE OPPORTUNITY AS A % OF FIXED REMUNERATION		
EXECUTIVES	MAXIMUM STI %	MAXIMUM LTI %	MAXIMUM INCENTIVE %	MAXIMUM QIS %	MAXIMUM LTI %	MAXIMUM INCENTIVE %
Group CEO	200	150	350	235	50	285
Group CFO[1]	150	100	250	211	25	236
Group head office executives	150	75	225	198	15	213
Divisional CEOs	150	100	250	240	15	255
CEO, North American Operations	150	150	300	248	15	263

1 Represents the maximum incentive opportunity for Neil Drabsch. Maximum incentive opportunity for Pat Regan will be 165% maximum STI and 150% LTI.

A summary of the components of the remuneration framework to apply to executives in 2014 follows:

2014 executive remuneration framework

COMPONENT	DESIGN	CHANGE AND RATIONALE
Fixed remuneration	• No changes to fixed remuneration were made as a result of the global remuneration review. • Executive fixed remuneration will be reviewed (but not necessarily increased) by the Remuneration Committee on 1 April 2014, taking into account remuneration of market peers using data provided by an external remuneration consultant.	• Previously, fixed remuneration was reviewed on 1 January. The change to 1 April aligns the date of the fixed remuneration review for all employees globally. • The two core peer groups for executive benchmarking are ASX30 companies (excluding property trusts and companies domiciled overseas) and global insurance peer companies (see page 99 of this report).
STI cash	• All executives will have a portion (minimum 30%) of their STI determined with reference to the Group statutory ROE. For the Group CEO and most GHO executives, this will be their primary measure contributing to 80% of their award (60% for the Group CFO for 2014 only). • For divisional CEOs, 50% of their award will be determined on a return on allocated capital (RoAC) measure. RoAC will be calculated as the divisional management-basis profit divided by allocated capital, as determined by the Group's economic capital model. • All executives will have 20% based on a balanced scorecard of financial and non-financial KPIs that is relevant to their role (40% for the Group CFO for 2014 only reflecting the specific priorities set for him following his agreement to remain an executive for an additional year). • 67% of any STI awarded will be delivered in cash (50% in the case of the Group CEO). • The STI rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure STI awards appropriately reflect performance.	• STI opportunity for executives has reduced as a result of the re-balance of incentives to the longer term. • Group statutory ROE has been adopted in the STI plan for all senior leaders globally to increase focus on global performance and strategic goals as well as transparency and alignment to shareholders. Previously Group ROE was measured on a management-basis for incentives. • The STI will continue to focus on financial performance; however, the introduction of a balanced scorecard of individual KPIs will consider a broader view of performance and specific strategic priorities. The scorecard is aligned to QBE's business plans and measures objectives in the following categories: value creation, performance, transformation, people and risk management. The balanced scorecard for each executive is reviewed by the Remuneration Committee to ensure there is an appropriate level of stretch in the targets.
STI deferral	• 33% of any STI award is deferred as conditional rights to QBE shares (50% in the case of the Group CEO). • Deferred STI vests in two tranches – 50% after one year and the other 50% after two years, subject to service conditions and malus provisions during the vesting period. • "Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that deferred awards remain subject to the original vesting conditions. • Notional dividends accrue during the deferral period. • STI deferral is subject to malus provisions enabling awards to be either forfeited or reduced at the discretion of the Remuneration Committee.	• Embedding deferral into the one STI plan (rather than operating separate cash and deferred equity plans) simplifies the remuneration structure. • The vesting period of deferred awards has reduced from three and five years under the QIS-DEA to one and two years under the new STI plan. This is consistent with market practice and, together with the phased vesting of the LTI, provides a smoother payment profile of incentives. • The malus provisions have been modified to reflect best practice and the APRA prudential standard on governance (CPS 510).

Remuneration report CONTINUED

1. Executive summary CONTINUED

COMPONENT	DESIGN	CHANGE AND RATIONALE
LTI	• LTI awards are to be made in the form of conditional rights to QBE shares. • Vesting will be subject to two performance conditions measured over a three year performance period: 1. Average Group statutory ROE over three years – for 50% of the award; and 2. Relative total shareholder return (RTSR) – for 50% of the award. • LTI vesting is phased – rights vest in three equal tranches upon satisfaction of the performance conditions, with vesting at the end of the three year performance period, and then the first and second anniversaries thereafter. • The RTSR peer group will generally consist of companies in the Dow Jones Insurance Titans Index group adjusted for those with most relevance to QBE's business operations. • "Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that a pro-rata amount of LTI conditional rights remain subject to the original performance and vesting conditions. • Notional dividends accrue during the vesting period. • The LTI rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure vesting of LTI awards appropriately reflects performance. In particular, the ROE target has been set mindful of the risk-free rates assumed in the business plans. If the actual risk-free rate turns out to be materially different (up or down), the Remuneration Committee envisages adjusting the vesting outcome to reflect the actual risk-free rate over the performance period. • LTI vesting is subject to malus provisions which continue to apply beyond the performance period until conditional rights have vested in the fourth and fifth years.	• The performance measures (Group statutory ROE and RTSR) provide significant linkage to global performance and strategic goals, and are key investor metrics aligning the LTI framework with shareholder value. • While there are valid concerns about its effectiveness, RTSR was selected ahead of other performance measures considered as it is the preferred measure for ASX100 companies and helps to align remuneration with shareholder value creation. • Group statutory ROE was selected as a performance measure as it represents the "rate of return" to shareholders and is well understood. Net book value was considered as an alternative absolute performance; however, it was disregarded in favour of the Group statutory ROE given it is a relatively uncommon LTI measure. • The vesting schedule has been set such that 50% of the LTI award vests for the achievement of 95% of Group statutory ROE targets in the three year business plan and for median TSR performance. This means that significant outperformance is required for awards to vest in full. • The performance period has reduced from five years to three years, with vesting to be phased over years three, four and five. Together with deferred STI awards, this provides participants with a smoother payment profile of incentives.

Shareholder approval

The relevant approval for the new LTI arrangements for the Group Chief Executive Officer will be sought specifically at the Annual General Meeting (AGM) on 2 April 2014.

Changes made to remuneration in 2013

- QBE's longstanding remuneration structure was maintained in 2013; however, the opportunity was taken to make some changes within this structure.
  - As explained in the 2012 annual report, the Group head office management ROE scale for short-term cash payments was adjusted down from a range of 12% – 19% in 2012 to 9% – 16% for 2013. This change was made to reflect the lower investment income environment expected for 2013. The Remuneration Committee believes that the 9% – 16% Group management ROE scale remained a challenging target for management in 2013, both as an absolute target and relative to our peers.
  - Divisional RoAC target ranges remained the same in 2013. Details of the RoAC ranges for the divisions can be found on page 101.
- We broadened the malus provision (previously referred to as clawback) in the QIS-DEA and LTI plans in line with best practice.
- The potential to accelerate the vesting of conditional rights on termination in certain circumstances will not apply for DEA awards made in respect of the 2013 performance year.
- The average fixed remuneration increase awarded to executives effective 1 January 2013 was 3.2%.
  - With the exception of the Group CEO, Australian-based employees and executives also received an additional 0.25% increase to their fixed remuneration effective 1 July 2013 as a result of the statutory Australian minimum superannuation contribution rate increasing from 9% to 9.25%.
  - The next review of fixed remuneration will occur on 1 April 2014.
- Non-executive directors received no base fee or committee fee increase for 2013.
  - An increase of 0.25% was applied effective 1 July 2013 as a result of the statutory Australian minimum superannuation contribution rate increasing from 9% to 9.25%.

- At the 2013 AGM, shareholders approved an increase to the aggregate non-executive director fee pool from A$2.7 million to A$3.3 million to ensure the Board has the flexibility to appoint additional non-executive directors, as well as allowing fees to be paid to the new Risk and Capital Committee.
- The next review of fees will occur on 1 April 2014.

Remuneration and incentive outcomes in 2013

As discussed previously in this report, 2013 was a challenging year as reflected in our financial results.

Short-term cash incentives and deferred equity awards

The Group management ROE was 7.0%, below the minimum 9% needed to generate a short-term cash payment to Group head office executives.

As a result, and for the third year running, no cash payments under our incentive plans were made for short-term performance to Group head office executives. As the three and five year deferred equity awards are contingent on the payment of a short-term incentive, there were, again for the third year running, no deferred equity awards for Group head office executives.

Each division has its own RoAC targets which use a capital allocation based on the requirements for a Standard & Poor's A+ insurer financial strength rating. With the exception of North American Operations, each division met or exceeded its minimum RoAC target and therefore both short-term cash payments and deferred equity awards will be made. David Duclos, newly appointed CEO, North American Operations, was paid a guaranteed minimum cash award of $1 million and an associated deferred equity award of $800,000 under the QIS-DEA in line with his terms of appointment. This guarantee applies for 2013 only.

The average cash award paid out for the other current divisional CEOs was 51% of the maximum opportunity.

> **"For the third year running, no cash payments under our incentive plans were made for short-term performance to Group head office executives.**

Long-term incentives

As part of the strategic review of the remuneration framework, the Remuneration Committee decided to replace any LTI grants for the 2013 performance year (otherwise due to be granted in March 2014) with an award under the new LTI plan to be made in March 2014. The 2014 LTI grant will be made in accordance with the new remuneration mix for executives and the revised performance and vesting conditions are summarised on page 94.

The LTI grants awarded in 2010, 2011 and 2012 are all currently tracking below the level of performance required to vest.

Realised 2013 remuneration

The table below sets out total remuneration realised by executives in office as at 31 December 2013, including the accrued QIS-cash award for the 2013 financial year and the value of any deferred equity awards that vested during the year. Conditional rights in respect of the 2009 Deferred Compensation Plan (DCP) vested during the year following the completion of the three year vesting period. The value of these conditional rights has been calculated using the closing share price on the vesting date.

Remuneration details in accordance with Australian accounting standards for current and former executives are contained on page 105 of the remuneration report.

	REMUNERATION EARNED IN 2013			DEFERRED EQUITY OUTCOMES IN 2013	
CURRENT EXECUTIVES	FIXED REMUNERATION [1] US$000	QIS-CASH [2] US$000	OTHER [3] US$000	CONDITIONAL RIGHTS VESTED [4] US$000	TOTAL REMUNERATION REALISED IN 2013 US$000
John Neal	2,015	-	38	385	2,438
Neil Drabsch [5]	1,055	-	237	1,224	2,516
David Duclos	751	1,000	62	-	1,813
Colin Fagen	884	1,107	21	68	2,080
David Fried [6]	477	273	1,944	-	2,694
Richard Pryce [7]	267	128	165	-	560
Jenni Smith	673	-	60	154	887
Jose Sojo	575	134	36	81	826
George Thwaites	663	-	76	150	889

1 For a definition of fixed remuneration, refer to page 98.
2 Payable in March 2014 for performance in 2013. For further details, refer to page 101.
3 "Other" includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest-free share loans, the movement in annual leave and long service leave provisions, tax payments and other one off expenses.
4 The value of conditional rights has been determined by reference to the closing share price on the relevant vesting date.
5 As disclosed in previous reports, on 18 October 2011, Neil Drabsch was granted retention conditional rights that vested during the year.
6 David Fried is based in Hong Kong. In addition to his fixed remuneration, he received benefits in addition to the items mentioned in note 3 above, including a one-off cash payment of $400,000 as compensation for the loss of incentives from his former employer, foreign taxes of $535,000, housing allowances of $396,000, education assistance of $122,000, a cost of living adjustment of $106,000 and one-off relocation expenses of $97,000.
7 Richard Pryce's remuneration is for the period 1 October to 31 December 2013 consistent with his appointment to CEO, European Operations and does not include remuneration in respect of his previous role.

2. 2013 Remuneration explained

Key management personnel

The information presented in the 2013 remuneration report has been prepared and audited in accordance with the disclosure requirements of the *Corporations Act 2001*. The report sets out remuneration details of the key management personnel (KMP) of QBE Insurance Group. In 2013, KMP included the Group Chief Executive Officer, divisional and head office executives and non-executive directors.

NAME	POSITION	COUNTRY OF RESIDENCE	TERM AS KMP IN 2013
Current executives			
John Neal	Group Chief Executive Officer	Australia	1 January – 31 December
Neil Drabsch	Group Chief Financial Officer	Australia	1 January – 31 December
David Duclos	Chief Executive Officer, North American Operations	United States of America	2 April – 31 December
Colin Fagen	Chief Executive Officer, Australian & New Zealand Operations	Australia	1 January – 31 December
David Fried	Chief Executive Officer, Asia Pacific Operations	Hong Kong	8 April – 31 December
Richard Pryce	Chief Executive Officer, European Operations	United Kingdom	1 October – 31 December
Jenni Smith	Group Executive Officer, People and Communications	Australia	1 January – 31 December
Jose Sojo	Chief Executive Officer, Latin American Operations	Argentina	1 January – 31 December
George Thwaites	Group Chief Risk Officer	Australia	1 January – 31 December
Former executives			
Steven Burns [1]	Chief Executive Officer, European Operations	United Kingdom	1 January – 30 September
John Rumpler [2]	President and Chief Executive Officer, North American Operations	United States of America	1 January – 30 April
Non-executive directors			
Marty Becker	Non-executive director	United States of America	21 August – 31 December
Duncan Boyle	Non-executive director	Australia	1 January – 31 December
John Graf	Non-executive director	United States of America	1 January – 31 December
John M Green	Non-executive director	Australia	1 January – 31 December
Isabel Hudson	Non-executive director	United Kingdom	1 January – 31 December
Belinda Hutchinson AM	Chairman, Non-executive director	Australia	1 January – 31 December
Margaret Leung	Non-executive director	Hong Kong	21 August – 31 December
Former non-executive directors			
Charles Irby [3]	Non-executive director	United Kingdom	1 January – 31 March
Irene Lee [4]	Non-executive director	Hong Kong	1 January – 21 August

1 Steven Burns ceased being a KMP on 30 September 2013. He remained a full-time employee until his retirement was effective on 31 December 2013.
2 John Rumpler ceased being a KMP on 30 April 2013. In accordance with his notice period, his termination was effective on 31 October 2013.
3 Charles Irby retired on 31 March 2013.
4 Irene Lee retired on 21 August 2013.

Remuneration governance

Role of the Remuneration Committee

The Remuneration Committee, consisting of independent directors only, has overall governance responsibility for executive remuneration structures and outcomes to ensure that remuneration frameworks are aligned with robust risk management practices and strong guiding principles. The Remuneration Committee annually reviews the Group remuneration policy to ensure that fixed remuneration is appropriately positioned relative to the market and that at-risk rewards remain linked to QBE's financial targets, investment performance targets and strategic business objectives.

In addition, the Remuneration Committee monitors the remuneration and incentive scheme structures for employees of APRA regulated entities (such as risk and financial control employees) in accordance with its prudential standard on governance CPS 510. The key responsibilities of the Remuneration Committee are summarised below:

- Reviewing and recommending for approval to the QBE Group Board:
  - remuneration strategy and framework for the executives and non-executive directors;
  - contractual arrangements for the Group CEO and other executives;
  - fixed remuneration and at-risk reward for the Group CEO and other executives; and
  - Group remuneration policy.
- Reviewing and approving:
  - executive termination payments;
  - reward structures and incentive schemes in line with APRA's prudential standard on governance; and
  - major human resources policies relating to incentive schemes, equity schemes and superannuation plans.
- Overseeing and monitoring:
  - the executive succession planning framework;
  - compliance with statutory remuneration reporting disclosures; and
  - workplace diversity.

Further details on the role and scope of the Remuneration Committee are set out in the QBE Remuneration Committee charter (published on *www.qbe.com*).

During 2013, a remuneration committee, consisting of independent directors from the boards that govern Australian & New Zealand Operations and Asia Pacific Operations, was formed. The main responsibility of this committee is to oversee the remuneration practices of Australian & New Zealand and Asia Pacific Operations and to provide input to the Remuneration Committee of the Group, the Group CEO and the respective divisional CEOs, where relevant, on remuneration policy, including ongoing compliance with APRA prudential standard CPS 510 in respect of APRA licensed entities. Similar remuneration committees will be established in 2014 in respect of North American Operations and European Operations.

> "The Remuneration Committee ensures that at-risk rewards remain linked to QBE's financial targets, investment performance targets and strategic business objectives.

Use of remuneration consultants

Remuneration consultants provide guidance on remuneration for executives, facilitate discussion, review remuneration and at-risk reward benchmarking within industry peer groups and provide guidance on current trends in executive remuneration practices.

Any advice provided by remuneration consultants is used as a guide, and is not a substitute for consideration of all the issues by each non-executive director on the Remuneration Committee.

The Remuneration Committee retained UK based firm FIT Remuneration Consultants LLP (FIT) to act as its independent remuneration adviser.

The Remuneration Committee is satisfied that the advice provided by FIT during 2013 was provided free from undue influence by QBE executives.

The cost of advice and assistance provided by FIT in 2013 was $170,000 (£108,000).

During 2013, PricewaterhouseCoopers was engaged to support management in the design and implementation of the new global remuneration framework. No recommendations in relation to the remuneration of KMP were provided as part of this engagement.

Risk management

The Remuneration Committee works closely with the Group Risk function to ensure that any risk associated with remuneration arrangements is managed within the Group's risk management framework. Risk oversight policies exist within the remuneration governance framework to ensure executives cannot unduly influence a decision that could materially impact their own incentive outcome. The Group Board approves a comprehensive delegated authority for the Group CEO, which is an integral part of QBE's risk management process. Executives are required to adhere to a range of Group-wide policies to ensure risk taking is well managed, strong governance structures are in place and high ethical standards are maintained. These policies are communicated to all employees throughout the Group.

Remuneration report CONTINUED

2. 2013 Remuneration explained CONTINUED

2013 Executive remuneration policy and framework

QBE's executive remuneration structure comprises a mix of fixed and at-risk remuneration reflecting a balance of short and long-term incentives. The mix is designed to remunerate executives competitively and provide reward for achievement of the company's performance targets, whilst providing strong governance to protect the financial soundness of the Group and shareholders' interests. The remuneration components are explained below:

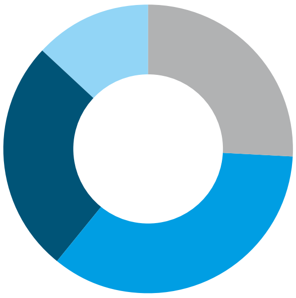
2013 total remuneration framework

COMPONENT		DESIGN	PURPOSE AND LINK TO STRATEGY
Fixed	Total remuneration cost (TRC) and guaranteed annual benefits	• TRC consists of base (cash) salary, superannuation and packaged benefits and associated taxes. • Additional annual benefits may include the value of motor vehicles, health insurance, life assurance, personal accident insurance, allowances, expatriate benefits and the applicable taxes thereon. • Excludes deemed interest on employee share loans and long service leave accruals. • Delivered in accordance with terms and conditions of employment.	• Retention and attraction – market competitive, benchmarked against an ASX30 peer group and a global insurers peer group. • Positioned at a level that reflects the contribution and value to the Group. • Recognises capability, expertise and performance of the executive. • Designed to provide a predictable "base" level of remuneration. • Reviewed annually or on promotion.
At-risk	QIS-cash	• Cash award for delivering short-term performance over a 12 month period based on Group management ROE or divisional RoAC targets. • Delivered as a cash payment in March 2014.	• Rewards performance over a short-term period. • Links to performance – achievement of financial targets based on Group and divisional performance, giving clear alignment with shareholders. • ROE and RoAC are solid measures of profit from which to evaluate executive performance. • Retain and motivate – executives are encouraged to increase profit and the value of QBE shares.
	QIS-DEA	• Deferred equity award of conditional rights, subject to a three and five year tenure hurdle. • Enhanced deferred equity award subject to a three year tenure hurdle for exceeding RoAC targets in the year prior to grant for divisional CEOs only. • Granted in March 2014 – with 50% vesting after three years (March 2017) and a further 50% vesting after five years (March 2019).	• Rewards performance over a long-term period. • Retains and motivates – executives are encouraged to increase profit and the value of QBE shares. • Equity awards are subject to a malus provisions prior to vesting. • Shareholder alignment – executives are exposed to the performance of QBE shares over three and five years.
	LTI	• A deferred equity award of conditional rights, subject to a five year vesting period and achievement of performance hurdles – EPS, Group statutory ROE and COR. • Annual performance hurdles assessment with final testing at the end of the five year vesting period. • No awards granted for 2013 performance year. • Plan has been discontinued from 1 January 2014 – equity awards granted in March 2011, March 2012 and March 2013 continue to be subject to performance and vesting conditions in accordance with the plan terms for the relevant year.	• Rewards performance over a long-term period. • Executive reward designed to encourage profitable business growth (EPS) and maintain focus on operating performance (ROE and COR). • Equity awards are subject to malus for material deterioration of the Group's statutory ROE or divisional RoAC (in respect of 2011 and 2012 award and more broadly for 2013 awards). • Shareholder alignment – executives are exposed to the performance of QBE shares over five years.

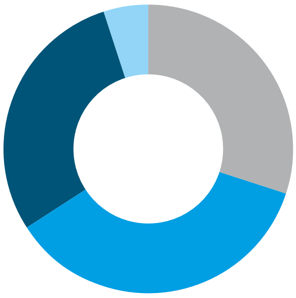
Remuneration mix

The mix of total remuneration and reward is reflective of an executive's ability to influence QBE's financial results, therefore the range is varied. The diagrams below show the potential total reward mix for 2013, assuming maximum at-risk incentives. The majority of the reward mix for executives is weighted towards "at-risk" components (QIS-cash, QIS-DEA and LTI). As described on page 92, the remuneration mix for 2014 will be more weighted to the longer term.

Group CEO potential total reward mix



Average current executive potential total reward mix



Fixed remuneration

Fixed remuneration considers the diversity, complexity and expertise required of individual roles. Remuneration quantum is set in the context of QBE's broader reward strategy and internal relativities.

To assess competitiveness of fixed remuneration, the Remuneration Committee considers market data and published recognised surveys. In addition, external market reviews are undertaken periodically to inform the setting of competitive fixed remuneration levels.

Executive roles that are Australian based are generally benchmarked to the ASX30 peer group of companies, with a specific focus on global companies and companies in the financial services industry.

Overseas-based executives or roles that have a global reach are compared with a peer group consisting of global insurers.

In 2013, the peer group of companies for remuneration benchmarking was updated and is set out in the table below.

PEER GROUP	DESCRIPTION
ASX30 peer group	• excludes infrastructure trusts and companies domiciled overseas. • the financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers. • the sub-peer group of global companies in the ASX30 is determined based on the global complexity of the organisation using the following criteria: – companies with greater than 25% revenue from overseas; and – companies operating in greater than two geographic locations.
Global insurance peer group	• consists of large global insurance companies in the Dow Jones Insurance Titans Index excluding the following primary industries: asset management and custody banks, life and health insurance, reinsurance and insurance brokers. • Lloyd's of London, RSA and Hartford are included in this peer group, given their similarities to QBE.

Remuneration report CONTINUED

2. 2013 Remuneration explained CONTINUED

How is reward linked to QBE's performance?

Our reward framework is directly linked to the key financial profit drivers that encourage achievement of Group business plans and create shareholder value over the long-term.

The following table shows key performance indicators of the Group over the last five years.

FINANCIAL RESULTS		2009	2010	2011	2012	2013
Combined operating ratio	%	89.6	89.7	96.8	97.1	**97.8**
Profitability measures						
Net profit (loss) after income tax (NPAT)	US$M	1,532	1,278	704	761	**(254)**
Diluted earnings per share	cents	149.9	119.6	61.3	61.6	**(22.8)**
Weighted average risk-free discount rate	%	3.2	3.2	2.1	2.2	**2.8**
Net investment yield	%	5.5	2.8	2.9	4.1	**2.6**
Return on equity (ROE)						
Return on average shareholders' funds [1]	%	18.0	13.1	6.8	7.0	**(2.3)**
Return on equity [2]	%	20.2	15.9	7.4	9.2	**7.0**
Return to shareholders						
Dividend per share	Australian cents	128	128	87	50	**32**
Share price at 31 December	A$ per share	25.62	18.15	12.95	10.90	**11.51**
Underwriting profit	US$M	981	1,168	494	453	**341**

1 Group statutory ROE is used for LTI awards.
2 Group management ROE is used for Group QIS-cash awards.

Our 2009 to 2013 net profit after tax was significantly impacted by lower risk-free rates used to discount our net central estimate of outstanding claims and reduced investment yields, reflecting governments' fiscal policy in our major trading markets in response to ongoing economic volatility. In 2012 and 2013, results were impacted by adverse prior accident year claims development, with the write-down of intangibles and other assets being held by our North American Operations following the strategic review of that business in 2013.

Incentive outcomes for executives have reflected this performance with no short-term incentives awarded to Group head office executives since 2010 (with the exception of a pro-rata award paid to former Group CEO, Frank O'Halloran, on termination in 2012 based on the 30 June 2012 results and in accordance with the QIS rules). Performance against five year Group statutory ROE, diluted EPS and combined operating ratio targets in respect of outstanding LTI awards is tracking below the level required for these awards to vest.

Rationale for selection of 2013 financial targets

Management ROE targets are the primary performance measures of QBE's success in the context of at-risk reward. ROE is an absolute measure of profitability. It shows how much income the Group is earning for each dollar of capital allocated. It is a strong objective measure of value created.

The divisional at-risk rewards are based on achieving a minimum return on allocated capital using QBE's economic capital model based on the requirements of a Standard & Poor's insurer financial strength rating of A+.

For the purpose of Group QIS awards, management ROE is the management result basis as a percentage of opening allocated capital adjusted for dividend and capital movements in the year. For the purpose of divisional QIS awards, the RoAC is determined on a management basis using NPAT as a percentage of opening allocated capital.

Executive performance is evaluated annually by the Group CEO, and by the Chairman in respect of the Group CEO, through formal business review assessments to ensure financial performance targets are achieved. This is generally followed by a formal personal development plan (PDP) process. The PDP process provides feedback to an executive on their overall performance against their role profile, demonstrated QBE values and an assessment of current capability and future potential.

1 Highlights & overview
2 Business review
3 Governance
4 Directors' report
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6 Other information

How did QBE's performance affect rewards in 2013?

The incentive structure and financial targets are approved annually by the Remuneration Committee. The achievement of ROE outcomes has been the primary measure for at-risk reward purposes, demonstrating an alignment of profit growth over time and actual QIS-cash awards for our executives.

QIS-cash

The QIS-cash award is a performance-based incentive delivered in the form of an annual cash payment for a performance measurement period of 12 months. The table below shows the 2013 financial performance targets, incentive opportunity and awards achieved by executives in office as at 31 December 2013. The different cash award percentage levels reflect an executive's relative influence on organisational performance and the different ROE ranges reflects market factors.

		FINANCIAL TARGET						ACTUAL ACHIEVED	
		ROE/ROAC			QIS-CASH[1]			ROE/ROAC	QIS-CASH[1]
CURRENT EXECUTIVES	PERFORMANCE MEASURE	MINIMUM %	BUDGET %	MAXIMUM %	MINIMUM %	BUDGET %	MAXIMUM %	%	$
Group head office									
John Neal	Group ROE	9.00	11.00	16.00	20.00	67.50	135.00	7.0	–
Neil Drabsch	Group ROE	9.00	11.00	16.00	20.00	58.50	117.00	7.0	–
Jenni Smith	Group ROE	9.00	11.00	16.00	20.00	55.00	110.00	7.0	–
George Thwaites	Group ROE	9.00	11.00	16.00	20.00	55.00	110.00	7.0	–
Divisional									
David Duclos[2]	North American Operations RoAC	15.00	17.70	22.00	39.90	89.11	133.00	(10.7)	1,000
Colin Fagen	Australian & New Zealand Operations RoAC	15.00	18.10	22.00	20.00	66.50	125.00	22.4	1,107
David Fried	Asia Pacific Operations RoAC	15.00	18.00	28.00	20.00	44.23	125.00	19.6	273
Richard Pryce[3]	European Operations RoAC	10.00	16.20	22.00	0.00	64.60	125.00	14.6	128
Jose Sojo	Latin American Operations RoAC	15.00	23.90	28.00	20.00	91.88	125.00	15.4	134

1 The QIS-cash award is calculated as a percentage of fixed remuneration as at 31 December 2013.
2 David Duclos received $1 million as a guaranteed minimum cash incentive payment for 2013 in accordance with his terms of appointment.
3 Award to Richard Pryce reflects period as a KMP only.

QIS deferred equity award

The QIS-DEA provides executives with the opportunity to acquire equity in the form of conditional rights to fully paid QBE shares without payment. A QIS-DEA is delivered only if a cash award is earned for the financial year.

The maximum QIS-DEA is determined as the lesser of 80% of the QIS-cash award earned for the financial year or 100% of fixed remuneration as at 31 December, and will be recognised by the executive as follows:

- conditional rights to the value of 50% of the equity award will convert to shares after three years; and
- conditional rights to the value of 50% of the equity award will convert to shares after five years.

The share price upon which the 2014 grant of conditional rights (for 2013 performance) is calculated is the volume weighted average sale price of QBE shares over the five trading days on the ASX from 25 February 2014 (being the date on which QBE's annual result is announced to the ASX).

A tenure hurdle is attached to the QIS-DEA. Conditional rights will vest if the individual has remained in service throughout the three or five year vesting period. Notional dividends, payable in the form of additional conditional rights, accrue during the vesting period and are subject to the same vesting conditions.

The vesting of the conditional rights is also subject to malus provisions (see page 103 on *How does malus apply?*).

The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the executive is not subject to disciplinary proceedings or notice to terminate employment on that date.

Remuneration report CONTINUED

2. 2013 Remuneration explained CONTINUED

The table below shows the basis of calculation of the QIS-DEA conditional rights based on 2013 performance.

		QIS-CASH		QIS-DEA[2]		
CURRENT EXECUTIVES	FIXED REMUNERATION US$000	PERCENTAGE OF FIXED REMUNERATION %	PAYMENT (MARCH 2014) US$000	MAXIMUM AWARD[1] US$000	THREE YEAR CONDITIONAL RIGHTS US$000	FIVE YEAR CONDITIONAL RIGHTS US$000
Group head office						
John Neal	2,015	–	–	–	–	–
Neil Drabsch	1,055	–	–	–	–	–
Jenni Smith	673	–	–	–	–	–
George Thwaites	663	–	–	–	–	–
Divisional						
David Duclos	751	133	1,000	800	400	400
Colin Fagen	884	125	1,107	886	443	443
David Fried	477	57	273	218	109	109
Richard Pryce[3]	267	48	128	102	51	51
Jose Sojo	575	23	134	107	53	53

1 Based on the lesser of 80% of the QIS-Cash award or 100% of fixed remuneration, except for David Duclos who has been guaranteed a minimum cash award for 2013 only.

2 Australian accounting standards require deferred equity awards earned under the QIS and the LTI to be measured at fair value at the date of grant and expensed over the service period, regardless of the value ultimately realised by the executive.

3 Award to Richard Pryce reflects period as a KMP only.

Enhanced QIS-DEA (divisional CEOs only)

Since 1 January 2008, divisional CEOs have been eligible to receive an enhanced QIS-DEA. The first award was made in March 2009. It provides the opportunity for executives to receive additional conditional rights if divisional RoAC targets are exceeded. The enhanced QIS-DEA will not apply in the new remuneration arrangements from 2014.

The value of the enhanced QIS-DEA award varies for each CEO, ranging from 3% – 15% of fixed remuneration.

To calculate the number of conditional rights, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days on the ASX from the date on which QBE's annual result is announced to the ASX.

A three year tenure hurdle is attached to enhanced QIS-DEA. Conditional rights will only vest if the individual has remained in service throughout the vesting period and is not subject to disciplinary proceedings or notice to terminate employment on the vesting date. Notional dividends, payable in the form of QBE shares, accrue on the conditional rights during the vesting period and are subject to the same vesting conditions for conditional rights.

The vesting of the conditional rights is also subject to malus provisions (see page 103).

The Remuneration Committee has the discretion to pay cash in lieu of shares upon vesting in certain circumstances such as death, disability, redundancy or retirement.

The divisional RoAC targets, the minimum and maximum awards and the actual award for the 2013 financial year are shown in the table below.

		ENHANCED DIVISIONAL ROAC TARGETS	ENHANCED QIS-DEA AS A % OF FIXED REMUNERATION		
DIVISIONAL EXECUTIVES	DIVISION	MINIMUM & MAXIMUM %	MINIMUM & MAXIMUM %	ACTUAL AWARD %	AWARD VALUE US$000
David Duclos	North American Operations	23 - 27	3 - 15	–	–
Colin Fagen	Australian & New Zealand Operations	23 - 27	3 - 15	–	–
David Fried	Asia Pacific Operations	29 - 32	3 - 15	–	–
Richard Pryce	European Operations	23 - 27	3 - 15	–	–
Jose Sojo	Latin American Operations	29 - 32	3 - 15	–	–

Long-term incentives

The LTI plan introduced in the 2010 performance year will be discontinued from 2014 and replaced with a new LTI plan. This means that LTI awards due to be made in March 2014 in respect of the 2013 performance year will not be made and instead will be replaced with awards under the new plan as summarised on page 94. The first awards under the new LTI plan will be made in March 2014 following the release of the 2013 full year financial results. For the Group CEO, the award will be subject to shareholder approval with the terms set out in the Notice of the 2014 Annual General Meeting.

LTI awards in respect of the 2012 performance year were made in March 2013 and are summarised in the table on page 107.

How LTI was allocated

The legacy LTI plan comprised an award of conditional rights to fully paid shares without payment by the executive, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows:

1. 50% of the award granted will be contingent on QBE's diluted EPS increasing by a compound average 7.5% per annum over the five year vesting period; and
2. 50% of the award granted will be contingent on QBE's average statutory ROE and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period.

The vesting of the conditional rights is also contingent on there being no material deterioration in QBE's statutory ROE during the vesting period.

Conditional rights were granted as a maximum percentage of fixed remuneration ranging from 50% for the Group CEO, 25% for the Group CFO and 15% for Group and divisional executives.

To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days from the date on which QBE's annual result were announced to the ASX.

The Remuneration Committee has the discretion to accelerate vesting of LTI awards or allocate a pro-rata amount in cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement. The ability to accelerate vesting of LTI awards under the new plan to apply from 2014 has been removed except in the event of death.

Performance hurdles are tracked annually over the five year vesting period. Final vesting outcomes of the LTI grants awarded in 2010, 2011 and 2012 will be measured at the end of each applicable five year vesting period.

How does malus apply?

From 2010, the Remuneration Committee introduced a discretionary "clawback" provision to enable awards under the QIS-DEA and LTI to be reduced (including to zero) during the retention period for any material adverse development which results in the ROE or RoAC used to determine the original grant being overstated. "Material" at Group level is defined as profit for the relevant financial year being overstated by 10% or more. For divisions, a material adverse development is defined as profit for the relevant accident year being overstated by 20% or more. This clawback applies during the vesting period of QIS-DEA and LTI awards granted in March 2011 and March 2012.

In considering whether to exercise discretion to reduce unvested awards under the QIS-DEA and LTI, the Remuneration Committee will consider the quantum of the reduction in profit. This consideration will usually be made using audited financial accounts. Clawback may also occur if the relevant ROE is affected by fraud.

In 2013, the "clawback" provision was modified and renamed "malus" to more accurately reflect the function of the provision, which is to reduce the amount of an unvested award (including to zero) in certain circumstances during the retention period, rather than require the repayment of an award once it has vested and been paid.

> **"The revised malus provision broadens the circumstances in which the Remuneration Committee can either forfeit or reduce the amount of an unvested award.**

The revised malus provision broadens the circumstances in which the Remuneration Committee can either forfeit or reduce the amount of an unvested award to include not only when a material adverse development has occurred, but also if the participant has engaged in fraudulent conduct, acted with recklessness or wilful indifference, withheld information from QBE or QBE has suffered significant reputational harm or significant unexpected financial loss. This better reflects best practice and QBE's obligations under APRA's prudential standard CPS 510 to incorporate terms allowing for the adjustment of incentive awards to protect QBE's financial soundness and ability to respond to unforeseen significant issues.

Treatment of conditional rights on a change in control of QBE

In accordance with the QIS-DEA and LTI rules, a change in control is defined as either a scheme of arrangement that has been approved by QBE's shareholders or a bidder has at least 50% of the issued and to be issued QBE shares under an unconditional takeover offer made in accordance with the *Corporations Act 2001*.

Should a change in organisational control occur, the holder of an unvested conditional right may require the conversion of the conditional right to QBE shares during the time declared for such conversion by the Remuneration Committee.

Future performance conditional rights

At the discretion of the Remuneration Committee, future performance conditional rights may be awarded to executives subject to specific performance criteria and tenure conditions. No future performance conditional rights were awarded to executives in 2013. Executive holdings of future performance conditional rights are detailed on page 172 of the financial report.

Remuneration report CONTINUED

2. 2013 Remuneration explained CONTINUED

Keeping executives' and shareholders' interests aligned

Minimum shareholding

In keeping with our remuneration philosophy to align at-risk reward with the achievement of returns for shareholders in terms of dividends and growth in share price, an executive minimum shareholding requirement was introduced from 31 March 2008.

The minimum shareholding requirement encourages executives to build their shareholding and ensures they have significant exposure to QBE's share price and, by doing so, confirms their long-term interests are aligned with shareholders.

Under the requirement, all executives must accumulate a minimum vested shareholding in QBE equivalent to one year's fixed remuneration by 31 March each year (for the Group CEO, the minimum required holding was increased to 1.5 times fixed remuneration during 2013). This holding is to be maintained (taking into account annual changes in fixed remuneration levels) for as long as they remain employed by QBE. New executives are required to build their shareholding over a three year period after becoming an executive. As at 31 March 2013, the minimum shareholding requirement was met by all current executives.

Compliance with the requirement is assessed as at 31 March each year. If an executive does not meet the minimum shareholding as at the annual review date, QBE may impose a restriction on the sale of any further equity grants. Individual executives' requirements are recalculated annually to consider fixed remuneration increases and changes in the share price or exchange rates.

The total shareholding investment of executives is shown in the table on page 106.

> "The minimum shareholding requirement encourages executives to build their shareholding and ensures they have significant exposure to QBE's share price and, by doing so, confirms their long-term interests are aligned with shareholders.

Current exposure

Executives have further exposure to QBE's share price through their unvested conditional rights and options. The exercise price of options issued to executives in 2009 exceeds the share price at the balance date (details of unvested conditional rights and options are provided in note 30 to the financial statements). The value of conditional rights granted in these years has fallen due to the lower QBE share price, demonstrating the alignment between shareholder returns and at-risk reward.

Trading policy

Trading in QBE ordinary shares is generally only permitted during designated trading windows. A policy exists stating that non-executive directors and executives should notify any intended share transaction to nominated people within the Group.

The policy prohibits the hedging of unvested equity entitlements by executives. The purpose of this prohibition is to ensure that, until awards granted under the QIS and LTI have vested, there is an alignment between the interests of executives and shareholders, with the effect that market share value movements (either positive or negative) will economically impact executive rewards. There is a further restriction on hedging vested equity entitlements if such entitlement counts towards the executive's minimum shareholding requirement.

The policy is enforced by requiring non-executive directors and executives to sign an annual declaration that confirms compliance with the restrictions on hedging. A copy of QBE's trading policy for dealing in securities is available from *www.qbe.com/investor information/ corporate governance/background* documents.

3. Remuneration in detail

Statutory remuneration disclosures

The following table provides details of the remuneration of QBE's executives, as determined by reference to applicable Australian Accounting Standards for the financial year ended 31 December 2013. Remuneration has been converted to US dollars using the cumulative average rate of exchange for the relevant year.

		SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS[1]			
EXECUTIVES	YEAR	BASE SALARY US$000	OTHER[2] US$000	QIS-CASH[3] US$000	SUPERANNUATION US$000	LEAVE ACCRUALS[4] US$000	CONDITIONAL RIGHTS US$000	OPTIONS US$000	TERMINATION BENEFITS US$000	TOTAL US$000
Group head office										
John Neal	**2013**	**2,011**	**82**	**–**	**–**	**(40)**	**816**	**36**	**–**	**2,905**
	2012	1,623	57	–	–	–	1,054	72	–	2,806
Neil Drabsch	**2013**	**1,031**	**159**	**–**	**17**	**85**	**277**	**29**	**–**	**1,598**
	2012	1,076	193	–	17	59	1,258	59	–	2,662
Jenni Smith	**2013**	**656**	**32**	**–**	**17**	**28**	**99**	**14**	**–**	**846**
	2012	678	14	–	17	44	172	28	–	953
George Thwaites	**2013**	**639**	**21**	**–**	**17**	**62**	**98**	**13**	**–**	**850**
	2012	671	21	–	17	14	170	25	–	918
Divisional										
David Duclos	**2013**	**733**	**16**	**1,000**	**41**	**23**	**179**	**–**	**–**	**1,992**
	2012	–	–	–	–	–	–	–	–	–
Colin Fagen	**2013**	**862**	**39**	**1,107**	**17**	**(13)**	**256**	**6**	**–**	**2,274**
	2012	898	51	1,048	17	38	92	12	–	2,156
David Fried	**2013**	**477**	**1,915**	**273**	**13**	**16**	**204**	**–**	**–**	**2,898**
	2012	–	–	–	–	–	–	–	–	–
Richard Pryce	**2013**	**267**	**161**	**128**	**–**	**4**	**205**	**–**	**–**	**765**
	2012	–	–	–	–	–	–	–	–	–
Jose Sojo	**2013**	**575**	**24**	**134**	**–**	**12**	**177**	**7**	**–**	**929**
	2012	479	34	193	–	–	153	11	–	870
Former executives										
Steven Burns[5]	**2013**	**850**	**351**	**575**	**–**	**9**	**750**	**53**	**3,518**	**6,106**
	2012	1,116	391	1,542	–	–	1,145	138	–	4,332
John Rumpler[5]	**2013**	**342**	**159**	**–**	**–**	**19**	**114**	**3**	**749**	**1,386**
	2012	1,023	75	–	17	113	428	17	–	1,673
Total	**2013**	**8,443**	**2,959**	**3,217**	**122**	**205**	**3,175**	**161**	**4,267**	**22,549**
	2012	7,564	836	2,783	85	268	4,472	362	–	16,370

1 The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights and options are provided in note 30 to the financial statements.

2 "Other" includes:
- provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon;
- the deemed value of interest free share loans which is also disclosed in note 30(C) to the financial statements; and
- a cash payment of $400,000 made to David Fried as compensation for loss of incentives from his previous employer and expatriate benefits consisting of foreign taxes of $535,000, housing allowances of $396,000, education assistance of $122,000, a cost of living adjustment of $106,000 and one-off relocation expenses of $97,000.

3 QIS-cash award for performance in the 2013 financial year is payable in March 2014.

4 Includes the change in long service leave and annual leave accruals during the year.

5 Termination benefits in respect of Steven Burns and John Rumpler include apportioned fixed remuneration and QIS-cash awards from the date of ceasing to be KMP to the date of termination, as well as the accelerated accounting charge or reversal in respect of equity vesting or cancellation. Details are set out in more detail in the table on page 106.

Remuneration report CONTINUED

3. Remuneration in detail CONTINUED

Former executives

The following table provides further detail on the remuneration of executives who ceased employment during the financial year ended 31 December 2013, as determined under applicable Australian Accounting Standards.

FORMER EXECUTIVES	APPORTIONED FIXED REMUNERATION TO TERMINATION DATE [3] US$000	QIS-CASH [4] US$000	QIS-DEA [5] US$000	ACCELERATED ACCOUNTING CHARGE – CONDITIONAL RIGHTS & OPTIONS [6] US$000	CONSULTING FEES US$000	TOTAL [7] US$000
Steven Burns [1]	379	194	615	2,330	–	3,518
John Rumpler [2]	520	–	–	29	200	749

1 Steven Burns ceased to be KMP on 30 September 2013. He remained a full-time employee until his retirement was effective on 31 December 2013.
2 John Rumpler ceased to be KMP on 30 April 2013. He remained an employee until 31 October 2013 in accordance with his contractual six months' notice period. On 30 April 2013, 66,717 conditional rights vested. He received one ordinary share in QBE for each conditional right that vested. Further holdings of 132,385 conditional rights and 24,324 options outstanding at this date lapsed under the respective plan rules. A monthly consulting fee totalling $200,000 was payable from 31 October 2013 to 31 January 2014.
3 Apportioned fixed remuneration from the date of ceasing to be KMP to the date of termination of employment.
4 Apportioned QIS-cash payment from the date of ceasing to be KMP to the date of termination of employment.
5 Apportioned QIS-DEA award from the date of ceasing to be KMP to the date of termination of employment.
6 Accounting charge accelerated or reversed due to termination. Under the QIS-DEA rules, upon termination of employment (through redundancy or retirement) prior year grants of conditional rights and options are permitted to be released early (shareholder approval was obtained at the AGM of 5 April 2011).
7 Amounts have been converted to US dollars using the average rate of exchange for the 2013 year.

Equity-based remuneration

Executive investment in QBE as at 31 January 2014

The table below shows the investment exposure of QBE's current executives as at 31 January 2014. Amounts in the table include relevant interests but do not include interests attributable to personally related parties.

CURRENT EXECUTIVES	ORDINARY SHARES NUMBER	CONDITIONAL RIGHTS NUMBER	TOTAL POTENTIAL SHARES IN QBE AT 31 JAN 2014 NUMBER	VALUE OF POTENTIAL SHARES IN QBE AT 31 JAN 2014 US$000	COST TO REPAY SHARE LOANS US$000	NET INVESTMENT IN QBE AT 31 JAN 2014 US$000
Group head office						
John Neal	170,662	288,305	458,967	4,612	–	4,612
Neil Drabsch	246,617	106,523	353,140	3,549	(1,685)	1,864
Jenni Smith	62,656	45,495	108,151	1,087	–	1,087
George Thwaites	45,300	45,304	90,604	910	(152)	758
Divisional						
David Duclos	–	72,037	72,037	724	–	724
Colin Fagen	73,434	94,529	167,963	1,688	(351)	1,337
David Fried	–	81,060	81,060	815	–	815
Richard Pryce	15,261	109,058	124,319	1,249	–	1,249
Jose Sojo	39,085	61,701	100,786	1,013	–	1,013
Total	653,015	904,012	1,557,027	15,647	(2,188)	13,459

1 The closing share price at 31 January 2014 was A$11.49 ($10.05 using the 31 January 2014 closing rate of exchange).

Conditional rights

(i) Deferred equity awards

Details of conditional rights provided as remuneration to executives during 2013 under the terms of the 2012 QIS-DEA or contractual arrangements as set out below. When exercisable, each conditional right is convertible into one ordinary share in QBE.

	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE[1] US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000
Group head office				
John Neal	–	–	28,939	385
Neil Drabsch	–	–	24,058	320
Jenni Smith	–	–	11,578	154
George Thwaites	–	–	11,248	150
Divisional				
David Duclos[2]	71,095	899	–	–
Colin Fagen	61,438	777	5,126	68
David Fried[3]	80,000	1,045	–	–
Richard Pryce[4]	31,484	398	33,092	434
Jose Sojo	11,852	150	6,120	81
Former executives				
Steven Burns	87,300	1,104	56,322	749
John Rumpler[5]	66,717	844	77,014	993

1 The value at grant date is calculated in accordance with AASB 2 Share-based Payment.
2 On appointment, David Duclos was awarded a sign-on grant of 71,095 conditional rights. If he is still employed by QBE on the applicable vesting date, 50% of the conditional rights will vest after three years and 50% will vest after five years.
3 On appointment, David Fried was granted 80,000 conditional rights as compensation for incentives forfeited on resignation from his previous employer. If he is still employed by QBE on the applicable vesting date, 50% of the conditional rights will vest after three years and 50% will vest after five years.
4 Conditional rights granted, vested and exercised during the year in respect of Richard Pryce were prior to his appointment as Chief Executive Officer, European Operations.
5 On 30 April 2013, 66,717 conditional rights were granted and vested immediately.

(ii) Legacy Long-term incentive plan

Details of conditional rights provided as remuneration to executives during 2013 under the terms of the 2012 LTI plan are set out below. LTI conditional rights are subject to future performance hurdles as detailed on page 103 of this report. When exercisable, each conditional right is convertible into one ordinary share in QBE.

	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE[1] US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000
Group head office				
John Neal	59,443	743	–	–
Neil Drabsch	20,026	253	–	–
Jenni Smith	7,634	97	–	–
George Thwaites	7,561	96	–	–
Divisional				
Colin Fagen	10,061	127	–	–
Jose Sojo	5,353	68	–	–
Former executives				
Steven Burns	15,671	198	–	–

1 The value at grant date is calculated in accordance with AASB 2 Share-based Payment.

Remuneration report CONTINUED

3. Remuneration in detail CONTINUED

(iii) Future performance conditional rights

Details of conditional rights to ordinary shares in QBE provided as remuneration to executives during 2013 are set out below. When exercisable, each conditional right is convertible into one ordinary share of the company.

	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000
Group head office				
John Neal[1]	30,954	392	–	–
Neil Drabsch[2]	–	–	79,848	904

1 On 5 April 2012, John Neal was granted an appointment performance incentive of 90,000 conditional rights. The award comprised three tranches of 30,000 conditional rights, with each tranche relating to one of the years from 2012 to 2014. The conditional rights for each of the three years may vest in April 2015 if vesting conditions are met, which include QBE achieving a minimum ROE target for the relevant year. The minimum ROE target for the 2012 tranche was not met and as a result this tranche of conditional rights (and associated notional dividends) lapsed in 2013. The minimum ROE target for 2013 has also not been met and the second tranche of conditional rights (and associated notional dividends) will lapse in 2014 as well as 29,228 conditional rights held in respect of a grant in his previous role as Chief Underwriting Officer.

2 On 18 October 2011, Neil Drabsch was granted retention conditional rights that vested during the year.

Options

Details of options provided as remuneration to executives are set out below. When exercisable, each option is convertible into one ordinary share in QBE. Options vested in 2013 were earned under the legacy DCP terms for the 2007 performance year and were granted in March 2008.

No options were granted or exercised in the current year.

	OPTIONS VESTED IN THE YEAR NUMBER	OPTIONS LAPSED/ CANCELLED IN THE YEAR NUMBER	VALUE OF OPTIONS AT LAPSE DATE[1] US$000
Group head office			
John Neal	41,956	32,066	–
Neil Drabsch	35,169	24,776	–
Jenni Smith	16,146	11,009	–
George Thwaites	14,516	8,545	–
Divisional			
Colin Fagen	7,576	4,255	–
Jose Sojo	4,792	–	–
Former executives			
Steven Burns	76,700	61,031	–
John Rumpler	10,489	31,799	–

1 The value of options at lapse date was nil reflecting the fact that the exercise price of the options exceeds the value of the underlying shares at that date.

Employment agreements

The terms and conditions of employment of each executive reflect market conditions at the time of their contract negotiation on appointment and subsequently. The material terms of the employment agreements for the current executives are summarised in the table below.

CONTRACTUAL TERM	EXECUTIVES AFFECTED	CONDITIONS
Duration of contract	All	Permanent full-time employment contract until notice given by either party.
Notice to be provided by executive or QBE	All	Notice period is 12 months for John Neal. Other executives' notice periods are six months, except for Neil Drabsch whose notice period is four weeks (or five weeks by QBE).
Involuntary termination	All	QBE may pay an executive's fixed remuneration and QIS-cash awards for the current financial year and must pay statutory entitlements such as accrued annual and long service leave (where applicable) together with superannuation benefits. In the event of termination through death, disability, redundancy or retirement and no disciplinary procedure or notice to terminate employment is pending, the executive is entitled to the value of outstanding QIS-cash awards, legacy DCP awards for previous years plus a pro-rata share of the value of QIS for the current financial year. In addition, the Remuneration Committee may exercise its discretion to vest LTI awards that have been granted for previous years.
Voluntary termination	All	In the case of voluntary termination, executives forfeit all conditional rights to ordinary shares not yet vested under the LTI and legacy DCP, and all unexercised options under the legacy DCP. QBE may pay an executive's fixed remuneration and QIS-cash awards for the current financial year and must pay statutory entitlements such as accrued annual and long service leave (where applicable) together with superannuation benefits.
Payment for past services	John Neal	Three weeks' fixed remuneration for each year of service capped at 12 months' fixed remuneration on termination if not a "bad leaver".
Post-employment restraints	John Neal	12 month non-compete agreement.
	Richard Pryce	Six month non-compete restriction.
	Neil Drabsch	A two year non-compete agreement post retirement was removed in October 2013 given his agreement to remain employed beyond his planned retirement date.

4. Non-executive directors' remuneration

Remuneration philosophy

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain independent experienced directors and to ensure their active participation in the Group's affairs for the purposes of corporate governance, regulatory compliance and other matters. QBE aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multinational financial institutions. The Board reviews surveys published by independent remuneration consultants and other public information to ensure that fee levels are appropriate. The remuneration arrangements of non-executive directors are distinct and separate from the executives. Non-executive directors do not have formal service agreements.

> “Non-executive director remuneration reflects QBE's desire to attract, motivate and retain independent experienced directors and to ensure their active participation in the Group's affairs for the purposes of corporate governance, regulatory compliance and other matters.

Fee structure and components

The aggregate amount approved by shareholders at the 2013 AGM was A$3.3 million per annum.

Under the current fee framework, non-executive directors receive a base fee in Australian dollars. In addition, a non-executive director (other than the Chairman) may receive further fees for chairmanship or membership of a board committee.

As disclosed in the 2012 annual report, non-executive director base fees and committee fees did not increase in 2013, having been last increased on 1 January 2012. An increase was applied, however, to the Australian superannuation component due to the legislated increase from 9% to 9.25% from 1 July 2013. This increase was also applied to foreign resident non-executive directors for consistency.

In 2013, the Risk and Capital Committee was formed to replace the Funding Committee and the Risk component of the former Audit and Risk Committee. The chairman and members of this committee receive fees.

Active committees in 2013 were as follows:

- Audit Committee
- Investment Committee
- Nomination Committee
- Remuneration Committee
- Risk and Capital Committee

The approved non-executive director fee structure for 2013 and 2012 is shown in the table below. Fees paid to the Chairman and other non-executive directors will be reviewed on 1 April 2014.

FEE FRAMEWORK	2013 US$000	2012 US$000
Chairman base fee	**618**	667
Non-executive director base fee	**194**	209
Committee chairman base fee	**47**	50
Committee membership fee	**25**	27

Other benefits
Non-executive directors do not receive any performance-based remuneration such as cash incentives or equity awards. Under the company's constitution, non-executive directors are entitled to be reimbursed for all travel and related expenses properly incurred in connection with the business of the company. Non-executive directors based overseas receive an annual cash travel allowance in addition to fees for the time involved in coming to Australia (except Irene Lee who was originally based in Australia).

Superannuation
QBE pays superannuation to Australian-based non-executive directors in accordance with Australian superannuation guarantee legislation. Overseas-based non-executive directors receive the cash equivalent amount in addition to their fees.

Other retirement benefits
Non-executive directors previously received a retirement allowance based on their period of service. The allowance was limited to the aggregate of the director's fees in the last three years of service, subject to a minimum of 10 years' service. Where service was less than 10 years, a pro-rata amount was paid. With effect from 31 December 2003, the Board terminated the retirement allowance to non-executive directors. Accrued retirement benefits at 31 December 2003 are preserved until retirement and are subject to an annual increase equal to the average five year Australian government bond rate. Shareholders approved an increase in non-executive directors' remuneration, and the company's constitution was amended at the 2004 AGM to recognise this change.

1 Highlights & overview
2 Business review
3 Governance
4 Directors' report
5 Financial report
6 Other information

The table below sets out the preserved retirement allowances of the relevant non-executive directors for the year ended 31 December 2013.

RETIREMENT ALLOWANCE[1]	2013 US$000	2012 US$000
Belinda Hutchinson AM	**307**	347
Charles Irby[2]	**–**	136
Irene Lee[3]	**–**	99

1 Retirement allowance has been converted to US dollars using the closing rate of exchange for the relevant year.
2 Charles Irby retired on 31 March 2013. He received his accrued retirement allowance of $137,000 (A$132,000) converted using the rate of exchange at the date of retirement.
3 Irene Lee retired on 21 August 2013. She received her accrued retirement allowance of $87,000 (A$97,000) converted using the rate of exchange at the date of retirement.

Remuneration details for non-executive directors

Details of the nature and amount of each component of the remuneration of our non-executive directors for the year ended 31 December 2013 are set out in the table below:

		SHORT-TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS			
NON-EXECUTIVE DIRECTOR	YEAR	FEES[1] US$000	OTHER[2] US$000	SUPERANNUATION – SGC[3] US$000	SUPERANNUATION – OTHER[3] US$000	RETIREMENT BENEFITS US$000	TOTAL[4] US$000
Marty Becker[5]	**2013**	**117**	**–**	**1**	**–**	**–**	**118**
	2012	–	–	–	–	–	–
Duncan Boyle	**2013**	**266**	**1**	**16**	**8**	**–**	**291**
	2012	291	1	17	6	–	315
John Graf	**2013**	**335**	**–**	**2**	**–**	**–**	**337**
	2012	123	–	–	–	–	123
John Green	**2013**	**292**	**–**	**16**	**10**	**–**	**318**
	2012	268	–	17	3	–	288
Isabel Hudson	**2013**	**329**	**–**	**4**	**–**	**–**	**333**
	2012	341	–	–	–	–	341
Belinda Hutchinson AM	**2013**	**650**	**–**	**16**	**9**	**10**	**685**
	2012	710	–	17	–	9	736
Margaret Leung	**2013**	**112**	**–**	**2**	**–**	**–**	**114**
	2012	–	–	–	–	–	–
Former non-executive directors							
Charles Irby	**2013**	**76**	**–**	**–**	**–**	**1**	**77**
	2012	335	–	–	–	4	339
Irene Lee	**2013**	**203**	**–**	**–**	**–**	**2**	**205**
	2012	313	–	–	–	3	316
Total	**2013**	**2,380**	**1**	**57**	**27**	**13**	**2,478**
	2012	2,381	1	51	9	16	2,458

1 Charles Irby and Isabel Hudson are UK residents. John Graf and Marty Becker are US residents. Margaret Leung is a resident of Hong Kong. They each receive an annual travel allowance of $40,000 (A$41,500) and, in lieu of superannuation in Australia, additional fees of 9% for the period 1 January to 30 June 2013 and 9.25% from 1 July to 31 December 2013, both of which are included in their directors' fees. Irene Lee is a resident of Hong Kong and received additional fees in lieu of superannuation in Australia of of 9% for the period 1 January to 30 June 2013 and 9.25% from 1 July to 21 August 2013, which is included in her fees.
2 Staff insurance discount benefits received during the year.
3 Duncan Boyle, John Green and Belinda Hutchinson are Australian residents. Superannuation is calculated as 9% of fees for the period 1 January to 30 June 2013 and 9.25% of fees from 1 July to 31 December 2013. Superannuation in excess of the minimum amount required under Superannuation Guarantee legislation may be taken as additional fees at the option of the director.
4 Remuneration has been converted to US dollars using the average rate of exchange for the relevant year.
5 Remuneration includes fees for his role as a non-executive director on subsidiary boards in relation to QBE North American Operations from 20 November 2013.

5. Appendix

Terms used in this report

TERM	DEFINITION
Combined operating ratio (COR)	Refer to the glossary of insurance terms.
Deferred Compensation Plan (DCP)	A legacy remuneration arrangement granting equity benefits which ceased from 1 January 2010. Only executives were invited to participate.
Diluted earnings per share	Refer to note 27 to the financial statements.
Executives	Key management personnel other than non-executive directors.
Fixed remuneration	All guaranteed pay inclusive of base salary, superannuation and other guaranteed benefits.
Key management personnel (KMP)	Accounting standards require disclosure of the remuneration of directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. This group is collectively defined as key management personnel. AASB 124: Related Party Disclosures specifically requires that non-executive directors are included as key management personnel even though they are not part of QBE's management. The individuals included on page 96 were considered key management personnel for either the full reporting period or part thereof because they are members of the Group Executive, being the management body responsible for the Group's strategy and operation. The term is generally used in the report to refer to executives only, as appropriate.
Legacy Long-Term Incentive Plan (LTI)	A legacy remuneration arrangement which ceased from 1 January 2014. The at-risk reward structure that grants equity awards subject to a five year vesting period and performance hurdles. Applies to LTI equity awards granted in March 2011, March 2012 and March 2013. Details are provided on pages 102 to 103 of this report.
QBE Incentive Scheme (QIS)	The at-risk reward structure that comprises cash awards and deferred equity awards effective from 1 January 2010 to 31 December 2013. Details are provided on page 101 of this report.
Return on allocated capital (RoAC)	Divisional net profit after tax (NPAT) on a management basis as a percentage of opening allocated capital. This is the key performance measure used to determine incentives for divisional KMP.
Return on equity – management basis (management ROE)	NPAT on a management basis as a percentage of adjusted opening allocated capital. Applied in the determination of Group head office KMP incentives, the management result is net profit after tax adjusted to add back the non-cash expense of amortisation and impairment of intangible assets and tax thereon. Opening allocated capital is adjusted for dividend and capital movements in the year.
Statutory return on equity (statutory ROE)	NPAT on an AIFRS basis as a percentage of average shareholders' funds. Alternatively referred to as return on average shareholders' funds. Applied to determine the achievement of incentives under the Group's LTI framework. This will also be a key performance measure for short-term and long-term incentives of all executives from 2014.

Legacy equity schemes

DEFERRED COMPENSATION PLAN (DCP)	DESCRIPTION
Until 31 December 2008 and applicable to awards granted in March 2009 and prior	For DCP awards made up to and including March 2009 in relation to financial performance in 2008 and prior years, KMP were provided with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment and options to subscribe for shares at market value at the grant date. The DCP award amount was restricted to the lesser of 66.67% of the STI award for that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award was paid. This DCP award amount was used to acquire conditional rights to fully paid shares and options respectively as follows: • conditional rights to shares to the value of 60% of the DCP award, converted to shares after three years; and • options over ordinary shares to the value of 40% of the DCP award, with the resulting number multiplied by three, exercisable after five years (three years if in Group Investments). Interest-free personal recourse loans were available on terms permitted by the Employee Share and Option Plan to persons in the employment of QBE who hold options under the DCP, to fund the exercise of the options. Interest-free personal recourse loans under the DCP will cease by 5 March 2015 after the final vesting of all incentives granted in March 2009.
From 1 January 2009 and applicable to awards granted in March 2010	For DCP awards made in March 2010 in respect of financial performance for 2009, executives received conditional rights to fully paid shares. The maximum DCP award was based on an amount which is the lesser of 80% of the STI award (previously 66.67%) in that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award is paid. The maximum DCP award was used as the basis of calculating the number of conditional rights to fully paid shares as follows: • conditional rights to the value of 50% of the DCP award, converted to shares after three years; and • conditional rights to the value of 50% of the DCP award, converted to shares after five years. The vesting of the conditional rights is contingent on there being no material subsequent deterioration of the consolidated entity's ROE during the vesting period.
All awards	Conditional rights and any options relating to the achievement of profit targets in the financial year were granted in March of the following year. The share price upon which the allocation of conditional rights was calculated was the volume weighted average sale price of QBE shares over the five trading days on the ASX prior to the grant date. Notional dividends under the Bonus Share Plan are added to the number of conditional rights granted and are provided on vesting.

Remuneration report CONTINUED

5. Appendix CONTINUED

Valuation of conditional rights and options

Conditional rights

Details of conditional rights issued affecting remuneration of key management personnel in the previous, current or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	VALUE PER RIGHT AT GRANT DATE[1]
6 March 2009	5 March 2012	A$17.57
5 March 2010	4 March 2013	A$20.90
5 March 2010	4 March 2015	A$20.90
1 January 2011	1 January 2014	A$18.44
7 March 2011	6 March 2014	A$17.93
7 March 2011	6 March 2016	A$17.93
18 October 2011	1 January 2013	A$14.05
7 March 2012	6 March 2015	A$11.78
7 March 2012	6 March 2017	A$11.78
5 April 2012	4 April 2015	A$14.25
1 September 2012	1 March 2013	A$13.03
1 September 2012	1 March 2014	A$13.03
1 September 2012	1 March 2015	A$13.03
1 September 2012	1 March 2016	A$13.03
5 March 2013	4 March 2016	A$13.18
5 March 2013	4 March 2018	A$13.18
27 March 2013	4 March 2018	A$13.02
2 April 2013	1 April 2016	A$13.18
2 April 2013	1 April 2018	A$13.18
8 April 2013	7 April 2016	A$13.61
8 April 2013	7 April 2018	A$13.61
30 April 2013	30 April 2013	A$13.18

1 The fair value at grant date of conditional rights is calculated using a binomial model. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights are provided in note 30 to the financial statements.

Options

Options affecting remuneration of key management personnel in the previous, current or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER RIGHT AT GRANT DATE[1]
2 March 2007	1 March 2012	2 March 2013	A$32.68	A$6.28
4 March 2008	4 March 2013	4 March 2014	A$24.22	A$4.63
6 March 2009	5 March 2014	6 March 2015	A$17.57	A$2.81

1 The fair value at grant date of options is calculated using a binomial model. The fair value of each option is recognised evenly over the service period ending at vesting date. Details of grants of options are provided in note 30 to the financial statements.

Directors' report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

Auditor

PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with section 327B of the *Corporations Act 2001*.

Non-audit services

During the year, PricewaterhouseCoopers has performed certain other services in addition to its statutory duties.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as provided in note 34 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants.

A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 116.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 34 to the financial statements.

Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the directors' report. Amounts have been rounded off in the directors' report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

Signed in SYDNEY this 25th day of February 2014 in accordance with a resolution of the directors.

BJ Hutchinson AM **Director**	JD Neal **Director**

Auditor's independence declaration for the year ended 31 December 2013

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QBE Insurance Group Limited and the entities it controlled during the period.

K.G. Smith.

KG Smith
Partner, PricewaterhouseCoopers

Sydney
25 February 2014

Liability limited by a scheme approved under Professional Standards Legislation

Financial report contents

Financial statements

Notes to the financial statements

This financial report includes the consolidated financial statements for QBE Insurance Group Limited (the ultimate parent entity or the company) and its controlled entities (QBE or the Group). All amounts in the financial report are presented in US dollars unless otherwise stated.

QBE Insurance Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is located at:

Level 27, 8 Chifley Square
Sydney NSW 2000
Australia

A description of the nature of the Group's operations and its principal activities is included on pages 9 to 67, none of which is part of this financial report.

The financial report was authorised for issue by the directors on 25 February 2014. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All material press releases, financial reports and other information are available at our QBE investor centre at our website: www.qbe.com.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 US$M	2012 US$M
Gross written premium		17,975	18,434
Unearned premium movement		(86)	(93)
Gross earned premium revenue	6(A)	17,889	18,341
Outward reinsurance premium		(2,347)	(2,360)
Deferred reinsurance premium movement		(146)	(183)
Outward reinsurance premium expense	6(B)	(2,493)	(2,543)
Net earned premium (a)		15,396	15,798
Gross claims incurred	6(B), 7	(11,180)	(12,695)
Reinsurance and other recoveries revenue	6(A), 7	1,249	2,267
Net claims incurred (b)	7	(9,931)	(10,428)
Gross commission expense	6(B)	(2,880)	(2,874)
Reinsurance commission revenue	6(A)	300	314
Net commission (c)		(2,580)	(2,560)
Other acquisition costs (d)	6(B)	(1,257)	(800)
Underwriting and other expenses (e)	6(B)	(1,287)	(1,557)
Underwriting result (a)+(b)+(c)+(d)+(e)		341	453
Investment and other income – policyholders' funds		523	845
Investment expenses – policyholders' funds		(23)	(36)
Insurance profit		841	1,262
Investment and other income – shareholders' funds		312	421
Investment expenses – shareholders' funds		(11)	(14)
Financing and other costs	6(B)	(345)	(324)
Share of net profits of associates	17	–	3
Amortisation and impairment of intangibles	6(B)	(1,245)	(407)
(Loss) profit before income tax		(448)	941
Income tax credit (expense)	8	204	(161)
(Loss) profit after income tax		(244)	780
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve	25(D)	371	(75)
Net movement in cashflow hedges	25(D)	1	-
Associates' share of other comprehensive income	25(D)	(7)	4
Income tax relating to these components of other comprehensive income		72	(16)
Items that will not be reclassified to profit or loss			
Gains (losses) on remeasurements of defined benefit superannuation plans		69	(46)
(Losses) gains on revaluation of owner occupied properties	25 (D)	(20)	1
Income tax relating to these components of other comprehensive income		(13)	15
Other comprehensive income (expense) after income tax		473	(117)
Total comprehensive income after income tax		229	663
(Loss) profit after income tax attributable to:			
Ordinary equity holders of the company		(254)	761
Non-controlling interests		10	19
		(244)	780
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		219	644
Non-controlling interests		10	19
		229	663

Earnings per share for profit after income tax attributable to ordinary equity holders of the company	NOTE	2013 US CENTS	2012 US CENTS
Basic earnings per share	27	(22.8)	65.1
Diluted earnings per share	27	(22.8)	61.6

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

Consolidated balance sheet

AS AT 31 DECEMBER 2013

	NOTE	2013 US$M	2012 US$M
Assets			
Cash and cash equivalents	9	**1,238**	2,025
Investments	10	**29,368**	29,471
Derivative financial instruments	11	**33**	24
Trade and other receivables	12	**5,119**	5,232
Current tax assets		**16**	3
Deferred insurance costs	13	**2,221**	2,606
Reinsurance and other recoveries on outstanding claims	21	**3,461**	4,377
Other assets		**11**	10
Assets held for sale		**50**	–
Defined benefit plan surpluses	23	**39**	1
Property, plant and equipment	14	**408**	564
Deferred tax assets	15	**801**	290
Investment properties	16	**13**	29
Investment in associates	17	**13**	62
Intangible assets	18	**4,480**	6,054
Total assets		**47,271**	50,748
Liabilities			
Derivative financial instruments	11	**20**	14
Trade and other payables	19	**1,614**	1,951
Current tax liabilities		**219**	451
Unearned premium	20	**8,184**	8,559
Outstanding claims	21	**21,669**	22,789
Provisions	22	**114**	137
Defined benefit plan deficits	23	**80**	139
Deferred tax liabilities	15	**397**	359
Borrowings	24	**4,571**	4,932
Total liabilities		**36,868**	39,331
Net assets		**10,403**	11,417
Equity			
Share capital	25(A)	**9,195**	10,002
Treasury shares held in trust	25(B)	**–**	(1)
Equity component of hybrid securities	25(C)	**–**	134
Reserves	25(D)	**(1,470)**	(1,870)
Retained profits		**2,631**	3,093
Shareholders' funds		**10,356**	11,358
Non-controlling interests		**47**	59
Total equity		**10,403**	11,417

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2013

2013	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January	**10,002**	**(1)**	**134**	**(1,870)**	**3,093**	**11,358**	**59**	**11,417**
(Loss) profit after income tax	–	–	–	–	**(254)**	**(254)**	**10**	**(244)**
Other comprehensive income	–	–	–	**425**	**48**	**473**	–	**473**
Total comprehensive income	–	–	–	**425**	**(206)**	**219**	**10**	**229**
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	**(20)**	–	–	–	**(20)**	–	**(20)**
Share-based payment expense	–	–	–	**35**	–	**35**	–	**35**
Shares vested and/or released to participants	–	**20**	–	**(20)**	–	–	–	–
Contributions of equity, net of transaction costs and tax	**626**	–	–	–	–	**626**	–	**626**
Extraordinary dividend on hybrid securities	–	–	–	–	**(29)**	**(29)**	–	**(29)**
Tax on extraordinary dividend on hybrid securities	–	–	–	–	**7**	**7**	–	**7**
Purchase of non-controlling interests	–	–	–	**(25)**	–	**(25)**	**(1)**	**(26)**
Disposal of non-controlling interests	–	–	–	–	–	–	**(17)**	**(17)**
Equity component of hybrid securities	–	–	**(115)**	–	**115**	–	–	–
Dividends paid on ordinary shares	–	–	–	–	**(356)**	**(356)**	**(5)**	**(361)**
Dividend reinvestment under Bonus Share Plan	–	–	–	–	**7**	**7**	–	**7**
Foreign exchange movement	**(1,433)**	**1**	**(19)**	**(15)**	–	**(1,466)**	**1**	**(1,465)**
As at 31 December	**9,195**	–	–	**(1,470)**	**2,631**	**10,356**	**47**	**10,403**

2012	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January	8,939	(2)	132	(1,787)	3,104	10,386	52	10,438
Profit after income tax	–	–	–	–	761	761	19	780
Other comprehensive income	–	–	–	(86)	(31)	(117)	–	(117)
Total comprehensive income	–	–	–	(86)	730	644	19	663
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	(27)	–	–	–	(27)	–	(27)
Share-based payment expense	–	–	–	36	–	36	–	36
Shares vested and/or released to participants	–	28	–	(28)	–	–	–	–
Contributions of equity, net of transaction costs and tax	920	–	–	–	–	920	–	920
Purchase of non-controlling interests	–	–	–	(8)	–	(8)	(3)	(11)
Dividends paid on ordinary shares	–	–	–	–	(781)	(781)	(7)	(788)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	40	40	–	40
Foreign exchange movement	143	–	2	3	–	148	(2)	146
As at 31 December	10,002	(1)	134	(1,870)	3,093	11,358	59	11,417

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 US$M	2012 US$M
Operating activities			
Premium received		**17,863**	18,886
Reinsurance and other recoveries received		**2,800**	2,159
Outward reinsurance paid		**(2,789)**	(2,527)
Claims paid		**(11,859)**	(11,151)
Acquisition and other underwriting costs paid		**(4,906)**	(4,861)
Interest received		**715**	834
Dividends received		**18**	24
Other operating income		**23**	58
Other operating payments		**(303)**	(352)
Interest paid		**(296)**	(316)
Income taxes paid		**(416)**	(1)
Net cash flows from operating activities[1]	9(B)	**850**	2,753
Investing activities			
Proceeds on sale of equity investments		**1,514**	1,070
Purchase of equity investments		**(1,937)**	(801)
Proceeds from forward foreign exchange contracts		**14**	36
Purchase of other investments		**(929)**	(1,773)
Proceeds on disposal of controlled entities		**74**	–
Purchase of controlled entities and businesses acquired[2]		**(6)**	(520)
Proceeds on sale of investment property		**–**	76
Proceeds on sale of property, plant and equipment		**–**	4
Purchase of property, plant and equipment		**(140)**	(289)
Net cash flows from investing activities		**(1,410)**	(2,197)
Financing activities			
Proceeds from issue of shares		**–**	635
Share issue expenses		**–**	(9)
Proceeds from settlement of staff share loans		**3**	14
Purchase of treasury shares		**(20)**	(30)
Proceeds from borrowings		**1,086**	986
Repayment of borrowings		**(955)**	(1,066)
Dividends paid		**(233)**	(466)
Net cash flows from financing activities		**(119)**	64
Net movement in cash and cash equivalents		**(679)**	620
Cash and cash equivalents at the beginning of the financial year		**2,025**	1,457
Effect of exchange rate changes		**(108)**	(52)
Cash and cash equivalents at the end of the financial year	9	**1,238**	2,025

1 Included within net cash flows from operating activities are premiums received of $1,513 million (2012 $1,796 million), reinsurance recoveries received of $943 million (2012 $404 million), outward reinsurance paid of $407 million (2012 $507 million) and claims paid of $2,210 million (2012 $1,395 million) that are paid in to/out of a specified account as required by government authorities.

2 Net of cash acquired.

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of significant accounting policies

The financial report includes the consolidated financial statements for QBE Insurance Group Limited (the company), its controlled entities (QBE or the Group) and its associates.

(A) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, and interpretations of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. QBE is a for-profit entity for the purpose of preparing the financial statements.

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

(i) New and amended standards adopted by the Group

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

TITLE	
AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119 (revised)	Employee Benefits
AASB 127 (revised)	Separate Financial Statements
AASB 128 (revised)	Investments in Associates and Joint Ventures
2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
2011-8	Amendments to Australian Accounting Standards arising from AASB 13
2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income
2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
2012-2	Amendments to Australian Accounting Standards – Disclosure – Offsetting Financial Assets and Financial Liabilities
2012-5	Amendments to Australian Accounting Standards arising from the Annual Improvements 2009 – 2011 cycle
2012-10	Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments
2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part A

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

(ii) Statement of compliance

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

(iii) Historical cost convention

These financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, derivative assets and liabilities, investment properties and owner occupied properties.

(iv) Presentation currency

The presentation currency used in the preparation of the financial report is US dollars. The Group has selected a US dollar presentation currency because a significant proportion of its underwriting activity is denominated in US dollars. The US dollar is also the currency which is widely understood by the global insurance industry, international investors and analysts.

(v) Critical accounting judgments and estimates

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

(B) Principles of consolidation

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the company as at 31 December 2013 and the results for the financial year then ended. Control exists when it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over it. The effects of all transactions between controlled entities are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income and balance sheet.

Where control of an entity commences during a financial year, its results are included in the consolidated statement of comprehensive income from the date on which control is obtained. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

A change in ownership of a subsidiary without the loss of control is accounted for as an equity transaction.

Lloyd's syndicates are consolidated on a proportional basis. The nature of Lloyd's syndicates is such that even when one party provides the majority of capital, the syndicate as a whole is still not controlled for accounting purposes. Members of Lloyd's accept insurance business through syndicates on a separate basis for their own profit and are not jointly responsible for each other's losses. Hence, even where the Group contributes the majority of capital for a syndicate, only the portion of the syndicate represented by the capital contribution is recognised in the consolidated financial report.

(ii) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the controlled entity acquired, the difference is recognised directly in profit or loss. Costs of acquisition are expensed as incurred.

Where a cash settlement on acquisition is deferred, the future payable is discounted to present value. Where a cash settlement on acquisition is contingent on the outcome of uncertain future events, the fair value of the obligation is classified as a liability and is subsequently remeasured through profit or loss.

Non-controlling interests in an acquiree are recognised either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

(iii) Associates

Entities over which significant influence exists are accounted for using the equity method. Significant influence is presumed to exist where between 20% and 50% of the voting rights of an entity are held, but can also arise where less than 20% is held through active involvement and influencing policy decisions affecting the entity. The investment is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently adjusted for the post-acquisition change in the associate's net assets. The Group's share of the profit or loss of the associate is included in the profit or loss of the Group and disclosed as a separate line in the statement of comprehensive income.

Distributions received reduce the carrying amount of the investment. Movements in the total equity of the associate, being those movements that are not recognised in the profit or loss or other comprehensive income, are recognised directly in the equity of the Group and disclosed in the statement of changes in equity. Investments in associates are reviewed annually for impairment.

When the Group's share of losses exceeds its interest in the associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

(C) Premium revenue

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

(D) Unearned premium

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

At each balance 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 operating segment level, being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio. If the present value of 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 profit or loss.

(E) Outward reinsurance

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

(F) Claims

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

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

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

(G) Reinsurance and other recoveries

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

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

(H) Acquisition costs

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

(I) Investment income

Interest income is recognised using the effective interest rate method. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets.

(J) Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and 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 in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or if they arise from the 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 not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of significant accounting policies CONTINUED

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.

The company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements. The head entity is QBE Insurance Group Limited.

(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) Investments

Investments comprise interest-bearing assets, equities, property and derivative financial instruments. Investments are designated as fair value through profit or loss on initial recognition. They are initially recognised 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 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 Group's documented investment strategy.

For securities traded in an active market, the fair value is determined by reference to quoted market prices. Where quoted market prices in active markets are not available, fair value is determined using valuation techniques incorporating inputs that are observable for the asset. In the absence of quoted market prices in active markets and observable market inputs, valuation techniques or models which are based on unobservable inputs may be used.

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 Group 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 Group has transferred substantially all the risks and rewards of ownership.

(N) Derivative financial instruments

Derivatives are initially recognised at fair value and are subsequently remeasured to fair value at reporting date. Derivatives which are not part of a hedging relationship are measured at fair value through profit or loss. Derivatives which are part of a hedging relationship are accounted for as set out in note 1(O).

For derivatives traded in an active market, the fair value of derivatives is determined by reference to quoted market prices. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques.

(O) Hedging transactions

Borrowings and derivatives held for risk management purposes which meet the criteria specified in AASB 139: Financial Instruments: Recognition and Measurement are accounted for using fair value hedge accounting, cash flow hedge accounting or hedging of a net investment in a foreign operation accounting, as appropriate to the risks being hedged.

In accordance with the criteria for hedge accounting, when a financial instrument is designated as a hedge, the relevant entity formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The relevant entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when:

- the hedge no longer meets the criteria for hedge accounting;
- the hedging instrument expires or is sold, terminated or exercised;
- the hedged item matures, is sold or repaid; or
- the entity revokes the designation.

(i) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is initially recognised directly in other comprehensive income and transferred to profit or loss in the period when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised through profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item affects profit or loss. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately recognised through profit or loss.

(ii) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in other comprehensive income and the gain or loss on the ineffective portion is recognised immediately through profit or loss. The cumulative gain or loss previously recognised in equity is recognised through profit or loss on the disposal or partial disposal of the foreign operation.

(P) Receivables

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment amount. A provision for impairment is established when there is objective evidence that the Group 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 profit or loss within underwriting expenses. When a receivable is uncollectable, 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.

(Q) Borrowings

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

Hybrid securities are those which have both liability and equity components. On issue of hybrid securities, the fair value of the liability component, being the obligation to make future payments of principal and interest to investors, is calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the fair value of the conversion option, is included in equity with no recognition of any change in the value of the option in subsequent periods. The liability is included in borrowings and carried on an amortised cost basis with interest on the securities recognised as financing costs using the effective interest method until the liability is extinguished on conversion or maturity of the securities.

(R) Investment properties

Investment properties, being those properties held for rental income and capital appreciation, are carried at fair value. Fair value is determined with reference to external market valuations. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, fair value may be based on alternative valuation approaches, being primarily a combination of adjusted prices in similar or less active markets and/or the capitalised income method. Changes in fair values are recorded in the profit or loss as part of investment income.

(S) Property, plant and equipment

Owner occupied properties are carried at fair value. Fair value is determined with reference to external market valuations and is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, fair value may be based on alternative valuation approaches being primarily a combination of adjusted prices in similar or less active markets and/or the capitalised income method. When a change in fair value increases the carrying value of an owner occupied property, the increase is credited to the revaluation reserve in equity and recognised in other comprehensive income. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised through profit or loss.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised through profit or loss. To the extent that the decrease reverses an increase previously recognised in other comprehensive income, the decrease is first recognised in other comprehensive income.

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

Leasehold improvements, office equipment (including IT hardware and software), fixtures and fittings and motor vehicles are depreciated using the straight line method over the asset's estimated useful life. Estimated useful lives are between three and 10 years for all classes. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer note 1(U).

(T) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. For the purpose of impairment testing, goodwill is allocated to cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination. For this purpose, the cash generating unit, or group of units, is determined principally by reference to how goodwill is monitored by management. The recoverability of goodwill is tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(ii) Identifiable intangible assets

Identifiable intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits. Identifiable intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more often if there is an indication of impairment. Identifiable intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(U) Impairment of assets

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

Impairment testing of goodwill is explained in note 1(T)(i).

(V) Provisions

Provisions for liabilities are made when the Group has a legal or constructive obligation to transfer economic benefits that are of uncertain timing or amount. Provisions are determined based on management's best estimate of the expenditure required to settle the obligation. Expected future payments are discounted to present value. The provision for contingent consideration in relation to business combinations is explained in note 1(B)(ii).

(W) Foreign currency

(i) Translation of foreign currency transactions and balances

Items included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

(ii) Translation of foreign operations

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

- income, expenses and other current period movements in comprehensive income are translated at cumulative average rates of exchange; and
- other balance sheet items are translated at the closing balance date rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of financial liabilities and other instruments designated as hedges of foreign operations, are taken to shareholders' equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part, these exchange differences are reversed out of other comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

(iii) Hedging transactions

Derivatives and borrowings may be used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(O).

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Summary of significant accounting policies CONTINUED

(iv) Exchange rates

The principal exchange rates used in the preparation of the financial statements were:

	2013		2012	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/US$	**0.960**	**0.893**	1.036	1.040
£/US$	**1.572**	**1.657**	1.589	1.623
€/US$	**1.330**	**1.375**	1.291	1.319

(X) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

The equity component of hybrid securities is calculated and disclosed as set out in note 1(Q).

(Y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, adjusted for the cost of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year, and excluding treasury shares (see note 1(AB)).

(ii) Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and adjusts the weighted average number of shares assumed to have been issued for no consideration. It also adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

(Z) Dividends

Provision is made for dividends which are declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance date.

(AA) Employee benefits

(i) Superannuation

The Group participates in a number of superannuation plans and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities.

Defined contribution plans

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

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The liability or asset recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related superannuation liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, and shown in other comprehensive income. Past service costs are recognised immediately in profit or loss.

(ii) Share-based payments

Share-based remuneration is provided in various forms to eligible employees and executives. All of the arrangements are equity settled, share-based payments. The fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is recognised evenly over the service period ending at the vesting date. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance date, the Group revises its estimates of the number of options and conditional rights that are expected to become exercisable due to the achievement of vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity.

(iii) Profit sharing and bonus plans

A provision is recognised for profit sharing and bonus plans where there is a contractual obligation or where past practice has created a constructive obligation at the end of each reporting period. Bonus or profit sharing obligations are settled within 12 months from the balance date.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the date:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Short-term obligations

Liabilities for wages and salaries that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are measured at the amounts expected to be paid when the liabilities are settled.

(vi) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using government bond yields with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur. They are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

(AB) Treasury shares held in trust

Treasury shares are shares in the Group that are held on trust for the purpose of satisfying the company's obligations under the Employee Share and Option Plan (the Plan). The assets, liabilities and results of share-based remuneration trusts are included in the balance sheet and results of the Group. Any shares in the company held by a trust are measured at cost (including any attributable acquisition costs). No gain or loss is recognised in profit or loss on the sale, cancellation or reissue of these shares. On consolidation, these shares are presented on the balance sheet as treasury shares held in trust and represent a reduction in equity.

(AC) 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.

(AD) Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/100 relating to the "rounding off" of amounts in the financial statements. Amounts have been rounded off in the financial statements to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

(AE) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. It has been determined that the Group Executive is the chief operating decision maker, as it is ultimately responsible for allocating resources and assessing performance.

(AF) Ultimate parent entity financial information

Shares in controlled entities are recorded at cost less a provision for impairment in the ultimate parent entity balance sheet.

2. New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2017
AASB 9 (revised)	Financial Instruments	1 January 2017
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2017
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2017
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2014
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014
2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014
2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part B	1 January 2014
2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part C	1 January 2017

The Australian accounting standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is permitted except for AASB 2011-4, where early adoption is not permitted.

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

3. Segment information

(A) Operating segments

The Group has identified its operating segments based on information used by the Group Executive for measuring performance and determining the allocation of capital. The operating segments have been identified based on the way that the Group's underwriting products and services are managed within the various markets in which we operate.

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 43 countries. The business is managed as follows:

- North American Operations writes general insurance and reinsurance business in the US and Bermuda.
- Latin American Operations writes general insurance business in North, Central and South America.
- European Operations writes general insurance business principally in the UK and throughout mainland Europe, both general insurance and reinsurance business through Lloyd's of London and reinsurance business in Ireland and mainland Europe.
- Australian & New Zealand Operations primarily underwrites general insurance risks throughout Australia and New Zealand, providing all major lines of insurance for personal and commercial risks.
- Asia Pacific Operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

3. Segment information CONTINUED

- Equator Re is based in Bermuda and provides reinsurance protection to related entities. All inward premium received by Equator Re is currently derived from within the Group and is eliminated on consolidation.

Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

2013	NORTH AMERICAN OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	12,238	1,870	18,500	12,516	1,738	7,486	(7,077)	47,271
Total liabilities	10,092	1,499	15,744	9,791	1,165	5,654	(7,077)	36,868
Adjustment [1]	79	(5)	414	(459)	(14)	(15)	–	–
Total adjusted liabilities	10,171	1,494	16,158	9,332	1,151	5,639	(7,077)	36,868
Net assets	2,067	376	2,342	3,184	587	1,847	–	10,403
Property, plant and equipment	179	57	81	70	21	–	–	408
Investment properties	3	3	3	–	4	–	–	13
Intangible assets	2,053	181	667	1,521	58	–	–	4,480
Gross written premium	5,854	1,380	5,225	4,786	730	3,295	(3,295)	17,975
Gross earned premium revenue – external	6,107	1,342	5,195	4,602	643	–	–	17,889
Gross earned premium revenue – internal	–	–	–	–	–	3,361	(3,361)	–
Outward reinsurance premium expense	(3,056)	(134)	(1,586)	(631)	(143)	(304)	3,361	(2,493)
Net earned premium	3,051	1,208	3,609	3,971	500	3,057	–	15,396
Net claims incurred	(2,401)	(746)	(2,233)	(2,314)	(212)	(2,025)	–	(9,931)
Net commission	(135)	(262)	(655)	(593)	(109)	(826)	–	(2,580)
Underwriting and other expenses	(997)	(195)	(579)	(565)	(99)	(109)	–	(2,544)
Underwriting result	(482)	5	142	499	80	97	–	341
Net investment income on policyholders' funds	37	94	50	249	7	63	–	500
Insurance (loss) profit	(445)	99	192	748	87	160	–	841
Net investment income on shareholders' funds	8	41	42	168	4	38	–	301
Financing and other costs	(160)	(14)	(53)	(101)	(3)	(14)	–	(345)
Amortisation of intangible assets	(597)	(14)	(14)	(11)	(6)	–	–	(642)
Impairment of intangible assets	(600)	(1)	(2)	–	–	–	–	(603)
(Loss) profit before income tax	(1,794)	111	165	804	82	184	–	(448)
Income tax credit (expense)	493	(51)	24	(225)	(19)	(18)	–	204
(Loss) profit after income tax	(1,301)	60	189	579	63	166	–	(244)
Loss (profit) after income tax attributable to non-controlling interests	–	1	–	(5)	(6)	–	–	(10)
Net (loss) profit after income tax	(1,301)	61	189	574	57	166	–	(254)

1 The measurement method used to determine the allocation of diversification benefits and risk margins to operating segments was revised from 1 January 2013 to reflect changes in reporting to the chief operating decision maker. Reporting by operating segment to the chief operating decision maker and in the reported segment results is now based on the requirements of Australian Accounting Standard 1023: General Insurance Contracts in each of the individual operating segments. The determination of the diversification benefit and allocation of the overall Group risk margin is necessarily undertaken at the consolidated entity level in order to appropriately recognise the benefits of product and geographic diversification. Total liabilities and net assets of the operating segments for the period ending 31 December 2013 have been adjusted to reflect this change. Had we applied the current measurement method to the reporting of operating segment results in 2012, there would have been no significant change to the result of each operating segment.

2012	NORTH AMERICAN OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	14,781	1,967	18,120	14,300	1,549	7,411	(7,380)	50,748
Total liabilities	11,676	1,555	15,369	11,209	1,072	5,830	(7,380)	39,331
Net assets	3,105	412	2,751	3,091	477	1,581	–	11,417
Property, plant and equipment	217	55	124	154	14	–	–	564
Investment properties	3	3	19	–	4	–	–	29
Intangible assets	3,250	241	709	1,792	62	–	–	6,054
Gross written premium	6,569	1,223	5,077	4,987	578	3,710	(3,710)	18,434
Gross earned premium revenue – external	6,978	1,170	4,854	4,794	545	–	–	18,341
Gross earned premium revenue – internal	–	–	–	–	–	3,712	(3,712)	–
Outward reinsurance premium expense	(3,477)	(152)	(1,523)	(671)	(130)	(302)	3,712	(2,543)
Net earned premium	3,501	1,018	3,331	4,123	415	3,410	–	15,798
Net claims incurred	(2,717)	(567)	(2,078)	(2,487)	(176)	(2,403)	–	(10,428)
Net commission	(221)	(226)	(567)	(557)	(94)	(895)	–	(2,560)
Underwriting and other expenses	(800)	(171)	(507)	(691)	(86)	(102)	–	(2,357)
Underwriting result	(237)	54	179	388	59	10	–	453
Net investment income on policyholders' funds	67	67	148	391	7	129	–	809
Insurance (loss) profit	(170)	121	327	779	66	139	–	1,262
Net investment income on shareholders' funds	126	12	99	102	14	54	–	407
Financing and other costs	(150)	(12)	(55)	(93)	(3)	(11)	–	(324)
Share of net profits of associates	–	–	–	3	–	–	–	3
Amortisation of intangible assets	(209)	(15)	(20)	(11)	(2)	–	–	(257)
Impairment of intangible assets	(92)	(21)	–	–	(37)	–	–	(150)
(Loss) profit before income tax	(495)	85	351	780	38	182	–	941
Income tax credit (expense)	189	(40)	(42)	(225)	(22)	(21)	–	(161)
(Loss) profit after income tax	(306)	45	309	555	16	161	–	780
Profit after income tax attributable to non-controlling interests	–	(1)	(1)	(7)	(10)	–	–	(19)
Net (loss) profit after income tax	(306)	44	308	548	6	161	–	761

(B) Geographical analysis

The operating segments reported to management in the table above are defined by reference to the geographical locations of each operating segment and, as such, satisfy the requirements of a geographical analysis as well as an operating segment analysis. Gross earned premium revenue – external for Australia, QBE's country of domicile, was $4,602 million (2012 $4,560 million).

(C) Product analysis

QBE does not collect Group-wide revenue information by product and the cost to develop this information would be excessive. Gross earned premium revenue by class of risk is disclosed in note 5(B)(i). A product may include several classes of risk.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

4. Critical accounting estimates and judgments

The class of business mix is shown in note 5(B)(i) and an analysis of the Group's gross written and net earned premium from insurance and reinsurance business is shown on page 20. The head office function is located in Australia and exists to support the activities of divisional operations, which are described in note 3.

In view of the geographic and product diversity, the Group has developed a centralised risk management and policy framework, designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the claims provision and investment management. In addition, assessment of the net outstanding claims provision set at a divisional level is subject to detailed head office review. The probability of adequacy derived from the Group's insurance liabilities is measured by the Group Chief Actuary.

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

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

(A) Outstanding claims provision

The Group's net outstanding claims provision comprises:

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

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the Group 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 claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs, being the direct 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 Group, 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 Group'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 quarterly in-house claims review meetings attended by senior divisional and Group management 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 Group 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 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 Group's profit or loss are summarised in note 4(A)(v).

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

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

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

(ii) Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Group's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance 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 credit risk in relation to reinsurance assets is considered in note 5.

(iii) Risk margin

Risk margins are determined by the Board 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:

- mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement; 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 possible economic and legislative changes.

The variability by class of business is measured using 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 Group's profit or loss is summarised in note 4(A)(v).

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

The risk margin for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgment 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 a comparison of the risk margin with the net discounted central estimate. Using a range of outcomes, it allows a determination of the probability of adequacy represented by a risk margin. For example, a 90% probability of adequacy indicates that the outstanding claims provision is expected to be adequate nine times in 10. The probability of adequacy is not of itself an accounting policy or estimate as defined by AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

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

Discount rates

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

The weighted average risk-free rate for each operating segment and a weighted average discount rate for the consolidated Group are summarised below.

	2013 %	2012 %
North American Operations	**1.57**	0.99
Latin American Operations	**17.74**	16.64
European Operations	**1.91**	1.28
Australian & New Zealand Operations	**3.52**	3.05
Asia Pacific Operations	**1.29**	0.99
Equator Re	**1.96**	1.27
Group	**2.77**	2.16

Weighted average term to settlement

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

	2013 YEARS						2012 YEARS					
	US$	£	A$	€	OTHER	TOTAL	US$	£	A$	€	OTHER	TOTAL
North American Operations	**2.1**	**–**	**–**	**–**	**–**	**2.1**	2.6	–	–	–	–	2.6
Latin American Operations	**0.4**	**–**	**–**	**–**	**2.2**	**2.1**	0.8	–	–	–	2.5	2.4
European Operations	**2.7**	**3.4**	**3.8**	**5.1**	**3.5**	**3.8**	2.6	3.4	3.2	4.7	3.1	3.7
Australian & New Zealand Operations	**–**	**–**	**2.5**	**–**	**1.6**	**2.5**	–	–	2.5	–	2.2	2.5
Asia Pacific Operations	**1.5**	**–**	**–**	**–**	**1.6**	**1.6**	1.7	–	–	–	1.6	1.6
Equator Re	**2.2**	**3.6**	**3.0**	**3.6**	**2.5**	**2.7**	2.2	3.8	2.8	3.1	2.3	2.6
Group	**2.3**	**3.4**	**2.7**	**5.0**	**2.4**	**3.0**	2.5	3.6	2.6	4.6	2.4	2.9

(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 to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. As can be seen from the table, the impact of a change in discount rates is largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, it is likely that if the central estimate was to increase by 5%, at least part of the increase 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 likely 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.

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FOR THE YEAR ENDED 31 DECEMBER 2013

4. Critical accounting estimates and judgments CONTINUED

	SENSITIVITY %	PROFIT (LOSS) [1,2] 2013 US$M	2012 US$M
Central estimate	+5	**(582)**	(598)
	-5	**582**	598
Risk margin	+5	**(55)**	(47)
	-5	**55**	47
Inflation rate	+0.5	**(170)**	(171)
	-0.5	**164**	167
Discount rate	+0.5	**164**	167
	-0.5	**(170)**	(171)
Coefficient of variation	+1	**(159)**	(139)
	-1	**160**	139
Probability of adequacy	+1	**(56)**	(43)
	-1	**51**	41
Weighted average term to settlement	+10	**106**	81
	-10	**(107)**	(81)

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

2 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 5(D)(ii).

(B) Liability adequacy test

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims, plus a risk margin to reflect the inherent uncertainty of the central estimate (refer note 20(D)). Future claims are those claims expected to arise from claims events occurring after the balance date. The assessment is carried out using the same methods described in note 4(A).

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

(C) Retirement benefit obligations

The present value of the obligations arising from the Group's defined benefit superannuation plans is determined by external actuaries based on discount rates, inflation rates, mortality assumptions and salary growth rates. Principal actuarial assumptions are set out in note 23(C).

The discount rates applied to the various plans is the interest rate on high quality corporate bonds where there is a sufficiently deep market or the appropriate government bond rate in the absence of such markets.

Mortality assumptions are affected by experience which indicates increasing longevity, particularly for certain age groups of the population. The Group has considered the consensus of professional opinions from a number of external actuaries in respect of the appropriateness of the mortality tables selected for use in the valuation of the superannuation obligations for each of the Group's plans.

The potential impact of a 1% increase or decrease in the discount rate and inflation assumptions is summarised below. Movements in the assumptions are reflected directly in equity in accordance with the accounting policy set out in note 1(AA)(i) and do not impact net profit after tax.

	SENSITIVITY %	EQUITY INCREASE (DECREASE) 2013 US$M	2012 US$M
Discount rate	+1	**54**	29
	-1	**(95)**	(69)
Inflation rate	+1	**(29)**	(18)
	-1	**24**	6

(D) Intangible assets

Identifiable intangible assets are subject to amortisation over a period which reflects the expected pattern of consumption of economic benefits resulting from the usage of the asset to which the intangible relates. Details of the remaining useful lives estimated by management are discussed in note 18(A).

Goodwill and identifiable intangible assets with an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment review is based on the net present value of estimated future cash flows of the relevant asset, the relevant cash generating unit or relevant group of cash generating units. For details of key assumptions and estimates used, refer to note 18.

The various assumptions used as part of the impairment testing of goodwill are included in note 18(B)(i).

(E) Business combinations

The Group makes estimates and judgments in determining the fair value of assets and liabilities acquired in a business combination. Refer to note 28 for further details.

(F) Recoverability of future tax losses

QBE makes an assessment at the balance date whether it is probable that the entity to which any deductible temporary differences or unused tax losses relate will have taxable profits before the unused tax losses or unused tax credits expire. In making this assessment, QBE considers in particular the entity's future business plans, history of generating taxable profits, whether the unused tax losses resulted from identifiable causes which are unlikely to recur and if any tax planning opportunities exist that will create taxable profit in the period in which the taxable losses can be utilised.

In North American Operations, a deferred tax asset (DTA) of $573 million has been recognised, comprising $345 million of carry forward tax losses and $228 million in deductible temporary differences, net of applicable offsetting deferred tax liabilities, as a result of tax losses recognised, insurance technical reserves and the tax deductibility of the write-downs of goodwill and other intangibles. Uncertainty exists in relation to the utilisation of this DTA, which is subject to there being sufficient future taxable profits over the period of time in which the losses can be utilised. This business has a recent history of tax losses and recovery of the DTA is subject to this situation improving. QBE has made a judgment that North American Operations will be able to generate sufficient taxable profits over the next several years, based upon its future business plans. Key assumptions include a return to taxable profit driven by a non-recurrence of prior accident year claims development, a return of crop profitability to historical averages, cost saving benefits flowing from the Group's operational transformation program, future increases in investment yields and the benefits from a review of the capital structure resulting in a lower funding costs.

Losses expire over the next 20 years, with the majority expiring between 2030 and 2033. The uncertainty around the recognition of the DTA will be resolved in future years if taxable profits are generated. Recovery of the DTA is sensitive to changes in the combined operating ratio and premium growth, as these items are the key drivers of future taxable income.

5. Risk management

An overview of the Group's risk management framework is provided in the risk management statement on pages 70 to 73 and in the risk management section of the corporate governance statement on pages 82 and 83.

The 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 (RMS) and a reinsurance management strategy (REMS), both of which are lodged with the Australian Prudential Regulation Authority (APRA).

The Group's risk management policy objectives are to:

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

It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of quality business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE'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 risks to which the Group is exposed to be managed in an integrated manner.

QBE'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, delegated authorities, risk policies, measurement and modelling, risk and control assessment, risk treatment, optimisation and ongoing improvement through action plans and risk and performance monitoring.

A fundamental part of the 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 Group expose it to risks such as market risk, credit risk, liquidity risk and operational risk. The Group's risk management framework recognises the unpredictability of financial markets and seeks to manage potential adverse effects on its financial performance. The Group has established internal controls to manage risk in the key areas of exposure relevant to its business.

QBE'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 are acquisition and capital management risk.

(i) Acquisition risk

Acquisition risks are principally managed by the Group's controls over the selection of potential acquisitions, due diligence, negotiation of warranties and indemnities and subsequent integration processes. QBE has experienced due diligence teams in each operating division and has documented minimum requirements for carrying out due diligence. The acquisition process documentation was revised in 2013.

(ii) Capital management risk

Australian and overseas controlled entities are subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in Australia and overseas continues to evolve in response to economic, political and industry developments. QBE works closely with regulators and monitors regulatory developments across its global operations to

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

5. Risk Management CONTINUED

assess their potential impact on its ability to meet solvency and other requirements. Refer to note 25(E).

(B) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to 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. 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 Group 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 has established the following protocols to manage its insurance risk across the underwriting, claims and actuarial disciplines.

(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 Group's annual business planning process. Delegated authorities reflect the level of risk which QBE is prepared to take.

The authorities include reference to some combination of:

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

Limits in respect of each of the above are set at a portfolio, divisional and Group-wide level and are included within business plans for individual classes of business.

Insurance and reinsurance policies are written in accordance with local management practices and regulations within each jurisdiction taking into account the Group's risk appetite 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 Group.

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

Concentration risk

The Group's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across many countries and through hundreds of classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows QBE to lead underwrite in many of the markets in which it operates.

The table below demonstrates the diversity of QBE's operations.

GROSS EARNED PREMIUM	2013 US$M	2012 US$M
Property	**6,080**	6,125
Motor & motor casualty	**2,898**	2,838
Agriculture & bloodstock	**2,039**	1,856
Liability	**1,571**	2,022
Workers' compensation	**1,526**	1,443
Marine energy & aviation	**1,281**	1,307
Professional indemnity	**1,136**	725
Financial & credit	**662**	1,065
Accident & health	**656**	780
Other	**40**	180
	17,889	18,341

The Group has potential exposure to catastrophe losses that may impact more than one operating division. Each year, the Group sets its tolerance to concentration risk. Realistic disaster scenarios (RDSs), using industry standard and QBE determined probable maximum losses and various catastrophe models, are calculated for each portfolio as part of the business planning process. These RDSs are aggregated across all portfolios and divisions to determine the Group's maximum event retention (MER) which is the estimated maximum net claim from a one in 250 year natural catastrophe event. The Group also assesses aggregated regional exposure levels. The concentrations must be less than the Group's concentration risk limits, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

(ii) Claims management and claims estimation risks

The Group's approach to determining the outstanding claims provision and the related sensitivities are set out in note 4. QBE 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 and 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 Group Chief Actuary;
- the aggregate outstanding claims provision for each controlled entity is assessed in a series of internal claims review meetings which are attended by senior divisional management and the Group Chief Actuary in order to ensure consistency of provisioning practices across all divisions; and
- around 96% of the Group's central estimate is reviewed by external actuaries.

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 4.

(iii) Outwards reinsurance

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

Effective governance and management of reinsurance protection is a fundamental part of the Group's risk management practices. QBE has in place systems, internal controls and processes to ensure that its reinsurance arrangements are appropriate to enable the Group to meet its obligations to policyholders, whilst protecting the wealth of its shareholders. This framework is outlined in the Group's REMS which stated that, for 2013, the Group's maximum risk tolerance for an individual natural catastrophe at a one in 250 year probability is 4.5% of budgeted net earned premium.

The senior authority for purchasing reinsurance is the Group Chief Executive Officer and/or the Group Chief Reinsurance Officer, who generally act after consultation with and based on recommendations from the Group Reinsurance Forum (GRF).

The GRF determines the Group's exposure to and appetite for catastrophes and individual risks net of reinsurance as part of the business planning process. The resulting strategy is recommended to the Group Chief Executive Officer, who provides the final approval on the reinsurance purchasing strategy. The GRF monitors and reports on placement of reinsurance and oversees the relevant committees that monitor concentration risk, reinsurance credit risk and commutation risk, as well as the processes for evaluating the effectiveness of reinsurances purchased. Credit risk is considered in note 5(C)(ii).

The Group purchases significant levels of external reinsurance protection to ensure that the Group's net retention is aligned with its risk tolerance. In addition, the Group retains a portion of its reinsurance placements through its captive, Equator Re. These retained covers represent risk that the Group is able to retain but which the individual licensed subsidiaries do not wish to retain due to their lower capital base. Reinsurance cover provided by Equator Re gives reinsurance protection to individual licensed subsidiaries, enabling QBE to more effectively manage capital.

(C) Credit risk

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

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

- A Group-wide investment credit risk policy is in place which defines what constitutes credit risk for QBE and establishes tolerance levels. Compliance with the policy is monitored and exposures and breaches are reported to the 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 has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with which we may transact. The Group does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings and therefore does not require collateral or other security to support derivatives. The Group only uses derivatives in highly liquid markets.
- Credit risk in respect of premium debtors and reinsurance receivables is actively monitored. Strict controls are maintained over counterparty exposures. The provision for impairment is formally assessed by management at least four times a year.

(i) Investment counterparty credit risk

The following table provides information regarding the Group's aggregate credit risk exposure at the balance 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 smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to Moody's counterparty credit ratings. Aaa is the highest possible rating. Rated assets falling outside the range of Aaa to Baa are classified as speculative grade.

	CREDIT RATING						
	Aaa US$M	Aa US$M	A US$M	Baa US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2013							
Cash and cash equivalents	**21**	**252**	**831**	**80**	**15**	**39**	**1,238**
Interest-bearing investments	**9,221**	**10,699**	**7,523**	**592**	**562**	**164**	**28,761**
Derivative financial instruments	**–**	**12**	**21**	**–**	**–**	**–**	**33**
As at 31 December 2012							
Cash and cash equivalents	135	820	829	115	42	84	2,025
Interest-bearing investments	11,958	12,295	4,031	291	622	151	29,348
Derivative financial instruments	–	11	11	2	–	–	24

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

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

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5. Risk Management CONTINUED

	NEITHER PAST DUE NOR IMPAIRED US$M	PAST DUE BUT NOT IMPAIRED 0 TO 3 MONTHS US$M	3 TO 6 MONTHS US$M	6 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
As at 31 December 2013						
Premium receivable	**1,740**	**532**	**242**	**20**	**16**	**2,550**
Other trade debtors	**143**	**4**	**2**	**1**	**8**	**158**
Other debtors	**221**	**1**	**–**	**14**	**6**	**242**
Treasury receivables	**5**	**–**	**–**	**–**	**–**	**5**
Investment receivables	**297**	**–**	**–**	**–**	**–**	**297**
As at 31 December 2012						
Premium receivable	1,996	646	82	45	21	2,790
Other trade debtors	152	8	2	24	12	198
Other debtors	206	4	5	7	3	225
Treasury receivables	6	–	–	–	–	6
Investment receivables	134	–	–	–	–	134

(ii) Reinsurance counterparty credit risk

The Group'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 Group's Security Committee and is controlled by reference to the following protocols:

- Treaty or facultative reinsurance is placed in accordance with the requirements of the Group's REMS and Group Security Committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical losses and potential future losses based on realistic disaster scenarios and the Group's maximum event retention.
- Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Group holds $1,973 million (2012 $2,219 million) in collateral to support reinsurance arrangements. The credit rating analysis below includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis set out below.

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

		CREDIT RATING AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
Reinsurance recoveries on outstanding claims [1,2]	2013	**10**	**1,884**	**1,062**	**22**	**16**	**119**	**3,113**
	2012	110	2,383	1,392	27	57	138	4,107
Reinsurance recoveries on paid claims [1]	2013	**–**	**734**	**86**	**5**	**10**	**17**	**852**
	2012	2	692	114	6	5	14	833

1 Net of a provision for impairment.
2 Excludes other recoveries of $348 million (2012 $270 million).

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

		NEITHER PAST DUE NOR IMPAIRED US$M	PAST DUE BUT NOT IMPAIRED 0 TO 3 MONTHS US$M	3 TO 6 MONTHS US$M	6 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
Reinsurance recoveries on paid claims [1]	2013	**724**	**83**	**14**	**16**	**15**	**852**
	2012	629	88	26	59	31	833

1 Net of a provision for impairment.

(D) Market risk

Market risk is the risk of variability in the value of, and returns on, investments and the risk associated with variability of interest rates, 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 Group's risk appetite.

(i) Currency risk

The Group's exposure to currency risk generally arises as a result of either the translation of foreign currency amounts back to the functional currency of a controlled entity (operational currency risk) or due to the translation of the Group's net investment in foreign operations back to the functional currency of the ultimate parent entity of Australian dollars and to QBE's presentation currency of US dollars.

Operational currency risk

The Group is exposed to currency risk in respect of its operational net foreign currency exposures within each of its controlled entities. This risk is managed as follows:

- Each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, as far as is practicable, thus ensuring that any exposures to foreign currencies are minimised.
- Forward foreign exchange contracts are used where possible to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 1(N).

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent with the gains or losses from related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The Group's aim is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level. From time to time, the company or controlled entities may maintain an operational foreign currency exposure to offset currency volatility arising from translation of foreign currency forecast profits, subject to senior management approval and adherence to board approved limits.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies to which QBE is exposed. The sensitivity is measured with reference to the Group's residual (or unmatched) operational foreign currency exposures at the balance date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1(W)(ii). The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged. The matching of foreign currency assets and liabilities is actively managed. The sensitivities shown in the table below are relevant only at the balance sheet date, as any unmatched exposures are actively monitored by management and the exposure matched.

	2013 US$M			2012 US$M		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS)[1] US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS)[1] US$M
Australian dollar	**8**	**+10**	**1**	47	+10	3
		-10	**(1)**		-10	(3)
Sterling	**(4)**	**+10**	**-**	11	+10	1
		-10	**-**		-10	(1)
Euro	**(23)**	**+10**	**(2)**	22	+10	2
		-10	**2**		-10	(2)
Hong Kong dollar	**14**	**+10**	**1**	8	+10	1
		-10	**(1)**		-10	(1)
Canadian dollar	**21**	**+10**	**1**	23	+10	2
		-10	**(1)**		-10	(2)
New Zealand dollar	**17**	**+10**	**1**	(3)	+10	-
		-10	**(1)**		-10	-

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

Currency risk in relation to net investment in foreign operations

QBE is exposed to currency risk in relation to:

- the translation of the ultimate parent entity's net investment in foreign operations to its functional currency of Australian dollars; and
- the translation of all foreign operations to the presentation currency of US dollars.

The ultimate parent entity's currency risk in relation to its net investment in foreign operations may be hedged using foreign currency borrowings and forward foreign exchange contracts within authorities set out by the Board. Hedging relationships which meet the hedging criteria set out in AASB 139 are accounted for in accordance with the accounting policy set out in note 1(O). The extent of hedging this exposure is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels.

Currency management processes are actively monitored by the Group Chief Financial Officer and involve close senior management scrutiny, including regular board and other management reporting. All hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis. All instruments that are designated as hedges in accordance with AASB 139 are tested for effectiveness on both a prospective and a retrospective basis. These tests are performed at least quarterly.

Foreign exchange gains or losses arising on translation of the Group's foreign operations to the Group's US dollar presentation currency are recognised directly in equity in accordance with the policy set out in note 1(W)(ii). The Group does not hedge this exposure.
The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which QBE is exposed through its net investment in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance date.

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FOR THE YEAR ENDED 31 DECEMBER 2013

5. Risk Management CONTINUED

	2013 US$M			2012 US$M		
	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE)[1] US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE)[1] US$M
Australian dollar	**6,350**	**+10**	**635**	7,630	+10	763
		-10	**(635)**		-10	(763)
Sterling	**399**	**+10**	**40**	(831)	+10	(83)
		-10	**(40)**		-10	83
Euro	**1,016**	**+10**	**102**	731	+10	73
		-10	**(102)**		-10	(73)
Hong Kong dollar	**57**	**+10**	**6**	130	+10	13
		-10	**(6)**		-10	(13)
Argentinian peso	**324**	**+25**	**81**	372	+10	37
		-25	**(81)**		-10	(37)
New Zealand dollar	**140**	**+10**	**14**	128	+10	13
		-10	**(14)**		-10	(13)
Singapore dollar	**102**	**+10**	**10**	96	+10	10
		-10	**(10)**		-10	(10)
Colombian peso	**76**	**+10**	**8**	94	+10	9
		-10	**(8)**		-10	(9)

1 Further information on hedging arrangements is provided in note 11.

(ii) Interest rate risk

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

QBE'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 Group 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.

Interest-bearing borrowings issued by the Group are valued at amortised cost and therefore do not expose the Group result to fair value interest rate risk.

The claims provision is discounted to present value by reference to risk-free interest rates. The Group 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 maintains a relatively short duration for assets backing policyholders' funds in order to minimise any further potential volatility affecting insurance profit.

The contractual maturity profile of QBE'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 contractual maturity profile of the Group's financial liabilities are shown in note 5(E). The table includes investments at the maturity date of the security; however, many of the longer dated securities have call dates of relatively short duration. At 31 December 2013, the average modified duration of cash and fixed interest securities was 0.51 years (2012 0.52 years).

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2013								
Fixed rate	US$M	**12,598**	**2,214**	**993**	**757**	**88**	**141**	**16,791**
Weighted average interest rate	%	**1.3**	**1.7**	**2.1**	**3.1**	**3.7**	**4.0**	**1.5**
Floating rate	US$M	**2,912**	**2,996**	**4,241**	**1,373**	**816**	**870**	**13,208**
Weighted average interest rate	%	**1.8**	**2.2**	**2.2**	**3.2**	**3.4**	**2.5**	**2.3**
Forward foreign exchange contracts	US$M	**33**	**–**	**–**	**–**	**–**	**–**	**33**
At 31 December 2012								
Fixed rate	US$M	13,158	2,536	927	440	1,001	60	18,122
Weighted average interest rate	%	1.1	1.5	1.5	2.1	3.2	9.3	1.3
Floating rate	US$M	4,329	3,025	3,026	1,553	1,020	298	13,251
Weighted average interest rate	%	1.2	2.3	2.9	3.9	3.7	1.9	2.4
Forward foreign exchange contracts	US$M	24	–	–	–	–	–	24

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 Group at the balance date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS)[1] 2013 US$M	2012 US$M
Interest rate movement – interest-bearing financial assets	+0.5	**(54)**	(57)
	-0.5	**47**	47

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

(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.

QBE is exposed to price risk on its investment in equities and may use derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those explained in note 5(D)(ii) in respect of interest rate derivative financial instruments. Exposure is also managed by diversification across worldwide markets and currencies.

At 31 December 2013, 0.9% (2012 0.3%) of the Group's investments and cash was held in listed equities, of which the majority was publicly traded in the major financial markets.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of equity investments owned by the Group at the balance date on consolidated profit after tax is shown in the table below. The calculation assumes that exposures are unhedged, although in practice QBE may use derivatives to manage this exposure.

	SENSITIVITY %	PROFIT (LOSS)[1] 2013 US$M	2012 US$M
ASX 200	+20	**18**	11
	-20	**(18)**	(11)
FTSE 100	+20	**5**	-
	-20	**(5)**	-
EURO STOXX	+20	**6**	3
	-20	**(6)**	(3)
S&P 500	+20	**5**	-
	-20	**(5)**	-

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

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

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

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

	SENSITIVITY %	PROFIT (LOSS)[1] 2013 US$M	2012 US$M
Credit spread movement – interest-bearing financial assets	+0.5	**(110)**	(98)
	-0.5	**89**	83

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

QBE is also exposed to price risk on its investment in unlisted property trusts. All unlisted property trust investments are measured at fair value through profit or loss. QBE manages this risk by investing in high quality, diversified property funds. Movements in unit prices impact the value of unlisted property trusts and therefore impact reported profit after tax. The impact of a 10% increase or decrease in unit prices on unlisted property trust securities owned by the Group at the balance date was $22 million (2012 nil) net of tax at the Group's prima facie rate of 30%.

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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 other creditors. This includes the risk associated with asset liability management. The key objective of the Group's asset and liability management strategy is to ensure that sufficient liquidity is maintained at all times to meet QBE'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 Group 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 Group's liquidity policy, a minimum percentage of consolidated investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. QBE has a strong liquidity position. The maturity of the Group's interest-bearing financial assets is included in the table in note 5(D)(ii).

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

The following table summarises the maturity profile of certain of the Group's financial liabilities based on the remaining contractual obligations. Borrowings and contractual undiscounted interest payments are disclosed by reference to the first call date of the borrowings. Details are included in note 24.

	1 YEAR OR LESS US$M	1 TO 3 YEARS US$M	3 TO 5 YEARS US$M	OVER 5 YEARS US$M	NO FIXED TERM US$M	TOTAL US$M
As at 31 December 2013						
Forward foreign exchange contracts	**20**	**–**	**–**	**–**	**–**	**20**
Trade payables	**566**	**111**	**6**	**1**	**14**	**698**
Treasury payables	**49**	**–**	**–**	**–**	**–**	**49**
Investment payables	**119**	**–**	**–**	**–**	**–**	**119**
Borrowings[1]	**480**	**1,227**	**1,350**	**1,540**	**–**	**4,597**
Contractual undiscounted interest payments	**266**	**584**	**280**	**286**	**–**	**1,416**
As at 31 December 2012						
Forward foreign exchange contracts	14	–	–	–	–	14
Trade payables	1,070	36	9	7	10	1,132
Treasury payables	44	–	–	–	–	44
Investment payables	9	–	–	–	–	9
Borrowings[1]	1,161	1,414	1,843	500	–	4,918
Contractual undiscounted interest payments	330	410	112	37	–	889

1 Excludes net capitalised expenses of $26 million (2012 $31 million).

The Group has no significant concentration of liquidity risk.

The maturity profile of the Group's net outstanding claims provision is analysed in note 21. For the maturity profile of derivative financial instruments refer to note 11.

(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 Group 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 Group;
- definition of the acceptable level of risk appetite and tolerance;
- assessment of those risks throughout the Group 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 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.

QBE 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 defined as the risk to a division as a result of being part of the wider QBE Group, including financial impact and loss of support from the parent entity. This risk category is only relevant at the divisional level and not the consolidated entity level.

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6. Income and expenses

(A) Income summary

	2013 US$M	2012 US$M
Gross earned premium revenue		
Direct and facultative	16,369	16,902
Inward reinsurance	1,520	1,439
	17,889	18,341
Other revenue		
Reinsurance and other recoveries revenue	1,249	2,267
Reinsurance commission revenue	300	314
	19,438	20,922
Other income		
Dividends received or receivable	20	24
Interest received or receivable	677	769
Other investment income	2	4
Net fair value gains on financial assets	85	504
Net fair value gains on investment properties	1	–
Net fair value gains on assets held for sale	–	3
Net fair value gains on sale of controlled entities	42	–
Gains on repurchase of debt securities	2	–
Foreign exchange gains	24	–
Share of net profits of associates	–	3
	853	1,307
Income	20,291	22,229

(B) Expenses summary

	2013 US$M	2012 US$M
Outward reinsurance premium expense	2,493	2,543
Gross claims incurred	11,180	12,695
Gross commission expense	2,880	2,874
Other acquisition costs	1,257	800
Underwriting and other expenses[1]	1,287	1,557
Net fair value losses on owner occupied properties	5	3
Net fair value losses on sale of controlled entities	–	11
Net fair value losses on assets held for sale	10	–
Net fair value losses on sale of associate	3	–
Losses on sale of repurchased debt securities	–	12
Investment expenses	34	50
Financing and other costs	345	324
Amortisation of intangibles and impairment of goodwill/intangibles[2]	1,245	407
Foreign exchange losses	–	12
Expenses	20,739	21,288

1 Includes $169 million (2012 $219 million) of agency income earned by the Group's agency operations which is treated as a recovery of the Group's underwriting expenses.

2 Includes an impairment charge of $603 million (2012 $150 million). Details are provided in note 18.

(C) Specific items

	2013 US$M	2012 US$M
Defined contribution superannuation plan expense	105	104
Payments on operating leases	40	60
Depreciation of property, plant and equipment	138	92

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

7. Claims incurred

(A) Claims analysis

	2013 US$M	2012 US$M
Gross claims incurred and related expenses		
Direct and facultative	10,445	11,755
Inward reinsurance	735	940
	11,180	12,695
Reinsurance and other recoveries		
Direct and facultative	1,154	2,066
Inward reinsurance	95	201
	1,249	2,267
Net claims incurred	9,931	10,428

(B) Claims development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid. Refer note 7(C) below.

	FOR THE YEAR ENDED 31 DECEMBER 2013			FOR THE YEAR ENDED 31 DECEMBER 2012		
	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M
Gross claims incurred and related expenses						
Undiscounted	11,537	80	11,617	14,114	(1,319)	12,795
Discount	(346)	(91)	(437)	(381)	281	(100)
	11,191	(11)	11,180	13,733	(1,038)	12,695
Reinsurance and other recoveries						
Undiscounted	1,282	(48)	1,234	3,649	(1,383)	2,266
Discount	62	(47)	15	(35)	36	1
	1,344	(95)	1,249	3,614	(1,347)	2,267
Net claims incurred						
Undiscounted	10,255	128	10,383	10,465	64	10,529
Discount	(408)	(44)	(452)	(346)	245	(101)
Net incurred claims – discounted	9,847	84	9,931	10,119	309	10,428

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

The development of the net outstanding claims provision for the 10 most recent accident years is shown in note 21(E). This note is a reconciliation of the amounts included in the table in note 7(B) and the current financial year movements in the claims development table.

	FOR THE YEAR ENDED 31 DECEMBER 2013			FOR THE YEAR ENDED 31 DECEMBER 2012		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Undiscounted central estimate movement[1]	9,011	552	9,563	9,647	464	10,111
Acquisitions during financial year	(3)	–	(3)	(201)	–	(201)
Net undiscounted central estimate development	9,008	552	9,560	9,446	464	9,910
Movement in risk margins	734	(468)	266	715	(627)	88
Movement in claims settlement costs	394	(4)	390	303	33	336
Movement in discount[1]	(408)	25	(383)	(346)	399	53
Net adjustment for Argentina inflation[2]	–	–	–	–	50	50
Other movements	119	(21)	98	1	(10)	(9)
Net incurred claims – discounted	9,847	84	9,931	10,119	309	10,428

1 $69 million of discount is netted off against prior accident year undiscounted central estimate movement in 2013 due to long tail classes such as dust disease in Australia and workers' compensation in Argentina, where there is a close correlation between the significant movements in inflation and discount.

2 Adjustment to workers' compensation business in Argentina in 2012 to reflect inflation impact of $204 million less related discount of $154 million.

Net incurred claims includes prior accident year central estimate claims development of $552 million. This arose principally in: (i) our North American Operations due to an upgrade of claims provisions, primarily in our program business with some adverse development in the inward reinsurance book; (ii) in Latin American Operations, mainly due to legislative changes in our Argentine workers' compensation portfolio as well as deterioration of Colombian SOAT business; and (iii) in European Operations, due to deterioration in casualty portfolios. Equator Re consequently reported prior accident year central estimate development due to its exposure to each of these divisions through internal reinsurance arrangements.

8. Income tax

Reconciliation of prima facie tax to income tax expense

	2013 US$M	2012 US$M
(Loss) profit before income tax	**(448)**	941
Prima facie tax payable at 30%	**(134)**	282
Tax effect of non-temporary differences:		
Untaxed dividends	**(3)**	(4)
Differences in tax rates	**(163)**	(90)
Non-deductible goodwill	**158**	10
Other, including non-allowable expenses and non-taxable income	**(30)**	(44)
Prima facie tax adjusted for non-temporary differences	**(172)**	154
Deferred tax assets no longer recognised	**32**	(2)
(Under) overprovision in prior years	**(64)**	9
Income tax (income) expense	**(204)**	161
Analysed as follows:		
Current tax	**338**	575
Deferred tax	**(478)**	(423)
(Under) overprovision in prior years	**(64)**	9
	(204)	161
Deferred tax (credit) expense comprises:[1]		
Deferred tax assets recognised in profit or loss	**(430)**	(167)
Deferred tax liabilities recognised in profit or loss	**(48)**	(270)
	(478)	(437)

1 Consolidated deferred tax expense includes $23 million (2012 $30 million) credited to profit as a result of changes in income tax rates.

9. Cash and cash equivalents

	2013 US$M	2012 US$M
Cash at bank and on hand	**772**	1,230
Overnight money	**21**	49
Cash management trusts	**228**	495
Term deposits	**217**	251
	1,238	2,025
Analysed as follows:		
Fixed interest rate	**217**	251
Floating interest rate	**1,021**	1,774
	1,238	2,025

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

(A) Restrictions on use

Cash and cash equivalents includes balances readily convertible to cash. All balances are held to service operational cash requirements. Included in cash and cash equivalents are amounts totalling $100 million (2012 $104 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

QBE has operations in many countries which have foreign exchange controls and regulations. The nature of the controls and regulations is highly dependent on the relevant country's banking practices, and these practices can vary from simple reporting requirements to outright prohibition of movement of funds without explicit prior central bank approval. The impact of these controls and regulations may be the restriction of the Group's capacity to repatriate capital and/or profits. QBE's operations in these countries are generally small; however, in Argentina our exposure is more significant and hence the foreign exchange controls and regulations may have a significant impact on our ability to repatriate funds.

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9. Cash and cash equivalents CONTINUED

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

	2013 US$M	2012 US$M
Cash flows from operating activities	**850**	2,753
Depreciation/impairment of property, plant and equipment	**(145)**	(92)
Amortisation and impairment of intangibles	**(1,245)**	(407)
Realised gains (losses) on sale of controlled entities	**32**	(11)
Realised loss on sale of associates	**(3)**	–
Gains (losses) on repurchase of debt securities	**2**	(12)
Loss on sale of plant and equipment	**(47)**	(90)
Net foreign exchange gains (losses)	**24**	(12)
Other gains on financial assets	**68**	472
Increase in net outstanding claims	**(293)**	(1,110)
Increase in unearned premium	**(86)**	(93)
Decrease in deferred insurance costs	**(238)**	(133)
Increase (decrease) in trade debtors	**299**	(683)
Increase in net operating assets	**123**	195
Share of net profit of associates	**–**	3
(Increase) decrease in trade payables	**(214)**	191
Decrease (increase) in tax liabilities	**620**	(160)
Increase in share-based payments	**(15)**	(40)
Decrease in net defined benefit plan deficit	**24**	9
(Loss) profit after income tax	**(244)**	780

10. Investments

	2013 US$M	2012 US$M
Fixed interest rate		
Short-term money	**6,430**	7,598
Government bonds	**6,262**	7,013
Corporate bonds	**3,882**	3,282
	16,574	17,893
Floating interest rate		
Short-term money	**95**	568
Government bonds	**1,282**	972
Corporate bonds	**10,565**	9,839
Infrastructure debt	**160**	–
Unit trusts	**85**	76
	12,187	11,455
Equities		
Listed	**260**	96
Unlisted	**28**	27
	288	123
Property trusts		
Listed	**5**	–
Unlisted	**314**	–
	319	–
Total investments	**29,368**	29,471
Amounts maturing within 12 months	**14,272**	15,462
Amounts maturing in greater than 12 months	**15,096**	14,009
Total investments	**29,368**	29,471

(A) Charges over investments and other assets

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 31.

(B) Fair value hierarchy

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

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

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

Level 3: Valuation techniques are applied in which any one or more significant inputs is not based on observable market data.

	2013				2012			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Short-term money	921	5,604	–	6,525	1,721	6,445	–	8,166
Government bonds [1]	4,018	3,518	8	7,544	4,977	2,995	13	7,985
Corporate bonds	–	14,447	–	14,447	–	12,990	131	13,121
Infrastructure debt	–	–	160	160	–	–	–	–
Floating interest rate trusts	–	85	–	85	–	76	–	76
Equities – listed	259	–	1	260	95	–	1	96
Equities – unlisted	–	–	28	28	–	–	27	27
Property trusts – listed	5	–	–	5	–	–	–	–
Property trusts – unlisted	–	314	–	314	–	–	–	–
Total investments	5,203	23,968	197	29,368	6,793	22,506	172	29,471

1 $70 million of government bonds were transferred from level 2 to level 1 due to the availability of quoted prices in active markets at the balance sheet date.

(C) Valuation of investments

The Group's approach to measuring the fair value of investments is described below:

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.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques.

Listed equities

Listed equities traded in active markets are valued by reference to quoted bid prices.

Unlisted equities

Unlisted equities are priced using QBE's share of the net assets of the entity.

Unlisted property trusts

Unlisted property trusts are valued using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

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

(D) Movements in level 3 investments

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

LEVEL 3	2013 US$M	2012 US$M
At 1 January	172	27
Reclassification to level 2 [1]	(137)	–
Purchases	164	143
Disposals	(3)	(2)
Unrealised gains recognised in profit or loss [2]	1	3
Foreign exchange	–	1
At 31 December	197	172

1 $137 million of asset backed securities were transferred from level 3 to level 2 due to the use of a more observable external price source.
2 Recognised within investment and other income (policyholders' and shareholders' funds) in the consolidated statement of comprehensive income.

(E) Restrictions on use

Included in investments are amounts totalling $3,651 million (2012 $3,623 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met. Included in this amount is $369 million (2012 $1,095 million) of short-term money.

11. Derivatives

All derivative positions entered into by the Group are for economic hedging purposes and do not meet the requirements for hedge accounting.

(A) Bond and interest rate futures

The Group's policy for utilising bond and interest rate futures to manage interest rate risk is discussed in note 5(D) (ii). Exchange traded futures and options are priced using the exchange close price. Futures contracts are marked to market on a daily basis and the change in the fair value of the contract is settled daily.

(B) Forward foreign exchange contracts

Forward foreign exchange contracts are entered into by the Group for the purpose of managing residual foreign currency exposures. The Group's policy for managing such exposures is explained in note 5(D) (i). Undiscounted contractual amounts to purchase $2,683 million (2012 $2,478 million) were outstanding at the balance date. All contracts mature within 12 months of the balance date.

(C) Credit risk

Credit risk may arise on forward foreign exchange contracts if the counterparty fails to meet its contractual settlement obligations. The unrealised gains of $33 million (2012 $24 million) represent QBE's exposure to credit risk on forward foreign exchange contracts at the balance date.

(D) Fair value hierarchy

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

	2013				2012			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Assets								
Forward foreign exchange contracts	**33**	**–**	**–**	**33**	24	–	–	24
Liabilities								
Forward foreign exchange contracts	**20**	**–**	**–**	**20**	14	–	–	14

(E) Hedging arrangements

At the balance date, $4,603 million (2012 $3,825 million) of borrowings and accrued interest and $nil (2012 $39 million) of other liabilities were designated as hedges of net investments in foreign operations.

12. Trade and other receivables

	2013 US$M	2012 US$M
Trade debtors		
Premium receivable[1]	**2,550**	2,790
Reinsurance and other recoveries[1]	**852**	833
Unclosed premium	**1,015**	1,046
Other trade debtors	**158**	198
	4,575	4,867
Other debtors	**242**	225
Treasury receivables	**5**	6
Investment receivables	**297**	134
Trade and other receivables	**5,119**	5,232
Receivable within 12 months	**4,713**	4,965
Receivable in greater than 12 months	**406**	267
Trade and other receivables	**5,119**	5,232

1 Net of a provision for impairment.

(A) Provision for impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2013 US$M	2012 US$M	2013 US$M	2012 US$M
At 1 January	**90**	78	**44**	45
Amounts recognised in profit or loss	**6**	20	**(12)**	(7)
Other movements	**(16)**	(8)	**(1)**	5
Foreign exchange	**(5)**	–	**(1)**	1
At 31 December	**75**	90	**30**	44

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(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 Group 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. Note 5 also provides more information on the risk management policies of the Group.

13. Deferred insurance costs

	2013 US$M	2012 US$M
Deferred reinsurance premium	**495**	663
Deferred net commission	**1,222**	1,399
Deferred acquisition costs	**504**	544
Deferred insurance costs	**2,221**	2,606
To be expensed within 12 months	**2,218**	2,435
To be expensed in greater than 12 months	**3**	171
Deferred insurance costs	**2,221**	2,606

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
At 1 January	**663**	771	**1,399**	1,225	**544**	436
Acquisitions	**2**	64	**–**	112	**–**	–
Costs deferred in financial year	**379**	500	**1,072**	1,104	**425**	467
Amortisation of costs deferred in previous financial years	**(525)**	(683)	**(1,164)**	(1,054)	**(439)**	(367)
Disposals	**–**	–	**(1)**	–	**(1)**	–
Foreign exchange	**(24)**	11	**(84)**	12	**(25)**	8
At 31 December	**495**	663	**1,222**	1,399	**504**	544

14. Property, plant and equipment

2013	OWNER OCCUPIED PROPERTIES US$M	LEASEHOLD IMPROVEMENTS US$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US$M	MOTOR VEHICLES US$M	TOTAL US$M
Cost or valuation					
At 1 January	**205**	**190**	**609**	**10**	**1,014**
Additions/reclassifications	**7**	**13**	**113**	**1**	**134**
Revaluations	**(20)**	**–**	**–**	**–**	**(20)**
Transfer to assets held for sale	**(46)**	**–**	**–**	**–**	**(46)**
Disposals	**(18)**	**(16)**	**(128)**	**(2)**	**(164)**
Foreign exchange	**(12)**	**(16)**	**(11)**	**(1)**	**(40)**
At 31 December	**116**	**171**	**583**	**8**	**878**
Accumulated depreciation and impairment losses					
At 1 January	**–**	**(76)**	**(369)**	**(5)**	**(450)**
Disposals/reclassifications	**–**	**15**	**96**	**1**	**112**
Depreciation charge for the year	**–**	**(19)**	**(118)**	**(1)**	**(138)**
Impairment	**–**	**(6)**	**(1)**	**–**	**(7)**
Foreign exchange	**–**	**6**	**7**	**–**	**13**
At 31 December	**–**	**(80)**	**(385)**	**(5)**	**(470)**
Carrying amount					
At 31 December	**116**	**91**	**198**	**3**	**408**

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14. Property, plant and equipment CONTINUED

2012	OWNER OCCUPIED PROPERTIES US$M	LEASEHOLD IMPROVEMENTS US$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US$M	MOTOR VEHICLES US$M	TOTAL US$M
Cost or valuation					
At 1 January	198	122	453	10	783
Acquisitions	4	1	2	–	7
Additions/reclassifications	4	69	245	2	320
Revaluations	(3)	–	–	–	(3)
Disposals	(1)	(5)	(104)	(2)	(112)
Foreign exchange	3	3	13	–	19
At 31 December	205	190	609	10	1,014
Accumulated depreciation and impairment losses					
At 1 January	–	(57)	(273)	(5)	(335)
Disposals/reclassifications	–	2	(17)	2	(13)
Depreciation charge for the year	–	(20)	(70)	(2)	(92)
Foreign exchange	–	(1)	(9)	–	(10)
At 31 December	–	(76)	(369)	(5)	(450)
Carrying amount					
At 31 December	205	114	240	5	564

(A) Owner occupied properties

Valuation of owner occupied properties and determination of fair value

The Group's accounting policy in relation to the valuation of owner occupied property is set out in note 1(S). Owner occupied properties are valued annually with reference to independent external valuations, either:

- on the basis of the capitalisation of net market rentals allowing for the costs of reletting, having regard to comparable on-market sales and discounted future cash flows; or
- using comparable sales for properties in similar markets, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Owner occupied properties are not expected to be realised within 12 months. No owner occupied properties are pledged as security for liabilities.

Owner occupied properties are classified as level 3 within the fair value hierarchy. Changes in level 2 and level 3 fair values are considered annually by the Group CFO and a report is presented to the Board. There were no transfers in or out of level 3 in the hierarchy during 2013 or 2012. The Group's fair value hierarchy is explained in more detail in note 10(B). At the balance date, the range of discount rates used in determining fair value was 7.5% – 12.0% (2012 7.8% – 12.0%).

The cost of owner occupied properties at 31 December 2013 was $130 million (2012 $199 million).

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15. Deferred income tax

	2013 US$M	2012 US$M
Deferred tax assets	**801**	290
Deferred tax liabilities	**(397)**	(359)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2013 US$M	2012 US$M
Amounts recognised in profit or loss		
Financial assets – fair value movements	**73**	82
Provision for impairment	**22**	21
Employee benefits	**72**	69
Intangible assets	**229**	19
Insurance provisions	**625**	567
Tax losses recognised	**476**	366
Other	**124**	111
	1,621	1,235
Amounts recognised in other comprehensive income		
Capitalised expenses	**1**	2
Defined benefit plans	**42**	55
Other	**1**	–
	44	57
Deferred tax assets before set-off	**1,665**	1,292
Set-off of deferred tax liabilities	**(864)**	(1,002)
	801	290
Deferred tax assets before set-off analysed as follows:		
Recoverable within 12 months	**253**	283
Recoverable in greater than 12 months	**1,412**	1,009
	1,665	1,292

(ii) Movements:

	2013 US$M	2012 US$M
At 1 January	**1,292**	1,080
Amounts recognised in profit or loss	**430**	167
Amounts recognised in other comprehensive income	**(13)**	14
Acquisitions	**–**	31
Foreign exchange	**(44)**	–
At 31 December	**1,665**	1,292

(B) Tax losses

The Group has not brought to account $99 million (2012 $99 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. $44 million of tax losses not brought to account have a life of between three and 20 years with the majority expiring in 17 to 20 years. $55 million of losses not brought to account have an indefinite life. This benefit will only be brought to account when the directors believe it is probable that it will be realised. This benefit of tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

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15. Deferred income tax CONTINUED

(C) Deferred tax liabilities

(i) The balance comprises temporary differences attributable to:

	2013 US$M	2012 US$M
Amounts recognised in profit or loss		
Intangibles	**(210)**	(229)
Insurance provisions	**(762)**	(763)
Taxation of Financial Arrangements transitional adjustment	**(30)**	(70)
Financial assets – fair value movements	**(82)**	(97)
Other provisions	**(28)**	(36)
Other items	**(138)**	(154)
	(1,250)	(1,349)
Amounts recognised in other comprehensive income		
Owner occupied property	**(3)**	(12)
Defined benefit plans	**(8)**	–
	(11)	(12)
Deferred tax liabilities before set-off	**(1,261)**	(1,361)
Set-off of deferred tax assets	**864**	1,002
	(397)	(359)
Deferred tax liabilities before set-off analysed as follows:		
Recoverable within 12 months	**(208)**	(195)
Recoverable in greater than 12 months	**(1,053)**	(1,166)
	(1,261)	(1,361)

(ii) Movements:

	2013 US$M	2012 US$M
At 1 January	**(1,361)**	(1,569)
Amounts recognised in profit or loss	**48**	270
Amounts recognised in other comprehensive income	**1**	12
Acquisitions	**–**	(67)
Foreign exchange	**51**	(7)
At 31 December	**(1,261)**	(1,361)

16. Investment properties

(A) Movements in carrying amounts

	2013 US$M	2012 US$M
At 1 January	**29**	28
Additions	**–**	1
Disposals	**(16)**	(1)
Net fair value unrealised gains recognised in profit and loss [1]	**1**	–
Foreign exchange	**(1)**	1
At 31 December	**13**	29

1 Recognised within investment and other income (policyholders' and shareholders' funds) in the profit and loss.

Rental income from investment properties was $1 million (2012 $4 million).

(B) Valuation of investment properties and determination of fair value

The Group's accounting policy in relation to the valuation of investment property is set out in note 1(R). Investment properties are valued annually with reference to independent external valuations. Investment properties were valued either:

- on the basis of the capitalisation of net market rentals allowing for the costs of reletting; or
- using comparable sales for properties in similar markets adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Investment properties are not expected to be realised within 12 months. No investment properties are pledged as security for liabilities.

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Investment properties are classified as level 3 within the fair value hierarchy. Changes in level 2 and level 3 fair values are considered annually by the Group Chief Financial Officer and a report is presented to the Board. There have been no transfers in or out of level 3 in the hierarchy during 2013 or 2012. The Group's fair value hierarchy is explained in more detail in note 10(B). At the balance date, the discount rate used in determining fair value was 6% (2012 6%).

17. Investment in associates

(A) Movements in carrying amounts

	2013 US$M	2012 US$M
At 1 January	62	55
Share of profit	–	3
Other comprehensive income	–	4
Purchases	1	–
Disposal	(47)	–
Foreign exchange	(3)	–
At 31 December	13	62

On 2 July 2013, a wholly-owned entity sold its 38.37% share in QBE del Istmo Reinsurance Company Inc. for net proceeds of $34 million. On disposal, a loss of $3 million net of tax was realised in profit or loss.

(B) Extracts from entity financial statements

	GROUP SHARE OF:			
2013	ASSETS US$M	LIABILITIES US$M	GROSS WRITTEN PREMIUM US$M	NET PROFIT AFTER TAX US$M
Pacific Re Limited	5	(1)	2	–
Raheja QBE General Insurance Limited	10	(2)	1	–

	GROUP SHARE OF:			
2012	ASSETS US$M	LIABILITIES US$M	GROSS WRITTEN PREMIUM US$M	NET PROFIT AFTER TAX US$M
Pacific Re Limited	6	(2)	2	–
Raheja QBE General Insurance Limited	11	(2)	1	–

18. Intangible assets

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2013	LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENCES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	86	1,484	53	49	89	37	4,814	6,612
Acquisitions	–	5	–	–	–	–	(3)	2
Disposals	–	(4)	–	–	–	–	(8)	(12)
Additions/reclassifications	–	(6)	–	1	–	13	(2)	6
Impairment	–	(1)	–	–	–	(2)	(600)	(603)
Foreign exchange	5	(37)	(5)	–	(2)	(2)	(300)	(341)
At 31 December	91	1,441	48	50	87	46	3,901	5,664
Amortisation								
At 1 January	–	(459)	(19)	–	(53)	(27)	–	(558)
Disposal of entities	–	1	–	–	–	–	–	1
Reclassifications	–	2	–	–	–	(2)	–	–
Amortisation for the year	–	(595)	(3)	–	(31)	(13)	–	(642)
Foreign exchange	–	11	1	–	–	3	–	15
At 31 December	–	(1,040)	(21)	–	(84)	(39)	–	(1,184)
Carrying amount								
At 31 December	91	401	27	50	3	7	3,901	4,480

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18. Intangible assets CONTINUED

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2012	LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENCES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	82	1,333	78	75	88	44	4,666	6,366
Acquisitions	–	190	12	–	1	1	142	346
Disposals	–	–	–	(6)	–	–	–	(6)
Additions/reclassifications	–	11	10	(13)	–	(8)	25	25
Impairment	–	(43)	(46)	(7)	–	(1)	(53)	(150)
Foreign exchange	4	(7)	(1)	–	–	1	34	31
At 31 December	86	1,484	53	49	89	37	4,814	6,612
Amortisation								
At 1 January	–	(231)	(9)	–	(39)	(22)	–	(301)
Amortisation for the year	–	(226)	(10)	–	(14)	(7)	–	(257)
Foreign exchange	–	(2)	–	–	–	2	–	–
At 31 December	–	(459)	(19)	–	(53)	(27)	–	(558)
Carrying amount								
At 31 December	86	1,025	34	49	36	10	4,814	6,054

(A) Identifiable intangibles

Lloyd's syndicate capacity, insurance licences and some brand names are considered to have an indefinite useful life and no amortisation is charged. All remaining intangible assets are amortised over their finite useful lives and the amortisation charge is included in amortisation and impairment of intangibles in the income statement. The most significant classes of identifiable intangible assets are detailed below.

(i) Lloyd's syndicate capacity

Syndicate allocated capacity is the aggregate of the premium limits of each member of that syndicate at a point in time. An existing capital provider has the first right to participate on the next year of account, giving the indefinite right to participate on all future years of account. The Lloyd's syndicate capacity intangible asset relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. Since acquiring QBE Underwriting Limited, the Group has increased its share of ownership of all syndicates from 55% in 2000 to 91% for the 2013 underwriting year. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons, Lloyd's syndicate capacity is deemed to have an indefinite useful life.

(ii) Customer relationships

Customer relationships comprise the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution networks and agency relationships. Customer relationships will be amortised over remaining lives of between two and 18 years depending on the classes of business to which the assets relate.

(iii) Brand names

This asset reflects the revenue generating ability of acquired brands. In some circumstances, brand names are considered to have an indefinite useful life due to the long-term nature of this asset. When there is a contractual limit on the use of the brand name, the asset will be amortised over the remaining period, being in the range of two to 17 years.

(iv) Insurance licences

This asset gives the Group the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. It is considered to have an indefinite useful life due to its long-term nature.

(v) Software

This is the fair value of key operating systems acquired in business combinations which will benefit the future operations of the acquired entity. Capitalised software will be amortised over periods ranging from one to three years, reflecting the period during which the Group is expected to benefit from the use of the software.

(vi) Impairment testing of identifiable intangible assets

The Group's accounting policy in respect of impairment testing of identifiable intangible assets is set out in note 1(T). The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts relevant to the initial valuation of the identifiable intangible asset are reviewed, and updated if appropriate, by management. Cash flow forecasts are based on a combination of actual performance to date combined with management's expectations of future performance based on prevailing and anticipated market factors; and
- discount rates include a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the risk associated with the intangible asset or the cash generating unit to which the asset is allocated.

(B) Goodwill

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units reflect the level at which goodwill is monitored by management. As the Group continues to acquire operations and reorganise the way that operations are managed, reporting structures may change giving rise to a reassessment of cash generating units and/or the allocation of goodwill to those cash generating units.

The goodwill relating to certain acquisitions is denominated in currencies other than the US dollar and so is subject to foreign exchange movements.

Goodwill is analysed by groups of cash generating units as follows:

	2013 US$M	2012 US$M
North American Operations	**1,754**	2,354
Australian Operations	**1,480**	1,729
European Operations [1]	**452**	486
Other [2]	**215**	245
	3,901	4,814

1 During 2013, it was identified that the formerly separate cash generating units of QBE Insurance (Europe) Limited and Lloyd's should be treated as one combined cash generating unit, European Operations, reflecting previous changes to the management structure and the integration of the underlying businesses.
2 None of the cash generating units included in "Other" is individually significant.

(i) Impairment testing of goodwill

The Group's accounting policy in respect of impairment testing of goodwill is set out in note 1(T). The recoverable amount of each cash generating unit has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts based on the latest three year business plan which has been approved by the Board. These forecasts are based on a combination of historical performance combined with management's expectations of future performance based on prevailing and anticipated market factors;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. Growth rates reflect the long-term average of the countries relevant to the cash generating unit and are sourced from observable market information. The terminal growth rates used in management's impairment testing are: North American Operations 2.5%, Australian Operations 2.5%, European Operations 2.0%; and
- discount rates reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit. The pre-tax discount rates used were: North American Operations 12.1% (2012 12.5%), Australian Operations 12.7% (2012 10.4%), European Operations 10.5% (2012 8.7%).

The following table shows the recoverable amount and carrying value for each material cash generating unit at the date of the impairment test:

	CARRYING AMOUNT US$M	RECOVERABLE AMOUNT US$M
North American Operations [1]	**4,720**	**4,720**
Australian Operations [2]	**4,852**	**7,348**
European Operations [2]	**2,130**	**4,792**

1 Date of impairment test was 31 December 2013.
2 Date of impairment test was 30 September 2013.

(C) Impairment losses and changes in amortisation

(i) Impairment losses – goodwill

The carrying amount of the North American Operations cash generating unit was greater than its recoverable amount based on a value in use calculation, resulting in an impairment charge of $600 million. The impairment resulted specifically from QBE's updated assessment of the future cash flows from its lender-placed business and, more generally, an updated assessment of future cash flows attributable to this cash generating unit.

(ii) Changes to useful life

Following management's review of the estimated useful life of the identifiable intangible assets forming part of QBE's lender-placed business in North American Operations, an additional amortisation charge of $413 million (of which $82 million was recognised in the period to 30 June 2013), was incurred and the carrying value of these assets was written down to nil.

The amortisation profile applied to other identifiable intangible assets has been revised to better reflect the expected pattern of consumption of future economic benefits. The impact of these changes in accounting estimates was an increase in the amortisation charge for the year ended 31 December 2013 of $29 million. The remaining useful life of these assets ranges from three to eight years.

(D) Impact of a possible change in key assumptions

North American Operations

If the terminal value combined operating ratio used was increased by 1% compared with QBE's estimate (95.2% to 96.2%) the goodwill impairment charge would have increased by $445 million. If the post tax discount rate used was increased by 1% (10.0% to 11.0%), the goodwill impairment charge would have increased by $554 million.

La Buenos Aires Seguros SA

If the terminal value combined operating ratio used was increased by 1% compared with QBE's estimate (96.1% to 97.1%), an impairment of $11 million would have been incurred. If the post tax discount rate used was increased by 1% (13.0% to 14.0%), an impairment of $6 million would have been incurred. The carrying value of La Buenos Aires Seguros SA was $204 million.

19. Trade and other payables

	2013 US$M	2012 US$M
Trade payables	**698**	1,132
Other payables and accrued expenses	**748**	766
Treasury payables	**49**	44
Investment payables	**119**	9
Trade and other payables	**1,614**	1,951
Payable within 12 months	**1,475**	1,877
Payable in greater than 12 months	**139**	74
Trade and other payables	**1,614**	1,951

20. Unearned premium

(A) Unearned premium

	2013 US$M	2012 US$M
At 1 January	**8,559**	8,069
Acquisitions	**6**	258
Deferral of premium on contracts written in the period	**7,090**	6,994
Earning of premium written in previous periods	**(7,004)**	(6,901)
Disposals	**(6)**	(5)
Foreign exchange	**(461)**	144
At 31 December	**8,184**	8,559
To be earned within 12 months	**7,169**	7,683
To be earned in greater than 12 months	**1,015**	876
Unearned premium	**8,184**	8,559

(B) Net premium liabilities

	NOTE	2013 US$M	2012 US$M
Unearned premium		**8,184**	8,559
Deferred insurance costs	13	**(2,221)**	(2,606)
Net premium liabilities		**5,963**	5,953

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

	2013 US$M	2012 US$M
Undiscounted central estimate	**5,387**	5,367
Discount to present value	**(431)**	(343)
	4,956	5,024
Risk margin	**222**	215
Expected present value of future cash flows for future claims including risk margin	**5,178**	5,239

(D) Liability adequacy test

The probability of adequacy of the unearned premium liability differs 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 the net unearned premium liability whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Group.

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin of 4.5% (2012 4.3%) for net unearned premium liabilities, for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA. Without allowing for diversification benefits, the application of the 4.5% risk margin to the net premium liabilities is estimated to achieve a probability of adequacy of 70% (2012 70%) for net unearned premium liabilities on a standalone basis.

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

(E) Risk margin

The process used to determine the risk margin is explained in note 4(A)(iii).

The risk margin in expected future cash flows for future claims as a percentage of the discounted central estimate is 4.5% (2012 4.3%).

21. Outstanding claims

(A) Net outstanding claims

	2013 US$M	2012 US$M
Gross outstanding claims provision	**20,104**	21,456
Risk margin	**1,565**	1,333
Outstanding claims	**21,669**	22,789
Reinsurance and other recoveries on outstanding claims	**(3,461)**	(4,377)
Net outstanding claims provision	**18,208**	18,412
Analysed as follows:		
Net undiscounted central estimate	**18,122**	18,243
Discount	**(1,479)**	(1,164)
Net central estimate	**16,643**	17,079
Risk margin	**1,565**	1,333
Net outstanding claims provision	**18,208**	18,412
Gross outstanding claims	**21,308**	22,309
Claims settlement costs	**419**	448
	21,727	22,757
Discount to present value	**(1,623)**	(1,301)
Gross outstanding claims provision	**20,104**	21,456
Less than 12 months	**7,420**	8,477
Greater than 12 months	**12,684**	12,979
Gross outstanding claims provision	**20,104**	21,456
Reinsurance and other recoveries on outstanding claims [1]	**3,605**	4,514
Discount to present value	**(144)**	(137)
Reinsurance and other recoveries on outstanding claims	**3,461**	4,377
Less than 12 months	**1,619**	2,358
Greater than 12 months	**1,842**	2,019
Reinsurance and other recoveries on outstanding claims	**3,461**	4,377

1 Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of $27 million (2012 $29 million).

(B) Maturity profile of net outstanding claims provision

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

2013	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
North American Operations	**1,437**	**580**	**369**	**228**	**121**	**284**	**3,019**
Latin American Operations	**299**	**94**	**49**	**30**	**22**	**67**	**561**
European Operations	**1,821**	**1,256**	**887**	**684**	**473**	**1,671**	**6,792**
Australian & New Zealand Operations	**1,306**	**772**	**516**	**342**	**195**	**408**	**3,539**
Asia Pacific Operations	**179**	**77**	**42**	**25**	**11**	**15**	**349**
Equator Re	**1,319**	**804**	**564**	**382**	**285**	**594**	**3,948**
Group	**6,361**	**3,583**	**2,427**	**1,691**	**1,107**	**3,039**	**18,208**

2012	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
North American Operations	1,285	574	379	225	124	409	2,996
Latin American Operations	282	95	57	36	28	90	588
European Operations	1,691	1,073	756	593	422	1,371	5,906
Australian & New Zealand Operations	1,731	953	608	392	242	523	4,449
Asia Pacific Operations	188	86	49	25	16	18	382
Equator Re	1,425	833	560	400	267	606	4,091
Group	6,602	3,614	2,409	1,671	1,099	3,017	18,412

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

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

21. Outstanding claims CONTINUED

(C) Risk margin

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

The risk margin included in net outstanding claims is 9.4% (2012 7.8%) of the central estimate. The increase in the risk margin reflects increased uncertainty in the net discounted central estimate at 31 December 2013. As a consequence, the probability of adequacy at 31 December 2013 is 90.7% (2012 87.5%) which is well above APRA's 75% benchmark. Net profit after tax would have increased by $153 million if the probability of adequacy was maintained at 87.5%.

(D) Reconciliation of movement in outstanding claims provision

	2013			2012		
	OUTSTANDING CLAIMS US$M	REINSURANCE US$M	NET US$M	OUTSTANDING CLAIMS US$M	REINSURANCE US$M	NET US$M
At 1 January	22,789	(4,377)	18,412	20,677	(3,693)	16,984
Increase in net claims incurred in current accident year	11,191	(1,344)	9,847	13,733	(3,614)	10,119
Movement in prior accident year claims provision	(11)	95	84	(1,038)	1,347	309
Incurred claims recognised in the income statement	11,180	(1,249)	9,931	12,695	(2,267)	10,428
Acquisitions/disposals	9	(1)	8	298	(64)	234
Claims payments	(11,661)	2,221	(9,440)	(11,276)	1,833	(9,443)
Foreign exchange	(648)	(55)	(703)	395	(186)	209
At 31 December	21,669	(3,461)	18,208	22,789	(4,377)	18,412

(E) Claims development

	2003 & PRIOR US$M	2004 US$M	2005 US$M	2006 US$M	2007 US$M	2008 US$M	2009 US$M	2010 US$M	2011 US$M	2012 US$M	2013 US$M	TOTAL US$M
Net central estimate												
Estimate of net ultimate claims cost at end of accident year		3,378	3,700	3,339	6,351	6,048	5,976	7,997	10,076	9,319	9,011	
One year later		3,094	3,691	3,239	6,133	6,242	5,981	8,054	10,385	9,458		
Two years later		2,932	3,439	3,150	6,250	6,218	5,923	8,215	10,419			
Three years later		2,895	3,444	3,091	6,247	6,358	6,020	8,250				
Four years later		2,769	3,444	3,032	6,240	6,385	6,140					
Five years later		2,768	3,414	3,026	6,245	6,547						
Six years later		2,779	3,433	3,048	6,311							
Seven years later		2,747	3,400	3,074								
Eight years later		2,758	3,400									
Nine years later		2,772										
Current estimate of net cumulative claims cost		2,772	3,400	3,074	6,311	6,547	6,140	8,250	10,419	9,458	9,011	
Cumulative net payments to date		(2,554)	(3,255)	(2,873)	(5,644)	(5,751)	(5,160)	(5,908)	(7,817)	(5,979)	(3,375)	
Net undiscounted central estimate	694	218	145	201	667	796	980	2,342	2,602	3,479	5,636	17,760
Foreign exchange												(83)
Net undiscounted central estimate at 31 December 2013												17,677
Discount to present value												(1,479)
Risk margin												1,565
Claims settlement costs												419
Other												26
Net outstanding claims												18,208
Movement in accident year claims estimate	25	14	–	26	66	162	120	35	34	139	9,011	9,632

A reconciliation of the net claims development to the net incurred claims in the income statement is included in note 7(C).

The Group writes business in currencies other than the US dollar. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been translated to the functional currencies of our controlled entities at constant rates of exchange. All estimates of net central estimate claims cost and cumulative claims payments for the 10 most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2013 cumulative average rate of exchange.

The central estimate claims development table is presented net of reinsurance. With operations in 43 countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated net basis, it is considered neither meaningful nor practicable to provide this information other than on a consolidated net accident year basis.

Outstanding claims in respect of acquisitions are included in the net claims cost in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the increased share of the central estimate of the outstanding claims provision is allocated to the original accident year.

22. Provisions

2013	PROVISION FOR EMPLOYEE BENEFITS US$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US$M	OTHER PROVISIONS US$M	TOTAL PROVISIONS US$M
At 1 January	116	6	15	137
Cash payments	(10)	(3)	(4)	(17)
Amounts charged to the income statement	(1)	–	6	5
Disposals	(2)	–	(2)	(4)
Other movement	6	–	(3)	3
Foreign exchange	(10)	–	–	(10)
At 31 December	99	3	12	114
Payable within 12 months	52	3	5	60
Payable in greater than 12 months	47	–	7	54
At 31 December	99	3	12	114

2012	PROVISION FOR EMPLOYEE BENEFITS US$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US$M	OTHER PROVISIONS US$M	TOTAL PROVISIONS US$M
At 1 January	109	23	21	153
Cash payments	(16)	(16)	–	(32)
Amounts charged to the income statement	24	–	–	24
Acquisitions	–	–	3	3
Other movement	(2)	(1)	(9)	(12)
Foreign exchange	1	–	–	1
At 31 December	116	6	15	137
Payable within 12 months	77	1	11	89
Payable in greater than 12 months	39	5	4	48
At 31 December	116	6	15	137

23. Defined benefit plans

	2013 US$M	2012 US$M
Defined benefit plan surpluses	39	1
Retirement benefit deficits	(71)	(125)
Post-employment healthcare benefit deficit	(9)	(10)
	(80)	(135)
Committed future contributions	–	(4)
Defined benefit plan deficits	(80)	(139)

Entities in the Group participate in a number of superannuation plans which have been established and are sponsored by those entities. A number of these plans provide defined benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation.

Contributions are made to the plans by both employees and controlled entities, typically as a percentage of salary and within the rules of the plans, and are based on funding schedules prepared by independent actuaries. The contribution rate in respect of defined benefit plans is agreed between the relevant controlled entity and the plans' trustees and actuaries. The Group has no immediate legal obligation to settle the liability.

The Group also sponsors defined benefit healthcare plans that provide post-employment medical benefits and life assurance to eligible retired employees. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Russell Employee Benefits, AON Hewitt and Towers Watson. All valuations have been updated for information available at 31 December 2013.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

23. Defined benefit plans CONTINUED

(A) Defined benefit surpluses (deficits)

The amounts recognised in the balance sheet for defined benefit plans are as follows:

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATIONS		NET RECOGNISED SURPLUSES (DEFICITS)	
		2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
Defined benefit retirement plans [1]							
Iron Trades insurance staff trust	31 Dec 13	**298**	288	**(259)**	(247)	**39**	41
European staff retirement benefit plan	31 Dec 13	**13**	12	**(15)**	(16)	**(2)**	(4)
Janson Green final salary superannuation scheme	31 Dec 13	**200**	199	**(204)**	(199)	**(4)**	–
Secura defined benefit plan	31 Dec 13	**10**	9	**(21)**	(18)	**(11)**	(9)
QBE Australia defined benefit plan	31 Dec 13	**19**	27	**(22)**	(36)	**(3)**	(9)
QBE the Americas plan	31 Dec 13	**231**	230	**(277)**	(327)	**(46)**	(97)
Other plans		**3**	2	**(8)**	(7)	**(5)**	(5)
		774	767	**(806)**	(850)	**(32)**	(83)
Defined benefit post-employment healthcare plan [2]							
QBE Regional pension restoration plan	31 Dec 13	**–**	–	**(9)**	(10)	**(9)**	(10)
		774	767	**(815)**	(860)	**(41)**	(93)

1 Defined benefit retirement plan obligations are funded.
2 Defined benefit post-employment healthcare plan obligations are not funded.

(B) Reconciliation

2013	FAIR VALUE OF PLAN ASSETS US$M	PRESENT VALUE OF PLAN OBLIGATIONS US$M	NET DEFICITS US$M
At 1 January	**767**	**(860)**	**(93)**
Amounts recognised in profit or loss			
Current service cost	**–**	**(2)**	**(2)**
Interest income (expense)	**31**	**(34)**	**(3)**
	31	**(36)**	**(5)**
Remeasurements recognised in other comprehensive income			
Return on plan assets, excluding amounts included in interest income (expense)	**(5)**	**–**	**(5)**
Actuarial gains (losses) from change in demographic assumptions	**–**	**(3)**	**(3)**
Actuarial gains (losses) from change in financial assumptions	**–**	**33**	**33**
Experience gains	**–**	**3**	**3**
	(5)	**33**	**28**
Employer contributions	**29**	**–**	**29**
Benefits and expenses paid	**(55)**	**55**	**–**
Foreign exchange	**7**	**(7)**	**–**
At 31 December	**774**	**(815)**	**(41)**

The charge recognised in profit or loss in the year of $5 million (2012 $3 million) has been included in underwriting expenses. The actual return on plan assets was a gain of $26 million (2012 $48 million).

2012	FAIR VALUE OF PLAN ASSETS US$M	PRESENT VALUE OF PLAN OBLIGATIONS US$M	NET DEFICITS US$M
At 1 January	728	(776)	(48)
Amounts recognised in profit or loss			
Current service cost	–	(1)	(1)
Interest (expense) income	33	(35)	(2)
	33	(36)	(3)
Remeasurements recognised in other comprehensive income			
Return on plan assets, excluding amounts included in interest (expense) income	15	–	15
Actuarial gains (losses) from change in demographic assumptions	–	(71)	(71)
Experience losses	–	(1)	(1)
	15	(72)	(57)
Employer contributions	14	–	14
Benefits and expenses paid	(45)	45	–
Foreign exchange	22	(21)	1
At 31 December	767	(860)	(93)

(C) Principal actuarial assumptions

	2013 %	2012 %
Pre-tax discount rates	**3.1 – 7.9**	2.5 – 6.6
Future salary increases	**2.8 – 8.0**	2.8 – 8.0
Future pension increases	**1.8 – 5.0**	2.0 – 5.0

The expected return on plan assets is based on historical and future expectations of returns for each of the major asset classes as well as the expected and actual allocation of plan assets to these major classes.

(D) Analysis of plan assets

	2013 US$M	2012 US$M
Equities	**210**	173
Bonds	**538**	568
Property	**1**	1
Other	**25**	25
	774	767

(E) Historical summary

	2013 US$M	2012 US$M	2011 US$M	2010 US$M	2009 US$M
Experience gains (losses) arising on plan liabilities	**3**	(1)	5	1	(7)

	2013 US$M	2012 US$M	2011 US$M	2010 US$M	2009 US$M
Present value of plan obligations	**(815)**	(860)	(776)	(762)	(740)
Fair value of plan assets	**774**	767	728	678	646
Net deficits	**(41)**	(93)	(48)	(84)	(94)

(F) Funding

Employer contributions to the defined benefit retirement plans are based on recommendations by the plans' actuaries. The objective of the Group's funding schedules is to ensure that benefit entitlements are fully funded at the time they become payable. Total employer contributions expected to be paid to the various plans in 2014 amount to $8 million.

The weighted average duration of the defined benefit obligation ranges from 10 to 27 years.

(G) Risk exposure

The measurement of the assets and liabilities in defined benefit pension plans makes it necessary to use assumptions about discount rates, expected future salary increases, investment returns, inflation and life expectancy. If actuarial assumptions differ materially from actual outcomes, this could result in a significant change in employee benefit expense recognised in profit or loss or in actuarial gains remeasurements recognised in other comprehensive income, together with the defined benefit assets and liabilities recognised in the balance sheet.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

23. Defined benefit plans CONTINUED

The Group reduces the level of investment risk by investing in assets that match, where possible, the profile of the liabilities. This involves the holding of a mixture of government and corporate bonds; however, the Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is appropriate.

The Group does not control its defined benefit investment plans; they are managed by independent trustees. Nonetheless, the Group has agreed, as part of ongoing funding arrangements, that the trustees should manage their strategic asset allocation in order to minimise the risk of material adverse impact.

The Group has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

24. Borrowings

	2013 US$M	2012 US$M
Payable within 12 months	**478**	1,195
Payable in greater than 12 months	**4,093**	3,737
Total borrowings	**4,571**	4,932

(A) Details of borrowings

FINAL MATURITY DATE:		2013 US$M	2012 US$M
Bank loans	**Principal amount**		
24 January 2013	Nil (2012 $4 million)	–	4
		–	4
Senior debt			
14 March 2014	$175 million (2012 $211 million)	**174**	210
14 March 2014	£184 million (2012 £191 million)	**304**	309
28 September 2015	£550 million	**909**	889
1 May 2018	$600 million	**597**	–
		1,984	1,408
Hybrid securities			
12 May 2030	Nil (2012 $1,353 million)	–	864
		–	864
Subordinated debt			
1 July 2023	Nil (2012 $220 million)	–	217
15 June 2035	Nil (2012 $16 million)	–	16
15 March 2036	Nil (2012 $80 million)	–	79
14 December 2036	Nil (2012 $15 million)	–	15
23 December 2038	$500 million	**490**	–
11 December 2039	$250 million (2012 $500 million)	**247**	494
24 May 2041	$1,000 million	**996**	995
24 May 2041	£325 million	**532**	525
		2,265	2,341
Capital securities[1]			
No fixed date	$301 million	**302**	301
No fixed date	£9 million	**20**	14
		322	315
Total borrowings		**4,571**	4,932

1 QBE has the option to redeem these securities. Details are provided in note 24(G).

(B) Finance costs

Finance costs of $15 million (2012 $6 million) have been capitalised in the year.

(C) Bank loans

In the normal course of business, bank loans are made to controlled entities and may be secured by guarantees or letters of comfort given by the company.

(D) Senior debt

(i) Senior notes due 2014

In 2008, the company issued $211 million and £191 million of senior notes maturing on 14 March 2014. During the period the Group repurchased $36 million and $12 million (£7 million) of the senior notes respectively. The notes are unsecured and unsubordinated obligations of the Group and will rank equally amongst themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the Group. Interest of 9.75% per annum is payable half yearly on the US dollar notes and interest of 10% per annum is payable half yearly on the sterling notes.

(ii) Senior notes due 2015

In 2009, the company issued £550 million of senior notes maturing on 28 September 2015. The notes are unsecured and unsubordinated obligations of the Group and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the Group. Interest of 6.125% per annum is payable half yearly in arrears.

(iii) Senior notes due 2018

On 1 May 2013, the company issued $600 million of senior notes maturing on 1 May 2018. The notes are unsecured and unsubordinated obligations of the Group and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the Group. Interest of 2.4% per annum is payable half yearly in arrears.

(E) Hybrid securities

(i) Hybrid securities due 2030

In May 2010, the Group raised $850 million through the issue of 20 year hybrid securities. Through a process of repurchase, redemption and subsequent cancellation, no hybrid securities remain on issue. Ordinary shares of $498 million were issued under the terms of the tender processes as consideration for the repurchase of hybrid securities. The remainder were repurchased for cash.

(F) Subordinated debt

(i) Subordinated debt due 2023

In 2003, the Group raised $250 million through the issue of subordinated debt securities with a 20 year maturity, redeemable at the option of the company after 10 years. The securities entitle holders to receive a fixed interest rate of 5.647% per annum for the first 10 years, payable semi-annually on 1 January and 1 July.

On 1 July 2013, the company settled $211 million of subordinated debt securities for cash at the first call date.

(ii) Subordinated debt due 2038

On 23 December 2013, the Group raised $500 million through the issue of subordinated convertible debt securities with a 25 year maturity. The securities entitle holders to receive interest at a floating rate of 4.5% over three month LIBOR, payable quarterly in arrears.

The securities are redeemable prior to the ultimate maturity date at the option of QBE on and from 23 December 2018, or earlier for a regulatory event or tax event, subject to APRA's prior written approval.

Investors may convert the securities into a variable number of the QBE ordinary shares from 23 December 2014 until 23 December 2016, or at any time if:

- there is a takeover of QBE;
- APRA determines QBE to be non-viable;
- QBE's credit rating falls to or below Moody's Baa3 or S&P's BBB (or ceases to be rated by either); or
- if for two or more consecutive trading days the daily VWAP for QBE ordinary shares falls by more than a fixed percentage from the issue day VWAP (being the VWAP from 15 to 20 December 2013, both days inclusive).

(iii) Subordinated debt due 2039

On 11 December 2012, the Group raised $500 million through the issue of subordinated debt securities with a 27 year maturity. The securities entitle holders to receive interest at a floating rate of 3.25% per annum over the six month US dollar LIBOR, payable semi-annually in arrears.

The securities are redeemable prior to the ultimate maturity date at the option of QBE on and from 11 December 2019, or earlier for a regulatory event or tax event, provided the securities will be replaced with equal or better capital.

Investors may exchange the securities into a variable number of QBE ordinary shares from 11 June 2014 to 11 December 2017 and at any time prior to 11 December 2017 upon an acquisition event occurring or in the event of default, if QBE delists or the volume weighted average price of QBE's ordinary shares is less than or equal to 60% of the issue date volume weighted average price.

On 30 December 2013, the Group repaid $250 million of subordinated debt due 2039.

(iv) Subordinated debt due 2041

On 24 May 2011, the Group raised $1 billion and £325 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 7.25% and 7.5% per annum respectively until 24 May 2021, at which point the rate will reset to a 10 year mid market swap rate plus a spread of 4.05% and 4.0% per annum respectively. The rate will reset again, on the same basis, on 24 May 2031.

The securities are redeemable prior to the ultimate maturity date at the option of QBE with the written approval of APRA, on 24 May 2021, 24 May 2031, 24 May 2041 or in the event of:

- certain tax and US investment company registration events, which allow a redemption at any time; or
- certain regulatory and rating agency equity credit events which allow redemption at any time after 24 May 2016.

(v) Security arrangements

The claims of bondholders pursuant to the subordinated debt will be subordinated in right of payment to the claims of all senior creditors, including policyholders, of the relevant controlled entity.

(G) Capital securities

In 2006, a controlled entity issued £300 million of capital securities. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The issuer may redeem the securities on 18 July 2016 and certain specified dates thereafter. On 18 July 2016, the coupon on the securities will change from a fixed to a floating rate.

In 2007, a controlled entity issued $550 million of capital securities. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The issuer may redeem the securities on 1 June 2017 and certain specified dates thereafter. On 1 June 2017, the coupon on the securities will change from a fixed to a floating rate.

Both issues of capital securities are subordinated. Distributions are deferrable and not cumulative. If a distribution or principal amount is not paid by the controlled entity, and the company does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE preference shares. For so long as the distributions or principal amounts are outstanding, no payments (including distributions or principal amounts) are to be made on the company's shares or other instruments ranking junior to the securities. Payment of distributions or principal amounts on equal ranking securities may be paid proportionally.

Between 2008 and 2012, $249 million and £291 million of capital securities were repurchased by the Group for cash, at a discount. The assets and the corresponding liabilities are eliminated in the Group's balance sheet and interest income and expense is eliminated in the statement of comprehensive income.

The performance of the obligations of the controlled entity under the capital securities is guaranteed by the company to the extent that the controlled entity has funds. The guarantee is an unsecured and subordinated obligation of the company. The guarantee ranks senior to the claims of the holders of ordinary shares of the company, equally with equally ranked securities and instruments of the company and junior to the claims of other creditors of the company.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

24. Borrowings CONTINUED

(H) Fair value of borrowings

	2013 US$M	2012 US$M
Bank loans	–	4
Senior notes	2,035	1,499
Hybrid securities	–	883
Subordinated debt	2,321	2,411
Capital securities	316	308
	4,672	5,105

Borrowings are analysed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The fair value hierarchy is explained in more detail in note 10(B).

	2013				2012			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Borrowings	–	2,914	1,758	4,672	–	2,573	2,532	5,105

Fixed and floating rate securities are priced using broker quotes and comparable prices for similar instruments in active markets. Where no active market exists, floating rate resettable notes are priced using par plus accrued interest.

25. Equity

(A) Share capital

2013	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	1,194	10,002
Shares issued under the Employee Share and Option Plan	1	3
Shares issued	43	498
Shares issued under Dividend Reinvestment Plan	9	125
Foreign exchange	–	(1,433)
Issued ordinary shares, fully paid at 31 December	1,247	9,195
Shares notified to the Australian Securities Exchange	1,249	9,210
Less: Plan shares subject to non-recourse loans, derecognised under Australian Accounting Standards	(2)	(15)
Issued ordinary shares, fully paid at 31 December	1,247	9,195

2012	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	1,112	8,939
Shares issued under the Employee Share and Option Plan	1	8
Shares issued under Dividend Reinvestment Plan	22	283
Shares issued under Bonus Share Plan	3	–
Shares issued pursuant to the share placement	56	635
Share issue expenses (net of taxation)	–	(6)
Foreign exchange	–	143
Issued ordinary shares, fully paid at 31 December	1,194	10,002
Shares notified to the Australian Securities Exchange	1,197	10,023
Less: Plan shares subject to non-recourse loans, derecognised under Australian Accounting Standards	(3)	(21)
Issued ordinary shares, fully paid at 31 December	1,194	10,002

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

(B) Treasury shares held in trust

	2013 US$M	2012 US$M
At 1 January	(1)	(2)
Purchase of shares	(20)	(27)
Shares vested and/or released to participants	20	28
Foreign exchange	1	–
At 31 December	–	(1)

Shares in the company may be bought on-market to satisfy future obligations of the company under the various employee share-based remuneration plans. Any such shares are held in trust. On consolidation, these shares are recognised as treasury shares held in trust. The balance of the treasury shares held in trust at the balance date represents the cumulative cost of acquiring shares in the company that have not yet been distributed to employees as share-based remuneration.

(C) Equity component of hybrid securities

	2013 US$M	2012 US$M
At 1 January	**134**	132
Transfer to retained profits	**(115)**	–
Foreign exchange	**(19)**	2
At 31 December	**–**	134

(D) Reserves

	2013 US$M	2012 US$M
Owner occupied property revaluation reserve [1]		
At 1 January	**25**	23
Valuation (decrease) increase	**(20)**	1
Deferred tax	**8**	–
Foreign exchange	**(2)**	1
At 31 December	**11**	25
Cash flow hedges reserve [2]		
At 1 January	**–**	–
Net movement	**1**	–
Foreign exchange	**–**	–
At 31 December	**1**	–
Foreign currency translation reserve [3]		
At 1 January	**(2,033)**	(1,942)
Gains (losses) on translation	**1,046**	(29)
(Losses) gains on hedging transactions	**(675)**	(46)
Taxation	**72**	(16)
At 31 December	**(1,590)**	(2,033)
Options reserve [4]		
At 1 January	**159**	148
Options and conditional rights expense	**35**	36
Transfers from reserve on vesting of options and conditional rights	**(20)**	(28)
Foreign exchange	**(16)**	3
At 31 December	**158**	159
Associates [5]		
At 1 January	**9**	5
Movement in the year	**(7)**	4
Foreign exchange	**(1)**	–
At 31 December	**1**	9
Premium on purchase of non-controlling interests [6]		
At 1 January	**(30)**	(21)
Purchase of non-controlling interest	**(25)**	(8)
Foreign exchange	**4**	(1)
At 31 December	**(51)**	(30)
Total reserves at 31 December	**(1,470)**	(1,870)

1 Used to recognise fair value movements in the carrying value of owner occupied property. Refer note 1(S).
2 Used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. Refer note 1(O)(i)
3 Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments are taken to the foreign currency translation reserve. Refer note 1(W). In the event of the disposal of a relevant net investment, the movement in the reserve is recognised in the statement of comprehensive income.
4 Used to recognise the fair value of instruments issued as share-based payments.
5 Used to recognise other comprehensive income of associates.
6 Used to recognise the premium paid over net asset value on purchase of a non-controlling interest in a controlled entity.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

25. Equity CONTINUED

(E) Capital risk management

QBE'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 Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or debt securities with capital characteristics, sell assets to reduce debt or adopt more conservative investment or reinsurance strategies.

QBE is subject to, and complies with, various externally imposed regulatory capital requirements, both through its wholly-owned insurance subsidiaries and as a consolidated insurance group. These requirements are designed to ensure a sufficient solvency margin is maintained in order to provide adequate protection for policyholders. In addition, the Group aims to maintain a strong credit and insurer financial strength rating, along with robust capital ratios in order to support its business objectives and maximise shareholder wealth.

The Group uses a Group-wide economic capital model (ECM) to assess the level of capital required for the underwriting, claims estimation, credit, market, liquidity and operational risks to which it is exposed. Economic capital is determined as the level of capital that the Group needs to ensure that it can, with a pre-specified probability, satisfy its ultimate policyholder obligations in relation to all insurance contracts issued on or before the end of the business plan year. The ECM is used by management to help in the determination of strategic capital allocation, business planning, underwriting performance, pricing, reinsurance and aggregate management. It also assists in determining regulatory capital. Capital is allocated to business units, divisions and ultimately to underwriting portfolios according to the associated risk. The business plans include net asset projections, dividends, issued share projections and solvency projections as well as the impact of potential acquisitions. In the event of a significant change in the Group's risk profile, the ECM will be recalculated and the results reported to the Group's Board.

The Group maintains an ongoing review of its structure to ensure flexibility in the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the Group to maintain its insurer financial strength and credit rating, and has afforded it with good access to capital markets when needed.

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

- The Group actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. Having determined that the current risk appetite of the Group remains appropriate, management set the target level of regulatory capital for 2013 at around 1.55 – 1.8 times the Prescribed Capital Amount (PCA).
- All regulated wholly-owned entities are subject to local requirements that a minimum level of capital is maintained to meet obligations to policyholders. It is the Group's policy that each regulated entity maintains a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds local regulatory requirements.
- The Group aims to maintain the ratio of borrowings to shareholders' funds at around 40%. The ratio of borrowings to shareholders' funds at 31 December 2013 was 44.1% (2012 43.4%).
- Insurer financial strength ratings provided by the major rating agencies which demonstrate our financial strength and claims paying ability.

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

26. Dividends

(A) Dividends

	2013	2012	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	**20**	10	40
Franking percentage	**100%**	100%	15%
Franked amount per share (Australian cents)	**20**	10	6
Dividend payout (A$M)	**244**	120	473
Payment date	**23 Sep 2013**	28 Mar 2013	24 Sep 2012

On 25 February 2014, the directors determined to pay a 100% franked final dividend of 12 Australian cents per share payable on 31 March 2014. The final dividend payout is A$150 million (2012 A$120 million).

	NOTE	2013 US$M	2012 US$M
Previous year final dividend paid on ordinary shares			
Franked		125	72
Unfranked		–	216
		125	288
Interim dividend paid on ordinary shares			
Franked		231	74
Unfranked		–	419
		231	493
Bonus Share Plan dividend forgone	26(C)	(7)	(40)
Total dividend paid		349	741

(B) Dividend Reinvestment and Bonus Share Plans

The company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP) which allow equity holders to receive their dividend entitlement in the form of QBE ordinary shares.

The last date of receipt of election notices applicable to the DRP and BSP is 13 March 2014.

(C) Bonus Share Plan dividend forgone

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the BSP and forgoing all or part of their right to dividends. These shareholders were issued ordinary shares under the BSP. During the year 467,132 (2012 3,095,513) ordinary shares were issued under the BSP.

(D) Franking credits

The franking account balance on a tax paid basis at 31 December 2013 was a surplus of A$272 million (2012 A$83 million). After taking into account the impact of franking on the final dividend recommended by the directors since year end, but not recognised as a liability at year end, the franking account balance will be a surplus of A$285 million (2012 A$227 million).

Following the introduction of the conduit foreign income (CFI) rules effective for the Group from 1 January 2006, shareholders not resident in Australia will receive CFI credits for the unfranked portion of the final 2012 dividend. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

27. Earnings per share

	2013 US$M	2012 US$M
Basic earnings per share	(22.8)	65.1
Diluted earnings per share	(22.8)	61.6

(A) Reconciliation of earnings used in calculating earnings per share

	2013 US$M	2012 US$M
Net (loss) profit after income tax attributable to ordinary equity holders of the company	(254)	761
Less: extraordinary dividend after income tax on convertible securities	(22)	–
Net (loss) profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	(276)	761
Add: finance costs of convertible securities[1]	–	22
Earnings used in calculating diluted earnings per share	(276)	783

1 Finance costs ($18 million) are not included in the current year as this would be anti-dilutive.

(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	2013 NUMBER OF SHARES MILLIONS	2012 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	1,212	1,172
Weighted average number of non-recourse loan shares issued under the Plan	(2)	(3)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,210	1,169
Weighted average number of dilutive potential ordinary shares relating to:[1]		
Shares issued under the Plan	–	3
Convertible securities	–	99
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,210	1,271

1 Shares issued under the plan (2 million), conditional rights issued under the plan (4 million) and convertible securities (35 million) are not included in the current year as this would be anti-dilutive.

28. Business combinations

(A) Acquisitions

There were no material acquisitions during 2013.

(B) Disposals

The following entities were disposed of during the financial year:

On 2 April 2013, a wholly-owned entity sold its 65.23% holding in QBE Makedonija for $19 million, giving rise to a gain on disposal of $2 million.

On 24 April 2013, a wholly-owned entity sold its 50% holding in Invivo Medical Pty Limited for $6 million, giving rise to a gain on disposal of $5 million.

On 5 July 2013, a wholly-owned entity sold its 100% holdings in Limit No 7 Limited and Limit No 10 Limited, giving rise to a nil gain or loss on disposal.

On 7 August 2013, a wholly-owned entity sold its 100% holding in National Credit Insurance (Brokers) Pty Limited for $37 million, giving rise to a gain on disposal of $30 million.

Realised gains of $42 million (2012 realised losses of $11 million) arising from the sale of controlled entities are included in investment and other income – shareholders' funds in profit or loss. Refer to note 6.

29. Share-based payments

(A) Share schemes

The company, at its 1981 AGM, approved the issue of shares from time to time under an Employee Share and Option Plan (the Plan), up to 5% of the issued ordinary shares in the capital of the company. Any full-time or part-time employee of the Group or any equally-owned joint venture who is offered shares or options is eligible to participate in the Plan.

Under the Plan, ordinary shares of the company are normally offered at the weighted average market price during the five trading days on the ASX up to the date of the offer. Likewise, the exercise price for options offered under the Plan is usually the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, for awards made up to and including March 2009 interest-free loans were available to employees to subscribe for shares issued under the Plan. Prior to 20 June 2005, the terms of the loans were either personal recourse or non-recourse. With effect from 20 June 2005, only personal recourse loans were granted to employees to subscribe for shares under the Plan. The loans are repayable in certain circumstances such as termination of employment. The award of options and interest-free loans was discontinued for awards made after March 2009.

Currently equity is awarded on three bases within the Plan as detailed below.

(i) QBE deferred equity plans

QBE Incentive Scheme

The QBE Incentive Scheme (QIS) is an at-risk reward structure that comprises cash and deferred equity awards. It came into effect from 1 January 2010 and is applicable to deferred equity awards made in March 2011 and thereafter.

Executives

Under the QIS, the directors can issue conditional rights to shares to executives who have already achieved predetermined performance targets. The maximum deferred equity award is based on an amount which is the lesser of 80% of the cash award earned or 100% of fixed remuneration at 31 December, in each case for the financial year immediately prior to the year in which the cash award is paid. The deferred equity award is used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 50% of the award will be converted to fully paid ordinary QBE shares after three years; and
- conditional rights to the value of 50% of the award will be converted to fully paid ordinary QBE shares after five years.

Other key senior employees

Other key senior employees of the QBE Group are also eligible to participate in the QIS, with the maximum award restricted to the lesser of 66.67% of the cash award for that year or 100% of base (cash) salary as at 31 December for the financial year prior to the year in which the cash award was paid. The deferred equity award is used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 60% of the award amount will be converted to fully paid ordinary QBE shares after three years; and
- conditional rights to the value of 60% of the award amount will be converted to fully paid ordinary QBE shares after five years.

All QIS participants

Further shares are issued to executives and other key senior employees under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).

The shares issued pursuant to the conditional rights will only vest if the individual has remained in the Group's service throughout the vesting period. The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights may be reduced by any material deterioration of the relevant entity's return on equity during the vesting period.

Deferred Compensation Plan – legacy scheme applicable to the 2009 financial year

The terms of the Deferred Compensation Plan (DCP) for the period from 1 January 2009 applicable to awards in March 2010 are set out below.

Executives

Executives were invited to participate in the DCP, under which they received conditional rights to fully paid ordinary QBE shares. The maximum deferred equity award was based on an amount which was the lesser of 80% of the short-term cash incentive (STI) award earned or 100% of fixed remuneration at 31 December, in each case in the financial year immediately prior to the year in which the cash award was paid. The maximum DCP award used the same formula as described above in relation to the QIS deferred equity award.

Other key senior employees

Other key senior employees of the QBE Group were invited to participate in the DCP, under which they received conditional rights to fully paid ordinary QBE shares. The maximum DCP award was based on an amount which was the lesser of 66.67% of the STI award earned or 100% of base (cash) salary as at 31 December, in each case for the financial year immediately prior to the year in which the cash award is paid. The maximum DCP award was used as a basis for calculating the number of conditional rights using the same formula as described above in relation to the QIS deferred equity award.

All DCP participants

Further shares were issued to executives and other key senior employees under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The shares issued pursuant to the conditional rights will only vest if the individual has remained in the Group's service throughout the vesting period. The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights may be reduced by any material deterioration of the relevant entity's return on equity during the vesting period.

Deferred Compensation Plan – legacy scheme applicable to 2008 and prior financial years

For DCP awards made in March 2009 and prior, the directors were able to issue conditional rights to shares and options to subscribe for shares to senior management who have already achieved predetermined performance criteria. The terms of the DCP varied to take into account the requirements and market conditions of the locations of senior management, but the general terms of the DCP conditional rights and options for both executives and other key senior employees were as follows:

- The conditional rights entitled relevant employees to receive shares on the third anniversary of the grant of the rights. Further shares were issued under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.
- The shares issued pursuant to the conditional rights were issued without payment being made by senior management (i.e. at a nil exercise price).
- The options were subject to the terms and conditions of the Plan. Options issued in 2004 and prior were normally exercisable after three years, whilst any options issued in 2005 and thereafter are generally exercisable after five years. They must be exercised within a 12 month period after vesting. Interest-free personal recourse loans were granted to persons who held options to fund the exercise of those options.

The shares issued pursuant to the conditional rights and the options will only vest if the individual has remained in the Group's service throughout the vesting period. The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date.

(ii) Share Incentive Plan

Generally, all full-time or part-time Group employees in Australia, Ireland, New Zealand, the UK and the US with a minimum of one year's service are invited to participate in the Share Incentive Plan (the SIP). Under the SIP, which was introduced in 2005, the directors can provide shares up to A$1,000 to employees without payment being made by employees. The allocation of shares is based on the period of service. The shares are purchased on-market and held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier.

(iii) Longer-term incentive plans

Long-Term Incentive (LTI) plan

The Long-Term Incentive (LTI) plan was introduced from 1 January 2010 and replaces the Group Executive Restricted Share Plan (GERSP). Only executives, including the Group Chief Executive Officer, are invited to participate. The LTI plan comprises an award of conditional rights to fully paid ordinary QBE shares without payment by the executive, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows:

- 50% of the award allocation will be contingent on the Group's average diluted earnings per share increasing by a compound average 7.5% per annum over the five year vesting period; and
- 50% of the award allocation will be contingent on the Group's average return on equity and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period.

Further shares will be issued under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The Remuneration Committee will continue to exercise discretion when determining the vesting of awards under the LTI. The Committee has the discretion to allocate a pro-rata amount in cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement. The extent of vesting of the conditional rights may be reduced by any material deterioration of the Group's return on equity during the vesting period.

Group Executive Restricted Share Plan – legacy scheme applicable to 2008 and 2009 financial years

Certain key management personnel were eligible to participate in the GERSP which came into effect from 1 January 2008. Under the GERSP, eligible executives had the opportunity to receive additional equity in the form of conditional rights if the Group exceeded a return on equity target.

The conditional rights entitled relevant executives to receive fully paid ordinary QBE shares on the third anniversary of the grant of the conditional rights. Further shares are issued under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights were issued without payment being made by the executive (i.e. at a nil exercise price).

The shares issued pursuant to the conditional rights will only be issued if the individual has remained in the Group's service throughout the vesting period (unless leaving due to death, genuine retirement, incapacity due to total and permanent disability or redundancy) and is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights may be reduced by any material deterioration of the Group's return on equity during the vesting period.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

29. Share-based payments CONTINUED

(B) Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the year were as follows:

2013 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2013	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEES IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2013
5 March 2010	4 March 2013	A$20.90	969,039	–	–	(938,036)	(31,003)	–
5 March 2010	4 March 2015	A$20.90	913,825	–	17,373	(75,742)	(60,629)	794,827
1 January 2011	1 January 2014	A$18.44	28,635	–	593	–	–	29,228
7 March 2011	6 March 2014	A$17.93	1,076,640	–	20,223	(77,765)	(90,330)	928,768
7 March 2011	6 March 2016	A$17.93	1,268,599	–	24,947	(783)	(95,959)	1,196,804
5 April 2011	4 April 2016	A$17.93	91,394	–	1,894	–	(67,678)	25,610
1 June 2011	31 March 2014	A$17.48	11,021	–	228	–	–	11,249
1 June 2011	31 March 2016	A$17.48	11,021	–	228	–	–	11,249
1 September 2011	1 March 2015	A$14.03	20,896	–	–	–	(20,896)	–
18 October 2011	31 December 2012	A$14.05	79,848	–	–	(79,848)	–	–
1 January 2012	1 January 2015	A$13.11	31,596	–	655	–	–	32,251
7 March 2012	6 March 2015	A$11.78	1,140,701	–	21,912	(79,285)	(83,204)	1,000,124
7 March 2012	6 March 2017	A$11.78	1,487,440	–	29,478	(728)	(208,631)	1,307,559
16 March 2012	15 March 2015	A$12.49	15,789	–	328	–	–	16,117
5 April 2012	4 April 2015	A$14.25	92,862	–	1,282	–	(30,954)	63,190
1 September 2012	1 March 2013	A$13.03	32,850	–	242	(33,092)	–	–
1 September 2012	1 March 2014	A$13.03	32,850	–	680	–	–	33,530
1 September 2012	1 March 2015	A$13.03	32,850	–	680	–	–	33,530
1 September 2012	1 March 2016	A$13.03	9,662	–	200	–	–	9,862
5 March 2013	4 March 2016	A$13.18	–	1,596,043	32,572	(43,563)	(46,989)	1,538,063
5 March 2013	4 March 2018	A$13.18	–	1,148,908	23,679	–	(22,443)	1,150,144
27 March 2013	26 March 2018	A$13.02	–	117,896	1,561	–	(59,227)	60,230
2 April 2013	1 April 2016	A$13.18	–	35,547	471	–	–	36,018
2 April 2013	1 April 2018	A$13.18	–	35,548	471	–	–	36,019
8 April 2013	7 April 2016	A$13.61	–	40,000	530	–	–	40,530
8 April 2013	7 April 2018	A$13.61	–	40,000	530	–	–	40,530
30 April 2013	30 April 2013	A$13.18	–	66,717	–	(66,717)	–	–
30 April 2013	30 April 2016	A$13.18	–	10,000	133	–	–	10,133
12 August 2013	12 August 2016	A$17.01	–	10,000	133	–	–	10,133
13 August 2013	13 August 2016	A$16.90	–	10,000	133	–	–	10,133
19 August 2013	19 August 2016	A$17.07	–	20,000	265	–	–	20,265
4 September 2013	4 September 2016	A$15.21	–	25,000	331	–	–	25,331
30 September 2013	31 March 2017	A$14.73	–	5,000	–	–	–	5,000
1 November 2013	1 November 2016	A$14.61	–	33,948	–	–	–	33,948
			7,347,518	3,194,607	181,752	(1,395,559)	(817,943)	8,510,375

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2013 was A$13.10 (2012 A$11.88). The weighted average fair value of conditional rights granted during the year ended 31 December 2013 was A$13.27 (2012 A$11.90).

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2 Business review
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5 Financial report
6 Other information

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the prior year were as follows:

2012 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2012	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEES IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2012
1 January 2009	2 January 2012	A$25.37	24,929	–	–	(24,929)	–	–
6 March 2009	5 March 2012	A$17.57	1,829,735	–	–	(1,802,680)	(27,055)	–
5 March 2010	5 March 2013	A$20.90	1,081,477	–	51,381	(118,584)	(45,235)	969,039
5 March 2010	5 March 2015	A$20.90	1,020,472	–	48,548	(111,982)	(43,213)	913,825
31 March 2010	30 March 2013	A$20.90	55,320	–	1,148	(56,468)	–	–
31 March 2010	30 March 2015	A$20.90	55,320	–	1,148	(56,468)	–	–
1 January 2011	1 January 2014	A$18.44	27,189	–	1,446	–	–	28,635
7 March 2011	6 March 2014	A$17.93	1,171,691	–	56,939	(63,970)	(88,020)	1,076,640
7 March 2011	6 March 2016	A$17.93	1,272,310	–	65,262	–	(68,973)	1,268,599
5 April 2011	4 April 2014	A$17.93	23,823	–	494	(24,317)	–	–
5 April 2011	4 April 2016	A$17.93	86,778	–	4,616	–	–	91,394
1 June 2011	31 March 2014	A$17.48	10,464	–	557	–	–	11,021
1 June 2011	31 March 2016	A$17.48	10,464	–	557	–	–	11,021
1 September 2011	1 March 2015	A$14.03	19,840	–	1,056	–	–	20,896
18 October 2011	31 December 2012	A$14.05	75,814	–	4,034	–	–	79,848
1 January 2012	1 January 2015	A$13.11	–	30,000	1,596	–	–	31,596
7 March 2012	6 March 2015	A$11.78	–	1,155,546	59,950	(28,957)	(45,838)	1,140,701
7 March 2012	6 March 2017	A$11.78	–	1,450,487	76,191	(1,531)	(37,707)	1,487,440
16 March 2012	15 March 2015	A$12.49	–	15,302	487	–	–	15,789
5 April 2012	4 April 2015	A$14.25	–	90,000	2,862	–	–	92,862
1 September 2012	1 March 2013	A$13.03	–	31,837	1,013	–	–	32,850
1 September 2012	1 March 2014	A$13.03	–	31,837	1,013	–	–	32,850
1 September 2012	1 March 2015	A$13.03	–	31,837	1,013	–	–	32,850
1 September 2012	1 March 2016	A$13.03	–	9,364	298	–	–	9,662
			6,765,626	2,846,210	381,609	(2,289,886)	(356,041)	7,347,518

(C) Employee options

The market value of all shares underlying the options at the balance date was A$36 million (2012 A$56 million). Details of the number of employee options granted, exercised and cancelled or forfeited during 2013, were as follows:

2013 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2013	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2013
3 March 2004	**A$11.08**	**20,750**	**–**	**(2,750)**	**(750)**	**17,250**
2 March 2007	**A$32.68**	**943,216**	**–**	**–**	**(943,216)**	**–**
4 April 2007	**A$32.68**	**51,125**	**–**	**–**	**(51,125)**	**–**
4 March 2008	**A$24.22**	**1,680,080**	**–**	**–**	**(504,467)**	**1,175,613**
4 April 2008	**A$27.00**	**74,257**	**–**	**–**	**(74,257)**	**–**
6 March 2009	**A$17.57**	**2,397,792**	**–**	**–**	**(484,904)**	**1,912,888**
		5,167,220	**–**	**(2,750)**	**(2,058,719)**	**3,105,751**
Weighted average exercise price		**A$22.75**	**–**	**A$11.08**	**A$26.84**	**A$20.05**

The weighted average share price at the date of exercise of options during the year was A$14.71 (2012 A$13.74). The weighted average remaining contractual life of total options outstanding at 31 December 2013 was 0.84 years (2012 1.4 years).

Number of employee options outstanding at 31 December 2013 were as follows:

YEAR OF EXPIRY	DCP/STI	OTHER[1]	TOTAL OPTIONS
2014	**1,175,613**	**–**	**1,175,613**
2015	**1,912,888**	**–**	**1,912,888**
2024	**–**	**17,250**	**17,250**
	3,088,501	**17,250**	**3,105,751**
Vested and exercisable at 31 December 2013	**1,175,613**	**17,250**	**1,192,863**

1 Other options were issued to US and Irish employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

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29. Share-based payments CONTINUED

Details of the number of employee options granted, exercised and cancelled or forfeited during 2012 were as follows:

2012 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2011	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2011
3 March 2004	A$11.08	23,000	–	(2,250)	–	20,750
2 March 2006	A$20.44	1,454,671	–	–	(1,454,671)	–
7 April 2006	A$20.44	94,771	–	–	(94,771)	–
2 March 2007	A$20.44	20,000	–	–	(20,000)	–
2 March 2007	A$32.68	1,264,521	–	–	(321,305)	943,216
4 April 2007	A$32.68	51,125	–	–	–	51,125
4 March 2008	A$20.44	20,000	–	–	(20,000)	–
4 March 2008	A$24.22	1,863,899	–	–	(183,819)	1,680,080
4 April 2008	A$27.00	74,257	–	–	–	74,257
6 March 2009	A$20.44	20,000	–	–	(20,000)	–
6 March 2009	A$17.57	2,646,399	–	–	(248,607)	2,397,792
5 March 2010	A$20.44	20,000	–	–	(20,000)	–
7 March 2011	A$20.44	20,000	–	–	(20,000)	–
		7,572,643	–	(2,250)	(2,403,173)	5,167,220
Weighted average exercise price		A$22.53	–	A$11.08	A$22.07	A$22.75

Number of employee options outstanding at 31 December 2012 were as follows:

YEAR OF EXPIRY	DCP/STI	OTHER	TOTAL OPTIONS
2013	1,579,193	–	1,579,193
2014	1,378,313	–	1,378,313
2015	2,188,964	–	2,188,964
2024	–	20,750	20,750
	5,146,470	20,750	5,167,220
Vested and exercisable at 31 December 2012	1,320,261	20,750	1,341,011

(D) Fair value of conditional rights

The fair value of conditional rights is determined using a binomial model. The fair value is recognised evenly over the service period ending at vesting date. For conditional rights granted during the year to 31 December 2013 and 31 December 2012, the following significant assumptions were used:

		2013	2012
Share price on grant date	A$	**13.37 – 17.10**	11.85 – 13.03
Fair value of instrument at grant date	A$	**13.02 – 17.07**	11.78 – 14.25
Expected life of instrument	Years	**0 – 5.0**	0.5 – 5.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

(E) Share Incentive Plan

The market value of shares issued under the terms of the SIP is expensed in the period in which the shares are granted. The total number of shares issued to participating employees in the year was 278,710 (2012 290,635). The weighted average market price on the issue date was A$15.69 (2012 A$13.17).

(F) Share-based payment expense

Total expenses arising from share-based payment transactions during the year included in underwriting expenses were as follows:

	2013 US$M	2012 US$M
Options provided under the Plan	**1**	3
Conditional rights provided under the Plan	**34**	33
Shares provided under the SIP	**4**	4
	39	40

(G) Dilution limits for share plans

Share awarded under QBE's employee share plans may either be purchased on-market or issued subject to Board discretion and the requirements of the *Corporations Act 2001* and ASX Listing Rules.

As at 31 December 2013, the proportion of unexercised options and unvested conditional rights to ordinary shares in the company held in QBE's employee share plans as a percentage of issued shares was 0.93% (2012 1.04%).

30. Key management personnel

(A) Key management personnel – compensation

	2013 US$000	2012 US$000
Short-term employee benefits	**17,000**	18,872
Post employment benefits	**219**	205
Other long-term employment benefits	**205**	843
Share-based payments	**3,336**	6,064
Termination benefits	**4,267**	9,920
	25,027	35,904

Details of key management personnel and their remuneration are shown in the remuneration report on pages 88 to 114.

(B) Key management personnel – equity instruments

(i) Conditional rights and options provided as remuneration

For additional details of equity instruments (conditional rights and options) provided to key management personnel as remuneration and shares issued on the exercise of such instruments, together with the associated terms and conditions, refer to the remuneration report on pages 88 to 114. No equity instruments were provided to non-executive directors.

(ii) QBE deferred equity plans – conditional rights

Details of the movements in the number of conditional rights to ordinary shares in the company provided as remuneration to the key management personnel and issued under the QIS and the DCP are provided below.

2013 NUMBER OF CONDITIONAL RIGHTS	BALANCE AT 1 JAN 2013	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2013[1]
Executive director						
JD Neal	**108,197**	**–**	**1,643**	**(28,939)**	**–**	**80,901**
Other key management personnel						
NG Drabsch	**69,688**	**–**	**947**	**(24,058)**	**–**	**46,577**
D Duclos	**–**	**71,095**	**942**	**–**	**–**	**72,037**
C Fagen	**21,114**	**61,438**	**1,606**	**(5,126)**	**–**	**79,032**
D Fried	**–**	**80,000**	**1,060**	**–**	**–**	**81,060**
R Pryce	**108,212**	**31,484**	**2,454**	**(33,092)**	**–**	**109,058**
JM Smith	**34,188**	**–**	**470**	**(11,578)**	**–**	**23,080**
J Sojo	**49,362**	**11,852**	**1,143**	**(6,120)**	**–**	**56,237**
GB Thwaites	**33,672**	**–**	**465**	**(11,248)**	**–**	**22,889**
Former key management personnel						
SP Burns	**279,215**	**87,300**	**6,429**	**(56,322)**	**–**	**316,622**
J Rumpler	**120,498**	**66,717**	**814**	**(77,014)**	**(111,015)**	**–**

1 None of these conditional rights were vested or exercisable at 31 December 2013.

2012 NUMBER OF CONDITIONAL RIGHTS	BALANCE AT 1 JAN 2012	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2012[1]
Executive director						
JD Neal	190,706	–	5,467	(87,976)	–	108,197
Other key management personnel						
NG Drabsch	103,489	–	3,520	(37,321)	–	69,688
C Fagen	26,274	–	1,066	(6,226)	–	21,114
JM Smith	49,757	–	1,728	(17,297)	–	34,188
J Sojo	32,941	22,710	2,496	(8,785)	–	49,362
GB Thwaites	48,212	–	1,702	(16,242)	–	33,672
Former key management personnel						
SP Burns	366,661	63,310	14,107	(164,863)	–	279,215
J Rumpler	66,531	56,502	6,086	(8,621)	–	120,498

1 None of these conditional rights were vested or exercisable at 31 December 2012.

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FOR THE YEAR ENDED 31 DECEMBER 2013

30. Key management personnel CONTINUED

(iii) Longer term incentive plans – conditional rights

Details of the movements in the number of conditional rights to ordinary shares in the company provided as remuneration to the key management personnel and issued under the LTI plan are provided below. No conditional rights to ordinary shares in the company were provided to key management personnel under the GERSP legacy scheme.

2013 NUMBER OF CONDITIONAL RIGHTS	BALANCE AT 1 JAN 2013	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2013[1]
Executive director						
JD Neal	**53,644**	**59,443**	**1,899**	**–**	**–**	**114,986**
Other key management personnel						
NG Drabsch	**38,702**	**20,026**	**1,218**	**–**	**–**	**59,946**
C Fagen	**5,122**	**10,061**	**314**	**–**	**–**	**15,497**
JM Smith	**14,326**	**7,634**	**455**	**–**	**–**	**22,415**
J Sojo	**–**	**5,353**	**111**	**–**	**–**	**5,464**
GB Thwaites	**14,399**	**7,561**	**455**	**–**	**–**	**22,415**
Former key management personnel						
SP Burns	**30,966**	**15,671**	**967**	**–**	**–**	**47,604**
J Rumpler	**21,213**	**–**	**157**	**–**	**(21,370)**	**–**

1 None of these conditional rights were vested or exercisable at 31 December 2013.

2012 NUMBER OF CONDITIONAL RIGHTS	BALANCE AT 1 JAN 2012	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2012[1]
Executive director						
JD Neal	–	50,934	2,710	–	–	53,644
Other key management personnel						
NG Drabsch	14,994	21,753	1,955	–	–	38,702
C Fagen	–	4,863	259	–	–	5,122
JM Smith	5,389	8,213	724	–	–	14,326
GB Thwaites	5,459	8,213	727	–	–	14,399
Former key management personnel						
SP Burns	12,446	16,956	1,564	–	–	30,966
J Rumpler	8,072	12,069	1,072	–	–	21,213

1 None of these conditional rights were vested or exercisable at 31 December 2012.

(iv) Other – conditional rights

Details of the movements in the number of conditional rights to ordinary shares in the company provided as remuneration to the key management personnel and issued under special circumstances are provided below.

NUMBER OF CONDITIONAL RIGHTS		BALANCE AT 1 JAN	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED	BALANCE AT 31 DEC[1]
Key management personnel							
JD Neal	2013	**121,497**	**–**	**1,875**	**–**	**(30,954)**	**92,418**
	2012	27,189	90,000	4,308	–	–	121,497
NG Drabsch	2013	**79,848**	**–**	**–**	**(79,848)**	**–**	**–**
	2012	75,814	–	4,034	–	–	79,848

1 None of these conditional rights were vested or exercisable at 31 December 2013 or 31 December 2012.

(v) QBE deferred equity plans – options

Details of the movements in the number of DCP options over ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2013 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2013	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2013	EXERCISE COST AT 31 DEC 2013 A$000	VESTED AND EXERCISABLE AT 31 DEC 2013[1] NUMBER
Executive director							
JD Neal	**136,763**	**–**	**–**	**(32,066)**	**104,697**	**2,119**	**41,956**
Other key management personnel							
NG Drabsch	**111,089**	**–**	**–**	**(24,776)**	**86,313**	**1,750**	**35,169**
C Fagen	**21,824**	**–**	**–**	**(4,255)**	**17,569**	**359**	**7,576**
JM Smith	**51,766**	**–**	**–**	**(11,009)**	**40,757**	**823**	**16,146**
J Sojo	**18,886**	**–**	**–**	**–**	**18,886**	**364**	**4,792**
GB Thwaites	**46,174**	**–**	**–**	**(8,545)**	**37,629**	**758**	**14,516**
Former key management personnel							
SP Burns	**263,038**	**–**	**–**	**(61,031)**	**202,007**	**4,059**	**76,700**
J Rumpler[2]	**31,799**	**–**	**–**	**(31,799)**	**–**	**–**	**–**

1 All options are exercisable at A$24.22.
2 7,475 options lapsed and were cancelled in March 2013 and the remainder was cancelled on 30 April 2013.

2012 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2012	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2012	EXERCISE COST AT 31 DEC 2012 A$000	VESTED AND EXERCISABLE AT 31 DEC 2012[1] NUMBER
Executive director							
JD Neal	187,322	–	–	(50,559)	136,763	3,166	32,066
Other key management personnel							
NG Drabsch	161,549	–	–	(50,460)	111,089	2,560	24,776
C Fagen	29,551	–	–	(7,727)	21,824	498	4,255
JM Smith	74,332	–	–	(22,566)	51,766	1,183	11,009
J Sojo	18,886	–	–	–	18,886	364	–
GB Thwaites	53,659	–	–	(7,485)	46,174	1,037	8,545
Former key management personnel							
SP Burns	373,553	–	–	(110,515)	263,038	6,054	61,031
J Rumpler	45,510	–	–	(13,711)	31,799	741	7,475

1 All options are exercisable at A$32.68.

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30. Key management personnel CONTINUED

(vi) Shareholdings

The movements during the year in the number of ordinary shares in the company held by the key management personnel, including their personally related parties, are provided in the table below.

2013 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2013	CONDITIONAL RIGHTS VESTED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2013	INTEREST IN SHARES AT 31 DEC 2013 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors						
M Becker	–	–	45,000	–	45,000	–
DM Boyle	19,019	–	–	–	19,019	–
JA Graf	15,100	–	14,500	–	29,600	–
JM Green	37,258	–	–	–	37,258	–
IF Hudson	11,737	–	–	–	11,737	–
BJ Hutchinson AM	105,148	–	8,500	–	113,648	–
CLA Irby	22,889	–	–	–	22,889	–
IYL Lee	26,749	–	–	–	26,749	–
Executive director						
JD Neal	138,258	28,939	–	3,465	170,662	–
Other key management personnel						
NG Drabsch	185,358	103,906	(39,058)	5,675	255,881	178,504
C Fagen	67,662	5,126	–	646	73,434	17,218
R Pryce	–	33,092	(18,030)	199	15,261	–
JM Smith	51,078	11,578	–	–	62,656	–
J Sojo	32,578	6,120	–	387	39,085	–
GB Thwaites	44,297	11,248	(11,248)	1,003	45,300	3,296
Former key management personnel						
SP Burns	66,892	56,322	(56,287)	1,808	68,735	–
J Rumpler	78,190	77,014	(155,204)	–	–	–

The movements in the number of ordinary shares in the company held by key management personnel, including their personally related parties, in the prior year are provided in the table below.

2012 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2012	CONDITIONAL RIGHTS VESTED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2012	INTEREST IN SHARES AT 31 DEC 2012 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors						
DM Boyle	17,617	–	1,402	–	19,019	–
JA Graf	–	–	15,100	–	15,100	–
JM Green	35,856	–	1,402	–	37,258	–
IF Hudson	11,737	–	–	–	11,737	–
BJ Hutchinson AM	94,646	–	10,502	–	105,148	–
CLA Irby	22,889	–	–	–	22,889	–
IYL Lee	26,749	–	–	–	26,749	–
Executive director						
JD Neal	52,382	87,976	(9,273)	7,173	138,258	–
Other key management personnel						
NG Drabsch	179,395	37,321	(35,358)	4,000	185,358	174,880
C Fagen	69,862	6,226	(10,000)	1,574	67,662	16,615
JM Smith	32,379	17,297	1,402	–	51,078	–
J Sojo	3,157	8,785	20,000	636	32,578	–
GB Thwaites	40,356	16,242	(14,840)	2,539	44,297	2,961
Former key management personnel						
SP Burns	93,948	164,863	(199,965)	8,046	66,892	–
J Rumpler	78,190	8,621	(8,621)	–	78,190	56,975

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(C) Key management personnel – loans

Details of the loans made by the Group to the key management personnel are set out below.

(i) Personal recourse share loans

2013	BALANCE AT 1 JAN 2013 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2013 A$000	INTEREST NOT CHARGED A$000	HIGHEST BALANCE IN THE PERIOD A$000
Key management personnel						
C Fagen	**134**	**–**	**–**	**134**	**9**	**134**
GB Thwaites	**131**	**–**	**–**	**131**	**9**	**131**
Former key management personnel						
J Rumpler	**214**	**–**	**(214)**	**–**	**2**	**214**

Interest not charged is shown for the period as key management personnel.

2012	BALANCE AT 1 JAN 2012 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2012 A$000	INTEREST NOT CHARGED A$000	HIGHEST BALANCE IN THE PERIOD A$000
Key management personnel						
C Fagen	134	–	–	134	10	134
GB Thwaites	216	–	(85)	131	12	216
Former key management personnel						
J Rumpler	219	–	(5)	214	16	219

(ii) Non-recourse share loans

Prior to 20 June 2005, non-recourse loans were provided by the Group to the executive director and other key management personnel for the purchase of shares in the company. Under Australian accounting standards, non-recourse loans and the related shares are derecognised and are instead treated as options.

2013	BALANCE AT 1 JAN 2013 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2013 A$000	INTEREST NOT CHARGED A$000	HIGHEST BALANCE IN THE PERIOD A$000
Key management personnel						
NG Drabsch	**1,926**	**–**	**–**	**1,926**	**129**	**1,926**
C Fagen	**267**	**–**	**–**	**267**	**18**	**267**
GB Thwaites	**43**	**–**	**–**	**43**	**3**	**43**
Former key management personnel						
J Rumpler	**300**	**–**	**(300)**	**–**	**3**	**300**

Interest not charged is shown for the period as key management personnel.

31. Contingent liabilities

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. Under accounting standards, no provision is required for such items if a future transfer of benefits is not probable or cannot be reliably measured. If settlement becomes probable, a provision is required. Refer to note 1(V).

In the normal course of business, the Group is exposed to contingent liabilities in relation to claims litigation arising out of its insurance and reinsurance transactions and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation. Provisions are made for obligations that are probable and quantifiable. There are no individually significant amounts not provided for and such transactions are not considered likely to have a material impact on the net assets of the Group.

QBE is required to support the underwriting activities of the Group's controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's are those funds of the Group which are subject to the terms of the Lloyd's Deposit Trust Deed and are required to support underwriting for the following year and the open years of account, determined by a formula prescribed by Lloyd's each year. Letters of credit of $1,468 million (2012 $1,361 million) were issued in support of the Group's participation in Lloyd's, along with cash and investments of $212 million (2012 $207 million). In addition, a controlled entity has entered into various trust and security deeds with Lloyd's in respect of assets lodged to support its underwriting activities. These deeds contain covenants that require the entity to meet financial obligations should they arise in relation to cash calls from syndicate participations. A cash call would be made first on the assets held in syndicate trust funds and would only call on Funds at Lloyd's after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit and other assets lodged with Lloyd's.

Controlled entities have entered into acquisition agreements. The costs of certain of these acquisitions have a contingent consideration component. The Group has made provision for the fair value of the consideration that it expects to settle based on the achievement of specified performance criteria in future years. Details are provided in notes 22 and 28. Further amounts totalling $2 million (2012 $2 million) may be payable in the future.

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32. Capital expenditure commitments

	2013 US$M	2012 US$M
Capital expenditure commitments contracted but not provided for in the financial statements (not later than one year)	**7**	21

33. Operating lease commitments

	2013 US$M	2012 US$M
Payable:		
Not later than one year	**73**	69
Later than one year but not later than five years	**191**	199
Later than five years	**78**	83
Total future minimum lease payments under non-cancellable operating leases	**342**	351

34. Remuneration of auditors

	2013 US$000	2012 US$000
PricewaterhouseCoopers (PwC) – Australian firm [1]		
Audit or review of financial reports of the ultimate parent entity	**1,374**	1,417
Audit of financial reports of controlled entities	**2,927**	3,219
Audit of statutory returns	**788**	705
Other audit assurance services	**371**	161
Taxation services	**400**	420
Actuarial services	**14**	4
Advisory services	**5,220**	2,293
	11,094	8,219
Related practices of PwC – Australian firm (including overseas PwC firms) [1]		
Audit of financial reports of controlled entities	**9,730**	9,072
Audit of statutory returns	**2,240**	2,032
Other audit assurance services	**937**	23
Taxation services	**2,499**	1,393
Advisory services	**2,768**	1,043
	18,174	13,563
	29,268	21,782
Audit and assurance services	**18,367**	16,629
Other services	**10,901**	5,153
	29,268	21,782
Other auditors		
Audit of financial reports of controlled entities	**23**	638

1 The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. QBE may engage the external auditor for non-audit services other than 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.

35. Related parties

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2013 %	EQUITY HOLDING 2012 %
(A) Ultimate parent entity			
QBE Insurance Group Limited	Australia		
(B) Controlled entities[1]			
AFA Limited	Vanuatu	**100.00**	100.00
AIS Green Slip Group Pty Limited	Australia	**100.00**	100.00
Anex Jenni & Partner AG	Switzerland	**100.00**	100.00
Austral Mercantile Collections Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
Blue Ridge Indemnity Company	US	**100.00**	100.00
Burnett & Company Inc	US	**100.00**	100.00
C&C Cornejo & Cornejo CIA LTDA	Ecuador	**99.50**	75.12
CHU Residentsline Limited (formerly Residentsline Limited)	UK	**100.00**	100.00
CHU Underwriting Agencies (UK) Limited	UK	**100.00**	100.00
CHU Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Colonial Insurance Agency Inc	Puerto Rico	**100.00**	100.00
Community Association Underwriters of America Inc	US	**100.00**	100.00
Confoeta SA	Ecuador	**99.75**	75.31
Corporate Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Deep South Surplus Inc	US	**100.00**	100.00
Deep South Surplus of Texas LP[3]	US	**–**	–
Elders Insurance (Underwriting Agency) Pty Limited	Australia	**90.00**	75.00
Elders Insurance Agencies Pty Limited	Australia	**100.00**	100.00
Elders Insurance Pty Limited	Australia	**100.00**	100.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
FAI Insurances (Fiji) Limited	Fiji	**100.00**	100.00
General Casualty Company of Wisconsin	US	**100.00**	100.00
General Casualty Insurance Company	US	**100.00**	100.00
Greenhill Baia Underwriting GmbH	Germany	**100.00**	100.00
Greenhill International Insurance Holdings Limited	UK	**100.00**	100.00
Greenhill Sturge Underwriting Limited	UK	**100.00**	100.00
Greenhill Underwriting Espana Limited	UK	**100.00**	100.00
Hoosier Insurance Company	US	**100.00**	100.00
Invivo Medical Pty Limited	Australia	**–**	50.00
Lantana Insurance Limited	Bermuda	**100.00**	100.00
Lifeco Re Limited	UK	**100.00**	100.00
Lifeco SRO	Czech Republic	**100.00**	100.00
Limit Corporate Members Limited	UK	**100.00**	100.00
Limit Holdings Limited	UK	**100.00**	100.00
Limit No 2 Limited	UK	**100.00**	100.00
Limit No 7 Limited	UK	**–**	100.00
Limit No 10 Limited	UK	**–**	100.00
Mortgage & Auto Solutions Inc	US	**100.00**	100.00
MMWC Pty Limited	Australia	**100.00**	100.00
National Credit Insurance (Brokers) NZ Limited	NZ	**–**	100.00
National Credit Insurance (Brokers) Pty Limited	Australia	**–**	100.00
National Farmers Union Property and Casualty Company	US	**100.00**	100.00
NAU Country Insurance Company	US	**100.00**	100.00
NAU Holding Company LLC	US	**100.00**	100.00
NCI Brokers (Asia) Pte Limited	Singapore	**–**	100.00
New Century Finance Corporation	Puerto Rico	**100.00**	100.00
Newport Management Corporation	US	**100.00**	100.00
North Pointe Financial Services Inc	US	**100.00**	100.00
North Pointe Insurance Company	US	**100.00**	100.00
Operador Logistico de Soat-Ols SA	Ecuador	**99.98**	75.48
Permanent LMI Pty Limited	Australia	**50.08**	50.08
Pitt Nominees Pty Limited	Australia	**100.00**	100.00

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

35. Related parties CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2013 %	2012 %
Praetorian Insurance Company	US	**100.00**	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	**55.00**	55.00
QBE (Jersey) GP Limited	Jersey	**100.00**	100.00
QBE (Jersey) GP II Limited	Jersey	**100.00**	100.00
QBE (PNG) Limited	PNG	**100.00**	100.00
QBE (Singapore) Pte Ltd	Singapore	**100.00**	100.00
QBE A&H LLC	US	**100.00**	100.00
QBE Administration Services Inc (formerly QBE Stonington Services Inc)	US	**100.00**	100.00
QBE Agencies Australia Holdings Pty Limited	Australia	**100.00**	100.00
QBE Agencies Holdings Pty Limited	Australia	**100.00**	100.00
QBE Americas Inc	US	**100.00**	100.00
QBE Argentina Aseguradora de Riesgos del Trabajo SA	Argentina	**100.00**	100.00
QBE Asegurando LTDA	Colombia	**100.00**	75.50
QBE Atlantic LLC	US	**100.00**	100.00
QBE Atlasz Ingatlankezelo zrt	Hungary	**100.00**	100.00
QBE Brazil Seguros SA	Brazil	**99.99**	99.99
QBE Capital Funding LP [3]	Jersey	**–**	–
QBE Capital Funding II LP [3]	Jersey	**–**	–
QBE Capital Funding III Limited	Jersey	**100.00**	100.00
QBE Capital Funding IV Limited	Jersey	**100.00**	100.00
QBE Compania Argentina de Reaseguros SA (formerly QBE Compania Argentina de Seguros SA)	Argentina	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE Denmark A/S	Denmark	**100.00**	100.00
QBE de Mexico Compania de Seguros SA de CV	Mexico	**99.99**	99.99
QBE Chile Seguros Generales	Chile	**100.00**	100.00
QBE Employee Share Trust [3]	Australia	**–**	–
QBE European Operations plc	UK	**100.00**	100.00
QBE European Services Limited	UK	**100.00**	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Europe Holdings Services Agent de Asigurare SRL (in liquidation)	Romania	**100.00**	100.00
QBE Financial Institution Risk Services Inc	US	**100.00**	100.00
QBE FIRST Enterprises LLC	US	**100.00**	100.00
QBE FIRST Insurance Agency Inc	US	**100.00**	100.00
QBE FIRST Property Tax Solutions LLC	US	**100.00**	100.00
QBE Funding V Limited	Jersey	**100.00**	100.00
QBE General Insurance (Hong Kong) Limited	Hong Kong	**100.00**	100.00
QBE Group Shared Services Limited	UK	**100.00**	100.00
QBE Holdings (AAP) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (Americas) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (EO) Limited	UK	**100.00**	100.00
QBE Holdings (Europe) Limited	UK	**100.00**	100.00
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Holdings Inc	US	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance (Europe) Limited	UK	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00
QBE Insurance (International) Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**100.00**	100.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Thailand) Public Company Limited (formerly QBE Insurance (Thailand) Co Limited) [2]	Thailand		
Thai resident entities		**24.83**	24.83
Non-Thai resident entities		**46.29**	46.29
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE Insurance (Vietnam) Company Limited	Vietnam	**100.00**	100.00

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2013 %	2012 %
QBE Insurance Corporation	US	**100.00**	100.00
QBE Insurance Group of Puerto Rico Inc (formerly Optima Insurance Group Inc)	Puerto Rico	**100.00**	100.00
QBE Insurance Holdings Pty Limited	Australia	**100.00**	100.00
QBE Insurance Services (Regional) Limited (formerly The MiniBus & Coach Club Limited)	UK	**100.00**	100.00
QBE International Holdings Limited	Hong Kong	**100.00**	100.00
QBE Investment Management Pty Limited	Australia	**100.00**	100.00
QBE Investments (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	US	**100.00**	100.00
QBE Irish Share Incentive Plan [3]	Ireland	**–**	–
QBE Latin America Insurance Holdings SL	Spain	**100.00**	100.00
QBE Lenders' Mortgage Insurance Limited	Australia	**100.00**	100.00
QBE Life (Australia) Limited	Australia	**100.00**	100.00
QBE Makedonija	Macedonia	**–**	65.23
QBE Management (Ireland) Limited	Ireland	**100.00**	100.00
QBE Management (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Management Inc	US	**100.00**	100.00
QBE Management Services (Philippines) Pty Limited	Australia	**100.00**	100.00
QBE Management Services (UK) Limited	UK	**100.00**	100.00
QBE Management Services Pty Limited	Australia	**100.00**	100.00
QBE Marine and Energy Services Pte Limited	Singapore	**100.00**	100.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	**100.00**	100.00
QBE of California Insurance Services Inc	US	**100.00**	100.00
QBE Optima Insurance Company	Puerto Rico	**100.00**	100.00
QBE Re (Europe) Limited	UK	**100.00**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Regional Companies (NA) Inc	US	**100.00**	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Reinsurance Corporation	US	**100.00**	100.00
QBE Seaboard Insurance Philippines Inc (formerly QBE Insurance (Philippines) Inc)	Philippines	**59.50**	59.00
QBE Seguros La Buenos Aires SA (formerly HSBC La Buenos Aires Seguros SA)	Argentina	**99.86**	99.86
QBE Seguros SA	Colombia	**97.88**	97.88
QBE Seguros Colonial SA	Ecuador	**100.00**	100.00
QBE Services Inc	Canada	**100.00**	100.00
QBE SK SRO	Slovakia	**100.00**	100.00
QBE Specialty Insurance Company	US	**100.00**	100.00
QBE SRO	Czech Republic	**100.00**	100.00
QBE Stonington Insurance Holdings Inc	US	**100.00**	100.00
QBE UK Finance III Limited	UK	**100.00**	100.00
QBE UK Finance IV Limited	UK	**100.00**	100.00
QBE UK Share Incentive Plan [3]	UK	**–**	–
QBE Ukraine	Ukraine	**50.00**	50.00
QBE Underwriting Limited	UK	**100.00**	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	**100.00**	100.00
QBE Underwriting Services (UK) Limited	UK	**100.00**	100.00
QBE Underwriting Services Limited	UK	**100.00**	100.00
QBE US Agencies Inc	US	**100.00**	100.00
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (SA) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (VIC) Limited	Australia	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Regent Insurance Company	US	**100.00**	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
Seattle Specialty Insurance Services Inc	US	**100.00**	100.00
Sinkaonamahasarn Company Limited [2]	Thailand	**49.00**	49.00
SIU LLC	US	**100.00**	100.00

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2013

35. Related parties CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2013 %	EQUITY HOLDING 2012 %
Southern Fire & Casualty Company	US	**100.00**	100.00
Southern Guaranty Insurance Company	US	**100.00**	100.00
Southern Pilot Insurance Company	US	**100.00**	100.00
Southern National Risk Management Corporation	US	**100.00**	100.00
Standfast Corporate Underwriters Limited	UK	**100.00**	100.00
Stonington Insurance Company	US	**100.00**	100.00
Strakh-Consult (in liquidation)	Ukraine	**100.00**	100.00
Trade Credit Underwriting Agency NZ Limited	NZ	**100.00**	100.00
Trade Credit Underwriting Agency Pty Limited	Australia	**100.00**	100.00
Travelon Pty Limited	Australia	**100.00**	100.00
Underwriting Agencies of Australia (Holdings) Pty Limited	Australia	**100.00**	100.00
Underwriting Agencies of Australia Pty Limited	Australia	**100.00**	100.00
Underwriting Agencies of New Zealand Limited	NZ	**100.00**	–
Unigard Indemnity Company	US	**100.00**	100.00
Unigard Insurance Company	US	**100.00**	100.00
Universal Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Westwood Insurance Agency	US	**100.00**	100.00

1 All controlled entities have a 31 December year end.
2 Although the Group has less than a 50% equity interest in the following entities, they have been included in the Group's consolidated financial statements for the following reasons:
   - For accounting purposes, the Group has management control of QBE Insurance (Thailand) Public Company Limited by reference to management agreements.
   - The issued share capital of Sinkaonamahasarn Company Limited owned by the Group is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.
3 Deep South Surplus of Texas LP, QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Share Incentive Plan, QBE Capital Funding LP and QBE Capital Funding LP II have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.
4 All equity in controlled entities is held in the form of shares or through contractual arrangements.

(C) Associates

	COUNTRY OF INCORPORATION	INVESTMENT 2013 %	INVESTMENT 2012 %
Insurance Box Pty Ltd	Australia	**45.00**	–
Pacific Re Limited	Papua New Guinea	**30.97**	30.97
QBE Del Istmo Reinsurance Company Inc[1]	Panama	**–**	38.37
Raheja QBE General Insurance Company	India	**26.00**	26.00

1 QBE Del Istmo Reinsurance Company Inc was disposed of on 2 July 2013.

(D) Related party disclosures

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

	REFERENCE
Tax sharing agreement	Note 36(D)
Remuneration of key management personnel	Directors' report and note 30
Retirement allowances of key management personnel	Directors' report
Shares and options held by key management personnel	Note 30
Defined benefit plans	Note 23
Guarantees in respect of related parties	Note 31

In the ordinary course of business, various controlled entities receive dividends and purchase and sell investments in public entities in which directors of the company are directors and shareholders.

36. Ultimate parent entity financial information

(A) Summarised financial data of QBE Insurance Group Limited (the company)

	COMPANY	
	2013 US$M	2012 US$M
(Loss) profit for the year	**(654)**	463
Other comprehensive income for the year	**15**	8
Total comprehensive income	**(639)**	471
Assets due within 12 months [1]	**1,013**	528
Shares in controlled entities	**14,705**	17,911
Total assets	**15,718**	18,439
Liabilities payable within 12 months [2]	**2,357**	2,987
Borrowings	**2,243**	2,148
Total liabilities	**4,600**	5,135
Net assets	**11,118**	13,304
Share capital	**9,195**	10,002
Equity component of hybrid securities	**–**	134
Options reserve	**100**	100
Retained profits	**1,823**	3,068
Total equity	**11,118**	13,304

1 Includes amounts due from QBE Group companies of $656 million (2012 $463 million).
2 Includes amounts due to QBE Group companies of $ 1,698 million (2012 $2,649 million).

(B) Guarantees and contingent liabilities

The company had the following contingent liabilities:

	COMPANY	
	2013 US$M	2012 US$M
Letters of credit issued in support of the Group's participation in Lloyd's of London	**1,468**	1,361
Letters of credit issued in support of insurance provisions of controlled entities	**1,802**	1,939
Guarantees to investors in hybrid securities	**–**	908
Guarantees to investors in capital securities	**1,047**	1,037

Details of the guarantees to investors in capital securities and security arrangements in respect of borrowings are provided in note 24.

(C) Contractual commitments

The company did not have any contractual commitments in relation to the acquisition of property, plant and equipment at 31 December 2013 (2012 nil).

(D) Tax consolidation legislation

The accounting policy in relation to this legislation is set out in note 1(J). On adoption of the tax consolidation legislation, the directors of the company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity.

Details of franking credits available to shareholders are shown in note 26(D).

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 118 to 181 are in accordance with the *Corporations Act 2001*, including:

(i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(A) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in SYDNEY this 25th day of February 2014 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

JD Neal
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of QBE Insurance Group Limited (the company), which comprises the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the QBE Insurance Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of QBE Insurance Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 88 to 114 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QBE Insurance Group Limited for the year ended 31 December 2013 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K.G. Smith.

KG Smith
Partner

Sydney
25 February 2014

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange (ASX) and trades under the code "QBE".

Annual General Meeting (AGM)

Time: 10 am Wednesday, 2 April 2014
Wesley Conference Centre, 220 Pitt Street,
Sydney NSW 2000, Australia

Online proxy voting is available through the Link investor service centre website.

Voting rights of ordinary shares

The constitution provides for votes to be cast:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

Shareholder information and enquiries
Most enquiries and correspondence regarding shareholdings can be directed to QBE's share registrar:

Link Market Services Limited (Link)
Locked Bag A14
Sydney South NSW 1235 Australia

Level 12, 680 George Street
Sydney NSW 2000 Australia

Telephone: 1800 680 188 (within Australia)
Telephone: +61 1800 680 188 (outside Australia)
Facsimile: +61 2 9287 0303

Website: www.linkmarketservices.com.au
(Link investor service centre website)
Email: qbe@linkmarketservices.com.au

For security purposes, please quote your Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Link cannot assist you with these changes.

Relevant interests register

Orient Capital Pty Limited of Level 12, 680 George Street, Sydney NSW 2000, Australia, maintains QBE's register of information about relevant interests. The register contains any responses from custodians on and after 1 January 2005 to searches relating to the beneficial ownership of QBE's shares. Shareholders and other parties can telephone Orient Capital on +61 2 8280 6000 or facsimile on +61 2 8280 6001 if they wish to inspect this register.

Shareholding details online

View your shareholdings and update your details online either through the investor login or the portfolio login at the Link investor service centre website. By registering your portfolio, you can consolidate multiple shareholdings in various companies managed by Link under one login. Updating holding details is simplified under the portfolio login.

You may receive dividend statements, notices of meetings, annual reports and major company announcements electronically by registering your email address at the Link investor service centre website. For more information, please go to Link's website: www.linkmarketservices.com.au.

Annual report mailing list

Amendments to the *Corporations Act 2001* have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, the annual report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the annual report, please notify Link in writing or select the annual report option under "communications" on the Link investor service centre website.

The half yearly results summary to 30 June 2014 will be mailed with the interim dividend. The next annual report for the year ending 31 December 2014 will be distributed in March 2015. QBE does not produce a concise financial report.

Tax File Number (TFN), Australian Business Number (ABN) or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting the Link investor service centre website. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Link of their resident status. TFN forms are available from Link or can be downloaded from either the QBE or Link websites.

Dividends

QBE pays cash dividends to shareholders resident in Australia and New Zealand by direct credit. The benefit to shareholders of the direct credit facility is access to cleared funds quickly and securely – reducing the risk of cheques being lost or stolen.

Effective from the 2013 final dividend, no cheque payments will be made to shareholders resident in Australia and New Zealand. Shareholders in other countries will receive cheque payments in Australian dollars.

Shareholders receive a dividend statement for tax records, either by post or by email, depending on the selected communications option.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) when the plans are active. The DRP enables you to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, you must have a minimum shareholding of 100 shares.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Conduit foreign income (CFI)

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Unpresented cheques/unclaimed money

Under the *Unclaimed Moneys Act*, unclaimed dividends must be given to the New South Wales state treasury. It is very important that shareholders bank outstanding dividend cheques promptly and advise Link immediately of changes of address or bank account details.

American Depository Receipts (ADRs)

BNY Mellon sponsors QBE's level 1 American Depository Receipts Program (ADR) in the US. QBE's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol QBIEY and CUSIP: 74728G605. One ADR represents one ordinary share in QBE. US OTC market information is available at: www.otcmarkets.com/stock/QBIEY/quote.

QBE's ADR information with BNY Mellon can also be viewed at: http://www.adrbnymellon.com/dr_profile.jsp?cusip=74728G605#

ADR holders seeking information on their shareholding should contact:

BNY Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516

International callers telephone: +1-201-680-6825
Email: shrrelations@bnymellon.com

Toll free telephone number for callers within USA:
1-888-BNY-ADRS (1-888-269-2377)

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Link's website.

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QBE website

QBE's website provides investors with information about QBE including annual reports, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a history of QBE's dividends, access to standard forms (change of address, direct credit advice and more) and online access to your shareholding details via the share registry.

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
21 September 2007	interim	10 September 2007	57	60
26 March 2008	final	6 March 2008	65	50
17 September 2008	interim	1 September 2008	61	20
31 March 2009	final	11 March 2009	65	20
22 September 2009	interim	1 September 2009	62	20
30 March 2010	final	10 March 2010	66	20
22 September 2010	interim	30 August 2010	62	15
11 April 2011	final	10 March 2011	66	10
23 September 2011	interim	31 August 2011	62	10
30 March 2012	final	9 March 2012	25	25
24 September 2012	interim	30 August 2012	40	15
28 March 2013	final	8 March 2013	10	100
23 September 2013	interim	2 September 2013	20	100

Shareholder information CONTINUED

Top 20 shareholders as at 31 January 2014

NAME	NUMBER OF SHARES	% OF TOTAL[1]
HSBC Custody Nominees (Australia) Limited	347,888,588	27.86
JP Morgan Nominees Australia Limited	187,918,418	15.05
National Nominees Limited	159,612,446	12.78
BNP Paribas Nominees Pty Ltd	80,812,026	6.47
Citicorp Nominees Pty Limited	95,942,704	7.68
AMP Life Limited	13,123,403	1.05
Australian Foundation Investment Company Limited	7,796,074	0.62
Argo Investments Limited	4,459,706	0.36
UBS Wealth Management Australia Nominees Pty Ltd	3,716,814	0.30
Navigator Australia Ltd	3,351,488	0.27
QIC Limited	3,259,170	0.26
Nulis Nominees (Australia) Limited	2,652,786	0.21
Milton Corporation Limited	2,393,375	0.19
Ecapital Nominees Pty Limited	2,291,527	0.18
Netwealth Investments Limited	2,036,342	0.16
Djerriwarrh Investments Limited	1,311,742	0.11
Questor Financial Services Limited	1,198,212	0.10
Bond Street Custodians Limited	2,683,096	0.21
Forsyth Barr Custodians Ltd	1,103,049	0.09
QBE Management Services Pty Ltd	1,032,982	0.08
Total	924,583,948	74.03

1 Percentage of total at date of notice.

QBE substantial shareholders as at 31 January 2014

NAME	NUMBER OF SHARES	% OF TOTAL[1]	DATE OF NOTICE
Aberdeen Asset Management plc (and its associated entities)	145,507,464	11.92	27 June 2013
Commonwealth Bank of Australia Limited	62,808,592	5.02	8 January 2014

1 Percentage of total at date of notice.

Distribution of shareholders and shareholdings as at 31 January 2014

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 1,000	88,416	56.20	40,665,021	3.26
1,001 to 5,000	58,422	37.14	125,843,888	10.08
5,001 to 10,000	6,859	4.36	47,691,347	3.82
10,001 to 100,000	3,453	2.20	72,553,646	5.81
100,001 and over	163	0.10	961,950,697	77.03
Total	157,313	100.00	1,248,704,599	100.00

Shareholdings of less than a marketable parcel as at 31 January 2014

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 44 or fewer shares	4,915	3.12	109,585	0.01

Financial calendar

Financial calendar

YEAR	MONTH	DAY	ANNOUNCEMENT
2014	**February**	**25**	• Profit and dividend announcement for the year ended 31 December 2013 Annual report available on website
		28	• Notice of annual general meeting and proxy form mailed to shareholders
	March	**6**	• Shares begin trading ex-dividend
		13	• Record date for determining shareholders' entitlement to 2013 final dividend
		31	• 2013 final dividend paid
	April	**2**	• Annual General Meeting
	June	**30**	• Half year end
	August	**19 ***	• Profit and dividend announcement for the six months ending 30 June 2014
		27 *	• Shares begin trading ex-dividend
		29 *	• Record date for determining shareholders' entitlement to 2014 interim dividend
	September	**23 ***	• 2014 interim dividend paid
	December	**31**	• Year end

* Dates shown are provisional and may be subject to change.

Material announcements to the ASX

YEAR	MONTH	DAY	ANNOUNCEMENT
2014	**February**	**10**	• Appointment of Group Executive Officer, Operations
	January	**23**	• Announced successor for Group Chief Financial Officer
2013	**December**	**13**	• Provides update on financial strategy and issuer credit ratings
		9	• Provided full year results update to the market and details of Chairman's succession
	November	**4/19**	• Announced QBE to tender for senior convertible securities. Further update at settlement
	October	**17**	• Provided update on Group Chief Financial Officer changes
	September	**11**	• Announced interim dividend details
	August	**21**	• Announced non-executive director changes
		20	• Announced half year result
	July	**2**	• Provided update on global transformation program
	May **June**	**28** **6/27**	• Announced QBE tender for senior convertible securities, further update and settlement
	May	**23**	• Announced Standard & Poor's reaffirmation of QBE's A+ financial strength rating
	April	**26**	• Announced issue of US$ senior debt
	April **May** **June**	**8** **7/28** **27**	• Announced issue of new shares
	March	**21**	• Announced 2012 results and details of senior management succession
		19	• Announced final dividend and dividend pricing details
	February	**26**	• AGM notice of meeting
	January	**9**	• Appointment of Chief Executive Officer, QBE Asia Pacific Operations

10 year history

FOR THE YEAR ENDED 31 DECEMBER

		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Gross written premium	US$M	**17,975**	18,434	18,291	13,629	11,239	11,015	10,391	7,839	7,171	6,484
Gross earned premium	US$M	**17,889**	18,341	17,840	13,432	10,943	10,773	10,353	7,610	6,990	6,340
Net earned premium	US$M	**15,396**	15,798	15,359	11,362	9,446	9,293	8,552	6,166	5,630	5,016
Claims ratio	%	**64.5**	66.0	68.2	59.9	60.3	57.6	54.3	55.8	59.9	61.3
Commission ratio	%	**16.8**	16.2	14.9	15.5	16.2	17.2	18.5	17.0	16.9	17.5
Expense ratio	%	**16.5**	14.9	13.7	14.3	13.1	13.7	13.1	12.5	12.3	12.4
Combined operating ratio	%	**97.8**	97.1	96.8	89.7	89.6	88.5	85.9	85.3	89.1	91.2
Investment income											
before net fair value gains/losses	US$M	**720**	712	957	660	838	1,237	839	575	470	421
after net fair value gains/losses	US$M	**801**	1,216	776	659	1,159	1,199	1,132	732	631	486
Insurance profit	US$M	**841**	1,262	1,085	1,703	1,609	1,830	1,895	1,351	982	686
Insurance profit to net earned premium	%	**5.5**	8.0	7.1	15.0	17.0	19.7	22.2	21.9	17.4	13.7
Financing and other costs	US$M	**345**	324	275	222	191	223	189	115	87	102
Operating (loss) profit											
before income tax	US$M	**(448)**	941	868	1,551	1,891	2,028	2,135	1,521	1,161	825
after income tax and non-controlling interests	US$M	**(254)**	761	704	1,278	1,532	1,558	1,612	1,121	832	634
Number of shares on issue [1]	millions	**1,247**	1,194	1,112	1,048	1,020	982	881	812	785	735
Shareholders' funds	US$M	**10,356**	11,358	10,386	10,311	9,164	7,834	7,435	4,962	3,735	3,155
Total assets	US$M	**47,271**	50,748	46,737	41,386	36,723	33,967	34,737	25,079	21,753	19,592
Net tangible assets per share [1]	US$	**4.75**	4.49	3.93	4.78	4.64	4.04	6.02	4.74	3.53	3.25
Borrowings to shareholders' funds	%	**44.1**	43.4	45.8	31.5	29.1	32.9	40.8	37.6	41.8	44.8
Basic earnings per share [1]	US cents	**(22.8)**	65.1	64.9	123.7	152.8	175.0	189.0	140.9	110.0	91.3
Basic earnings per share – cash basis [1,2]	US cents	**62.9**	89.1	73.0	127.7	156.4	177.2	190.5	141.8	110.0	91.4
Diluted earnings per share	US cents	**(22.8)**	61.6	61.3	119.6	149.9	172.2	181.8	131.1	99.7	80.7
Return on average shareholders' funds	%	**(2.3)**	7.0	6.8	13.1	18.0	22.3	26.0	25.8	24.2	22.5
Dividend per share	Australian cents	**32**	50	87	128	128	126	122	95	71	54
Dividend payout	A$M	**394**	593	956	1,336	1,306	1,187	1,068	774	556	392
Cash flow from operations	US$M	**850**	2,753	2,139	1,362	1,344	1,886	1,988	1,541	1,514	1,561
Total investments and cash [3]	US$M	**30,619**	31,525	28,024	25,328	22,448	19,995	21,552	15,755	12,891	11,709

1 Reflects shares on an accounting basis.
2 Earnings per share on a cash basis is calculated with profit after tax adjusted for amortisation/impairment of intangible assets net of tax.
3 Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties.

Glossary of insurance terms

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium. The operating expenses are after the transfer of direct costs for claims settlement expenses which are included in net incurred claims expense.
Attritional claims ratio	Total of all claims with a net cost of less than $2.5 million as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.
Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.

Gross earned premium (GEP)	The proportion of gross written premium recognised in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	See Reinsurance.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of $2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Lender-placed insurance (LPI)	Coverage obtained by the lender when the customer's voluntary home building insurance has lapsed, been cancelled or proof of the customer's insurance has not been received. Coverage is required by the mortgage contract to protect the lender's interest in the property if damage was to occur and the customer had not maintained adequate coverage.
Letters of credit (LoC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Maximum event retention (MER)	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
Multi-peril crop scheme	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium for a year.
Net investment income	Gross investment income net of foreign exchange gains and losses and investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners insurance.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.

Glossary of insurance terms CONTINUED

Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudential Capital Requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
Short tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.
Surplus (or excess) lines insurers	In contrast to "admitted insurers", every US state also allows non-admitted (or "surplus" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
VWAP	Volume weighted average price.
Written premium	Premiums written, whether or not earned, during a given period.

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