

QBE Insurance Group Annual Report 2014

Made possible by QBE

QBE is a globally diversified insurer across a range of industries, including property and construction. From design, to construction and property management, we have the resources, understanding and expertise to ensure our customers' assets and liabilities are fully protected.



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ABN 28 008 485 014

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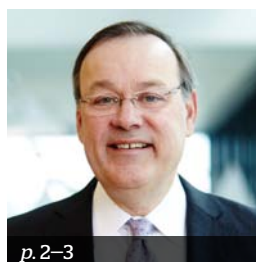
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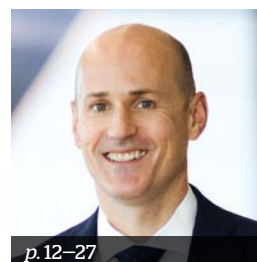
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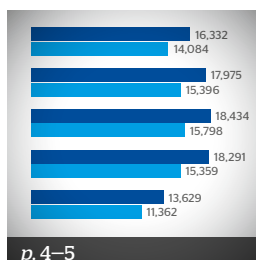
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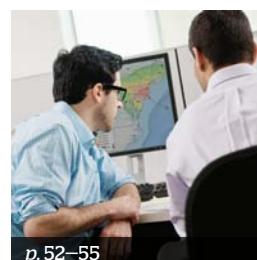
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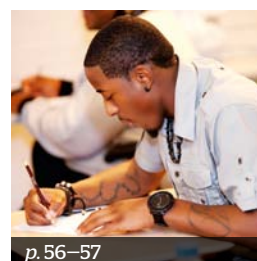
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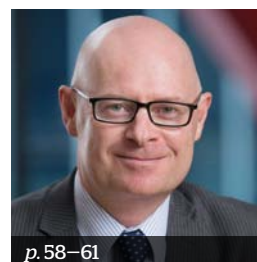
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Divisions at a glance

An overview of our five divisions and their operations



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Group Chief Risk Officer's report

Risk: Our business

Returning to stability and strength

Having joined QBE's Board in August 2013, it is now my pleasure to write to you as Chairman of QBE. Over the last year I have taken the opportunity to get to know the organisation, spending time with each of our divisions and disciplines in their locale, as well as meeting with many of our larger shareholder groups and key regulators. There are three standout factors that have impressed me and have given me great confidence in the road ahead for QBE.

Firstly, I have been impressed with the overall quality of our people. Across our 17,000 people, we have a diverse mix of outstanding experience, talent, insight and skills working together to provide the best solutions for our clients. Their determination and commitment to returning QBE to its rightful place as an industry leader is reflected in the work done in remediating and right-sizing our business and in driving operational transformation, whilst at the same time, continuing to deliver on our business plans.

Secondly, I have been very impressed with QBE's solid underwriting DNA. Despite the reserve strengthening over the last two years, our combined ratio has never exceeded 100% and we have remained competitive with our global peers. The principles of underwriting excellence are now fully embedded throughout our organisation and, having delivered reserve stability in the second half of 2014, provide a strong foundation for earnings stability and profitable growth.

My third observation is that QBE is one of very few truly global insurance franchises and we are using this diversity of operations to drive economies of scale, operating synergies as well as providing leading practice solutions for our clients.

I firmly believe QBE is a significantly stronger company than it was 12 months ago. As evidenced by the results announced today, we have made considerable ground in returning to more reliable and consistent earnings. We are now well positioned for future success.

During 2014, we set out three main objectives and I am pleased to say we have made significant progress against each.

1. Complete the "refresh" of your Group Board

2014 has seen a number of changes to your Board to strengthen geographic and market experience including John Green, a QBE non-executive director since 2010, taking on the important role of Deputy Chairman. We have also welcomed three new non-executive directors who bring extensive domestic and international experience – Sir Brian Pomeroy, who will also chair the Audit Committee and Stephen Fitzgerald who will chair QBE's Investment Committee and Jann Skinner who will serve on our Audit and Remuneration Committees. Pat Regan, our new Group Chief Financial Officer, has also joined the Board.

As previously scheduled, Isabel Hudson and Duncan Boyle retired from the Board at year end. Isabel, as Chair of the Remuneration Committee, and Duncan, as Chair of the Audit Committee, have both made significant contributions to QBE. Their experience, guidance and wise counsel were greatly appreciated and they leave QBE with our sincere thanks.

2. Normalise QBE's balance sheet

A strong balance sheet with a lower debt to equity ratio has been one of the focus areas for the Board during 2014 and we have made significant headway in achieving this objective. When combined with around \$1.5 billion worth of capital initiatives over the past 12 months, we can now more than satisfy the key metrics that both regulators and ratings agencies require, along with the financial security that our policyholders deserve.



As one of the very few true global players in our industry, we now have the talent, strategy and determination to return the company to its position as an industry leader and to complete the transformation journey that was started in 2012.”



Marty Becker Chairman • QBE Insurance Group

3. A return to stable and predictable earnings

We have been through a period of business remediation, reserve strengthening and right-sizing of our business. We are confident that much of the heavy lifting is now complete, and through the 2014 half year and full year reporting periods, we have maintained performance outcomes in line with guidance. We believe we can now focus our attention more firmly on achieving profitable growth going forward.

Our Board focus for 2015 is to continue to build a company that meets the expectations of all our stakeholders – our customers, our people, our shareholders and the communities in which we operate.

We are confident in our ability to deliver on the following key objectives for the Board and our stakeholders in 2015:

- continue to deliver earnings stability and predictability;
- profitably grow our core businesses;
- continue our operational transformation and operational excellence programs;
- maintain the quality balance sheet we have worked hard to normalise; and
- continue to build our global talent and provide planned succession into key roles.

I look forward to updating shareholders on the progress we are making against these objectives at our Annual General Meeting in April.

I would like to take this opportunity to reaffirm to all our stakeholders the great honour it is to serve as Chairman of QBE.

This is a great company with a wonderful legacy. With a strong Board and leadership team and clear strategy, we are well on our way to returning QBE to a market leadership position.

2014 was a year of resetting our foundations for a stronger business with more consistent performance. I want to thank each of our stakeholder groups.

To our shareholders, I want to thank you for your patience as we have undertaken significant activities that have had a temporary impact on top and bottom line performance. We do not take your patience and understanding for granted and we look forward to returning to more consistent and predictable earnings.

To our customers and partners, thank you for your continued faith in our business. We look forward to continuing to share our expertise with you in a way that helps you build your own businesses and deliver to your own customers.

To the communities in which we operate, thank you for continuing to work with us as we seek to make a meaningful contribution beyond being a good corporate citizen.

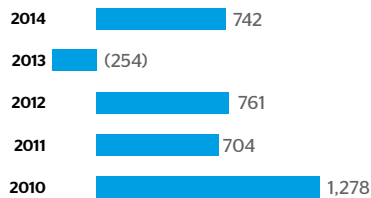
Ours is a great industry with incredible capacity to help others in their time of need. So to our people, thank you for your continued efforts as we reset the company for a positive and profitable future. We appreciate all you have done in 2014 and we look forward to a great 2015. We know we could not achieve our goals without your determination and commitment.

W. Marston Becker
Chairman

2014 snapshot

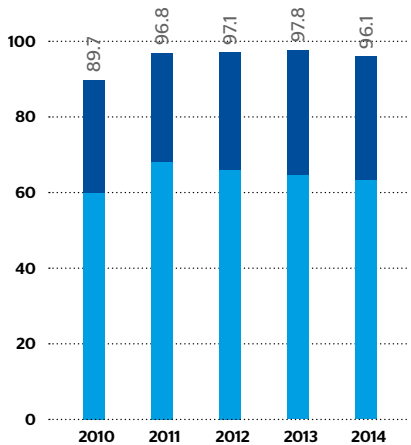
Performance

Net profit after income tax (US\$M)



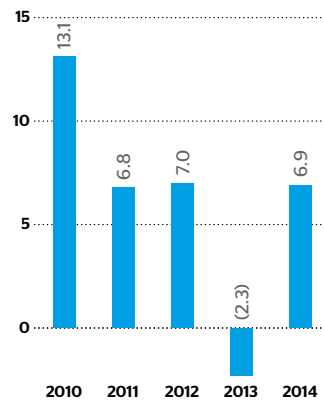
↑ \$996million

Combined operating ratio (COR) (%)

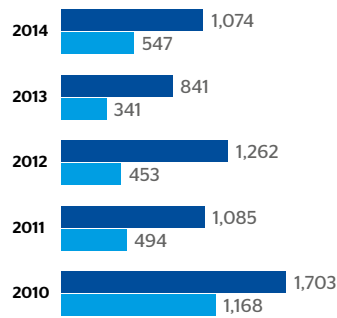


- Combined commission and expense ratio
- Net claims ratio

Return on average shareholders' funds (%)

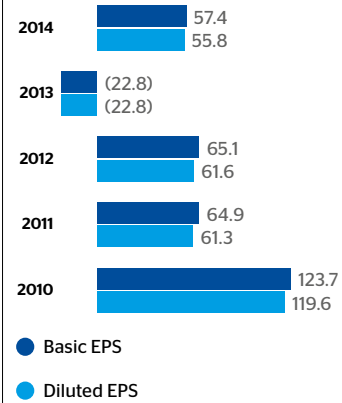


Insurance profit and underwriting result (US\$M)

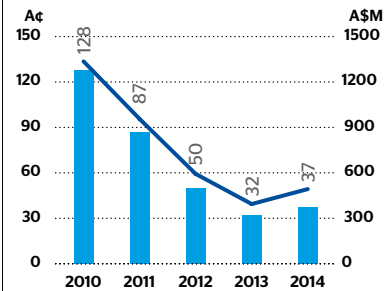


- Insurance profit ↑ 28%
- Underwriting result ↑ 60%

Earnings per share (EPS) (US¢)



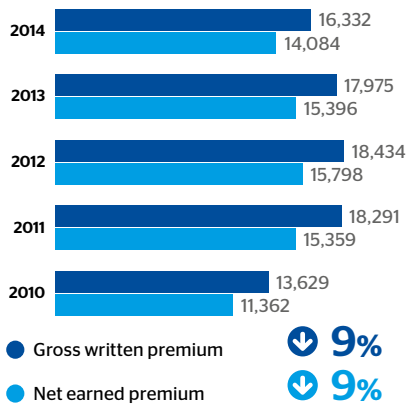
Dividend per share (A¢) and dividend payout (A\$M)



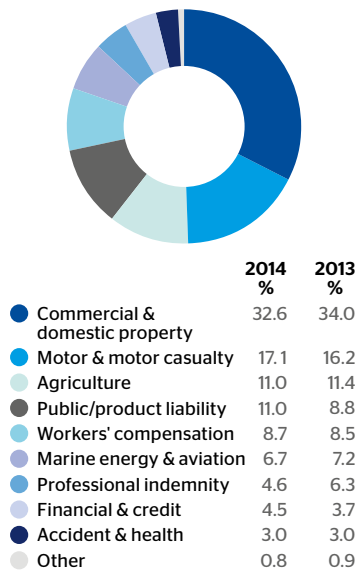
- Dividend per share (A¢)
- Dividend payout (A\$M) ↑ 16%

Profile

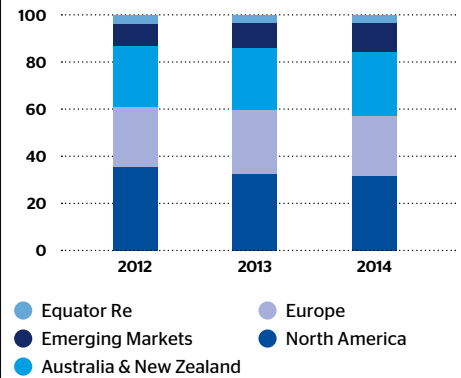
Gross written premium and net earned premium (US\$M)



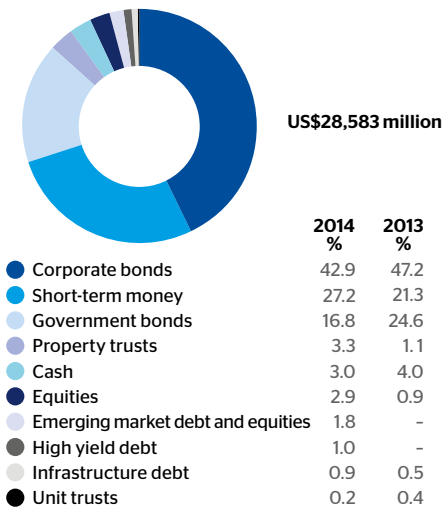
Gross earned premium by class of business



Divisional analysis of net earned premium (%)



Investments and cash at 31 December 2014

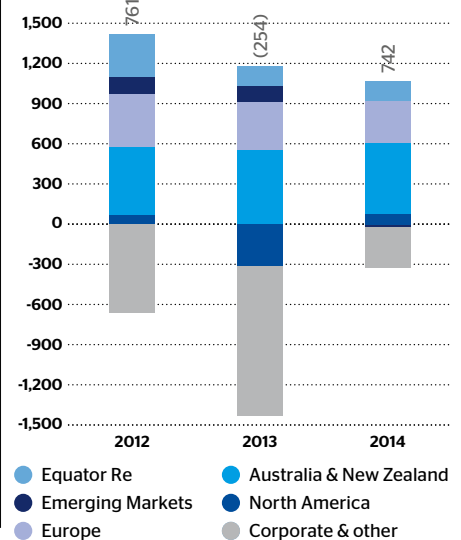


Net earned premium by type

93%
direct and facultative insurance

7%
inward reinsurance

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





“

I am encouraged by the significant progress we have made during 2014. Our business is more streamlined, more focused and in far better shape to compete strongly in increasingly competitive conditions.”

Transforming QBE

Twelve months ago, QBE announced 2013 results that fell well short of expectations, with a loss of \$254 million after tax largely driven by a number of issues in our North American Operations. This disappointing result prompted us to carry out a thorough review of our businesses worldwide that led to a general strengthening of our underwriting and management processes in a number of areas.

This year I am pleased to announce significant successes in a number of key areas. In short, we have increased profitability, strengthened the balance sheet and built a strong management team to lead us forward.

It is encouraging that 2014 second half performance was particularly strong, as the changes we implemented have begun to gain traction. This gives me increased confidence that we now have a solid foundation upon which to build for future success.

2014 achievements

Profitability

Our 2014 result was a profit after tax of \$742 million and an insurance profit margin of 7.6%, with profit up \$1 billion on the prior year. Despite a number of headwinds described below, we achieved a respectable combined operating ratio of 96.1%, broadly in line with the target we set at half year 2014.

Notwithstanding a relatively benign catastrophe year, our result was impacted by a number of internal and external market challenges:

- We announced at the half year our decision to strengthen claims reserves in Latin America by nearly \$170 million most notably on Argentine workers' compensation business.
- We have invested in operations and IT to achieve medium and long term cost benefits.
- The sharp fall in global risk-free rates adversely impacted our 2014 result by \$324 million. This effectively added 2.3% to our combined operating ratio.

We have reported positive prior accident year claims development in the second half of 2014, resulting in positive prior year claims development of \$1 million over the course of the entire year. Our underlying attritional claims ratio also improved from 475% in 2013 to 46.6% this year. All of this evidences the stronger underwriting disciplines and controls we have implemented across our business.

Financial strength and flexibility

During 2014, we implemented a number of initiatives that lowered gearing and reduced the carrying value of goodwill and intangibles, resulting in significantly improved capital metrics.

- Our share placement and share purchase plan raised \$780 million and was substantially oversubscribed. At the same time we successfully restructured a portion of our borrowings to improve capital effectiveness and lengthen term.
- We successfully reinsured our Italian/Spanish medical malpractice claims reserves, thereby reducing the volatility in our net claims central estimate.
- We sold a number of our agency businesses in Australia and the US which will convert slightly in excess of \$300 million of intangibles into cash. We continue to retain the underwriting interests of these businesses in partnerships that we believe will successfully develop new business flow and improve underwriting profitability over time.

As a result of these initiatives, our debt to equity ratio has reduced from 44.1% a year ago to 32.5% at 31 December 2014 and is expected to reduce further through 2015. We have added around \$1.5 billion of capital to our balance sheet and already one of our key rating agencies, A.M. Best, has affirmed our financial strength rating as 'A' (Excellent) and reassessed their outlook for our business from "negative" to "stable".

The only capital plan initiative outstanding is the initial public offering of a minority stake in the Australian lenders' mortgage insurance business. While planning for this initiative continues, in light of the Group's significantly strengthened balance sheet neither the timing nor activation is critical to meeting our expected capital needs.

Premium

As a result of the rationalisation and refocus of our global business towards what we consider "core", gross written premium reduced by 9% in 2014 to \$16.3 billion, a reduction compounded by a stronger US dollar against the Australian dollar and Argentine peso. I am encouraged that this reduced level of gross written premium is more targeted around QBE's sweet spot, where QBE operates in a market leading position and can provide greater benefits to our clients and consequently returns for our investors.

Cost management

At a time when market conditions remain tough and premium rates are generally low or flat, we believe it is essential to proactively manage our expenses. Our operational transformation program has delivered \$250 million in run rate savings as planned, with an additional \$90 million of savings in claims-related procurement activities.

As part of our expense management program, we have successfully transferred processes from our major divisions to our lower cost operations in the Philippines. Our Group Shared Service Centre now operates in three locations in the country, with over 2,000 employees providing largely operational support. In addition to the obvious cost arbitrage, even more important to us is the team's world-class expertise in transforming and simplifying processes, offering further efficiency and effectiveness benefits.

Reinsurance

Our ability to make good use of our in-house captive reinsurer, Equator Re, coupled with smarter reinsurance structures, have seen our external reinsurance spend reduce in 2014.

Investments

Our revised investment strategy allows for increased exposure to growth assets and, as a result, at the time of print, we now have around 14% of our portfolio in growth assets, up from around 2% at the end of 2013. Importantly, even at this increased level of exposure, our portfolio remains conservative relative to our global peers, and I am satisfied that we can pursue further yield enhancement as opportunities allow.

People

We believe that world class talent is one of the few sustainable competitive advantages in the insurance industry. We are working towards this goal by developing our people to make the best use of their talents, whilst at the same time increasing our talent pool with high quality and experienced external hires.

We were delighted to welcome Pat Regan as Group Chief Financial Officer and similarly pleased to promote two members from our executive talent development program – Mike Emmett as Group Executive Officer, Operations and Jason Brown as Group Chief Risk Officer. We have also increased the bench strength of our divisional leadership teams.

In order to further embed our focus on underwriting excellence, we developed our QBE Underwriting Academy aimed at producing world class underwriting expertise. We expect the results of this to flow through to our bottom line in terms of ongoing improvement in attritional claims ratios.

Divisional performance

North American Operations

I am pleased with the improved performance of our North American business, posting a combined operating ratio close to breakeven despite another disappointing crop result. Dave Duclos and team have led a fundamental reset of our business, including the sale of our US agency businesses. Post restructuring, our focus will now be exclusively on commercial lines and a significant build out of our specialty underwriting capabilities.

Australian & New Zealand Operations

In Australia and New Zealand, Colin Fagen and team have again produced an excellent result with a combined operating ratio of 87.0% despite an increasingly competitive market. The team has embedded strong underwriting disciplines supported by strict expense management, and has delivered a result alongside a transformational change program which gives us a solid platform for future profitable growth.

European Operations

In Europe, Richard Pryce and team continue to face challenging market conditions and increasing competition. Nevertheless, the team delivered a solid 93.8% combined operating ratio, achieved through strict underwriting discipline and a re-focus around our core lines of business. The resultant disposal of interests in Central and Eastern Europe and of our European aviation book, coupled with remediation activities elsewhere in the division, resulted in a 14% decrease in gross written premium but an improved profit margin of 9.7%, up from 9.0% last year.

Emerging Markets

In August, we announced the combination of our Latin American and Asia Pacific Operations under David Fried, focusing on business synergies and economies of scale. Our Asia Pacific business produced a combined operating ratio of 93.5%, with our growth strategy for that business proving itself with underlying premium growth buoyed by the region's continued investment in infrastructure. In Latin America, our result was adversely impacted by the strengthening of reserves, most notably in Argentina, resulting in a disappointing combined operating ratio of 122.9%. We are confident that the actions taken in Latin America have reset these businesses to provide a strong base for future performance and profitability across our Emerging Markets division.

Equator Re

Alongside our external global reinsurance programs, Equator Re provides excess of loss reinsurance protection and proportional cover to our four operating divisions. Equator Re's quality underwriting and in-depth knowledge of QBE's business, combined with a benign catastrophe year, produced a 79.9% combined operating ratio, an improvement from last year's result.

In summary

I am encouraged by the huge progress we have made during 2014. Our business is more streamlined, more focused and in far better shape to compete strongly in increasingly competitive conditions. While there are remediation activities still underway, our transformation is largely complete and we are well placed to deliver further improvement in performance and efficiency and meet our published targets in 2015. I believe we are now in a position to look to the future with confidence and optimism.

In closing, on behalf of our Group Executive, I want to thank our key stakeholders – our customers, our people, our shareholders and our many business partners – for their commitment and support. I look forward to future success, with real optimism.

John Neal
Group Chief Executive Officer

Outlook for 2015



We anticipate that global pricing will remain broadly flat in 2015. Accordingly, our focus will be on maintaining underwriting discipline, exercising strict control on cost management and leveraging greater value from our substantial investment portfolio.”

Whilst we anticipate that our gross written premium will remain flat on a constant currency basis, it is inevitable that the relative strengthening of the US dollar will see headline premium reduce, albeit with no material impact on the construct of our combined operating ratio.

We remain resolutely focused on our overarching priority of a return to earnings improvement and predictability when measured against our published business plans and targets.

Leadership in core business

We consider the transformation of our business to be largely complete and we have plans in place to support organic growth in the medium term. QBE has a unique and truly global franchise that allows us to exploit market opportunities with a particular emphasis on commercial and speciality business lines. In 2015, we will be launching initiatives that will enhance the underwriting and service proposition for multinational clients, extending our interest in the bancassurance sector, further developing a number of key industry specialisations and continuing to deepen relationships with our major trading partners.

Operational excellence - global reach and scale

We now consider cost management part of the rhythm of our business, and will be looking to determine what additional efficiencies we can achieve over the medium term. In 2015, we are targeting further cost savings which will see the completion of our operational transformation plan and the realisation of our overarching goal to reduce our expense ratio.

We have further enhanced the structure of our global reinsurance program including the purchase of an innovative aggregate protection program for large individual risk and catastrophe claims that significantly eliminates volatility inherent in this category of claims.

* 2015 targets:^{1,2}

Gross written premium

US\$15.5-15.9 billion

(US\$16.4-16.8 billion on a constant currency basis)

Net earned premium

US\$12.6-13.0 billion

(US\$13.4-13.8 billion on a constant currency basis)

Combined operating ratio

94-95%

Insurance profit margin

8.5-10% of net earned premium

Profitable growth and diversification

Our Emerging Markets leadership team is looking to build on the successes we have achieved in Asia Pacific to capitalise on important growth opportunities. This will include specific geographies, commercial and specialty client focus, key intermediary partnerships, investments in technology and a build-up of quality underwriting and support staff.

World class talent and leadership

Our Leadership Academy moves into its third year of operation as we continue to develop and build on the quality of our in-house talent. Simultaneously, we are encouraged by the quality of leaders we are able to attract to QBE and will continue to seek out the best talent in the market place to supplement our internal skills. The launch of our Underwriting Academy in 2015 will represent a further milestone in the way in which we look to train and develop our people.

Financial strength and flexibility

We are forecasting a further strengthening of our key capital metrics in 2015 and will see enhanced cash remittances from the divisions to the Group centre. While we continue to plan for the partial initial public offering of our Australian lenders' mortgage insurance business, in light of the Group's significantly strengthened balance sheet neither the timing nor activation is critical to meeting our expected capital needs.

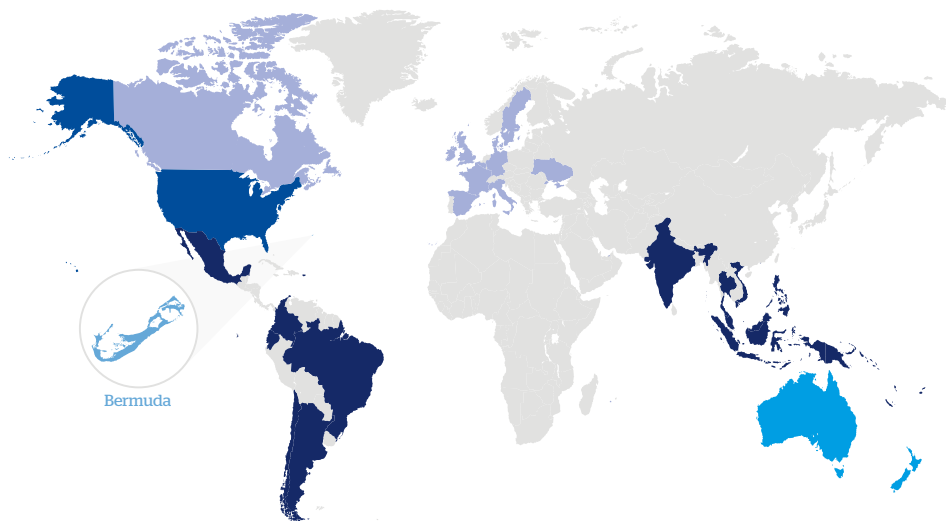
A combination of stronger profitability, with enhanced cash flow and a significantly strengthened balance sheet, should facilitate increased dividend payments to our shareholders.

1 Excludes businesses held for sale at 31 December 2014.

2 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				European Operations				Australian & New Zealand Operations			
	General insurance and reinsurance in the US, through five major segments: standard lines, specialty lines, mortgage services, crop and assumed reinsurance.				Commercial insurance and reinsurance principally in the Lloyd's market, the UK, Ireland and mainland Europe.				General insurance operations throughout Australia and New Zealand, providing all major lines of insurance cover for personal and commercial risks.			
	2014	2013		Change	2014	2013		Change	2014	2013		Change
Gross written premium (US\$M)	5,310	5,951	↓	11%	4,526	5,236	↓	14%	4,392	4,805	↓	9%
Gross earned premium (US\$M)	5,457	6,225	↓	12%	4,805	5,146	↓	7%	4,386	4,626	↓	5%
Net earned premium (US\$M)	4,471	5,030	↓	11%	3,567	4,160	↓	14%	3,834	4,028	↓	5%
Combined operating ratio (%)	100.8	111.5	↓		93.8	93.7	↑		87.0	87.9	↓	
Insurance profit (loss) (US\$M)	8	(535)	↑	101%	345	376	↓	8%	680	693	↓	2%
Insurance profit margin (%)	0.2	(10.6)	↑		9.7	9.0	↑		17.7	17.2	↑	
Staff numbers	4,264	5,385	↓	21%	2,426	2,663	↓	9%	3,862	4,016	↓	4%
Major events impacting operations in 2014	<ul style="list-style-type: none"> Gross written premium was down mainly due to lower premiums in crop, mortgage services and underwriting revisions in program Relatively benign claims experience across the majority of the property portfolios offset by crop insurance due to lower commodity prices and hail claims Stable attritional claims ratio and a significant improvement in prior year development compared with the past two years Successful operational transformation continues to drive improvements in the underlying expense base 				<ul style="list-style-type: none"> Gross written premium down due to disposals, strong British Pound and continued competitive landscape Combined operating ratio better than plan with contributions from favourable claims experience and cost control initiatives despite expense strain from suppressed net earned premium Disposals of non-core portfolios and geographical remediation completed Successful transition of almost 350 roles to the Group's shared service centres in the Philippines Groundwork completed for several profitable growth initiatives including a new QBE Re branch in Bermuda and expanded capabilities in Continental Europe and the energy portfolio 				<ul style="list-style-type: none"> Lower gross written premium largely reflects the depreciation of the Australian dollar, with 1% decline in local currency due to a continued competitive landscape Change program and ongoing portfolio restructuring instrumental in delivering an improved combined operating ratio and insurance profit margin Improvements in attritional claims ratio achieved, though large risk and particularly catastrophe claims costs increased following an exceptionally benign 2013 Execution of a reinvigorated customer value proposition already delivering results across our distribution channels 			



Countries in which QBE has operations

- North American Operations
- European Operations
- Australian & New Zealand Operations
- Emerging Markets
- Equator Re

Emerging Markets

General insurance operations in 23 markets across the Asia Pacific and Latin American regions, providing commercial, specialist and personal insurance cover.

2014	2013		Change
2,179	2,107	↑	3%
1,942	1,984	↓	2%
1,705	1,702	↔	—
112.7	96.6	↑	
(109)	121	↓	190%
(6.4)	7.1	↓	
3,502	3,362	↑	4%

- Division formed in August 2014 bringing the Asia Pacific and Latin America regions together in support of the QBE value creation model. Emerging Markets structure and management team have been established
- The Asia Pacific profitable growth strategy continued to drive strong premium growth in the region
- Material prior year claim development in Argentine workers' compensation in response to the impact of legislative change and deteriorating economic conditions
- Strategic review underway to develop our Latin American footprint and improve profitability

Equator Re

QBE's captive reinsurer, providing reinsurance protection to all of the Group's operating divisions.

2014	2013		Change	
642	783	↓	18%	Gross written premium (US\$M)
764	802	↓	5%	Gross earned premium (US\$M)
525	509	↑	3%	Net earned premium (US\$M)
79.9	84.2	↓		Combined operating ratio (%)
145	135	↑	7%	Insurance profit (loss) (US\$M)
27.7	26.5	↑		Insurance profit margin (%)
30	29	↑	3%	Staff numbers

- Successfully reduced the risk in the portfolio by modifying retentions on larger catastrophe and per risk programs
- Written premium down due to softer market conditions combined with program changes
- Improved underwriting result with benign catastrophe claims activity offset by several large risk claims and adverse development in casualty reserves
- Continued investment in the operating model to build capabilities in the Bermuda office and leverage the global shared services centre (GSSC)

Major events impacting operations in 2014

Financial and operations overview

I joined QBE because it has a unique global footprint of high quality insurance and reinsurance businesses. Despite economic headwinds, we reported a strong rebound in earnings in 2014 and dividends increased by 16% compared with 2013. After two years of transformation, including a strong set of capital initiatives, the Group is well positioned heading into 2015.

General overview

In my first CFO report in the 2014 half year accounts, I set out my priorities under three key headings:

1. Drive financial performance;
2. Financial strength and flexibility; and
3. Investment performance and strategy.

While I believe there is still more to do, I am pleased to report we have made good progress in all three areas.

1. Drive financial performance

Firstly, and most importantly, earnings have rebounded strongly. The Group reported a profit after tax of \$742 million for the year ended 31 December 2014, representing a \$1.0 billion turnaround from the \$254 million after tax loss reported in 2013. Our profit recovery was driven by the improvement in underwriting profitability, together with the non-recurrence of the very substantial North American goodwill impairment charge recognised in 2013.

Secondly, and as emphasised at the half year result, it is critical that the Group consistently achieves its targets. In that context, I am pleased the Group's 96.1% combined operating ratio was broadly in line with the 95-96% target set at the interim result. This was despite the significant reduction in risk-free rates (excluding Argentina) which adversely impacted the underwriting result by \$324 million, including \$206 million in the second half alone (thereby adding 1.5% to the 2014 combined operating ratio relative to the 95-96% target).

In light of recent experience, the key to achieving our profit guidance (and restoring confidence in the balance sheet) was to demonstrate stable prior accident year claims development.

After strengthening the net outstanding claim provisions by \$131 million in the first half, the Group recorded \$132 million of favourable prior accident year claims development in the second half, resulting in \$1 million of positive development for the full year. Not since 2011 has the Group recorded positive prior accident year development.

Supporting our decision to sacrifice revenue for margin where competitive pressures are excessive, the attritional claims ratio continued the trend seen in previous periods, improving on an underlying basis to 46.6% from 47.5% in 2013 and 49.1% in 2012.

Despite a 9% reduction in net earned premium, the underwriting expense ratio improved marginally to 16.1% from 16.5% in 2013, reflecting an absolute reduction in costs of \$270 million. Faced with relatively muted economic growth prospects and heightened competitive pressure globally, we will clearly need to further improve expense management and efficiency.

The 2014 insurance profit margin of 7.6% represented a pleasing improvement on the 5.5% margin achieved in 2013, with an improved underwriting margin supplemented by a lift in the net investment yield on technical reserves to 2.7% from 2.4% a year earlier.

2. Financial strength and flexibility

At the half year result in August 2014, we announced a comprehensive capital plan that included a series of measures aimed at substantially reducing gearing and improving the financial strength and flexibility of the Group. Since then we have successfully completed the following capital initiatives:

- \$600 million institutional equity raising that was approximately six times oversubscribed;



Our focus will be on pursuing growth where we can, driving expense efficiencies, enhancing investment returns and growing dividends.”



Patrick Regan Group Chief Financial Officer • QBE Insurance Group

- \$180 million retail SPP equity raising that was more than three times oversubscribed;
- repurchase and cancellation of \$500 million of convertible securities;
- \$700 million tier 2 capital qualifying subordinated debt issue;
- buyback of \$393 million of non-capital qualifying senior debt;
- sale of the US agencies for up-front cash of \$217 million and an additional performance based earn out of up to \$83 million; and
- sale of the Australian agencies for a performance based price range of A\$232 million - A\$348 million, including up-front cash of A\$290 million.

The completed capital initiatives have had a significantly positive impact on the Group's financial strength and flexibility.

Key metrics as at 31 December 2014 adjusted on a pro forma basis for the settlement of the agency sales (assuming 50% of the agency sales proceeds are applied to reduce outstanding debt) are as follows:

- debt to equity has reduced to 30.4% from 44.1% a year earlier;
- debt to tangible equity has reduced to 46.5% from 77.8% a year earlier; and
- APRA PCA multiple has increased to 1.71x from 1.59x a year earlier.

The only capital plan initiative outstanding is the initial public offering of a minority stake in the Australian lenders' mortgage insurance business. While planning for this initiative continues, in light of the Group's significantly strengthened balance sheet neither the timing nor activation is critical to meeting our expected capital needs.

The other area highlighted for improvement was free cash flow (measured by cash remittances from the divisions to the Group centre). Strong and growing free cash flow supports our external dividend paying capacity and will be an increasingly important area of emphasis for us going forward.

Free cash flow increased 44% to \$770 million from \$534 million in 2013 as Australia, Asia Pacific and Equator Re paid increased dividends. Returning North American Operations to dividend paying status remains a priority.

Effective 1 January 2015, we restructured our worldwide reinsurance program including purchasing more US occurrence limit at the top of the program and an aggregate stop loss cover which limits the net cost of large individual risk and catastrophe claims (excluding crop and lenders' mortgage insurance) under most scenarios. We have also significantly restructured the reinsurance arrangements protecting the US crop portfolio, including the purchase of additional hail quota share.

Our revised reinsurance structures reduce potential earnings volatility while at the same time benefiting our capital charges. A detailed explanation of the revised reinsurance structure is included in the "other developments" section of the Equator Re business review.

Consistent with these positive developments, A.M. Best recently revised QBE's rating outlook from 'negative' to "stable" and affirmed the financial strength rating of QBE's key subsidiaries at 'A' (Excellent). We expect similar recognition from S&P as we demonstrate continuing stability in 2015.

As we focus on growing profit, we will target strong growth in dividends.

3. Investment performance and strategy

Notwithstanding periods of significant equity and debt market volatility, the cash and investment portfolio performed in accordance with expectations achieving a net investment return of 2.7%, up from 2.6% in 2013.

At the half year result, we set out plans to enhance the investment yield over the next few years, primarily via three actions:

- increasing the portfolio's exposure to growth assets;
- extending the duration of assets to more closely match the duration of claims liabilities; and
- further diversifying the fixed income portfolio by introducing modest BBB exposure.

The Group commenced 2014 with growth assets of around 2% of the total investment portfolio. By 31 December 2014, we had increased that exposure to 8.9% and the revised asset allocation contributed 0.2% to our overall gross investment return of 2.8%. Subsequent to year end, we have further increased the allocation to growth assets to around 14% of the portfolio. We took advantage of early falls in market values to increase our positions in emerging market investments, high yield debt and developed market equities, a reweighting that has to date proved beneficial.

With respect to asset duration, at the right time and with regard to global yield curves we will extend the duration of our assets (around six months currently) to more closely match the duration of our liabilities (approximately three years). Given that most yield curves have actually fallen since the August 2014 half year result, we have not yet meaningfully extended duration in any major currency. We will continue to monitor global yield curve expectations to take advantage of opportunities to sensibly extend duration.

We are also broadening the range of fixed income securities that we own. In the second half of the year we added to our infrastructure debt and structured credit exposures and switched a portion of our 'AA' holdings into 'A' rated securities for additional yield.

Notwithstanding revisions to the Group's investment strategy, the portfolio remains conservative relative to the majority of global peers. In particular, the fixed income component of the portfolio retains excess liquidity relative to the Group's claims payment obligations. We will therefore selectively introduce additional yield into the portfolio throughout the course of 2015, as appropriately high quality opportunities present themselves.

Economic and financial market landscape

Growth and policy divergence remained the predominant global economic themes during the second half of 2014.

While the US remained a growth engine, softening in Europe, China and Japan weighed on global growth momentum, resulting in increased volatility in financial markets and a reassessment of the pace of monetary policy normalisation across key economies. As a result, yield curves are trading at historically low levels. A benign inflation outlook and further monetary policy stimulus in major economies provide solid support for growth assets as a whole, although some markets remain exposed to US dollar strength and the precipitous drop in oil prices.

The US economy made considerable progress over 2014 and remains a bright spot for the global economy. Despite the recent strength in the dollar, the outlook for 2015 is encouraging, supported by lower borrowing and energy costs. Domestic demand should also be bolstered by an improving labour market, with the US currently enjoying the strongest jobs recovery since 1999. As a result, the Federal Reserve is expected to commence rate tightening in 2015.

Europe remains a headwind for global growth and a source of market instability. Recent policy actions by the ECB should help to dampen some of this volatility; however, Europe is in need of further structural reform over the longer term. Growth momentum in the UK has been impacted by developments in Europe, resulting in market expectations of a tightening in UK policy rates being pushed further into the future.

A softer commodity cycle will keep economic growth in Australia at moderate levels and rates near historical lows, although the recent weakness in the Australian dollar will accelerate necessary rebalancing in the economy.

Operating and financial performance

Summary income statement

FOR THE YEAR ENDED 31 DECEMBER	2014 US\$M	2013 US\$M
Gross written premium	16,332	17,975
Gross earned premium	16,521	17,889
Net earned premium	14,084	15,396
Net claims expense	(8,900)	(9,931)
Net commission	(2,363)	(2,580)
Underwriting and other expenses	(2,274)	(2,544)
Underwriting result	547	341
Net investment income on policyholders' funds	527	500
Insurance profit	1,074	841
Net investment income on shareholders' funds	270	301
Financing and other costs	(297)	(345)
Share of net profits of associates	1	-
Amortisation/impairment of intangible assets	(117)	(1,245)
Profit (loss) before tax	931	(448)
Tax (expense) credit	(182)	204
Profit (loss) after tax	749	(244)
Profit attributable to non-controlling interests	(7)	(10)
Net profit (loss) after tax	742	(254)

Overview of the 2014 result

The Group reported a net profit after tax of \$742 million in 2014 compared with a \$254 million after tax loss in 2013. The \$1.0 billion profit turnaround reflected a healthy improvement in underwriting profitability coupled with the non-recurrence of the very substantial North American goodwill impairment charge recognised in 2013.

Excluding the cost of amortisation and impairment of intangibles, the cash profit before tax increased 31% to \$1,048 million due to a 28% uplift in the insurance profit coupled with reduced financing costs as a result of lower gearing.

The cash profit after tax increased by only 8% to \$821 million, reflecting an increase in the effective tax rate on cash profit to 21% from 3% in the prior corresponding period.

Cash profit

FOR THE YEAR ENDED 31 DECEMBER	2014 US\$M	2013 US\$M
Cash profit before tax	1,048	797
Tax expense on cash profit	(220)	(26)
Profit attributable to non-controlling interests	(7)	(10)
Net cash profit after tax	821	761
Amortisation/impairment of intangible assets after tax	(79)	(1,015)
Net profit (loss) after tax	742	(254)
Basic earnings per share - cash basis (US cents)	63.5	62.9
Dividend payout ratio (percentage of cash profit)	49%	50%

Headline gross written premium fell 9% to \$16,332 million; however, the reduction was only 6% on a constant currency basis and was largely due to reduced writings in our North American and European Operations, while our Asia Pacific Operations generated strong underlying growth during the period.

Indicative of a more competitive global pricing environment, Group-wide premium rate increases averaged 0.1% in 2014 compared with 0.7% in the first half of the year and slightly less than 4% in 2013.

The Group's reinsurance expense ratio increased to 14.8% in 2014 from 13.9% a year earlier as a result of the medical malpractice reinsurance transaction announced in conjunction with the half year result. Excluding this transaction, the reinsurance expense ratio decreased to 12.6%, largely reflecting cost savings associated with the restructuring of the Group's external reinsurance program and reduced aggregate exposure.

Net earned premium fell 9% to \$14,084 million or 5% on a constant currency basis.

The combined operating ratio improved to 96.1% from 97.8% in 2013, due to an improvement in both the net claims ratio and the combined commission and expense ratio.

The net claims ratio fell to 63.2% from 64.5% a year earlier. The non-recurrence of adverse prior accident year claims development, a net risk margin release, the medical malpractice reinsurance transaction and a lenders' mortgage insurance premium earnings adjustment more than offset the impact of the adverse discount rate movement, higher large individual risk and catastrophe claims and a deterioration in the headline attritional claims ratio due to Argentina.

As discussed overleaf, on an underlying basis the Group's attritional claims ratio improved to 46.6% in 2014 from 47.5% a year earlier.

Notwithstanding the 9% reduction in net earned premium, the combined commission and expense ratio improved to 32.9% from 33.3% previously. A reduction in restructuring costs coupled with emerging operational transformation benefits were partially offset by the impact of the medical malpractice reinsurance transaction, increased systems development spend, investment in Asian growth initiatives and reduced fee income.

The Group delivered a 2014 insurance profit of \$1,074 million, up 28% from \$841 million in the prior corresponding period. The insurance profit margin improved to 7.6% from 5.5% a year earlier, reflecting both an improved underwriting margin and investment return. The net investment yield on technical reserves increased to 2.7% from 2.4% in 2013, contributing 3.7% to the insurance profit margin compared with 3.2% last year.

Investment income on shareholders' funds declined to \$270 million from \$301 million in 2013, due to a reduction in other income as a result of an \$18 million loss on the repurchase of QBE's senior debt securities and a \$17 million loss on sale of a related entity in North America. Excluding other income and foreign exchange, investment income on shareholders' funds increased to \$312 million from \$282 million last year, largely due to enhanced returns generated by the Group's increased exposure to growth assets.

Interest expense fell 14% to \$297 million from \$345 million a year earlier, reflecting the \$990 million or 22% reduction in total borrowings since 31 December 2013.

The effective tax rate was 20% and compared with a tax credit in 2013. The effective tax rate benefited from increased profits in lower tax-paying jurisdictions and the release of provisions following settlement of tax disputes.

Significant items in 2014 result

The results and financial statements include a number of significant items that should be highlighted.

Notwithstanding another year of relatively benign global catastrophe experience, the total cost of large individual risk and catastrophe claims increased by 10% to \$1,611 million, reflecting persistently high crop catastrophe claims and an increase in the frequency and severity of large individual risk claims, particularly in European Operations, Australia & New Zealand, Equator Re and Asia Pacific. Catastrophe claims increased in Europe and Australia & New Zealand following an especially benign 2013, while Equator Re effectively ran catastrophe-free.

Consistent with our revised reinsurance structure effective 1 January 2015, under most scenarios the net cost of large individual risk and catastrophe claims (excluding crop and lenders' mortgage insurance) is limited.

Risk-free rates used to discount net outstanding claims liabilities decreased significantly during 2014 resulting in an adverse discount rate adjustment of \$324 million compared with a gain of \$272 million in the prior year. Over the course of 2014, the currency weighted average risk-free rate (excluding the Argentine peso) fell from 2.17% to 1.45%.

In the context of the Group's recent history, a prominent feature of the 2014 result was the absence of adverse prior accident year claims development. Indeed, the 2014 result actually benefited from \$1 million of favourable prior accident year claims development compared with adverse development of \$552 million in 2013 and \$464 million in 2012.

The amortisation and impairment charge against intangibles was \$117 million, down from \$1,245 million last year, reflecting the non-recurrence of a \$600 million goodwill impairment and \$413 million of accelerated amortisation, primarily relating to Balboa and Sterling intangibles following the collapse in lender-placed premium and profitability.

Partly driven by a \$1.05 billion reduction in the central estimate of net outstanding claims, the result included risk margin releases of \$184 million that contributed to a reduction in the probability of adequacy to 88.7% from 90.7% a year earlier.

The earnings pattern of the Australian lenders' mortgage insurance business was revised to more appropriately match the flow of risk and the incidence of claims. Net earned premium benefited by \$82 million and pre-tax profit by \$75 million.

Significant items in profit before tax

FOR THE YEAR ENDED 31 DECEMBER	2014 US\$M	2013 US\$M
Realised and unrealised gains on investments	137	86
Cost of large individual and catastrophe claims (current accident year)	(1,611)	(1,462)
Discount rate (cost) benefit, excluding Argentine peso	(324)	272
Prior accident year central estimate claims development ¹	1	(552)
Risk margin release (strengthening)	184	(266)
Amortisation and impairment of intangibles	(117)	(1,245)
QBE LMI premium earning pattern	75	-

¹ Net of \$523 million of discount movement (2013 \$69 million) due to long tail classes (dust disease in Australia and workers' compensation in Argentina) where the level of assumed claims inflation is directly linked to the discount rate.

The Group is exposed to multiple risks in the conduct of its insurance business as evidenced by the 2014 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 in the Chief Risk Officer's report in the Annual Report and in note 5 to the financial statements.

Premium income

Gross written premium fell 9% to \$16,332 million from \$17,975 million in 2013, with the decrease exaggerated by a \$601 million foreign exchange impact.

On a cumulative average basis and compared with 2013, the Australian dollar and the Argentine peso depreciated 7% and 32% respectively against the US dollar. Coupled with other intra-divisional cross currency movements against the US dollar, foreign exchange movements adversely impacted reported premium income in Australian & New Zealand Operations and Emerging Markets by \$289 million and \$343 million respectively.

On a constant currency basis, gross written premium fell by 6% to \$16,933 million.

Premium income reductions in North American and European Operations of 11% and 14% respectively on a constant currency basis were partially offset by growth in Emerging Markets, driven by strong organic growth in Asia and (inflation-linked) rate increases in Latin America. Australian & New Zealand Operations reported a 2% contraction in gross written premium on the same basis.

Gross written premium in North America decreased \$641 million, reflecting commodity price related reductions in crop insurance, remediation of the program business, a further reduction in loans tracked (and thus premium production) in the lender-placed business and heightened competition in assumed reinsurance. European Operations reported a \$673 million reduction in gross written premium on a constant currency basis, largely due to \$543 million of previously identified remediation and disposal activities as well as in response to market conditions in the international markets and reinsurance business units.

Asia Pacific enjoyed gross written premium growth of 11% on a constant currency basis, with particularly strong growth in our engineering, workers' compensation, fire and marine portfolios. Latin America recorded gross written premium growth of 25% on the same basis, largely driven by growth in Argentina due to significant (inflation-linked) premium rate increases and a one-off change in the basis of recognition of workers' compensation premium.

Although Australia & New Zealand reported a slight reduction in gross written premium on a constant currency basis, solid growth was achieved in CTP and lenders' mortgage insurance and across most lines of business in New Zealand.

Equator Re's gross written premium fell by 18% relative to 2013, reflecting generally softer reinsurance market conditions coupled with increased retentions on a number of divisional catastrophe and per risk retentions.

Group-wide premium rate movements averaged 0.1% across 2014 compared with 0.7% in the first half and slightly less than 4% in 2013. North America and Australia & New Zealand averaged rate increases of 0.4% and 0.1% respectively, down from 3.7% and 5.6% respectively in 2013. European Operations saw competition intensify, experiencing an average rate reduction of 1.3% compared with a 1.6% increase in the previous year. Emerging Markets achieved an average rate increase of 6.8% compared with 5.9% a year earlier, with Latin America experiencing an average rate increase of 10.6% due to relatively high inflation, while premium rates in Asia Pacific reduced by 0.4% on average.

The Group's reinsurance expense ratio increased to 14.8% of gross earned premium from 13.9% in 2013, as a result of the \$362 million medical malpractice reinsurance transaction, which reduced both net claims incurred and net earned premium. Excluding this transaction, the reinsurance expense ratio decreased to 12.6%, largely reflecting cost savings associated with the restructuring of the Group's external reinsurance program and reduced aggregate exposure.

Net earned premium reduced by 9% to \$14,084 million from \$15,396 million in 2013; however, on a constant currency basis the reduction was only 5% to \$14,600 million.

Excluding the impact of the medical malpractice reinsurance and the \$82 million lenders' mortgage insurance premium adjustment, underlying net earned premium fell by only 4% on a constant currency basis, with reduced reinsurance spend coupled with the earning of prior year premiums softening the impact of the larger reduction in gross written premium.

Underwriting performance

Key ratios - Group

FOR THE YEAR ENDED 31 DECEMBER	2014	EX MED MAL	2013
	%	2014	%
Net claims ratio	63.2	64.1	64.5
Net commission ratio	16.8	16.4	16.8
Expense ratio	16.1	15.7	16.5
Combined operating ratio	96.1	96.2	97.8
Insurance profit margin	7.6	7.4	5.5

Divisional performance

Contributions by region

FOR THE YEAR ENDED 31 DECEMBER	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M	2014 %	2013 %	2014 US\$M	2013 US\$M
North American Operations	5,310	5,951	4,471	5,030	100.8	111.5	8	(535)
European Operations	4,526	5,236	3,567	4,160	93.8	93.7	345	376
Australian & New Zealand Operations	4,392	4,805	3,834	4,028	87.0	87.9	680	693
Emerging Markets	2,179	2,107	1,705	1,702	112.7	96.6	(109)	121
Equator Re	642	783	525	509	79.9	84.2	145	135
Equator Re elimination	(642)	(783)	-	-	-	-	-	-
Corporate adjustments	(75)	(124)	(18)	(33)	0.1	(0.2)	5	51
Group	16,332	17,975	14,084	15,396	96.1	97.8	1,074	841
Direct and facultative	15,198	16,610	13,053	14,156	96.5	99.8	951	490
Inward reinsurance	1,134	1,365	1,031	1,240	91.0	74.5	123	351
Group	16,332	17,975	14,084	15,396	96.1	97.8	1,074	841

Incurred claims

The aforementioned medical malpractice reinsurance transaction distorts the main components of the Group's 2014 net claims ratio as highlighted in the table overleaf. The claims commentary following refers to the 2014 claims ratio (and components therein) excluding the impact of the medical malpractice reinsurance.

The net claims ratio improved to 64.1% in 2014 compared with 64.5% in 2013.

The Group's current accident year attritional claims ratio increased to 50.7% from 49.6% a year earlier, due entirely to the increase in the Argentine attritional claims ratio to 111.9% from 65.8% in the prior corresponding period.

The Argentine business ordinarily generates an above portfolio average attritional claims ratio reflecting its longer tail workers' compensation bias and relatively low property catastrophe exposure. The recent and quite extreme increase in inflation has contributed to a very material uplift in the current accident year attritional claims ratio, well above historical levels. In an insurance margin context, significantly increased yields on peso denominated assets backing peso denominated insurance reserves serve to counter the impact of increased inflation.

Excluding the medical malpractice reinsurance transaction, our US crop and lender-placed businesses as well as Argentina, the Group's underlying current accident year attritional claims ratio improved to 46.6% in 2014 from 47.5% a year earlier. Solid year-on-year improvements in the attritional claims ratio were achieved in Australia & New Zealand, Europe and Asia Pacific, while North America reported a more modest improvement.

The total cost of large individual risk and catastrophe claims increased to \$1,611 million or 11.2% of net earned premium, up from 9.5% a year earlier. This was above the Group's annual allowance of 10.5%, largely reflecting persistently high crop catastrophe claims coupled with higher than normal frequency and severity of large individual risk claims, particularly in European

Operations, Australia & New Zealand, Equator Re and Asia Pacific. Catastrophe claims increased in Europe and especially in Australia & New Zealand following a benign 2013, while Equator Re effectively ran catastrophe-free.

The net cost of catastrophe claims (excluding crop) was \$516 million or 3.6% of net earned premium. This was within our annual catastrophe allowance but up from \$348 million or 2.3% of net earned premium in 2013, largely due to the UK floods in January and February as well as the Brisbane hailstorm in November. Net of significant recoveries under the Group's aggregate risk reinsurance program, large individual risk claims cost \$835 million or 5.8% of net earned premium, up from 5.2% of net earned premium in 2013.

Over the course of 2014, the weighted average risk-free rate (excluding the Argentine peso) used to discount net outstanding claims liabilities fell from 2.17% to 1.45%. This gave rise to an adverse underwriting impact of \$324 million (including a \$206 million adverse impact in the second half of the year alone) that added 2.2% to the net claims ratio, compared with a benefit of \$272 million in the prior corresponding period, reducing the net claims ratio by 1.8%.

In the context of the Group's recent history, a prominent feature of the 2014 result was the \$1 million of favourable prior accident year claims development compared with adverse development of \$552 million in 2013 and \$464 million in 2012. After strengthening net outstanding claims provisions by \$131 million in the first half, the Group recorded \$132 million of favourable prior accident year claims development in the second half.

Driven by Argentine workers' compensation, Latin America experienced \$212 million of adverse prior accident year claims development, including an additional \$42 million of development during the second half, partly due to a further increase in frequency of litigated claims pertaining to the Argentine workers' compensation portfolio.

Having reported significant adverse prior accident year development in recent years including \$51 million in the first half, North America experienced \$10 million of favourable development in the second half which reduced overall 2014 adverse development to \$41 million. Equator Re reported \$28 million of adverse prior accident year claims development with positive catastrophe claim development more than offset by adverse development in the casualty excess of loss portfolio.

Despite some strengthening of long-tail disease claims in the UK, European Operations reported favourable prior accident year claims development of \$158 million while Australia & New Zealand booked \$114 million and Asia Pacific \$20 million.

The full year result included risk margin releases of \$184 million that improved the net claims ratio by 1.3%. The releases were partly due to the \$1.05 billion reduction in the net central estimate, with the remainder due to a lower adopted probability of adequacy. European Operations booked a risk margin release of \$140 million while Equator Re and North America both had releases of \$32 million and \$19 million respectively.

The material European Operations risk margin release reflected the significant reduction in the level of uncertainty in the consolidated net discounted central estimate of claims, principally due to the medical malpractice reinsurance transaction which eliminated long-tail liabilities that have been challenging to accurately model. The release also reflected a reduction in the net central estimate driven by the aforementioned favourable prior accident year claims development.

The overall risk margin release resulted in a reduction in the outstanding claims probability of adequacy to 88.7% from 90.7% a year earlier (and 89.4% at the half year) but still comfortably within our newly established probability of adequacy benchmark range of 87.5% to 92.5%.

The following table provides a summary of the major components of the 2014 net claims ratio before and after the impact of the medical malpractice reinsurance.

Analysis of net claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2014 %	EX MED MAL 2014 %	2013 %
Attritional claims	52.1	50.7	49.6
Large individual risk and catastrophe claims ¹	11.4	11.2	9.5
Claims settlement costs ¹	2.8	2.7	2.8
Claims discount	(3.9)	(3.8)	(2.7)
Net incurred claims estimate claims ratio (current accident year)	62.4	60.8	59.2
Changes in undiscounted prior accident year central estimate ²	(2.6)	-	3.6
Changes in discount rates	2.3	2.2	(1.8)
Other (including unwind of prior year discount)	2.4	2.4	1.8
Net incurred central estimate claims ratio	64.5	65.4	62.8
Movement in risk margins	(1.3)	(1.3)	1.7
Net incurred claims ratio (current financial year)	63.2	64.1	64.5

1 Prior year adjusted for minor reallocation between crop catastrophe claims and claims settlement costs.

2 Net of \$523 million of discount movement (2013 \$69 million) due to long-tail classes (dust disease in Australia and workers' compensation in Argentina) where the level of assumed claims inflation is directly linked to the discount rate.

The following table provides an analysis of the year-on-year movement in the attritional claims ratio.

Analysis of attritional claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2014		2013	
	NEP US\$M	ATTRITIONAL %	NEP US\$M	ATTRITIONAL %
Rest of world	12,303	46.6	12,721	47.5
Medical malpractice reinsurance ¹	(362)	-	-	-
US multi-peril crop insurance ²	965	67.0	1,141	67.0
Lender-placed insurance ³	544	43.6	797	43.5
Argentina ⁴	634	111.9	737	65.8
QBE Group	14,084	52.1	15,396	49.6

1 One-off medical malpractice reinsurance premium.

2 Crop does not lend itself to attritional versus catastrophe claims analysis so the attritional claims ratio is assumed constant at 67.0%.

3 The significant decline in North American lender-placed premium distorts the trend in the Group's underlying attritional claims ratio.

4 Argentina's attritional claims ratio is distorted by the heightened level of claims inflation.

Material large individual risk and catastrophe claims reported during the year are summarised in the table below.

Large individual risk and catastrophe claims

IN THE YEAR ENDED 31 DECEMBER 2014	COST US\$M	% OF NEP
North American crop ¹	260	1.8
UK Floods (January and February)	136	1.0
Brisbane & SE Queensland hailstorm (27 November)	85	0.6
North American wind/hail (April to June)	78	0.6
Hurricane Odile (15 September)	52	0.4
European Hailstorms (15 June)	25	0.2
North American winter storms (5 January)	22	0.2
North American tornadoes (3 April)	21	0.1
Cyclone Ita (13 April)	12	0.1
Other catastrophe claims including bulk IBNR	85	0.5
Total catastrophe claims including bulk IBNR	776	5.5
Forge Group Limited (11 February)	46	0.3
Jade Sa (15 May)	38	0.3
Bo Kwang Printing (29 May)	30	0.2
Big River Group (5 November)	21	0.1
Atlantic Ltd (4 February)	15	0.1
Synergy Sterilisation Rawang (15 April)	13	0.1
Brian Bell & Co (23 January)	13	0.1
Shih-Teng Hsu (22 March)	12	0.1
Conma Industries (4 February)	11	0.1
Buckby's Coaches (13 April)	11	0.1
Mbay Netherlands (11 August)	11	0.1
Kenwick Park Hotel Ltd (13 October)	11	0.1
SVI Public Company (12 November)	10	0.1
Other individual risk claims including bulk IBNR	593	4.1
Total large individual risk claims including bulk IBNR	835	5.9
Total large individual risk & catastrophe claims including bulk IBNR	1,611	11.4

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 2013	COST US\$M	% OF NEP
Total catastrophe claims including bulk IBNR	665	4.3
Total large individual risk claims including bulk IBNR	797	5.2
Total large individual risk & catastrophe claims including bulk IBNR	1,462	9.5

Commission and expenses

The aforementioned medical malpractice reinsurance transaction distorts the Group's 2014 commission and expense ratios as highlighted in the key ratios table on page 18. The commission and expense ratio commentary below refers to the 2014 commission and underwriting expense ratios excluding the impact of the medical malpractice reinsurance.

The Group's combined commission and expense ratio decreased to 32.1% compared with 33.3% last year.

The commission ratio improved to 16.4% from 16.8% in the prior corresponding period, reflecting relatively minor business mix related improvements across all divisions with the exception of Latin America. Latin America's commission ratio increased to 22.1% from 21.6% in the previous year, due to increased commission rates in Colombia and Ecuador as well as changes in the mix of business in Brazil.

The underwriting expense ratio improved to 15.7% from 16.5% in the previous year. Notwithstanding reduced premium income and increased systems development spending, significant improvements in the underwriting expense ratio were achieved in North America and Australia & New Zealand, largely due to operational transformation and reduced restructuring charges, while the expense ratio increased slightly in European Operations, Asia Pacific Operations and Equator Re. The improvement in the North American expense ratio was achieved despite a material reduction in fee income, mainly relating to the lender-placed business.

Although European Operations achieved an absolute year-on-year reduction in expenses, the underlying expense ratio deteriorated slightly as a result of a greater than anticipated reduction in premium income. Asia Pacific Operations' underwriting expense ratio increased due to continued investment for growth, while Equator Re's expense ratio increased as a result of the ongoing build-out of capability in Bermuda coupled with a change in the basis of expense allocation.

Income tax expense

The Group reported income tax expense of \$182 million in 2014 compared with a tax benefit of \$204 million in 2013, the prior year having been significantly impacted by the large underwriting loss in the US and goodwill impairment.

Income tax expense as a percentage of profit before tax was 20%. Although less than our prima facie tax rate, the effective tax rate of 20% was broadly in line with management expectations and reflected increased profits in lower taxpaying jurisdictions and the release of provisions following completion of audit activity by taxation authorities and the settlement of tax disputes.

QBE paid \$383 million in corporate income tax to tax authorities globally in 2014, including \$272 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A\$404 million as at 31 December 2014. The Group is therefore capable of fully franking A\$944 million of dividends.

The strong franking account balance, coupled with the expected ongoing level of Australian income tax payments, should support the continued payment of fully franked dividends to shareholders in 2015 and 2016.

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 2014 result and balance sheet on a constant currency basis.

Impact of exchange rate movements

	2014	2014 AT 2013	EXCHANGE RATE IMPACT	
	ACTUAL US\$M	EXCHANGE RATES ¹ US\$M	US\$M	%
Gross written premium	16,332	16,933	(601)	(4)
Gross earned premium	16,521	17,056	(535)	(3)
Net earned premium	14,084	14,600	(516)	(4)
Net profit after tax	742	761	(19)	(3)
Total investments and cash	28,583	30,425	(1,842)	(6)
Total assets	45,000	47,547	(2,547)	(6)
Gross outstanding claims provision	20,412	21,748	(1,336)	(7)
Total liabilities	33,918	35,765	(1,847)	(5)

1 Income statement items are restated to 31 December 2013 average rates of exchange and balance sheet items to 31 December 2013 closing rates of exchange.

The impact of exchange rate movements (excluding hedging transactions) on the 2014 result was a \$17 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 \$684 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 strengthened benchmark ranges.

In addition to the numerous capital initiatives announced with the half year result and largely completed as outlined in my general overview at front, other balance sheet initiatives undertaken over the past 12 months included:

- conversion of \$250 million of subordinated debt into ordinary shares in June 2014; and
- elimination of the 1% discount on our dividend reinvestment programs announced in conjunction with the interim result.

Capital summary

AS AT 31 DECEMBER	2014 US\$M	2013 US\$M
Net assets	11,082	10,403
Less: intangible assets	(3,831)	(4,480)
Net tangible assets	7,251	5,923
Add: borrowings	3,581	4,571
Total capitalisation	10,832	10,494

AS AT 31 DECEMBER	2014 US\$M	2013 US\$M
APRA's Prescribed Capital Amount (PCA)	5,887	5,624
QBE's regulatory capital base	10,008	8,955
PCA multiple	1.70x	1.59x

The Group's regulatory and rating agency capital levels are at or above minimum benchmark levels, with an indicative APRA PCA multiple of 1.70x at year end, up strongly from 1.59x at 31 December 2013.

The Group's insurance concentration risk charge increased 22% or \$258 million to \$1,429 million, largely reflecting finalisation of the methodology supporting the Group's whole of portfolio catastrophe calculation which is based on the Group's peak catastrophe region of North America. The asset risk charge increased 34% or \$437 million to \$1,821 million, mainly as a result of the increase in exposure to growth assets from around 2% to 8.9% of the total cash and investments portfolio.

Although arguably more relevant for banks, as at 31 December 2014 our CET1 ratio was 128%, up from 114% at 31 December 2013 and more than double APRA's 60% minimum requirement.

Key financial strength ratios

	BENCHMARK	2014	2013
Debt to equity	25% to 35%	32.5%	44.1%
Debt to tangible equity		49.7%	77.8%
PCA multiple	1.7x to 1.9x	1.70x	1.59x
Premium solvency ¹		51.5%	38.5%
Probability of adequacy of outstanding claims	87.5% to 92.5%	88.7%	90.7%

¹ Premium solvency ratio is calculated as the ratio of net tangible assets to net earned premium.

Borrowings

Total borrowings at 31 December 2014 were \$3,581 million, down \$990 million or 22% from \$4,571 million a year earlier.

Consistent with the capital management initiatives announced in conjunction with the interim result, the Group's treasury department was active in debt markets during the year completing the following transactions:

- repayment of \$484 million of senior debt that matured on 14 March 2014;
- conversion of \$250 million of subordinated debt in to ordinary shares on 11 June 2014;
- issuance of \$700 million of 30 year non call 10 tier 2 subordinated debt securities due 2044 on 2 December 2014;
- repurchase and cancellation of \$500 million of convertible subordinated debt securities due 2038 on 5 December 2014; and
- repurchase of \$393 million of senior notes due 2015 on 15 December 2014.

At 31 December 2014, the debt to equity ratio was 32.5% and within our benchmark range of 25%-35%. Although down substantially from 44.1% at the end of 2013, gearing would have reduced to around 30% except for the adverse impact of the stronger US dollar on closing equity. Debt to tangible equity fell to 49.7% from 77.8% a year earlier, reflecting the reduction in borrowings concurrent with a further material reduction in intangibles as discussed overleaf.

Interest expense for the year was \$297 million, down 14% from \$345 million for the same period last year, consistent with the year-on-year reduction in average borrowings. The weighted average annual cost of borrowings outstanding at the balance date was 6.2%, down modestly from 6.5% at 31 December 2013, due to the repayment of relatively expensive senior debt.

In addition to achieving an absolute reduction in the level of borrowings, the profile of borrowings has been restructured with senior debt swapped for capital qualifying tier 2 subordinated debt and the term structure lengthened appreciably.

Borrowings maturity¹

AS AT 31 DECEMBER	2014 %	2013 %
● Less than one year	13	10
● One to five years	26	51
● More than five years	61	39

Borrowings profile

AS AT 31 DECEMBER	2014 %	2013 %
● Subordinated debt	61	50
● Senior debt	30	43
● Capital securities	9	7

¹ Based on first call date.

Further details of borrowings are set out in note 22 to 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.

Insurance liabilities

AS AT 31 DECEMBER	2014 US\$M	2013 US\$M	2012 US\$M	2011 US\$M	2010 US\$M
Net outstanding claims	16,948	18,208	18,412	16,984	15,017
Unearned premium net of deferred insurance costs ¹	5,341	5,968	6,023	5,929	4,785
	22,289	24,176	24,435	22,913	19,802
Central estimate - outstanding claims	15,595	16,643	17,079	15,783	13,747
Central estimate - unearned premium	4,398	4,956	5,024	5,062	3,901
Risk margin - outstanding claims	1,353	1,565	1,333	1,201	1,270
Risk margin - unearned premium ¹	943	1,012	999	867	884
	22,289	24,176	24,435	22,913	19,802
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	1,396	1,606	1,374	1,152	1,353
	%	%	%	%	%
Probability of adequacy - outstanding claims	88.7	90.7	87.5	86.3	89.8
Probability of adequacy - total insurance liabilities	94.7	95.3	93.9	92.6	95.5
Weighted average discount rate	3.5	2.8	2.2	2.1	3.2
Weighted average term to settlement	2.8	3.0	2.9	2.9	3.0

¹ Includes deferred reinsurance expense for future business not yet written of \$6 million (2013 \$5 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 2014, risk margins in outstanding claims were \$1,353 million or 8.7% of the net discounted central estimate. This was down from \$1,565 million or 9.4% of the net discounted central estimate a year earlier, largely as a result of an explicit \$184 million risk margin release and a \$23 million adverse foreign exchange impact.

The probability of adequacy of the outstanding claims provision decreased to 88.7% from 90.7% a year earlier, reflecting the decrease in risk margins. The coefficient of variation of the net discounted central estimate increased slightly more than offsetting the dampening impact on volatility as a result of the reinsurance of the medical malpractice portfolios.

The probability of adequacy of total insurance liabilities was 94.7% compared with 95.3% at 31 December 2013, 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 2014, the carrying value of intangibles was \$3,831 million, down 14% from \$4,480 million a year earlier but down 37% from \$6,054 million at 31 December 2012.

Intangibles reduced by \$649 million in 2014, mainly reflecting a \$216 million foreign exchange impact and reclassification of \$326 million of intangibles largely pertaining to the Australian and North American agencies to 'held for sale' status. Based on sales completed post year end, the transactions are expected to be profitable thus confirming the recoverability of these balances.

The amortisation charge against identifiable intangibles was \$62 million, down from \$642 million last year, reflecting the non-recurrence of \$413 million of accelerated amortisation predominantly relating to Balboa and Sterling intangibles following the very substantial decline in lender-placed premium income and profitability. As a result of this significant acceleration, the Group's annual amortisation charge has reduced from around \$200 million in the previous year.

QBE monitors goodwill and other intangibles for indicators of impairment at each reporting date.

Following completion of year end impairment testing, a \$55 million impairment charge was recognised, mainly in relation to identifiable intangibles in North and South America, with a small goodwill impairment recognised with respect to Colombia and Ecuador.

Although the year end impairment testing indicated that the recoverable value of North American Operations' group of cash generating units exceeded the carrying value, there remains limited headroom. Moreover, the impairment calculation remains sensitive to a range of assumptions, in particular to increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and investment return assumptions. Details of the sensitivities associated with this valuation are included in note 16 to the financial statements.

As at 31 December 2014, total identifiable intangibles and goodwill pertaining to our North American Operations were \$1,794 million compared with \$2,053 million at 31 December 2013, with \$198 million of the reduction representing agency assets transferred to "held for sale" status and sold subsequent to year end.

Reconciliation of movement in intangible assets

	31 DECEMBER 2014			31 DECEMBER 2013		
	IDENTIFIABLE INTANGIBLES US\$M	GOODWILL US\$M	TOTAL US\$M	IDENTIFIABLE INTANGIBLES US\$M	GOODWILL US\$M	TOTAL US\$M
Opening balance	579	3,901	4,480	1,240	4,814	6,054
Acquisitions	-	-	-	5	(3)	2
Disposals	-	-	-	(3)	(8)	(11)
Transfer to assets held for sale	(35)	(291)	(326)	-	-	-
Additions/reclassifications	9	1	10	8	(2)	6
Amortisation/impairment	(106)	(11)	(117)	(645)	(600)	(1,245)
Foreign exchange	(24)	(192)	(216)	(26)	(300)	(326)
Closing balance	423	3,408	3,831	579	3,901	4,480

Investment performance and strategy

Investment returns were broadly in line with expectations in 2014, with the increased allocation to growth assets supporting solid fixed income returns.

Whilst our short duration portfolio did not benefit meaningfully from the significant rally in global bond markets over the course of the year, our credit portfolio did reap the benefits of additional credit spread income and modest capital gains from a degree of spread contraction.

This was particularly the case for our European exposures and our global financials. Our European exposures benefited from expectations of quantitative easing measures by the ECB while our global financials saw a continuation of the outperformance they have been enjoying since the major dislocation experienced during the GFC. Excess spreads on global financials are now negligible compared with similar term and quality industrials.

Our modest infrastructure debt and structured credit portfolios also generated good returns and we intend adding incrementally to these positions throughout 2015.

The additional asset classes introduced to the portfolio in 2014 (emerging market equity, emerging market debt and high yield debt) saw strong returns in the first half of the year, although we gave up much of these gains in the second half. This enabled more attractive entry levels to increase these positions early in 2015.

Our developed market equity and property allocations delivered excellent returns for the year with superior equity stock selection contributing to returns above those of the respective indices.

Exposure to growth assets has been increased to 14% of net investments and cash since year end through a combination of additional exposure to existing asset classes and a new allocation to alternatives. We expect this allocation to alternatives to progressively increase towards 2% of the portfolio by the end of 2015.

Notwithstanding revisions to the Group's investment strategy, our portfolio remains conservative relative to the majority of our global peers. In particular, the fixed income component of the portfolio retains excess liquidity relative to our claims payment obligations. We will therefore selectively introduce additional yield into the portfolio throughout the course of 2015 as appropriately high quality opportunities present themselves.

Total net investment income

FOR THE YEAR ENDED 31 DECEMBER	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M
Income on growth assets	86	53	66	59	152	112
Income on fixed interest securities, short-term money and cash	448	447	246	223	694	670
Foreign exchange gain	17	24	-	-	17	24
Realised (losses) gains on repurchased debt securities	-	1	(18)	1	(18)	2
Realised (losses) gains on sale of related entities	-	-	(17)	29	(17)	29
Other income (expense)	2	(2)	7	-	9	(2)
Gross investment income	553	523	284	312	837	835
Investment expenses	(26)	(23)	(14)	(11)	(40)	(34)
Net investment income	527	500	270	301	797	801

Gross and net yield

FOR THE YEAR ENDED 31 DECEMBER	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Gross ¹	2.9	2.5	2.7	3.0	2.8	2.7
Net ²	2.7	2.4	2.6	2.9	2.7	2.6
Gross excluding foreign exchange gain (loss)	2.8	2.4	2.7	3.0	2.8	2.6
Net excluding foreign exchange gain (loss)	2.6	2.3	2.6	2.9	2.6	2.5

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		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M
Cash and cash equivalents	544	826	308	412	852	1,238
Short-term money	4,965	4,352	2,806	2,173	7,771	6,525
Government bonds	3,077	5,030	1,738	2,514	4,815	7,544
Corporate bonds	7,827	9,635	4,422	4,812	12,249	14,447
Infrastructure debt	162	107	92	53	254	160
Unit trusts	47	57	26	28	73	85
Equities - listed and unlisted	466	106	378	187	844	293
Emerging market debt	155	-	88	-	243	-
Emerging market equity	155	-	88	-	243	-
High yield debt	176	-	100	-	276	-
Property trusts	606	210	342	104	948	314
Investment properties	10	9	5	4	15	13
Total investments and cash	18,190	20,332	10,393	10,287	28,583	30,619

Interest bearing financial assets - security grading

AS AT 31 DECEMBER	2014 %	2013 %
Moody's rating		
Aaa	26	31
Aa	30	36
A	39	28
<A	5	5

Currency mix

AS AT 31 DECEMBER	MARKET VALUE OF GROWTH ASSETS		MARKET VALUE OF TOTAL INVESTMENTS AND CASH	
	2014 %	2013 %	2014 %	2013 %
US dollar	61	22	32	31
Australian dollar	25	58	32	31
Sterling	11	12	19	19
Euro	3	8	7	9
Other	-	-	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 2014 will be 22 Australian cents per share. Combined with the 2014 interim dividend of 15 Australian cents per share, the total dividend for 2014 will be 37 Australian cents per share, up 16% compared with the total 2013 dividend of 32 Australian cents per share.

The payout for the 2014 full year is A\$492 million or around 49% of cash profit calculated by converting cash profit to Australian dollars at the closing rate of exchange. The calculation of cash profit is shown on page 15.

The dividend will be franked at 100% and is due to be paid on 13 April 2015. The dividend reinvestment programs continue at a nil discount.

Closing remarks

On every financial metric, completion of the capital plan initiatives to date has substantially improved QBE's balance sheet strength and flexibility. At the same time we have demonstrated reserving stability, delivered a result in line with market expectations and increased free cash flow.

Looking forward, we aim to deliver stable and high quality underwriting results, aggressively pursue additional cost savings and efficiencies, further enhance investment returns on our \$28.6 billion investment portfolio and optimise our capital usage in light of available growth opportunities.

All of this should translate into stable and steadily growing dividends to our shareholders.

Patrick Regan
Group Chief Financial Officer

Made possible by QBE:

We exist to make it possible for our customers to turn their business ambitions into reality. By working closely with them to understand their specific needs, we can shape a risk management solution that will help them achieve what they need to, without needing to worry about what could happen if things do not go to plan. By applying our deep expertise, delivering the best possible service and finding a way to make things happen, we are building long lasting partnerships with customers in all parts of the world.



Australian & New Zealand Operations:

Helping home-grown go global

QBE provides protection to Australia's pioneer of portion-sized products, sharing its homemade products with airlines and hotels around the world.

Beerenberg has come a long way since selling its homemade jams from a roadside stall in the Adelaide Hills. A major manufacturer of jams, marmalades and condiments, Beerenberg pioneered the concept of portion serves in Australia; an achievement that now finds the company's products in 24 countries, on major airlines and in more than 300 hotels.

Beerenberg currently produces 25 million portion foil packs and 11 million portion-size jars each year. With all Beerenberg products being made on their farm, protecting this asset is vital to the success of the company's business operations. QBE has been insuring the property of this home-grown business for almost 20 years, as well as providing machinery breakdown, fleet motor, corporate travel, and public and product liability insurance.



Emerging Markets - Asia Pacific:

Launch of QBE Qnect

An innovative online insurance portal that allows direct transactions with agents and brokers.

QBE launched an innovative online insurance portal QBE Qnect in Hong Kong and Singapore which enables brokers and agents to transact insurance directly with QBE. It can provide intermediaries with quick quotes, issue policies, better manage customer portfolios and generate data analytics. Available via desktop, mobile and tablet devices, Qnect meets a rising demand from intermediaries to quote, bind and provide documentation immediately at the point of sale, allowing intermediaries to address customers' insurance needs at their fingertips.

The introduction of Qnect is in line with the Asia Pacific profitable growth strategy to develop a leading digital platform and product offering for the fast-growing SME commercial customer sector in the Asia Pacific region.



European Operations:

Protecting the railways

QBE helped ensure the 'Orange Army' in Dawlish, south west England, could get the job done.

During a February storm in the seaside town of Dawlish, South West England, the sea wall and railway track were swept away, cutting off Dawlish and surrounding towns from London. As the insurer for Network Rail, QBE sponsored the repair work. A 300-strong Network Rail team known locally as the 'Orange Army', due to their distinct uniforms, were deployed. The reconstruction process was complicated with engineers needing to create innovative solutions in the re-building of the sea wall while being hampered by further storm surge. The first passenger boarded at Dawlish Station exactly two months after the initial storm swept through Dawlish.



Emerging Markets - Latin America:

Clearing the air

QBE is drawing on its global capability and knowledge to assist Chile's construction sector in protecting valuable assets.

Specialist insurance provided by QBE is allowing construction companies in Chile with access to a single insurance package that offers bespoke protection for equipment and mobile plants. When Chile's biggest wind farm needed to hoist heavy new turbines into place, the largest crane in Latin America was called into service. With its 120-metre-long beam capable of lifting 1,200 tons, the crane easily lifted the 80-ton units more than 100 metres into the air. Utilising the expertise of our Australian and New Zealand team, QBE Chile provided Mobile Plant cover for the crane. The innovative equipment protection package offered by QBE is the first of its kind in the country.

North American Operations:

Helping high flyers

QBE's skilled underwriting team in North America, which includes former pilots and aviation specialists, creates tailored, one-of-a-kind policies for the aviation industry across the U.S.

Coupled with an award-winning claims service, QBE's understanding of the specific needs of this important sector has helped its Aviation business create specific policies for some of the country's leading fixed base operators and flight schools.

With over 30 unique and diverse aeroplanes and helicopters, Flight Research, Inc. - an aircraft upset recovery training school highly specialised in "loss of aircraft control" exercises - relied on QBE underwriters to create an insurance program that matched the uniqueness of their flight operations, from high performance jets to single engine piston models. Working together, QBE and Flight Research Inc, have ensured that pilots are covered when undergoing critical training that ensures the safety of the crew and passengers.



North American Operations business review

“In 2013, North American Operations launched a comprehensive business transformation. That journey continued in 2014, with major changes to our business portfolios, structure, people and processes. The overall result is a significant improvement in financial performance and an organisation that is well positioned to deliver sustainable, profitable growth.”

David Duclos

Chief Executive Officer • North American Operations

Gross written premium US\$ million 5,310 ↓ 11% from 2013	Net earned premium US\$ million 4,471 ↓ 11% from 2013	Underwriting result US\$ million (38) ↑ \$542M from 2013 Combined operating ratio 100.8% (2013 111.5%)	Insurance profit US\$ million 8 ↑ \$543M from 2013 Insurance profit margin 0.2% (2013 loss of 10.6%)
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Competitive landscape

North American Operations consists of five major business segments: standard lines, specialty lines, mortgage services, crop and assumed reinsurance.

Standard lines (formerly P&C) includes our program, middle market and risk management businesses, writing multi-line commercial and personal lines business produced through managing general agents, independent agents and brokers. Given the similar product focus, this segment now includes our consumer business (formerly part of FPS providing voluntary property insurance). Specialty lines is focused on management liability and professional lines, accident and health and aviation as well as trade credit and surety, and is sourced through brokers and managing general agents. Mortgage services (formerly part of FPS) underwrites lender-placed insurance sold through partnerships with banks and mortgage servicers. Crop includes multi-peril crop insurance (MPCI) as well as hail and is largely produced through independent agents. Assumed reinsurance sources business primarily through reinsurance brokers.

Whilst competition increased in 2014, particularly in the standard and specialty segments, North American Operations was still able to achieve an average premium rate increase of 1.0% (excluding lender placed business and crop). In terms of specific classes of business, competition increased materially in property resulting in rate decreases of 5% in this line.

Underwriting performance

Notwithstanding another challenging year in crop coupled with more challenging market conditions that continue to affect mortgage services and some property portfolios in the standard lines segment, North American Operations' underwriting performance improved substantially in 2014.

Despite these challenges and expense ratio strain associated with significant premium contraction, North American Operations recorded a significantly improved combined operating ratio of 100.8% compared with 111.5% in 2013, largely reflecting reduced adverse prior accident year claims development and a significant reduction in underwriting expenses including a reduction in restructuring charges. At the same time we achieved

strong and profitable organic growth in specialty lines and the actions taken to enhance risk selection have seen the underlying attritional claims ratio improve slightly in 2014 and we believe will drive further improvement in our claims ratio going forward.

Having incurred \$51 million of adverse prior accident year claims development in the first half of 2014, we are pleased to report \$10 million of favourable prior accident year claims development during the remainder of the year. We are extremely pleased to put the significant prior accident year claims development challenges of the past two years behind us, thereby enabling a heightened focus on achieving further cost efficiencies and delivering profitable growth for North American Operations overall.

In addition to \$32 million of adverse prior accident year claims development in the first half of 2014 relating to late claims notifications, our crop portfolio was heavily impacted by severe hail losses and a steep decline in commodity prices without a sufficiently large offsetting uplift in crop yields. As a consequence, crop reported a disappointing combined operating ratio of 108.1% in 2014, up from 102.8% in 2013. Excluding hail and prior accident year claims development, the MPCI portfolio reported a near breakeven underwriting result despite the aforementioned steep decline in commodity prices. We have significantly restructured the reinsurance arrangements protecting the crop portfolio for 2015, including the purchasing of additional hail quota share reinsurance to reduce underwriting volatility going forward and are investigating the purchase of derivative protection to limit the downside risk of further material commodity price declines.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	5,310	5,951	6,565
Gross earned premium	US\$M	5,457	6,225	6,984
Net earned premium	US\$M	4,471	5,030	5,625
Net claims expense	US\$M	3,023	3,804	4,038
Net commission	US\$M	698	795	883
Expenses	US\$M	788	1,011	830
Underwriting result	US\$M	(38)	(580)	(126)
Net claims ratio	%	67.6	75.6	71.8
Net commission ratio	%	15.6	15.8	15.7
Expense ratio	%	17.6	20.1	14.7
Combined operating ratio	%	100.8	111.5	102.2
Insurance profit margin	%	0.2	(10.6)	(1.0)

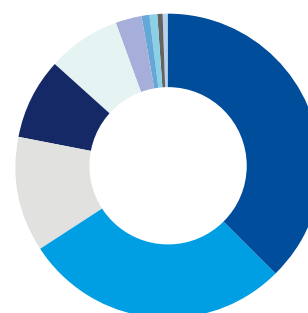
Premium income

Gross written premium was down 11% to \$5,310 million compared with \$5,951 million in the prior year, primarily driven by reductions in crop, mortgage services and underwriting revisions in program.

Market conditions were most challenging for the program business where premium income decreased by \$194 million, with the property book experiencing an average rate reduction of 5%. Premium writings also fell as a result of steps taken to improve risk selection, including the termination of 11 underperforming programs and corrective underwriting actions in the workers' compensation portfolio. These actions have already begun to manifest themselves in an improving attritional claims ratio.

Crop premium was down \$183 million as a result of lower commodity prices, while mortgage services premium fell a further \$178 million primarily due to reduced loan count in the Bank of America portfolio.

Gross earned premium by class of business 2014



	2014 %	2013 %
Commercial & domestic property	37.7	40.8
Agriculture	28.3	28.0
Motor & motor casualty	12.3	11.5
Workers' compensation	8.5	7.3
Public/product liability	7.8	8.4
Accident & health	2.7	2.8
Professional indemnity	1.0	0.3
Marine energy & aviation	0.7	0.3
Financial & credit	0.7	0.7
Other	0.3	-

Premium contraction in the aforementioned portfolios was partially offset by continued strong organic growth in specialty lines and consumer, which grew by 25% and 15% respectively. Growth in specialty lines was driven by expansion into management and professional lines during 2014. Middle market premium income stabilised with significant improvements in commercial line retentions throughout 2014 as a result of re-engagement with the agency platform and enhancements to technical pricing tools that have strengthened technical pricing capabilities.

We remain focused on profitable growth and anticipate continued strong organic growth in specialty lines supplemented by the planned launch of a range of additional specialty products in 2015.

Net earned premium declined by 11% to \$4,471 million, in line with the reduction in gross written premium.

Claims expense

Despite the challenges in crop insurance and a particularly harsh winter storm season, the net claims ratio improved materially to 67.6% from 75.6% in 2013, primarily reflecting reduced adverse prior accident year claims development following actions undertaken to address the challenges of the past two years. As noted previously, after \$51 million of adverse prior accident year claims development in the first half, we experienced \$10 million of favourable development during the second half, with modest adverse development in middle market and program business more than offset by favourable development in mortgage services, risk management and specialty.

Catastrophe experience was in line with expectations. Relatively benign experience across the majority of the property portfolios was offset by substantial catastrophe claims in crop insurance driven by the steep decline in commodity (especially corn) prices and hail claims, particularly in Nebraska. At the same time, unprecedented winter weather and hail drove 21 points of catastrophe claims in our consumer business.

Notwithstanding a 0.3% adverse business mix impact due to relative portfolio growth in specialty and contraction in reinsurance, the attritional claims ratio excluding crop and lender-placed improved to 49.1% from 49.2% in 2013, reflecting the earning of past premium rate increases and remediation efforts in program and middle market.

Lower risk-free rates used to discount net claims liabilities adversely impacted the claims ratio by \$18 million or 0.4%.

Commission and expenses

The commission ratio improved marginally to 15.6% compared with 15.8% in 2013, largely due to reduced commission rates in program, mortgage services and specialty partly offset by an adverse business mix impact.

Notwithstanding a further significant reduction in net earned premium, North American Operations' expense ratio improved to 17.6% compared with 20.1% in 2013, reflecting a \$223 million reduction in underwriting expenses. Material cost savings were achieved as a result of continued operational transformation efforts aimed at integrating and improving operational processes, systems and resources and a reduction in related restructuring charges. Progressively increased usage of the GSSC in Manila, right-sizing efforts and expense

management resulted in a more than 21% reduction in North American staff numbers.

Other developments

North American Operations is in the midst of considerable transformational efforts focused on profitable organic growth, organisational optimisation and business enablement.

Organisational optimisation is focused on driving greater flexibility and variability of cost. Our redesign of the North American platform is well underway as we optimise structure, processes, sourcing opportunities and geographic footprint, with the ultimate objective of achieving a top quartile expense ratio.

Business enablement is about creating the right environment and tools to deliver sustainable profitable growth and quality, predictable results. Our focus includes actuarial enhancements, scalable IT platforms and data and analytics build-outs.

After three years of contraction, we expect to see gross written premium stabilise with meaningful premium growth expected in specialty lines, consumer and potentially crop subject to commodity prices. Targeted organic growth will be coupled by expansion into new specialist lines. Sales and marketing will be an area of key focus in 2015 with the appointment of a new leader reporting directly to the divisional CEO, who will be responsible for driving profitable growth with a product-centric and customer-focused approach.

We are pleased with the progress being made to stabilise and improve middle market and program. Underwriting and distribution changes within middle market, including better rate management and improved policy retention, have stabilised premium and led to an attractive underlying claims ratio. Steps have also been taken to facilitate easier access for distributors to our people and products that will help meet the specialised needs of the niche markets in which we compete. We have realigned our middle market business to deliver on our commitment to our commercial, personal and agri-insurance businesses, shifting to a more customer and product-centric service model to provide all our agents with access to the full suite of QBE products.

Under the direction of a new leadership team, pricing and underwriting actions have been implemented within program with a focus on leveraging the new product-focused structure to drive underwriting excellence. Collectively this has led to an improved combined operating ratio in 2014.

Mortgage services remains extremely challenged with ongoing pressure on premium volume and thus the expense ratio, although the result for this business was aided to a certain extent in 2014 by favourable prior year claims development. We continue to focus on right-sizing the business and stringently managing expenses.

We recently announced the sale of QBE North America's US agency businesses, which include Community Association Underwriters (CAU), Deep South and SIU to Alliant Insurance Services, Inc. The total potential sale consideration is around \$300 million including an up-front cash payment of \$217 million, with the remaining cash to be paid by way of a performance-based earn-out agreement over the next five years. The total potential sale consideration represents an EBITDA multiple of around 12x. The sale completed on 2 February 2015.



North American Operations is undertaking a considerable transformation program to deliver top quartile performance and is on track to achieve strong results in the years to come.”

North American Operations

Outlook for 2015



2015 target
gross written
premium:

US\$5.2billion



2015 target
net earned
premium:

US\$3.8billion

North American Operations aims 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.

Under the direction of a largely new management team, this transformation journey began in 2013 and will continue through 2017. Clear actions were taken in 2014 driving significant year-on-year improvement, including remediation of underperforming businesses, specialty growth that is outpacing plan, key leadership appointments, organisational redesign and operational transformation.

Underlying trends are improving and we are pleased to see that results are stabilising.

We will continue to make consistent improvements each year, and anticipate a combined operating ratio in the mid 90% region by 2017.

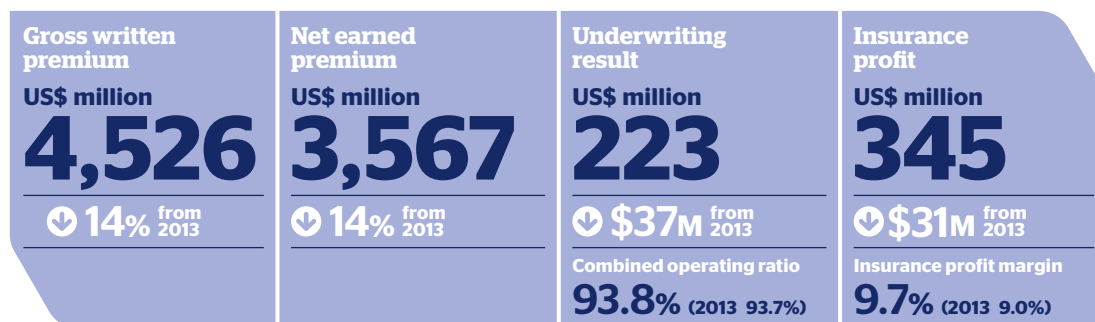
I would once again like to thank my team for their hard work and perseverance during this challenging period.

European Operations business review

“European Operations had a successful year, delivering a combined operating ratio of 93.8% and implementing several key strategic initiatives. We continue to exercise strong underwriting discipline in a very competitive market and remain focused on enhancing our value proposition to both clients and brokers.”

Richard Pryce

Chief Executive Officer • European Operations



Competitive landscape

All areas of our business are currently being impacted by challenging market conditions and, in some sectors, competition intensified as the year progressed. Premium rates on renewed business declined by 1.3% on average in 2014 compared with a reduction of 0.6% in the first half. Our Retail portfolio experienced renewal premium rate increases of around 1.0%; however, International Markets and Reinsurance experienced premium rate reductions averaging 3.9% and 3.3% respectively.

Whilst the economic environment has stabilised or is modestly improving in most of our key geographies, we are not yet seeing any meaningful increase in business activity.

In those sectors where competition is more challenged we have been prepared to sacrifice premium income to maintain our financial performance and to protect capital. The reduction in gross written premium reflects our commitment to disciplined and technical underwriting.

The depth, breadth and quality of our products and services, combined with an extended distribution

footprint, create a market-leading value proposition for both brokers and clients. We are very well positioned to effectively navigate the competitive environment by retaining our quality core portfolio and converting profitable new business opportunities.

Underwriting performance

After a difficult start to the year following the UK storm claims and a significant reduction in gross written premium during the first quarter, European Operations' underwriting performance improved steadily across the remainder of 2014. Our combined operating ratio of 93.8% is especially pleasing as lower risk free rates adversely impacted the underwriting result by \$217 million or 6.1%.

Large individual risk and catastrophe claims increased to 13.8% of net earned premium from 11.2% in the previous year, largely due to the aforementioned UK storm claims.

Despite some strengthening of long tail disease claims in the UK, favourable prior accident year claims development contributed \$158 million or 4.4% to the underwriting result.

The reinsurance transaction to dispose of €253 million of undiscounted Italian and Spanish medical malpractice liabilities reduced net claims incurred and net earned premium by \$362 million. Although broadly profit neutral, the transaction improved European Operations' full year combined operating ratio by 0.5% (with a 4.0% positive impact on the net claims ratio offset by a 3.5% adverse impact on the combined commission and expense ratio as highlighted in the table below) and has reduced the level of uncertainty in the residual net discounted central estimate of outstanding claims liabilities.

The impact of the medical malpractice reinsurance transaction on European Operations' reported underwriting ratios is highlighted in the table below.

In spite of the rating environment, both QBE Re and our International Markets divisions produced excellent underwriting results. The Retail division performed better as the year progressed and I am particularly pleased with our Continental European business which reported a record underwriting result. The Financial and Speciality business again delivered a strong result.

Our ongoing focus on expense management resulted in a reduction in operating expenses. Nonetheless, our expense ratio increased year-on-year reflecting the material decline in net earned premium and the one-off impact of the medical malpractice reinsurance transaction.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2014 EX MEDMAL	2013	2012
Gross written premium	US\$M	4,526	4,526	5,236	5,162
Gross earned premium	US\$M	4,805	4,805	5,146	4,903
Net earned premium	US\$M	3,567	3,929	4,160	3,971
Net claims expense	US\$M	2,000	2,362	2,486	2,441
Net commission	US\$M	718	718	768	699
Expenses	US\$M	626	626	646	607
Underwriting result	US\$M	223	223	260	224
Net claims ratio	%	56.1	60.1	59.7	61.5
Net commission ratio	%	20.1	18.3	18.5	17.6
Expense ratio	%	17.6	15.9	15.5	15.3
Combined operating ratio	%	93.8	94.3	93.7	94.4
Insurance profit margin	%	9.7	8.8	9.0	10.9

Premium income

Gross written premium fell by 14% to \$4,526 million from \$5,236 million in the previous year.

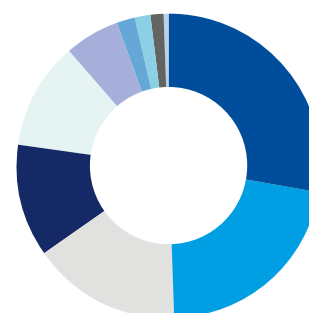
On a constant currency basis, gross written premium declined 17% to £2,751 million from £3,332 million in the previous year, below the £2,900 million target set 12 months ago but above our revised estimate of £2,700 million established with the release of the interim 2014 result.

This top-line reduction was principally the result of two factors.

Firstly, the portfolio and geographic remediation and disposal activities we had identified to improve long term underwriting performance led to a reduction in gross written premium of \$543 million (£330 million) as expected. All of these actions were successfully completed during the year.

Secondly, the more competitive market conditions led to a reduction in overall income, particularly within the International Markets and Reinsurance business units. QBE Re's gross written premium in particular was also adversely impacted by a change in buying habits as customers restructured reinsurance programs and retained more risk in-house.

Gross earned premium by class of business 2014



	2014 %	2013 %
Commercial & domestic property	28.0	27.8
Public/product liability	21.7	21.0
Marine energy & aviation	15.8	18.1
Professional indemnity	11.9	11.2
Motor & motor casualty	11.3	10.6
Workers' compensation	6.0	5.9
Other	1.8	1.9
Financial & credit	1.6	1.6
Accident & health	1.4	1.4
Agriculture	0.5	0.6

The reduction in gross written premium across European Operations was far less severe in the second half of 2014, with most of the aforementioned remediation and disposal activities impacting first half written premiums.

Gross earned premium declined only 7% reflecting the earning of premium written in prior periods. Net earned premium fell 14% year-on-year and in line with the reduction in gross written premium, largely due to the medical malpractice reinsurance transaction. Excluding the medical malpractice reinsurance transaction, net earned premium fell by only 6%.

All other things being equal, net earned premium will increase by \$362 million in 2015 due to the non-recurrence of the medical malpractice reinsurance transaction.

Claims expense

The aforementioned medical malpractice reinsurance transaction distorts European Operations' 2014 net claims ratio as highlighted in the preceding table. The claims commentary following refers to the 2014 claims ratio (and components therein) excluding the impact of the medical malpractice reinsurance.

The 2014 net claims ratio increased slightly to 60.1% from 59.7% in the prior year, although the claims line was impacted by a number of significant and largely offsetting items.

On the back of the aforementioned portfolio and geographic remediation and disposal activities and the maintenance of strict underwriting discipline, the attritional ratio improved to 46.7% from 47.3% in the prior year.

Following a high incidence of large individual risk and catastrophe claims during the first half of 2014, including UK and European storms, claims activity in the second half of the year was relatively benign. As such, the underlying cost of large individual risk and catastrophe claims was only marginally higher than 2013 at 12.5% of net earned premium compared with 11.2% in the previous year.

The net claims ratio was adversely impacted by \$217 million or 5.5% due to the very material reduction in risk-free rates during the year (principally GBP, USD, Euro, CAD and AUD) and especially during the second half.

Partially offsetting the adverse discount rate movement, net claims costs benefited from favourable prior accident year claims development totalling \$158 million, largely within our marine & energy portfolios and QIEL property portfolio. Claims reserves pertaining to long tail disease claims in the UK were strengthened, consistent with industry trends.

The net claims ratio also benefited from a \$140 million release of risk margins reflecting the significant reduction in the level of uncertainty in the consolidated net discounted central estimate of claims. This was principally due to the medical malpractice reinsurance transaction that eliminated \$362 million of long-tail liabilities (with associated uncertainty that has been challenging to accurately model) coupled with a reduction in the net central estimate driven by the aforementioned favourable prior accident year claims development. On a management basis, the mean term of European Operations' net discounted claims liabilities

reduced from 3.9 to 3.7 years, again primarily as a result of the medical malpractice reinsurance.

Commission and expenses

The aforementioned medical malpractice reinsurance transaction distorts European Operations' 2014 commission and expense ratios as highlighted in the preceding table. The commission and expense commentary below refers to the 2014 commission and expense ratios excluding the impact of the medical malpractice reinsurance.

The net commission ratio improved to 18.3% from 18.5% in the prior year. Whilst there remains upward pressure on gross commission rates reflective of the competitive nature of the markets, the net commission ratio improved as a result of a reduction in reinstatement premium payable in 2014 as well as a change in business mix, principally the increase in the relative premium contribution of the lower commission paying Retail division.

Notwithstanding an absolute reduction in expenses, European Operations' FY14 expense ratio increased to 15.9% from 15.5% in the prior year, impacted by the year-on-year decline in net earned premium. Underwriting expenses fell by \$20 million during the year as a result of lower Lloyd's premium charges and our local operational improvement program that has delivered significant reductions in headcount and related costs. Moreover, our Quantum program is on track to deliver claims procurement and indirect expense savings that will be realised in 2015.

Other developments

The successful delivery of the key initiatives we identified for 2014, most notably the sale of aviation and bloodstock renewal portfolios, medical malpractice reinsurance and disposal of Central & Eastern Europe assets, means we can spend more time focused on the pursuit of profitable growth.

During our strategic planning exercise undertaken earlier in the year, we identified several opportunities for additional profitable growth over the next few years. It is pleasing to see some of the opportunities already coming to fruition, namely the opening of a QBE Re branch in Bermuda, the build out of expanded financial lines capabilities in Continental Europe and expanded energy capabilities.

Our client value proposition is central to our future success and our progress across the organisation during 2014 is very encouraging. Finally we continue to recruit high quality specialists throughout the division to help us deliver exceptional value and service to all our stakeholders.

As reported at the half year, we completed a refresh of European Operations' executive team with the appointment of David Hall as Managing Director, Retail. During the second half of 2014, we have continued to strengthen and enhance our specialist underwriting and leadership teams with a combination of internal promotions and external hires. Our global leadership program has been extremely successful and fundamental to identifying and developing many of our talented colleagues and preparing them for exciting career opportunities across the Group.

“During 2014 we have made significant positive progress across the business and delivered on the key priorities we identified at the beginning of the year. Whilst we are in no way complacent we believe that we are well positioned for 2015.”

European Operations

Outlook for 2015

 **2015 target gross written premium:** **US\$4.4billion**

 **2015 target net earned premium:** **US\$3.5billion**

We do not anticipate any change in market conditions and therefore all sectors of the market will remain competitive. Nonetheless, we are very well positioned to retain our core portfolio and grow our business with selective quality opportunities in 2015. Retention in particular will be a key priority for the European Operations team.

We are starting to see benefits from the enhanced focus and investment in our client value proposition. In conjunction with our strong distribution capability we anticipate seeing and converting more quality new business in 2015.

In addition, we will see the increasing benefits from our ongoing expense reduction program and this will include nearly a full year of benefit from offshoring.

2014 has been a year of change and challenge for everyone at European Operations. The decisive action that we have taken means we are better positioned to grow the business profitably. I would like to thank all my colleagues for their skill, dedication and support during a challenging but ultimately successful year.

Australian & New Zealand Operations business review

“A disciplined approach to pricing and underwriting over a number of years in an increasingly competitive market has seen Australian & New Zealand Operations deliver an excellent result with a combined operating ratio of 87%. Continued focus on underwriting controls and operational efficiencies while driving transformational change has underpinned our strong result.”

Colin Fagen

Chief Executive Officer • Australian & New Zealand Operations

Gross written premium US\$ million 4,392 ↓ 9% from 2013	Net earned premium US\$ million 3,834 ↓ 5% from 2013	Underwriting result US\$ million 498 ↑ 2% from 2013 Combined operating ratio 87.0% (2013 87.9%)	Insurance profit US\$ million 680 ↓ 2% from 2013 Insurance profit margin 17.7% (2013 17.2%)
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Competitive landscape

We have delivered excellent results in a slowing economy characterised by low interest rates and, in the insurance industry, heightened competitive pressure.

Low discount and interest rates is always challenging for our industry and the second half of 2014 reflected this as consumer confidence softened. The Federal Government deficit continued to deteriorate, commodity prices retreated and concern regarding China grew. When interest rates eventually revert to more historic levels, there will be a significantly positive impact on our results, albeit this scenario is unlikely to materialise in the near term.

Strong industry returns combined with excess capital in local and international markets have seen competition intensify, resulting in the need for an increased focus on business retention. Reflecting more limited revenue growth opportunities, insurers continue to drive operational efficiencies further reducing acquisition costs. We expect this competitive environment to continue into 2015.

Although there has been consolidation in the market amongst the larger players, the challenger brands are gaining market share in personal lines.

Despite the lower levels of consumer confidence, house prices have remained strong, particularly in Sydney. State governments have announced significant infrastructure projects that have added much needed economic stimulus; however, the shortage of housing stock is not expected to materially change in the medium term. Though unemployment increased marginally across 2014, employment and job creation have remained relatively positive compared with other world economies.

Underwriting performance

Our change program, coupled with ongoing portfolio restructuring, was instrumental in achieving these excellent results. Australian & New Zealand Operations performed extremely well in 2014, delivering a combined operating ratio of 87.0% and an insurance profit margin of 17.7% compared with 87.9% and 17.2% respectively in 2013. Although most classes were profitable, the property portfolio

continued to experience pricing and profitability pressure. Our longer tail portfolios including liability, compulsory third party (CTP) and lenders' mortgage insurance continued to outperform expectations despite the low interest and discount rate environment.

Our lenders' mortgage insurance business had an especially strong result and continues to benefit from effective credit and underwriting controls as well as the strength of the housing market, which is not expected to materially change in the foreseeable future.

Operating in an increasingly competitive market, the implementation of our refreshed customer value proposition ensured policy retention remained stable at 81% and a renewed focus on targeted sales initiatives delivered around \$1.2 billion in new business with policy counts rising in a number of portfolios. We remain focused on retaining our profitable renewal portfolio and sourcing new business within our risk appetite.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	4,392	4,805	5,008
Gross earned premium	US\$M	4,386	4,626	4,801
Net earned premium	US\$M	3,834	4,028	4,149
Net claims expense	US\$M	2,242	2,347	2,501
Net commission	US\$M	532	572	555
Expenses	US\$M	562	623	701
Underwriting result	US\$M	498	486	392
Net claims ratio	%	58.4	58.2	60.3
Net commission ratio	%	13.9	14.2	13.4
Expense ratio	%	14.7	15.5	16.9
Combined operating ratio	%	87.0	87.9	90.6
Insurance profit margin	%	17.7	17.2	15.7

Premium income

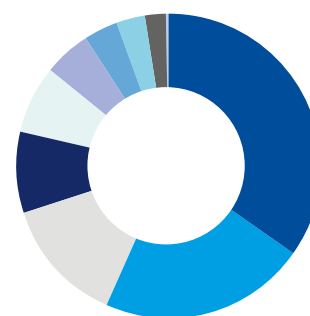
Gross written premium declined by 9% compared with 2013, largely reflecting the 7% depreciation of the Australian dollar against the US dollar. On a constant currency basis and allowing for a \$32 million impact from the abolition of the fire service levy (FSL) in Victoria, underlying gross written premium fell by only 2% reflecting the competitive landscape.

Premium rates increased by 0.1% on average in 2014; however, pricing trended downwards throughout the year. Retention has been stable at 81% on a policy count basis for renewable portfolios. New business growth was strongest in our Australian CTP portfolio and across most lines of business in New Zealand. Lenders' mortgage insurance saw significant growth in the first four months of 2014, with growth slowing thereafter as a direct result of APRA's pressure on ADIs regarding mortgage origination and desire to restrict residential lending for investment purposes.

During the year, the earnings pattern of the lenders' mortgage insurance business was reviewed and explicit consideration given to diminishing volatility in our claims experience. Our annual review of the earnings patterns and our excellent historical claims experience over the past five years better informed our earnings assumptions, resulting in an earnings profile more appropriate to the flow of risk and the incidence of claims. Earned premium benefited by \$82 million.

Net earned premium fell by 5% to \$3,834 million. On a constant currency basis and allowing for the FSL impact, net earned premium actually increased by 3%, significantly higher than top-line growth, mainly reflecting the revised premium earning pattern in the lenders' mortgage insurance business.

Gross earned premium by class of business 2014



	2014 %	2013 %
Commercial & domestic property	34.8	37.2
Motor & motor casualty	21.9	20.2
Financial & credit	13.5	10.3
Public/product liability	8.5	9.0
Workers' compensation	7.2	8.2
Agriculture	5.2	5.5
Accident & health	3.4	3.6
Marine energy & aviation	3.0	3.2
Professional indemnity	2.4	2.6
Life	0.1	0.2

The reinsurance expense ratio decreased to 12.6% of gross earned premium compared with 12.9% in 2013, reflecting reduced reinsurance costs across most classes and a change in the mix of business from short tail catastrophe-prone products to longer tail products – predominantly CTP. This was partially offset by an increase in our lenders' mortgage insurance business quota share arrangements to 25%, up from 12% in 2013.

Claims expense

The net claims ratio moved marginally to 58.4% from 58.2% in 2013.

Pleasingly, the attritional claims ratio improved by a further 0.8% to 49.7% despite the growth in CTP that naturally generates a higher attritional claims ratio relative to most other products. Large individual risk and catastrophe claims costs were 2.2% higher than in 2013. Although lower than medium-term averages, catastrophe claims costs increased significantly following an exceptionally benign 2013. Our Brisbane hail net claims cost of \$85 million (A\$94 million) was within expectations and less than our national market share based on the expected industry loss. Large individual risk claims across both long and short tail classes were higher than expected and higher than prior years. There is no emergence of any patterns associated with large individual risk claims and our underwriting standards continue to be refined in order to manage the impact.

Risk-free rates fell further in the second half, contributing to a \$62 million or 1.6% adverse impact to the 2014 net claims ratio which was more than offset by favourable prior year development of \$114 million or 3.0% and a \$75 million or 2.0% net impact from the revised earning pattern for the mortgage insurance business.

Divisional risk margins were unchanged with releases in QBE LMI retained in the property and casualty business.

Commission and expenses

Australian & New Zealand Operations' combined commission and expense ratio improved to 28.6% from 29.7% in 2013.

The commission ratio fell slightly to 13.9% from 14.2% in 2013, reflecting a reduction in commission rates in corporate partners and direct as well as financial institutions and New Zealand coupled with strong growth in the relatively low commission paying financial institutions segment.

Notwithstanding the slight reduction in premium income, Australian & New Zealand Operation's underwriting expense ratio improved nicely to 14.7% from 15.5% in 2013, largely as a result of our focus on operational excellence coupled with the removal of FSL in Victoria.

During October and November 2014 we moved into our new premises at 2 Park Street, completing the rationalisation of our previously extensive Sydney office footprint. This has delivered improved staff collaboration, operational efficiencies and productivity and will deliver further expense savings in 2015.

Other developments

Australian & New Zealand Operations has led the Group in the development of the GSSC and delivery of operational effectiveness. These initiatives, combined with strong and

disciplined underwriting, will enable us to remain competitive through the softening market cycle. Operational transformation has enhanced the agility and change readiness of the business, attributes that will remain critical to our ongoing success. While most of the issues that emerged during transformation were expected and have been addressed, we have identified further areas for improvement. We are importing GSSC initiatives into our businesses in Australia and New Zealand, and the focus within all our teams is to continually refine our processes to improve efficiency and customer service.

The work we have undertaken throughout 2014 to improve our customer centricity, particularly the pilot and execution of our reinvigorated customer value proposition for each of our distribution channels, will ensure that all of our customers are kept firmly in mind in our strategy formulation. This is already driving results across our business as we create models of continuous improvement and further develop our measurement methodology. It has also delivered a marked improvement in prior year outstanding claims and ongoing improvement in our claims service is anticipated.

We have materially improved our staff engagement scores in 2014, recognising the integral role our people play in delivering the exceptional products and service to our customers. This is particularly positive, recognising the disruption associated with the local downsizing and level of change implemented in 2013.

The final report of the Financial Systems Inquiry was delivered late in 2014. The insurance industry receives far less attention than other participants in the financial services sector, though the report clearly calls for insurers to improve consumer guidance (including tools and calculators) and general disclosure. While we wholeheartedly support improved consumer understanding of the benefits of insurance, the encouragement of comparison websites and increased standardisation across the industry is disappointing. We believe this has the potential to exacerbate the very lack of understanding among consumers the report seeks to address and will potentially lead to even greater importance being placed on price above product and service when selecting insurance. As a result, the true risk may not be covered and this is particularly concerning when it affects many customers' main asset: their home. While there are some positive examples of aggregator models quoted in the report in travel, life and health, it is widely acknowledged that travel products have relatively high dispute rates and appropriate consideration does not appear to have been given to the numerous examples of poor outcomes for customers buying purely based on price rather than product attributes. The industry has been working for some time on improving the financial literacy of consumers and will continue to do so.

The Australian Government Actuary's report into pricing of home and contents in North Queensland was also released late in 2014 and acknowledges the losses incurred by the industry in recent years. Perhaps most encouragingly, there is growing recognition of the importance of mitigation. We hope there will be more collaboration in the future to create initiatives with a greater likelihood of success, reducing the impact to customers and government at all levels and strengthening the resilience of communities that will ultimately benefit the broader society.



It is important that the industry and government at all levels work closely together to create positive initiatives, to mitigate risk in our society and to ensure that insurance remains affordable for as much of our community as possible.”

Australian & New Zealand Operations Outlook for 2015



2015 target
gross written
premium:

US\$4.0billion



2015 target
net earned
premium:

US\$3.3billion

We expect the Australian economy to grow only marginally in 2015 with interest rates flat and potentially a small increase in unemployment. Inflation is expected to be at the lower end of Reserve Bank targets.

The insurance market will likely remain competitive and rates will continue to be under pressure, reflecting relatively benign catastrophe experience and correspondingly lower reinsurance costs. This will restrict growth opportunities and will place margins under pressure with inflation (albeit low) still outstripping rate increases.

The work undertaken to deliver operational efficiencies will continue to provide significant cost benefits and scalability in the year ahead. The majority of our transformational change is now embedded into our operating model which will be further modified to enhance our service delivery, productivity and to drive market needs. We will also continue to focus on both our delivery to customers and our teams' engagement to achieve this.

Systems investment will complement a range of customer initiatives and will further simplify our processes, with a particular focus on improving claims service delivery while maximising productivity benefits and supporting top-line growth.

On 16 February 2015, we announced the sale of 100% of our Australian agency businesses CHU Underwriting Agencies Pty Limited (CHU), Corporate Underwriting Agencies Pty Limited (CUA) and Underwriting Agencies of Australia Pty Limited (UAA). The up-front cash consideration is A\$290 million and represents an EBITDA multiple of approximately 8x. The final consideration, however, is subject to an earn out based on performance in 2015 and 2016 relative to 2014 and will fall within the range of A\$232 million to A\$348 million. The sale is expected to complete in late March 2015.

I would like to thank our dedicated team throughout Australia and New Zealand for their continuing efforts in delivering what is a superb result in 2014. The team has fully supported our global strategy and everyone should be proud of his or her contribution to our achievements while delivering such significant change.

Emerging Markets business review

“Emerging Markets has had a challenging year; however, continued profitable growth in Asia Pacific coupled with ongoing business remediation in Latin America provide a strong foundation for future success.”

David Fried

Chief Executive Officer • Emerging Markets

Gross written premium US\$ million	Net earned premium US\$ million	Underwriting result US\$ million	Insurance profit (loss) US\$ million
2,179	1,705	(217)	(109)
⬆️ 3% from 2013	⬆️ 0% from 2013	⬇️ \$275M from 2013	⬇️ \$230M from 2013
		Combined operating ratio 112.7% (2013 96.6%)	Insurance profit (loss) margin (6.4)% (2013 7.1%)

Competitive landscape

Asia Pacific Operations

The Asia Pacific market continues to grow, buoyed by continued investment in infrastructure which is expected to grow by 7% to 8% a year over the next decade until 2025 and intra-regional trade flows between Asian economies. These trends provide opportunities for QBE in Asia to utilise our expertise to help customers with the rising insurance needs in construction/engineering, property, marine and trade credit. Rising individual wealth and an ageing population in Asia Pacific are also creating opportunities for insurers.

The abundance of capacity coupled with the aggressive pursuit of market share by competitors remains a key challenge for insurers in Asia Pacific, exacerbated by slowing economic growth and a potentially sustained low interest rate environment.

Latin American Operations

Latin America remains challenging, with uncertainty in both the economic and political landscape. Conditions in Argentina remain difficult with a 32% devaluation of the peso during 2014 and a volatile economic outlook moving into 2015. The fall in the price of oil towards the end of the year is also expected to adversely impact the Latin American economies, most notably Ecuador and Mexico.

Our updated regional strategy will take into account major economic trends, which we continue to monitor.

Emerging Markets underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	2,179	2,107	1,803
Gross earned premium	US\$M	1,942	1,984	1,717
Net earned premium	US\$M	1,705	1,702	1,446
Net claims expense	US\$M	1,245	976	790
Net commission ratio	US\$M	368	364	316
Expenses	US\$M	309	304	253
Underwriting result	US\$M	(217)	58	87

Asia Pacific Operations

Underwriting performance

Asia Pacific Operations achieved strong organic growth in both gross written and net earned premium.

We retain leading market positions in markets such as Hong Kong (ranked 2nd) and Singapore (ranked 6th) and we remain the leading general insurer in the Pacific markets of Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

Asia Pacific's underwriting result of \$38 million was 28% lower than last year with a combined operating ratio of 93.5% compared with 89.8% in 2013. Similarly, our insurance profit of \$42 million was 26% lower than last year, mainly due to continued investment in our growth strategy, higher than expected large individual risk claims, flood claims in Malaysia in December and foreign exchange movements which adversely impacted results in Papua New Guinea, Indonesia, Malaysia, Singapore, and Thailand.

Adverse large individual risk claim experience and an adverse discount rate impact were partially offset by \$20 million of favourable prior accident year claims development.

Premium income

Asia Pacific Operations recorded an 8% increase in gross written premium to \$785 million.

Excluding the distorting impact of \$63 million of premium associated with the 2013 multi-year Hong Kong Mass Transit Railway Corporation (MTRC) contract and a \$15 million adverse foreign exchange impact, underlying gross written premium growth on a constant currency basis was impressive at 21%.

Particularly strong growth was achieved in our engineering, workers' compensation, fire and marine portfolios.

The Asia region generated gross written premium of \$671 million, representing underlying growth of 24% against last year (net of MTRC). All operations recorded premium growth on a constant currency basis with countries such as Hong Kong, Malaysia, Indonesia and the Philippines recording growth rates in excess of 20%.

The Pacific region recorded a 1% decrease in gross written premium when compared with 2013 or 4% growth on a constant currency basis. With the exception of Vanuatu, all Pacific operations recorded gross written premium growth on this basis, reflecting strong retention and solid new business growth.

Premium rates reduced by 0.4% on average across the Asia Pacific portfolio compared with an increase of 0.6% in 2013.

Asia Pacific

Gross earned premium by class of business 2014



	2014 %	2013 %
Commercial & domestic property	26.9	28.0
Workers' compensation	19.0	16.1
Marine energy & aviation	18.2	18.3
Motor & motor casualty	11.6	12.8
Public/product liability	8.9	9.4
Accident & health	8.5	8.6
Professional indemnity	4.6	4.7
Financial & credit	2.3	2.1

The reinsurance expense ratio improved to 17.6% from 19.6% a year earlier due to the absence of 2013 reinstatement premiums and a shift in business mix from fire/property exposure to workers' compensation.

Net earned premium increased 15% to \$593 million reflecting top-line growth coupled with reduced reinsurance expense. Detailed reviews of our workers' compensation, marine and property portfolios were undertaken in the second half of 2014 with strategies and actions identified to help ensure sustainable and profitable growth.

Claims expense

Asia Pacific Operations' net claims ratio increased to 51.5% in 2014, compared with 48.3% in the prior year.

Notwithstanding another relatively benign year of catastrophe experience with December floods in Malaysia being the only noteworthy event, the portfolio experienced a significantly higher than usual frequency of large individual risk claims in our property and marine portfolios, particularly in Singapore and Papua New Guinea. Large individual risk and catastrophe claims accounted for 7.9% of net earned premium compared with only 3.7% in 2013.

Pleasingly, the increased frequency of small claims that impacted our 2013 result did not recur and, as a consequence, Asia Pacific Operations' attritional claims ratio improved to 45.0% from 48.7% a year earlier.

The net claims ratio also benefitted from \$20 million or 3.4% of favourable prior accident year claims development compared with \$1 million or 0.2% favourable impact in 2013. This was partially offset by an adverse discount rate adjustment of \$2 million or 0.3% compared with a negligible impact in the prior year.

Commission and expenses

Despite business mix changes, the net commission ratio was stable when compared with the previous corresponding year at 20.6%.

Asia Pacific Operations' underwriting expense ratio increased slightly to 21.4% from 20.9% in 2013, largely reflecting increased investment to support the regional growth strategy, with a particular focus on people and technology.

Asia Pacific underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	785	727	580
Gross earned premium	US\$M	720	643	547
Net earned premium	US\$M	593	517	443
Net claims expense	US\$M	306	250	216
Net commission	US\$M	122	106	93
Expenses	US\$M	127	108	83
Underwriting result	US\$M	38	53	51
Net claims ratio	%	51.5	48.3	48.6
Net commission ratio	%	20.6	20.6	21.0
Expense ratio	%	21.4	20.9	19.0
Combined operating ratio	%	93.5	89.8	88.6
Insurance profit margin	%	7.1	11.0	12.5

Implementing the Asia Pacific profitable growth strategy

Asia Pacific has achieved 16% compound annual growth in gross written premium over the past two years, however, in our focus markets of Asia the compound annual growth rate has been 21%. The ongoing and successful implementation of the Asia Pacific profitable growth strategy (APPGS) remains critical to sustaining profitable premium growth over the longer term.

In the second half of 2014, we launched an innovative online insurance portal 'QBE Qnect' (Qnect) in Hong Kong and Singapore. A web-based system, Qnect enables brokers and agents to transact insurance directly with QBE. Available via desktop, mobile and tablet devices, Qnect meets a rising demand from intermediaries to quote, bind and provide documentation at the point of sale.

Alongside Qnect, QBE also launched 'QBE Business Insurance Solutions' (BIS), a new 10-section commercial insurance product developed to capture the growth opportunities in the SME markets in Hong Kong and Singapore. Qnect and BIS represent key components of our growth strategy and are critical to the development of a leading digital platform and product offering for the fast-growing SME commercial customer segment in the region.

Qnect will be extended to other countries in Asia and more products aligned with our growth strategy will be added to the platform in 2015. Other initiatives, such as standardisation of underwriting process to improve operational efficiency and consistency of service delivery for our distribution partners across the region, will also be introduced next year.

Latin American Operations

Underwriting performance

Latin American Operations' combined operating ratio increased to 122.9% from 99.6% in the prior year.

This significant deterioration in underwriting profitability largely reflected \$212 million of adverse prior accident year claims development, primarily due to a material upgrade to our Argentine workers' compensation claims reserves. This follows the introduction of a new actuarial model that we believe more appropriately captures recent trends in the claims environment and the extreme inflationary conditions.

Expenses were well controlled throughout the year with a flat expense ratio year on year.

Strong underwriting profitability was recorded in Ecuador and Brazil; our businesses in Chile and Brazil continue to grow; and our remediation activities in Colombia are demonstrating positive results. Although Puerto Rico and Mexico saw a decline in underwriting margin relative to 2013, both businesses remain profitable.

Premium income

Gross written premium for the year was \$1,394 million, up only 1% compared with \$1,380 million in 2013.

Excluding an adverse foreign exchange impact of \$328 million largely as a result of the 32% depreciation of the Argentine peso against the US dollar, gross written premium increased 25% on a constant currency basis.

Premium income was impacted by a one-off positive adjustment of \$152 million to reflect the expected annual premium on Argentine workers' compensation policies, previously recognised on a monthly basis. QBE had previously recognised Argentine workers' compensation written premium on a monthly basis to align with the practice of monthly premium adjustments intended to assist in countering inflation. The aforementioned one-off adjustment more appropriately recognises written premium in line with the annual policy nature of the business and had no impact on earned premium during the period.

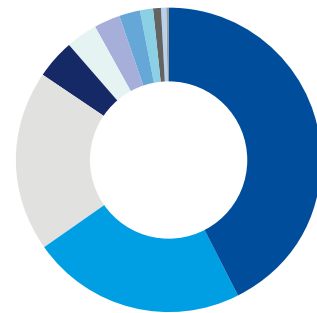
Underlying premium growth was therefore closer to 14% reflecting rate increases on our workers' compensation book, better than anticipated premiums from our cargo and motor business and strong premium growth in our smaller operations in Chile, Brazil and Puerto Rico. In Brazil we are seeing growth in our travel portfolio, where we are now the market leader. Whilst property remains our biggest portfolio in Chile, our fastest growing lines were casualty and engineering. We continue to grow in Puerto Rico.

Premium rates increased by 10.6% on average across Latin America compared with an increase of 8.9% in 2013, largely reflecting higher regional inflation, particularly in Argentina.

Net earned premiums decreased 6% to \$1,112 million, primarily due to the aforementioned adverse year on year exchange rate movement with the divergence in headline growth rate relative to written premium growth reflecting the workers' compensation premium adjustment that did not impact earned premium.

Latin America

Gross earned premium by class of business 2014



	2014 %	2013 %
● Motor & motor casualty	42.7	41.7
● Commercial & domestic property	22.6	20.1
● Workers' compensation	19.3	21.0
● Accident & health	4.1	4.0
● Life	3.4	4.9
● Marine energy & aviation	2.8	4.0
● Public/product liability	2.2	2.1
● Agriculture	1.4	1.0
● Financial & credit	0.7	1.0
● Other	0.6	-
● Professional indemnity	0.2	0.2

Claims expense

The net claims ratio of 84.4% represents a significant deterioration from 61.5% in the same period last year, and largely reflects \$212 million of adverse prior accident year claims development of which \$193 million was in Argentina.

The net claims ratio was also impacted by a number of large individual risk claims, most notably major fire claims in Argentina, Chile and Mexico. At the same time the Mexican portfolio was adversely impacted by catastrophe claims associated with Hurricane Odile and the Chilean portfolio was impacted by earthquake claims.

In response to increased workers' compensation claims frequency following legislative changes in 2012 and 2013 and challenging economic conditions, we performed an additional in-depth review of the claims reserves pertaining to all of our businesses in Argentina in the lead up to the interim result. The result of this review, combined with a change in the actuarial reserving approach to better reflect the claims environment and the extreme inflationary conditions, led to a \$151 million increase in claims reserves in the first half of 2014, the majority of which related to our Argentine workers' compensation portfolio.

An additional \$42 million of adverse prior accident year development was recognised during the second half of 2014, largely due to a further increase in frequency of litigated claims pertaining to the Argentine workers' compensation portfolio.

Also impacting the net claims ratio was \$22 million of adverse prior accident year claims development in our Colombian SOAT (Compulsory Motor Personal Accident) portfolio that was recognised in our interim result. Significantly improved underwriting protocols, including a change in the regional bias of the portfolio away from the Atlantic Coast, are expected to lead to improved underwriting performance in 2015.

The new actuarial model implemented in our Argentine workers' compensation business means that inflation and discount rates are now explicitly linked on over 75% of outstanding claims. While discounted claims liabilities were favourably impacted by an increase in Argentine risk-free rates during the year, the underwriting result was largely immunised by virtue of a corresponding and offsetting increase in assumed inflation.

Commission and expenses

The net commission ratio increased slightly to 22.1% from 21.6% in the prior year. This increase reflected a shift in portfolio mix with a relative increase in premium contribution from the higher commission paying Brazilian affinity portfolio along with increased commission rates in Colombia and Ecuador where we are diversifying our portfolios. There was some partial offset with the benefit of a regulatory change in the Argentine workers' compensation market that limits commissions to 5.0% plus VAT.

The underwriting expense ratio remained relatively stable at 16.4% compared with 16.5% in the prior year.

Inflationary pressures in Argentina coupled with increased business development and restructuring charges in Colombia, Ecuador and Puerto Rico exerted upward pressure on the expense ratio. This was more than offset, however, by cost control in Brazil, Mexico and Chile and improvements in our calculation of deferred acquisition costs.

Latin America underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	1,394	1,380	1,223
Gross earned premium	US\$M	1,222	1,341	1,170
Net earned premium	US\$M	1,112	1,185	1,003
Net claims expense	US\$M	939	726	574
Net commission	US\$M	246	258	223
Expenses	US\$M	182	196	170
Underwriting result	US\$M	(255)	5	36
Net claims ratio	%	84.4	61.5	57.3
Net commission ratio	%	22.1	21.6	22.2
Expense ratio	%	16.4	16.5	16.9
Combined operating ratio	%	122.9	99.6	96.4
Insurance profit margin	%	(13.6)	5.3	8.3

Other results impacts

In June 2014, we combined the Latin American and Asia Pacific Operations, with the creation of the Emerging Markets division under my leadership. Supporting the decision to consolidate our emerging markets operations under the one leadership team, we believe there are clear synergies with respect to key focus areas of risk management, IT/technology development and leveraging the maximum value out of our global trading partners.

In August 2014, we initiated a review of our Latin American business with the aim of rectifying the issues that have adversely impacted underwriting margins over the past 12 months while, at the same time, implementing a revised strategy to more appropriately identify and capture the growth opportunities available to QBE in the region.

This review is due to be finalised and approved by the QBE Group Board in the first quarter of 2015.

Implementation of the strategy will require operational changes to our business including alignment, where appropriate, with our Asia Pacific growth strategy.

A number of senior management changes have been made throughout the year and a central regional office will be established in Miami, Florida. Further changes are anticipated in 2015 to ensure that we have the right team in place to deliver on our revised Latin America strategy.



2014 was a year of change for both Asia Pacific and Latin American Operations, as both regions have come together under the Emerging Markets umbrella. Moving forward, we see opportunities and challenges in both regions as we seek to build an operating model to drive future growth.”

Emerging Markets

Outlook for 2015



2015 target
gross written
premium:

US\$2.1billion

Asia Pacific Operations

US\$ million

950

Latin America Operations

US\$ billion

1.15



2015 target
net earned
premium:

US\$1.6billion

Given likely continued strong economic growth, increasing intra-regional trade flows between Asian economies and forecast growth in regional infrastructure investment, we remain confident in our business growth prospects in the Asia Pacific region. With our enhanced distribution strategy, aligned focus and improved operational efficiency across the region we expect to maintain our retention rates and generate strong new business flows.

The outlook for Latin American Operations will remain heavily impacted by economic conditions in the region, particularly in Argentina. We are confident that we are taking the appropriate steps to insulate the business against further economic volatility. Our Latin American business strategy is currently under review with a clear focus on determining the optimal classes of business and countries to grow our business profitably in 2015 and beyond. The establishment of our regional management team in Miami will be a key enabler in this process.

In the course of reviewing and implementing our growth strategies in Latin America, we will also fully leverage the skills and best practices that we have already established across the Asia Pacific region.

2014 was a year of change for both Asia Pacific and Latin American Operations, as both regions have come together under the Emerging Markets umbrella. Moving forward, we see opportunities and challenges in both regions as we seek to build an integrated operating model to drive future growth.

My thanks go to our business partners for their continued support and our dedicated staff for their efforts, resulting in a year of solid top-line growth. We look forward to further unleashing the potential of the two regions and developing the Emerging Markets Division as the growth engine of the QBE Group.

Equator Re business review

“Equator Re continues to play a critical role in managing the Group’s risk appetite through optimised divisional retentions. Our quality underwriting and in-depth knowledge of the Group’s business, coupled with a benign catastrophe year, have produced an excellent 2014 result, despite a significant number of large individual risk claims.”

Jim Fiore

Group Chief Reinsurance Officer • Equator Re

Gross written premium US\$ million 642 ↓ 18% from 2013	Net earned premium US\$ million 525 ↑ 3% from 2013	Underwriting result US\$ million 105 ↑ \$25M from 2013 Combined operating ratio 79.9% (2013 84.2%)	Insurance profit US\$ million 145 ↑ \$10M from 2013 Insurance profit margin 27.7% (2013 26.5%)
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Competitive landscape

In conjunction with the Group’s external global reinsurance programs, Equator Re provides excess of loss reinsurance protection as well as proportional cover to each of our four operating divisions. The results reported here exclude the whole account proportional covers that are now discussed in detail in the reviews of each of our underwriting divisions.

Premium rates on the excess of loss business fell across most lines of business throughout the year, particularly in US property business. Our efforts to de-risk the portfolio by modifying retentions on the larger catastrophe and per risk programs were successful, which also contributed to the reduced premium volume on the excess of loss business.

Underwriting performance

The 79.9% combined operating ratio represented a solid improvement on the 84.2% combined operating ratio reported last year. The portfolio benefited from lower than expected catastrophe claims activity with no events exceeding divisional event retentions; however, the per risk portfolio was impacted by a number of weather-related losses in the UK, large fire losses in Asia Pacific and Latin America, a surety claim in Australia following the Forge Group voluntary administration and a number of medium sized casualty/motor losses in our UK book.

Equator Re benefits from the Group’s external catastrophe and per risk reinsurance programs, a stand-alone catastrophe aggregate treaty and a whole account quota share.

In 2014, there were no significant recoveries for Equator Re under our external excess of loss reinsurance programs.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2014	2013	2012
Gross written premium	US\$M	642	783	939
Gross earned premium	US\$M	764	802	922
Net earned premium	US\$M	525	509	621
Net claims expense	US\$M	389	400	553
Net commission	US\$M	18	21	17
Expenses	US\$M	13	8	6
Underwriting result	US\$M	105	80	45
Net claims ratio	%	74.2	78.6	89.0
Net commission ratio	%	3.3	4.1	2.7
Expense ratio	%	2.4	1.5	1.0
Combined operating ratio	%	79.9	84.2	92.7
Insurance profit margin	%	27.7	26.5	29.7

Premium income

Gross written premium fell by 18% to \$642 million compared to \$783 million for the previous year, whilst net earned premium increased 3% to \$525 million from \$509 million in the previous year.

A reduction in written premium on the excess of loss book was driven by increased retentions on a number of divisional catastrophe and per risk programs and the introduction of aggregate deductibles on certain per risk covers. Softer market conditions further contributed to an overall reduction in premium rates consistent with market conditions. The margin impact of these premium rate reductions was partially mitigated by the increase in QBE Group catastrophe retentions and corresponding increased premium generated by Equator Re writing the extra layers up to the increased Group retention.

The disparity between the year-on-year movement in gross written and net earned premium reflected a change in the underwriting strategy which impacted business mix as well as a 16% reduction in reinsurance costs, due to softer market conditions and changes to the structure of the external programs.

Claims expense

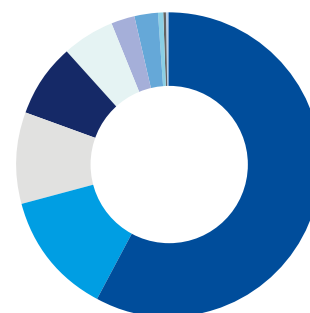
The net claims ratio improved to 74.2% from 78.6% in the previous year.

Whilst the various QBE divisions were impacted by natural catastrophes to varying degrees, the year was benign for Equator Re in terms of catastrophe claims activity due, in part, to the higher divisional catastrophe retentions. Equator Re's underwriting result, however, was impacted by a higher than usual frequency and severity of large individual risk claims across property, liability and surety lines of business.

Equator Re's claims ratio was impacted by \$28 million of adverse prior accident year claims development compared with \$7 million of favourable development in 2013. Prior accident year claims development in the casualty excess of loss portfolio drove this outcome, more than offsetting positive prior accident year claims development for catastrophe claims. In relation to catastrophe claims, there was some minor deterioration in the New Zealand 2011 earthquake claims on the reinsurance portfolio, with an overall saving in prior accident year catastrophe claims driven by positive development with regards to Typhoon Haiyan, the Thai floods and Superstorm Sandy.

Risk margins decreased \$32 million as compared with an increase of \$115 million in 2013. The risk margin release in the current year is consistent with the reduction in the central estimate over the period and maintains a reserving probability of adequacy broadly equivalent with last year.

Gross earned premium by class of business 2014



	2014 %	2013 %
Commercial & domestic property	58.0	51.6
Public/product liability	13.0	9.8
Professional indemnity	9.6	15.2
Financial & credit	7.9	7.7
Marine energy & aviation	5.4	6.5
Motor & motor casualty	2.6	3.3
Workers' compensation	2.5	3.9
Accident & health	0.6	1.2
Agriculture	0.3	0.4
Other	0.1	0.4

The result also included a \$26 million or 5.0% adverse impact from lower risk-free rates used to discount claims liabilities.

Commission and expenses

The overall combined commission and expense ratio was relatively stable at 5.7% of net earned premium compared with 5.6% in the previous year.

The commission ratio improved to 3.3% from 4.1% in the previous year, largely due to a change in business mix.

Underwriting expenses increased modestly reflecting investment in our operating model upgrade and build-out of capabilities in Bermuda as well as a change in the basis of expense allocation between the excess of loss and proportional portfolios. Relative to the only minor increase in net earned premium, Equator Re's underwriting expense ratio increased to 2.4% from 1.5% in the prior year.

Other developments

QBE Insurance Group's reinsurance program has been significantly enhanced in 2015.

Our new structure will maintain strong protection against large individual risk and catastrophic events whilst reducing overall volatility of claims accumulated over a year.

The Group continues to refine its view of risk and enhance modelling and predictive capabilities. As a result, the revised program provides broader coverage for large individual risk and catastrophe claims in the aggregate combined with an increase in catastrophe occurrence retention, which results in a far more effective reinsurance structure.

The Group's captive reinsurer, Equator Re, is now even more central to the Group's reinsurance purchasing strategy.

Previously, Equator Re only provided cover up to the Group's retention. For 2015, Equator Re will provide 100% of the property & casualty per risk and catastrophe treaty reinsurance for each of our divisions. This new structure will increase the gross premium written into Equator Re and, in turn, Equator Re has purchased the Group per risk and catastrophe programs. This does not lead to a change in the Group's retained risk but facilitates more efficient bespoke coverage and allows for greater transparency around the costs associated with the specific risk in each of our divisions.

In view of their unique exposures, certain portfolios such as QBE lenders' mortgage insurance and crop continue to buy external reinsurance.

Complementing the revised excess of loss strategy, Equator Re has significantly enhanced coverage for the Group through an expanded quota share with competitive commission terms acknowledging our excellent track record, the investment in our underwriting over the past few years and our extensive product and geographic diversification.

The Group per risk and catastrophe programs continue to protect the Group in a similar fashion to previous years. The catastrophe program is designed to provide coverage in line with, and often in excess of, regulatory and rating agency requirements. The per risk treaty is designed to provide the Group with the capacity to write individual risks up to \$250 million which allows QBE to be an industry leading underwriter in all of its markets.

The Group catastrophe occurrence retention has increased to \$500 million in 2015. This was a strategic decision as our analysis indicated that QBE would be better served to buy more US occurrence limit at the top of the program as well as a more robust and broader aggregate program. All catastrophe layers (other than the catastrophe bond) provide a reinstatement without additional cost to QBE. This is a unique feature in a worldwide catastrophe program that provides meaningful additional protection.

The catastrophe program includes a catastrophe bond placed last year for three years and expanded limits for our exposures outside of Australia (mainly in the US). Australia remains QBE's peak gross exposure.

In addition to our single risk loss and event protections, we have further restructured our 2015 program to more consistently deliver total annual net losses within our large loss and cat allowance. This has been achieved by combining our per risk and catastrophe aggregate covers and materially reducing the threshold at which losses can contribute to this cover down to a \$2.5 million franchise. In conjunction with Equator Re's quota share protection, this large individual risk and catastrophe aggregate cover more than offsets any heightened volatility arising from the increased retention under our catastrophe program and provides QBE with unparalleled protection in today's marketplace.

Our new large individual risk and catastrophe aggregate cover along with much of our per risk and catastrophe programs have been placed for two years to maximise efficiencies in the market, and minimise volatility in our reinsurance costs.

Equator Re continues to upgrade its operating model, particularly in relation to its underwriting, catastrophe modelling, claims and risk management activities. We expanded our pricing capability following the acquisition of external pricing tools and all contracts continue to be benchmarked against open market rates. Equator Re has implemented an extensive internal review program covering both underwriting and claims and is in the process of upgrading IT systems that will improve data quality. In addition, Equator Re is strengthening its overall governance framework and expects to be in position to meet Bermuda Monetary Authority equivalence requirements under Solvency II within the next 12 months.



Our core focus remains delivering underwriting results in line with plan and providing innovative, multi-faceted reinsurance solutions to the Group and its operating divisions that optimise capital, risk management and shareholder returns.”

Equator Re

Outlook for 2015

 **2015 target gross written premium:** **US\$1.1 billion**

 **2015 target net earned premium:** **US\$500 million**

Equator Re is expected to play an increasingly central role within the Group’s external reinsurance program by facilitating the Group’s catastrophe program with expanded divisional protections and consequently driving an increase in gross written premiums for 2015. Similarly, we expect to purchase expanded reinsurance coverage in 2015 resulting in generally stable net earned premiums.

Market dynamics are expected to impact Equator Re’s revenue and profit capabilities in a manner similar to 2014 and underwriting profit expectations remain strong.

Efforts to improve our operating model and broaden capabilities will continue as we finish relocating Equator Re’s management operations to Bermuda and leverage the enhanced operational service offering of the Group’s Shared Service Centre in Manila.

2014 was both a challenging and rewarding year for Equator Re and its employees as our efforts to improve our performance and capabilities required significant investments in time and energy. I would like to thank the team for their hard work and dedication and look forward to building on the foundation further in 2015.



What is the difference between a major storm and a catastrophe?

We often see reports in the media of devastating events, such as the 2011 Christchurch earthquake in New Zealand, the Japanese tsunami, super storm Sandy in the United States or Typhoon Haiyan which affected parts of the Philippines in 2013.

In this context, a catastrophe is defined as a single event, either natural or man-made, that results in damage to a widespread geographic area due to its size or intensity. Examples of catastrophe events include bush or wildfires, earthquakes, tornados, tsunamis, terrorist attacks as well as winter storms and hurricanes. These tragic events can result in both loss of life, significant damage to property and ongoing social and economic impacts.

To protect customers and shareholders during such events, it is a core responsibility of an insurance company to continuously assess and monitor the potential impact of catastrophic events.

Catastrophe Modelling and Risk Management

A core function of insurance is to provide security and to protect against loss. Nowhere is this more evident than when dealing with natural catastrophes.

At QBE, we recognise that catastrophes invariably have a significant impact on the livelihoods, homes, businesses and ways of life for those in the impact zone. While there are legal and regulatory requirements regarding our responsibilities after a major event, the values of QBE ensure we look first to the human cost and what we are able to do to help people get back on their feet. This human cost is rising as we see an increased incidence of catastrophes globally, just as we are seeing an increase in economic losses related to these events.

According to a World Bank study¹, economic losses from such disasters have been increasing in the last decade. In the 1980's, losses from catastrophes accounted for approximately \$50 billion a year, increasing to an average of just under \$200 billion a year in the last decade. Correspondingly, there has been an increase in insured financial losses.

As emerging economies grow and develop, they will likely contribute to a further expansion of global catastrophe losses.

Additionally, demographic trends in recent years leave a greater proportion of people and assets exposed to natural catastrophes. In 1990, according to the US Census Bureau, 73 million people lived on the shoreline in the United States. The National Oceanic and Atmospheric Administration (NOAA)² projects that by 2020

the number will increase to 133 million. This will result in a growing percentage of people and property at risk.

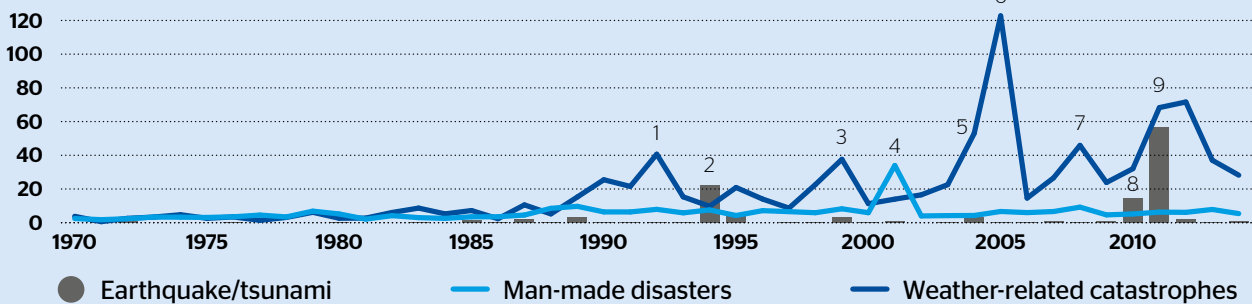
In recent years, there has been some evidence to suggest that the results of global climate change are having a direct impact on the unpredictability and extremity of weather conditions around the world. These factors influence QBE's response to how we plan for, and respond to, catastrophes.

QBE recognises this changing environment and our well-defined risk management strategy is designed to protect shareholders and support its customers through the related challenges.

How QBE's risk appetite, strategy and modelling work together

The risk management strategy is at the heart of our business, and it shapes our overarching strategy and how we assess the risk we will and will not write. The risk appetite set by the Board and management is the basis upon which we set our risk management framework, including risk governance, reinsurance strategy and the catastrophe modelling across the Group. This framework is also designed to meet the needs and expectations of key stakeholders including regulators, ratings agencies and shareholders.

Insured Catastrophe Losses, 1970-2012 US\$ billion, at 2012 prices



- 1 1992: Hurricane Andrew
- 2 1994: Northridge earthquake
- 3 1999: Winter Storm Lothar
- 4 2001: 9/11 attacks
- 5 2004: Hurricanes Ivan, Charley, Frances
- 6 2005: Hurricanes Katrina, Rita, Wilma
- 7 2008: Hurricanes Ike, Gustav
- 8 2010: Chile, New Zealand earthquakes
- 9 2011: Japan, New Zealand earthquakes, Thailand flood

Source: Swiss Re, Sigma "Natural and Man-made Catastrophes 2012".

1 World Bank, 2013, *Building Resilience: Integrating climate and disaster risk into development. Lessons from World Bank Group experience. The World Bank, Washington DC.*
 2 NOAA, United States Department of Commerce, *National Coastal Population Report: Population Trends from 1970 to 2020, March 2013.*

QBE staff response to Typhoon Haiyan



Grant of
250
US\$ thousand

donated to assist with water purification, emergency housing and the rebuilding of core community structures

Over
450
volunteer hours

committed by our employees

More than
500
staff donations

matched dollar-for-dollar by the QBE Foundation

Over
80
boxes

of clothing and toiletries sent and distributed to typhoon victims

Over
260
families assisted

with distribution of hygiene products and shelter and repair kits

Catastrophe Modelling

Given a number of challenges presented by relying purely on historical data to predict future losses, QBE utilises sophisticated computer simulations of catastrophes to estimate financial and economic losses, manage catastrophe exposure and assist in making decisions regarding catastrophe risk management and coverage. Furthermore, this catastrophe modelling tool is used by ratings agencies such as Standard & Poor's and A.M. Best to determine their assessment of QBE on a regular basis.

QBE Catastrophe Modelling Team (CMT)

QBE employs a global team of over 45 highly trained catastrophe risk analysts that form the CMT. CMT resources are deployed in all divisions under the leadership of the Group Chief Reinsurance Officer.

The CMT utilises various software tools and advanced modelling techniques at the business unit and enterprise level to review and manage catastrophe risk, enabling management and underwriters to make business decisions that keep the company within its established risk tolerance. This includes using the latest software to predict potential financial losses to QBE from possible catastrophic events, such as powerful earthquakes and major cyclones and typhoons.

Models and management judgement

Like any model, these catastrophe models adopted by QBE do have certain limitations. Therefore, QBE constantly exercises management judgement and applies other considerations whenever using models to determine potential impact. Similarly, many catastrophes across the globe are currently not possible to model due to their unexpected nature and unforeseen impacts, such as fires that are secondary to an earthquake. The monitoring of these perils relies on the skills of the CMT supported by other data sources to determine an accurate prediction.

To predict a potential loss, models first capture with specificity the location of each insured asset or property and relevant building characteristics such as age, height, construction type, and occupancy type. Taking into account historical data and scientific estimates of possible event impact, the models then simulate thousands of catastrophe scenarios to estimate potential building damage specific to each event. Catastrophe models then apply policy specific terms such as limit and deductibles to calculate and aggregate claim amounts to reflect QBE's potential exposure to each event. Computer simulations are also used to assess the likely frequency of catastrophe events. The output from catastrophe models is used to structure reinsurance treaties that are tailored to protect QBE's shareholders against high severity catastrophe events that can potentially result in large financial losses for our specific insurance portfolio. Routine catastrophe modelling is a vital component of QBE's Enterprise Risk Management (ERM) framework.

Making the most of the insights and data

Catastrophe risk analysts across the group participate in the Group Aggregate Management Committee (GAMC), which is responsible for the oversight of catastrophe related data quality, modelling, and analytics. The GAMC coordinates with divisional modelling teams to ensure consistent catastrophe risk assessment throughout the organisation. QBE reviews its risk management process regularly to ensure effectiveness, and introduce or revise processes to reflect significant industry-wide issues or changes in our book of business.

This committee also reviews established risk limits in particular areas and ensures that, in aggregate, all QBE's lines of business have clear limits based on a range of factors including location, potential risk and exposure.

Whilst the team at QBE have adopted these processes when a catastrophe occurs, responding to devastating events at a local community level is also of utmost importance when it comes to delivering our promise to our customers and the communities in which we operate. In 2013, the global QBE team came together following the devastation of Typhoon Haiyan in the Philippines, with hundreds of our staff directly involved in volunteering and fundraising efforts. QBE is proud of the fact that we are able to respond to catastrophes in many different ways, from volunteering and fundraising through to expedited claims processing.

The claim process following a catastrophe

At QBE, we combine our catastrophe risk analysts' skill with advanced technology to help our customers during the challenging times following an event.

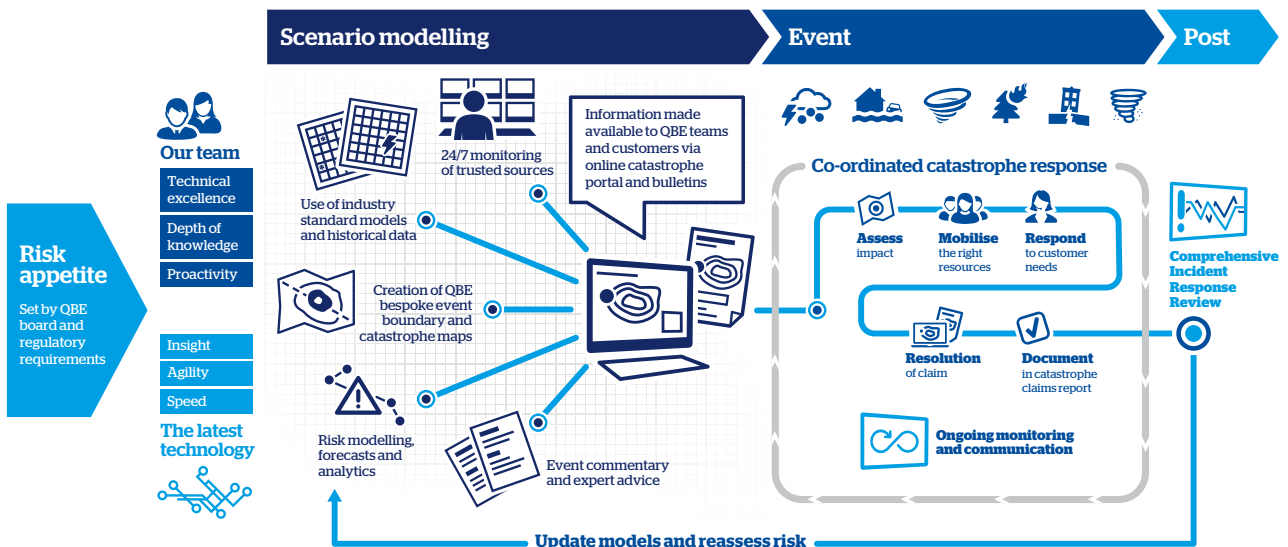
Claims volumes are at their peak in the aftermath of a catastrophe. At QBE we've developed pre- and post-catastrophe processes to ensure that customers receive the response they require, even when we are handling a high number of claims.

We constantly monitor sources including forecasts from respected agencies, damage footprints of hurricanes and other catastrophes through active weather data analysis and remote satellite technology. Catastrophe modellers collaborate with the catastrophe claims team to assess a disaster's magnitude - often even before it strikes. This data informs post-event response planning such as local staffing levels, reporting and turnaround times to ensure customers benefit from superior claims service levels of support after a catastrophe.

Immediately after a catastrophe, QBE's claims response team evaluates damage to our customers and works to resolve claims expediently. The claims and modelling teams work collectively to compare post-event findings against pre-event models and expectations. This collaboration was recently evident during the 2014 Hurricane Arthur event over the US July 4th holiday weekend. Modelling teams provided valuable impact mapping and projection information to the claims team. The claims team were able to use this input to ensure appropriate staffing - even during the holiday weekend - so that post-event claims resolution was timely for customers. The claims' team's post event information from Hurricane Arthur was provided to the modelling team to improve future models and to improve future customer satisfaction.

Catastrophes test people in a way unmatched by most other challenges of daily life. The disciplined processes adopted by QBE are fundamental in providing support and security to our customers at these trying times and protecting our investors against potential financial impact.

QBE is in the business of managing risk; it is at the core of what we do. Continuously assessing and monitoring the unpredictable nature of global catastrophes has led to an established, end-to-end and reliable risk management process and potential financial impact assessment tool that allows us to stay informed and prepared for any major event.



Does not include non-modelled risks



Supporting the communities in which we operate

The QBE Foundation strives to contribute to the communities in which we operate to help people overcome disadvantage, strengthen their abilities, and live more independently, successfully and productively. With a focus on staff volunteering in community-based initiatives, the QBE Foundation has made a positive impact in our communities throughout the year.

GROUP SHARED SERVICES CENTRE

Students and typhoon survivors

Almost 100 QBE Group Shared Services Centre employees joined in the 2014 Servathon corporate volunteering day organised by Hands On Manila Foundation, Inc., which featured classroom makeovers and mural painting at Manuel Roxas High School and solar light making at the Technical Education and Skills Development Authority (TESDA) training centre. QBE's participation at the event helped more than 3,000 of the school's students, some of whom are from the community's impoverished families. The refurbishment also helped the school's 180 faculty and teachers by providing better classrooms, while the solar light kits made by the volunteers benefitted the survivors of Typhoon Yolanda (Haiyan).



EUROPE



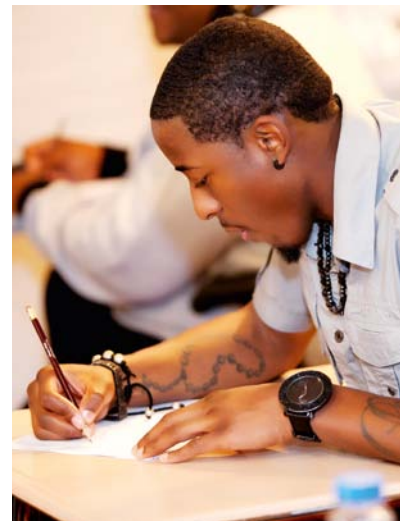
Supporting nurses and patients

QBE employees in the UK came together during 2014 to support the 'Fund a Nurse' campaign for Macmillan Cancer Support. Macmillan provides vital support services for people affected by cancer, including Macmillan nurses who offer a lifeline for those in need. Through the efforts of the QBE Foundation, the QBE team raised enough to fund a Macmillan nurse for two years. Macmillan was chosen by employees as the Charity Partner of the Year, and through the partnership and donation-matching program, employees have raised almost £120,000.

NORTH AMERICA

Building career skills

The QBE Foundation is helping homeless youth in New York and Atlanta through a grant of US\$50,000 to Covenant House, which provides shelter and services to homeless and at-risk youth. QBE employees have been directly involved with the organisation - visiting Covenant House in New York, where they participated in mock job interviews with a group of young Americans and by sharing career advice and networking tips.



AUSTRALIA & NEW ZEALAND

Indigenous communities

For five years the QBE Foundation has supported Jawun, an Australian Indigenous corporate partnership organisation. Through our partnership, QBE employees have played an active role in improving the lives of Indigenous people around Australia by supporting their communities over six-week secondments. In Western Australia, our people helped to develop procedures to promote a safe working environment and best practice in supporting the Kimberley Land Council and the Bardi Jawi Rangers. Our team has also provided the Nyul Nyul Rangers on the Dampier Peninsula with IT training and business planning for eco-management.



GROUP HEAD OFFICE

Challenging stereotypes through sport

The QBE Group Head Office team participated in the Special Olympics Sports program in November 2014, enabling adults and children with an intellectual disability to experience a day of fun and for many, a rare opportunity for sports inclusion. The ultimate goal of the Special Olympics is to allow athletes to reach their full potential, and to transform attitudes through sports participation.



EMERGING MARKETS – ASIA PACIFIC

Across the generations

The QBE-MILK Scholarships for students at the Republic Polytechnic tertiary institution in Singapore have compounding community benefits. Scholarship students not only receive financial support from the QBE Foundation - they also collaborate with our staff on community service projects. In 2014, 17 scholarship students and over 70 QBE staff members, families, friends and agents spent a day at the Republic Polytechnic with a group of elderly people from SunLove Marsiling, a senior activity centre, delivering fun-filled activities and entertainment devised to encourage healthy living.



EMERGING MARKETS – LATIN AMERICA

Encouraging positive parenting

The Caminitos de Luz Foundation in Ecuador provides high quality education for children in low-income families. It built and operates a school in the town of Nueva Esperanza, which aptly means 'new hope'. QBE employees have participated in the 'School for Parents' program, including giving talks to parents of the school's children about human values, family economics and social development.



It was exceptionally rewarding to spend a day with the participants at the Special Olympics. We were able to experience first-hand what the QBE Foundation is all about - helping people feel included in their community."

John Neal

Risk: Our business

QBE is in the business of managing risk. The Board and management are fully committed to ensuring that our disciplined approach to managing risk delivers global best practice and that our risk management processes and systems are robust and independent. Our risk framework supports our businesses across all divisions and provides a sound foundation for reducing uncertainty and volatility in business performance.

Our approach to managing risk is based on the following key principles:

- Our businesses operate across many different regions and product sectors, allowing us to benefit from **diversification and global leverage**;
- A strong, open, **leader-led culture of active risk management** across all levels of the organisation;
- **Risk-based decision-making** delivered by experienced people with excellent underwriting skills;
- A **high-performing and motivated risk team**, operating as a globally integrated group;
- **Clear accountabilities** at all levels, supported by clear delegated authorities and rewarded by appropriate incentive and performance measures; and
- Optimising risk/return decisions through **transparency** and relevant and insightful supporting information.

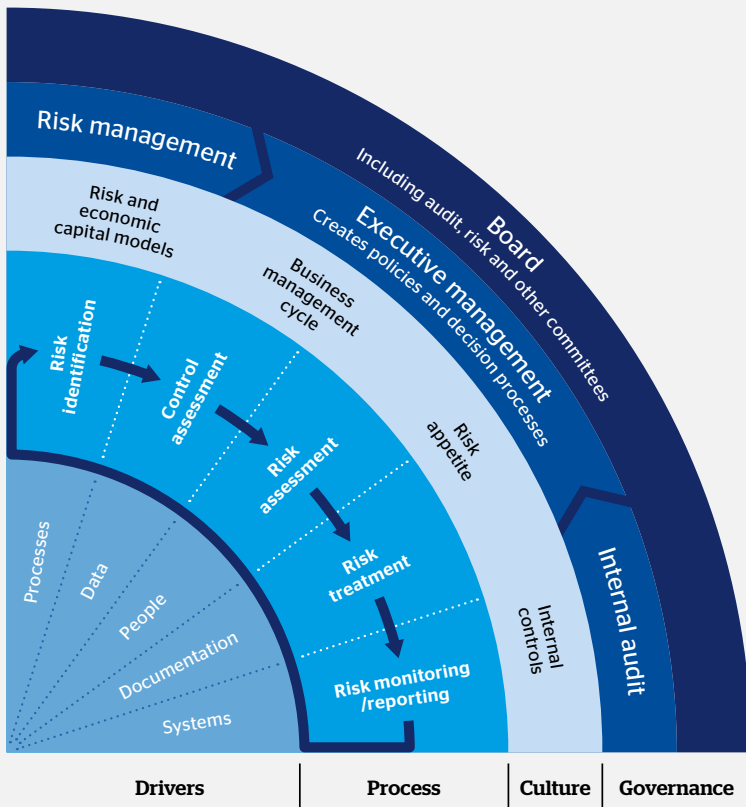
At the heart of our approach to managing risk is our risk appetite. Set by the Board, our risk appetite establishes the parameters across all our key risk categories within which risk exposures must be maintained. We monitor our exposures against appetite on an ongoing basis and use them to inform forward-looking strategic and tactical decisions. During 2014 we have revised and extended our risk appetite statements with quantitative and qualitative statements across all our major risk types (refer to the table on page 61).

The QBE Board monitors the Group's performance and, as such, plays a significant role in ensuring that an effective risk management strategy is established and maintained. The Board Risk and Capital Committee meets at least quarterly to review performance against appetite and capital plans, and takes a central role in overseeing that risks are being actively and appropriately managed according to the Board's stated risk appetite, strategy and business plan.

The risk framework has been designed to support improved, risk-aware decision making by our people. It provides the basis for identifying, assessing, monitoring and managing our risks. Reporting requirements of the framework promote transparency and increased awareness and understanding of risks. Responsibilities across all three lines of defence have been set out and these ensure that we are coordinated across QBE in managing our risks and that accountabilities are clear for our staff, as follows:

1. **Any risk-taking business unit** forms the first line of defence - they manage and own risk and comply with risk frameworks;
2. **Risk management and compliance functions** form the second line of defence. They own and monitor the application of risk management frameworks and measure and report on risk performance and compliance; and

Risk management framework elements



This comprehensive risk and capital management approach resulted in improvements to regulatory and rating agency capital metrics, a reduction in gearing, conversion of intangibles to tangible capital and an overall strengthening of the balance sheet.”

Jason Brown
Group Chief Risk Officer

3. The third line of defence is formed by **Internal and External Audit**. They provide independent assurance to the Board and its various audit and risk committees over controls and risk management practices.

Additionally we now have in place risk management objectives for all levels of staff across all divisions and these have been built into our performance appraisal and management system.

Capital and risk

A wide range of tools are utilised by QBE in the risk and capital management processes including:

- **QBE's Economic Capital Model** - our internal model, developed to measure overall exposure to risk as well as exposure to each of our main categories of risk, provides a quantitative base for us to understand, monitor and manage our exposures, make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis;
- **Scenario analysis** - based on the analysis of severe but plausible (though improbable) events or circumstances, this analysis enables management to understand the potential impact of these events if they were to occur, inform the appropriate risk management approach including the design of controls, formulate contingency plans and assess

the adequacy of resources (including capital) to absorb unexpected losses arising from these events;

- **Stress testing** - similarly to scenario analysis, our stress tests, including reverse stress tests, are a means by which we can consider our exposure to risks under extreme circumstances and the potential financial and non-financial impacts of these events so that we can ensure we have sufficient capital to withstand the event. Business plans also undergo extensive stress tests so that plausible impacts can be considered and mitigation can be put in place to support the achievement of planned profitability under stressed circumstances;
- **Analysis of regulatory and rating agency capital models** - we conduct financial modelling analysis of the implications of the various regulatory capital and rating agency capital environments. This allows us to understand the impact of strategic decisions on the regulatory and rating agency views of the risk profile and capital requirements; and
- A number of **bespoke risk assessment tools**, including stress test scenarios applied to evaluate business plans and support our capital plan.

These tools support the assessment of risk and the allocation of capital to the risks to which the group is exposed.

QBE's Internal Capital Adequacy Assessment Process (ICAAP), supported by our Economic Capital Model, considers a broad range of these tools. This process is integrated across a large number of business processes including the allocation of capital to operating entities for planning and performance monitoring purposes. This approach ensures that the risk taken by QBE is commensurate with required returns and it is an integral component of QBE's incentive schemes. Other key uses of the ICAAP and the tools which support it include management of the capital held by QBE, monitoring of risk profile against appetite, analysis of alternative reinsurance options, and regulatory and rating agency submissions.

As a result of these processes, and in line with the broader strategic direction of QBE, several actions were initiated during 2014 to reduce the risk profile of the group including: reinsurance of the claims reserves relating to the European medical malpractice business, sale of non-core assets, the plan for a partial IPO of the Australian Lenders Mortgage Insurance business, and institutional and private capital raising and debt restructure. This comprehensive risk and capital management approach resulted in improvements to regulatory and rating agency capital metrics, a reduction in gearing, conversion of intangibles to tangible capital and an overall strengthening of the balance sheet.

Regulatory developments

The insurance regulatory environment in which QBE operates continues to evolve, with international developments around a common framework for the supervision of international groups being particularly relevant. QBE takes a proactive approach to managing and mitigating insurance regulatory risk globally.

As a global insurance group, QBE is subject to over 30 local and 'whole group' regulatory regimes around the world. Our approach is to combine local expertise with a globally consistent framework to manage regulatory change and provide effective compliance with the varied and evolving requirements.

QBE supports sound prudential regulation as a key element in the stability and sustainability of the insurance and wider financial markets in which we operate. To this end, we will continue to encourage and support developments that promote fair competition and efficiency whilst reinforcing public confidence.

Risk culture

Creating a culture across QBE that understands risk and keeps it at the forefront of the minds of all our people is a key objective for the group. There are three primary components to our approach to managing risk culture:

- Target culture - this involves the promotion of desired risk culture including through performance objective setting and KPIs, and our ONE QBE values;
- Culture assessment - this includes the monitoring of key indicators and metrics, completing risk culture assessments across the first, second and third lines of defence perspectives and considering trends and themes; and
- Cultural change - this component includes risk culture awareness and education initiatives alongside more formal risk training.

We promote and raise awareness of the importance of a good risk culture through various activities. With risk awareness training delivered and mandatory risk objectives built into performance objectives we continue to invest in this important area of our day to day operations. To support this, in 2014 we launched a campaign entitled 'My Risk' that personalises risk management responsibilities at the individual level and highlights how our people fulfil risk management responsibilities in many of our daily activities.

Stress and scenario testing

Over the course of 2014 we have undertaken business plan stress and sensitivity testing, incorporating scenario analysis to fully understand the risks inherent within business plans. This has allowed us to consider the various risk exposures we face and what additional mitigation or remediation we can put in place to counter-balance these exposures.

Scenario analysis is also used across all our key risk categories to consider extreme but plausible events and our ability to respond to them. Through completing stress tests in many forms across our business we better inform management and the Board as to the nature and extent of our risk profile under a range of environments. We are also able to better prepare ourselves for these scenarios and ensure that we are not taking on more risk than is acceptable to the Board, as set out in our risk appetite statements.

Additionally, QBE has adopted sophisticated modelling which is used to estimate losses, manage catastrophe exposure and assist in making decisions regarding catastrophe risk management and coverage. This capability is critical to manage exposure to potential losses - to QBE, our customers and investors - from possible catastrophic events, such as powerful earthquakes and major cyclones and typhoons.

The results generated from this tool coupled with our highly-skilled catastrophe modelling team informs post-event response planning such as local staffing levels, reporting and turnaround times as well as the opportunity to undertake a comprehensive post-event incident response review and reassess future risks. These catastrophe models are explained in more detail on page 54 in the Spotlight Section.

Globally integrated Enterprise Risk Management (ERM) framework

QBE's One ERM framework has been further embedded across all divisions during 2014 and incorporates all of our key risk management processes, including risk and control assessments; key risk indicators and reporting; issue and loss capture; scenario analysis; risk appetite and governance. Our operating model in delivering the One ERM framework is now in place across our various global risk teams, creating better sharing of information and our risk knowledge.

Our Group Risk team has been strengthened in 2014 by appointing specialised risk personnel and developing our risk analytics capabilities.

Jason Brown
Group Chief Risk Officer

Key risks and mitigants

The following table provides some examples of the types of key risks QBE faces, drivers of these risks and mitigation approaches. Quantitative and qualitative appetites have been set for all key risk types below.

RISK TYPE	KEY DRIVERS	MITIGATION
<p>Strategic and business risk</p> <p>The current and prospective impact on earnings and/or capital arising from strategic business decisions, and responsiveness to external change.</p>	<ul style="list-style-type: none"> Changes in the commercial environment including competitive landscape, customer behaviour and distribution approaches. Business strategy and change, investment strategy and corporate governance. Risks related to acquisitions, divestments and capital management. 	<ul style="list-style-type: none"> Considering our strategic options in light of the impact on return variance 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.
<p>Insurance risk</p> <p>The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations. This includes underwriting, catastrophe claims concentration and claims estimation risks.</p>	<ul style="list-style-type: none"> Natural or man-made catastrophic events. Pricing of individual insurance contracts. Reserving. Insurance claims. 	<ul style="list-style-type: none"> Maintaining a sound pricing basis based on regular exposure and claims analyses. Setting and monitoring an appetite for concentration risk. Ensuring consistency of appropriate provisioning practices across all divisions. Regular monitoring and performance review of key portfolios. Comprehensive reinsurance designed to manage insurance risk within the risk appetite. In-house and external actuarial review of claims provisions with appropriate independence.
<p>Credit risk</p> <p>The risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality.</p>	<ul style="list-style-type: none"> Reduction or delay in repayments or interest payments from the default of a counterparty such as a bond issuer, policyholder or reinsurer. 	<ul style="list-style-type: none"> 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 asset positions. Maximising placement of reinsurance with highly rated counterparties and limiting concentration of exposure.
<p>Market risk</p> <p>The risk of variation in the value of investments due to movement in market factors.</p>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Active asset management. Strategic and tactical asset allocation. Use of a well calibrated and validated economic scenario generator and asset model to assess market risk and reward against appetite. Executive Asset Liability Committee chaired by the Group CFO. A diversified portfolio of assets controlling the impact of a single source of risk and reflecting the diverse nature of QBE's liabilities.
<p>Liquidity risk</p> <p>The risk of insufficient liquid assets being available to meet liabilities as they fall due to policyholders and creditors.</p>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Stress testing of liquidity needs relative to major catastrophe events. Holding a minimum percentage of liabilities 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. Banking facilities. Asset/liability matching of major currency holdings and claims payment patterns.
<p>Operational risk</p> <p>The risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.</p>	<ul style="list-style-type: none"> Systems errors or failure in information that impacts delivery of services. Failure of key processes and controls resulting in losses. 	<ul style="list-style-type: none"> 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



Marty Becker

JD, BSBA

Chairman

Age 62

Marty Becker is based in the US. He was appointed as an independent non-executive director of QBE in August 2013 and Chairman in April 2014. Marty is a member of the Audit Committee, Investment Committee, Remuneration Committee and the Risk and Capital Committee.

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



Stephen Fitzgerald

B Ec

Independent non-executive director

Age 51

Stephen Fitzgerald is based in the UK and was appointed as an independent non-executive director of QBE in October 2014. He is Chairman of the Investment Committee and a member of the Risk and Capital Committee.

He is Deputy Chair of PineBridge Investments (New York) and a member of the Board of Guardians of the Future Fund. Previously, Stephen was Chairman of Goldman Sachs, Australia and New Zealand. He joined Goldman Sachs in 1992 and was named a Managing Director in 1998 and a Partner in 2002. He also served on the Goldman Sachs Partnership Committee and has been based in London, Tokyo, Hong Kong and Sydney with Goldman Sachs.



John Graf

BA

Independent non-executive director

Age 55

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 Remuneration Committee and the Deputy Chairman of the Risk and Capital Committee and Investment Committee.

John is also a non-executive director of the financial services company Global Atlantic Financial Group Ltd. John has 34 years experience in the US and global financial services industry, including senior executive positions with AIG, American General Corporation and Conseco Inc. He most recently served as the CEO of Forethought Financial prior to that company's sale to Global Atlantic.



John M Green

B JURIS/LLB, FAICD, SF FIN

Independent non-executive director

Age 62

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

John is a non-executive director of WorleyParsons, a member of the Takeovers Panel in Australia, a member of the Council of the National Library of Australia, a book publisher at Pantera Press, a novelist and a business writer. Formerly, John was an executive director at Macquarie Group with a focus on financial institutions, and before that, he was a partner at two major law firms.



Margaret Leung

B Ec

Independent non-executive director

Age 62

Margaret Leung is based in Hong Kong, and was appointed as an independent non-executive director of QBE in August 2013. Margaret is the Deputy Chairman of the Remuneration Committee and a member of the Audit Committee.

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. Margaret was previously the Chief Executive Officer of Hang Seng Bank Limited.



John Neal

Group Chief Executive Officer
Age 50

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.



Sir Brian Pomeroy

MA, FCA

Independent non-executive director
Age 70

Sir Brian Pomeroy is based in the UK and was appointed as an independent non-executive director of QBE in June 2014. Sir Brian is Chairman of the Audit Committee and a member of the Risk and Capital Committee.

Sir Brian is a non-executive member of the Board of the Financial Conduct Authority in the UK and has extensive experience of the insurance industry through his role as a nominated member of the Council of Lloyd's and his previous position as a non-executive director on QBE's European regulated boards. He was the Senior Partner of Deloitte Consulting in the UK until 1999.



Patrick Regan

BSc, ACA

Group Chief Financial Officer
Age 48

Patrick Regan joined QBE in June 2014 when he was appointed Group Chief Financial Officer and became an executive director in October 2014. Prior to joining QBE, Patrick was the Chief Financial Officer at Aviva plc in London from 2010 to 2014 with responsibility for finance, strategy, investor relations and mergers & acquisitions.

Patrick has more than 25 years' experience as a practicing chartered accountant and nearly 20 years' experience in insurance and financial services globally. Patrick was also the CFO/COO of Willis and has held several roles at RSA and AXA.



Jann Skinner

B Com, FCA, FAICD

Independent non-executive director
Age 57

Jann Skinner is based in Australia and was appointed as an independent non-executive director of QBE in October 2014. Jann is the Deputy Chairman of the Audit Committee and a member of the Remuneration Committee.

Jann was a non-executive director on QBE's Australian regulated boards, where she was also Chair of the Audit and Risk and Capital Committees. She has 30 years' professional accounting experience and was an audit partner at PricewaterhouseCoopers, specialising in the financial services sector, particularly general and life insurance.

Making it happen



John Neal

Group Chief Executive Officer

Age 50

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.



Jason Brown

B ECON ACA

Group Chief Risk Officer

Age 45

Jason Brown joined QBE in 2002 and was appointed Group Chief Risk Officer in March 2014. Prior to his current role, Jason was Chief Risk Officer for QBE's Australian & New Zealand Operations and previously held the role of Executive General Manager, Technical & Operations with responsibility for national underwriting, national claims, reinsurance, actuarial, legal, and mergers and acquisitions.

Jason has been involved in the financial services industry for over 20 years, including in consulting, audit and senior executive roles. Prior to joining QBE, Jason was a Principal at Ernst & Young.



David Duclos

BSBA

Chief Executive Officer, North American Operations

Age 57

David Duclos was appointed Chief Executive Officer of QBE's North American Operations in 2013. Prior to 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 35 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 for three years before joining XL.



Mike Emmett

B COM, CA

Group Executive Officer, Operations

Age 48

Mike Emmett joined QBE in 2011 and was appointed Group Executive Officer, Operations in February 2014. Mike previously held the position of Group Head of Operational Transformation and prior to that was the Chief Information Officer for Australian & New Zealand Operations and Asia Pacific Operations.

Before joining QBE, Mike was a partner at Ernst and Young in Australia where he led the Financial Services Advisory Practice. Mike has also worked for PwC, Accenture and IBM where he assisted major insurers and retail banks to improve operations and technology.



Colin Fagen

B COM, MBA

Chief Executive Officer, Australian & New Zealand Operations

Age 47

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

Corporate governance overview

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 which rewards transparency, integrity and performance will promote its long-term sustainability and the ongoing success of its business.

QBE has prepared a corporate governance statement that 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.



David Fried

ECON/ POL. SCIENCE

**Chief Executive Officer,
Emerging Markets**

Age 53

David Fried joined QBE in 2013 as Chief Executive Officer, Asia Pacific Operations and was later appointed Chief Executive Officer, Emerging Markets in August 2014. 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 55

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

Richard began his underwriting career with R.W Sturge syndicate in Lloyd's where he became Claims Director. In 1996, Richard moved to Ockham (which was subsequently acquired by ACE) as Professional Lines Class Underwriter for Syndicate 204.

Richard went on to run ACE's Financial Lines business in London before becoming President of ACE Global Markets in 2003 and ACE UK in 2007. Richard has worked in the London insurance market for 30 years.



Patrick Regan

BSc, ACA

**Group Chief
Financial Officer**

Age 48

Patrick Regan joined QBE in June 2014 when he was appointed Group Chief Financial Officer and became an executive director in October 2014. Prior to joining QBE, Patrick was the Chief Financial Officer at Aviva plc in London from 2010 to 2014 with responsibility for finance, strategy, investor relations and mergers & acquisitions.

Patrick has more than 25 years' experience as a practicing chartered accountant and nearly 20 years' experience in insurance and financial services globally. Patrick was also the CFO/COO of Willis and has held several roles at RSA and AXA.



Jenni Smith

MBA

**Group Executive Officer,
People and Communications**

Age 52

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.

A copy of that corporate governance statement accompanies the Annual Report, and is also available along with the Annual Report on QBE's website at www.group.qbe.com/investor-centre/reports-presentations. In particular, that corporate governance statement addresses the 30 recommendations made by the ASX Corporate Governance Council as part of its Corporate Governance Principles and Recommendations (2nd Edition with 2010 Amendments).

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014.

Directors

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

Marty Becker (Chairman)
John Graf
John M Green
Margaret Leung
John Neal

Ms Belinda Hutchinson AM was a director from the beginning of the financial year until her retirement on 31 March 2014. Mr Duncan Boyle and Ms Isabel Hudson were directors from the beginning of the financial year until their retirement on 31 December 2014.

Sir Brian Pomeroy was appointed to the Board as a director on 1 June 2014. Ms Jann Skinner, Mr Stephen Fitzgerald and Mr Patrick Regan were appointed to the Board as directors on 1 October 2014. Messrs Fitzgerald and Regan, Sir Brian Pomeroy and Ms Skinner offer themselves for election at the annual general meeting (AGM).

Mr Marty Becker was appointed Chairman of the Board on 1 April 2014.

Details of the directors and their qualifications are provided on pages 62 and 63.

Consolidated results

	2014 US\$M	2013 US\$M
Gross written premium	16,332	17,975
Unearned premium movement	189	(86)
Gross earned premium revenue	16,521	17,889
Outward reinsurance premium	(2,480)	(2,347)
Deferred reinsurance premium movement	43	(146)
Outward reinsurance premium expense	(2,437)	(2,493)
Net earned premium	14,084	15,396
Net claims expense	(8,900)	(9,931)
Net commission	(2,363)	(2,580)
Underwriting and other expenses	(2,274)	(2,544)
Underwriting result	547	341
Net investment income on policyholders' funds	527	500
Insurance profit	1,074	841
Net investment income on shareholders' funds	270	301
Financing and other costs	(297)	(345)
Share of net profits of associates	1	-
Amortisation and impairment of intangibles	(117)	(1,245)
Profit (loss) before income tax	931	(448)
Income tax (expense) credit	(182)	204
Profit (loss) after income tax	749	(244)
Net profit attributable to non-controlling interests	(7)	(10)
Net profit (loss) after income tax	742	(254)

Result

Net profit after tax for the year to 31 December 2014 was \$742 million, compared with a net loss of \$254 million last year, with the current year result benefiting from a significantly improved underwriting result in our North American Operations and the non-recurrence of the substantial North American goodwill impairment and accelerated amortisation charges recognised in 2013.

Net investment income of \$797 million was broadly in line with \$801 million last year. Our increased allocation to growth assets combined with narrowing credit spreads supported the achievement of an investment return that was broadly in line with expectations.

Dividends

The directors announce a final dividend of 22 Australian cents per share, up from the final dividend of 12 Australian cents per share last year. The dividend will be franked at 100%. The total dividend payout is A\$492 million compared with A\$394 million in 2013. Consistent with the capital initiatives announced at the half year, the Board elected to remove the 1% discount on the Group's dividend reinvestment plans.

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 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.

Operating and financial review

Information on the Group's business strategies and prospects (including the results of those operations) and financial position of the Group is set on pages 6 to 27 and 30 to 51 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 actuarial central estimate to mitigate the potential for uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 31 December 2014 was 88.7% compared with 90.7% last year. The Australian Prudential Regulation Authority (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.

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 62 and 63, the secretary, Peter Horton, and deputy secretary, Peter 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.

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

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 30 to 51 of this Annual Report.

Events after balance sheet date

On 2 February 2015, three North American agencies were sold for cash consideration of \$217 million, with the potential of a further \$83 million over the next five years, contingent on the achievement of specified performance criteria.

On 16 February 2015, QBE announced the sale of three Australian agencies for a cash consideration of A\$290 million, with the potential for an adjustment to an amount in the range of A\$232 million to \$348 million, contingent on the achievement of specified performance criteria. The sale is expected to complete in late March 2015.

Material business risks

As a global insurance and reinsurance business, QBE is subject to a substantial variety of business 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 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's report in the Annual Report and the section of the Corporate Governance Statement addressing ASX CGC Principle 7: Recognise and Manage Risk which is located in the Corporate Governance section of the QBE website at www.qbe.com.

Commentary on significant judgements and estimates affecting the 31 December results and balance sheet is included in note 4 to the financial statements.

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 ²			
			AUDIT	INVESTMENT	REMUNERATION	RISK & CAPITAL
Number of meetings held	11	7	7	5	4	6
Number attended						
Marty Becker	11	7	5	4	3	6
Duncan Boyle (retired 31 December 2014)	10	7	7	–	4	–
Stephen Fitzgerald (appointed 1 October 2014)	2	1	–	2	–	1
John Graf	11	7	–	5	1	5
John M Green	11	7	–	3	4	6
Isabel Hudson (retired 31 December 2014)	11	7	7	–	4	–
Belinda Hutchinson AM (retired 31 March 2014)	3	2	2	1	1	1
Margaret Leung	10	7	6	–	3	2
John Neal ³	11	–	–	–	–	–
Sir Brian Pomeroy (appointed 1 June 2014)	7	4	5	–	–	4
Patrick Regan ⁴ (appointed 1 October 2014)	2	–	–	–	–	–
Jann Skinner (appointed 1 October 2014)	2	1	1	–	–	1

1 Included meetings in the UK and the US and one day meetings of a delegation from the Board in Hong Kong and Buenos Aires.

2 The composition of each committee has varied at different points during the year, hence directors were not required to attend every committee meeting.

3 Mr Neal attended Audit, Investment, Remuneration and Risk & Capital Committee meetings by invitation, not being a member of these committees.

4 Mr Regan attended Audit, Investment and Risk & Capital Committee meetings by invitation, not being a member of these committees.

The Nomination Committee agenda is discussed at full meetings of the Board.

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 2012 to 24 February 2015, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
Duncan Boyle Stockland Trust Group	Director	7 August 2007	–
John M Green WorleyParsons	Director	11 October 2002	–
Isabel Hudson BT Group plc Phoenix Group Holdings plc	Director Director	1 November 2014 18 February 2010	– –
Margaret Leung China Construction Bank Chong Hing Bank Limited First Pacific Company Limited Hong Kong Exchanges and Clearing Limited Li & Fung Ltd Sun Hung Kai Properties Limited	Director Director and Deputy Chairman Director Director Director Director	12 December 2013 14 February 2014 21 December 2012 24 April 2013 1 April 2013 1 March 2013	– – – – – –

Qualifications and experience of directors

The qualifications and experience of each director are set out on pages 62 to 63 of this report.

Qualifications and experience of company secretaries

Peter Horton BA LLB

Peter Horton is Group General Counsel and Company Secretary of QBE Insurance Group Limited. Mr Horton joined QBE in June 2014 from Woolworths Limited where he performed a similar role. His previous experience includes the retail, mining and petroleum sectors.

Peter Smiles LLB, MBA, ACIS

Peter Smiles is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 23 years of 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	2014 NUMBER	2013 NUMBER
Marty Becker	67,736	45,000
Stephen Fitzgerald	–	n/a
John Graf	29,600	29,600
John M Green	37,258	37,258
Margaret Leung	286	–
John Neal	202,981	170,662
Sir Brian Pomeroy	828	n/a
Patrick Regan	118,960	n/a
Jann Skinner	20,000	n/a

(B) Options and conditional rights

At the date of this report, John Neal had 62,741 (2013 104,697) options over ordinary shares of the company and 458,285 (2013 288,305) conditional rights to ordinary shares of the company and Patrick Regan had 732,930 (2013 nil) 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 26 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 is set out in the Remuneration Report.

Remuneration Report

To our shareholders

On behalf of the Board, I am pleased to present the QBE Remuneration Report for 2014, my first as Chairman of the Remuneration Committee. The Board is committed to presenting this important information in a manner that is easily understood and transparent to all shareholders.

Key changes made to the executive remuneration framework

As reported last year, in 2014, we introduced a new executive remuneration framework with the objective of strengthening the alignment of our remuneration structures and our ONE QBE vision, values and strategy. The new framework is more performance-based and significantly re-weighted to the longer term. There is stronger alignment to shareholder interests through the use of financial targets for both short-term incentives (STI) and long-term incentives (LTI) that are tied to business plans and published targets.

While we are pleased overall with the effectiveness of the new remuneration structure after its first year of operation, in reviewing the structure against our remuneration principles (shown in section 4(B) of the Remuneration Report), we felt that we also needed to better balance the retention and motivational aspects of the incentive schemes for employees while maintaining the strong alignment to performance and shareholder outcomes. As a result, for 2015, we have refined the LTI vesting schedule for the Group ROE performance measure so that vesting commences earlier (i.e. on achieving 80% of the three year business plan compared with 95% for the 2014 LTI grant) but with a lower vesting outcome (i.e. at 20%, compared to with 50% for the 2014 LTI grant).

2014 performance and remuneration

Overall, performance in 2014 was broadly in line with guidance provided in our mid-year update. Our Group statutory return on equity (ROE) of 6.9% was a significant improvement compared with 2013, particularly given the significant reduction in risk-free rates used to discount our outstanding claims which adversely impacted the ROE by 2.4%. In other words, had risk-free rates remained steady in 2014, the Group's statutory ROE would have been 9.3% all other things being equal. Given that risk-free rates are largely determined by the fiscal policies of governments in our major trading markets and outside of the influence of management, the Remuneration Committee made the decision to adjust the ROE for STI purposes by 50% of the effect of the movement in risk-free rates. This approach was also applied to the divisional STI calculations and will be consistently applied in future years, including instances when the risk-free rate movement has a beneficial impact on ROE.

The resultant ROE for 2014 STI purposes was 8.1%, above the threshold level of 7.0% for STI to vest. This meant that STI awards were made to the Group CEO and Group head office executives for the first time since 2010.

The first tranche of deferred equity awards for the 2010 performance year reached the three year vesting date in March 2014. Notably, awards held by employees in the Americas were cancelled prior to vesting following the decision by the Remuneration Committee to apply malus due to the subsequent material adverse deterioration of the ROE on which the awards were originally made. While this was a difficult decision and understandably disappointing for participants, it is further demonstration of the strong and appropriate alignment of executive remuneration with shareholder outcomes at QBE.

Group statutory ROE targets for 2015

The Group ROE target range that will apply for the 2015 STI plan is 6.0% to 13.8% with on-target performance, determined in the context of the 2015 business plan, set at 8.8%. This compares with the range for the 2014 STI plan of 7.0% to 15.3%.

The reduction in the Group ROE target range from 2014 reflects the lower interest rate environment, the adverse effect on margins as a result of the weakening Australian dollar and the recent sale of agency businesses in the US and Australia.

The Group ROE target range to apply for the 2015 LTI grant is 7.7% to 11.6% (2014 12.1% to 15.2%).

In closing, I would like to take the opportunity to acknowledge the work done by our outgoing Chairman of the Remuneration Committee, Isabel Hudson. Isabel's work in improving transparency and strengthening the link between executive remuneration and shareholder outcomes has helped us create a clearer and more contemporary remuneration framework across QBE.



John Graf

Chairman, Remuneration Committee

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Remuneration Report CONTINUED

1. Introduction

QBE's remuneration strategy is designed to provide market competitive remuneration that motivates and retains our executives, aligned with the creation of sustained shareholder value. This report sets out the remuneration arrangements for all key management personnel (KMP) in 2014 and their alignment with QBE's performance. The information presented in the 2014 Remuneration Report has been prepared and audited in accordance with the disclosure requirements of the Corporations Act 2001.

(A) Key management personnel

NAME	POSITION	COUNTRY OF RESIDENCE	TERM AS KMP IN 2014
Current executives			
John Neal	Group Chief Executive Officer	Australia	1 January – 31 December
Jason Brown	Group Chief Risk Officer	Australia	21 March – 31 December
David Duclos	Chief Executive Officer, North American Operations	United States of America	1 January – 31 December
Mike Emmett	Group Executive Officer, Operations	Australia	13 January – 31 December
Colin Fagen	Chief Executive Officer, Australian & New Zealand Operations	Australia	1 January – 31 December
David Fried	Chief Executive Officer, Emerging Markets	Hong Kong	1 January – 31 December
Richard Pryce	Chief Executive Officer, European Operations	United Kingdom	1 January – 31 December
Patrick Regan ¹	Group Chief Financial Officer Executive Director	Australia	2 June – 31 December
Jenni Smith	Group Executive Officer, People and Communications	Australia	1 January – 31 December
Former executives			
Neil Drabsch ²	Group Chief Financial Officer	Australia	1 January – 6 June
Jose Sojo ³	Chief Executive Officer, Latin American Operations	Argentina	1 January – 15 August
George Thwaites ⁴	Group Chief Risk Officer	Australia	1 January – 21 March
Non-executive directors			
Marty Becker ⁵	Chairman, Non-executive director	United States of America	1 January – 31 December
Stephen Fitzgerald	Non-executive director	United Kingdom	1 October – 31 December
John Graf	Non-executive director	United States of America	1 January – 31 December
John M Green ⁶	Non-executive director	Australia	1 January – 31 December
Margaret Leung	Non-executive director	Hong Kong	1 January – 31 December
Sir Brian Pomeroy	Non-executive director	United Kingdom	1 June – 31 December
Jann Skinner	Non-executive director	Australia	1 October – 31 December
Former non-executive directors			
Duncan Boyle ⁷	Deputy Chairman, Non-executive director	Australia	1 January – 31 December
Isabel Hudson ⁸	Non-executive director	United Kingdom	1 January – 31 December
Belinda Hutchinson AM ⁹	Non-executive director	Australia	1 January – 31 March

¹ Patrick Regan became an executive director on 1 October 2014.

² Neil Drabsch ceased being a KMP on 6 June 2014. He remains a full-time employee until his retirement becomes effective on 28 February 2015.

³ Jose Sojo ceased being a KMP on 15 August 2014. In accordance with his notice period, his termination date was 31 December 2014.

⁴ George Thwaites ceased being a KMP on 21 March 2014. He remains a QBE employee.

⁵ Marty Becker became Chairman on 31 March 2014.

⁶ John Green became Deputy Chairman on 1 January 2015.

⁷ Duncan Boyle became Deputy Chairman on 1 April 2014 and retired on 31 December 2014.

⁸ Isabel Hudson retired on 31 December 2014.

⁹ Belinda Hutchinson retired on 31 March 2014.

2. Summary of remuneration outcomes for 2014

(A) Remuneration and incentive outcomes in 2014

Remuneration outcomes continue to be closely aligned to shareholder outcomes as demonstrated in the summary of remuneration outcomes for executives in 2014 below.

COMPONENT	2014 OUTCOMES
Fixed remuneration	<ul style="list-style-type: none"> Fixed remuneration of the Group CEO was unchanged for 2014 at A\$2,100,000. Effective 1 April 2015, the fixed remuneration of the Group CEO will increase by 4.8% to A\$2,200,000. This will be the first increase since his appointment in August 2012. Colin Fagen, David Fried, Richard Pryce and Jenni Smith received fixed remuneration increases on 1 April 2014 of 8.4%, 3.9%, 3.0%, and 4.0% respectively to improve their competitiveness against their market peers. There was no increase to the fixed remuneration of Dave Duclos or Group Executives who are either new to the role or departed in 2014. David Fried received a 30% increase in base salary from \$675,000 to \$880,000 in recognition of the significant additional responsibilities of the role and to ensure internal relativity with the other divisional CEOs following his appointment as Chief Executive Officer, Emerging Markets. Importantly, in bringing these two regions together under David's leadership, we see significant strategic opportunities for organic and inorganic growth in the two regions. With the exception of the Group CEO and Group CFO, Australian-based employees and executives received an additional 0.25% increase to their fixed remuneration effective 1 July 2014 as a result of the superannuation guarantee rate increasing from 9.25% to 9.5%. Increases to other executives for 2015 will generally be in line with wage inflation except for a small number of cases where a larger increase is needed to ensure market competitiveness. More information on our approach to benchmarking fixed remuneration is outlined in section 4(C) of the Remuneration Report.
STI	<ul style="list-style-type: none"> The Group ROE for 2014 was 8.1%, above the 7% threshold required for the Group component of STI to vest. This includes the adjustment for STI purposes of 50% of the effect of the movement in risk-free rates. This adjustment recognises that such movements in risk-free rates are outside of the influence of management. Based on this and the Board's assessment of the Group CEO's performance against his balanced scorecard, an STI of A\$1,307,000 (or 31.1% of maximum opportunity) was awarded to the Group CEO, his first since being appointed to the role. 50% of the award will be paid in cash in March 2015 with the balance deferred as conditional rights which will vest in two tranches in March 2016 and March 2017, subject to service and malus provisions. STI awards were made to Group head office executives for the first time since 2010. With the exception of North American Operations and Latin American Operations, all divisions met or exceeded the minimum level of financial performance for the divisional component of their STI awards to vest. The average STI awarded to executives, other than the Group CEO, was 39.1% of the maximum opportunity, of which 33% is deferred in the form of conditional rights. Details of STI outcomes for executives are included in the remuneration tables in sections 5(A) and 6(A) of the Remuneration Report.
LTI	<ul style="list-style-type: none"> LTI grants were made in 2014 in accordance with the new remuneration mix for executives. The performance and vesting conditions are summarised in section 4(C) of the Remuneration Report. For 2015, the Board has recommended for shareholders' approval an increase in the LTI opportunity for the Group CEO from 150% to 200% of fixed remuneration. This reflects the Board's intention to position the Group CEO's total remuneration at market median through an appropriate weighting to long-term incentives, providing strong alignment to shareholders.
Legacy schemes	<ul style="list-style-type: none"> The first tranche of conditional rights in respect of the 2010 Deferred Equity Award (DEA) vested during the year following the completion of the three year vesting period. The second tranche of 2010 DEA is due to vest in March 2016, subject to service and malus provisions. 2010 DEA conditional rights held by employees in the Americas (including the former CEO, Latin American Operations) were cancelled prior to vesting following the decision by the Remuneration Committee to apply malus due to the subsequent material adverse deterioration of the ROE on which the awards were originally made. There was no scheduled performance testing point for legacy LTI grants during the year.

Remuneration Report CONTINUED

COMPONENT	2014 OUTCOMES
Other payments	<ul style="list-style-type: none"> Patrick Regan was compensated for incentives forfeited on ceasing his previous employment to join QBE. The payment was determined by applying a discount of 36% to the A\$13,300,000 face value of forfeited incentives from Mr Regan's previous employment to take into account the likelihood of the incentives vesting. The form and vesting schedule of the additional payments is also consistent with the forfeited incentives as follows: <ul style="list-style-type: none"> Mr Regan received a cash payment of A\$1,350,000 on commencement with QBE. Mr Regan was also entitled to a second cash payment of A\$1,350,000 however, he salary sacrificed this payment to purchase 118,960 QBE shares on 20 August 2014 at their then market value. Mr Regan was granted 516,474 conditional rights to QBE shares with a face value of A\$5,800,000 on 20 August 2014. Vesting of these conditional rights is subject to service conditions with 50% of the award vesting on 1 March 2015; 25% of the award on 1 March 2016; and 25% of the award on 1 March 2017. Costs of \$37,000 associated with the relocation of Mr Regan from London to Sydney were met by QBE.
Non-executive director fees	<ul style="list-style-type: none"> No change was made to the base fees of the Chairman or non-executive directors during 2014. The base fee for the Deputy Chairman was increased by 10% to A\$222,000. Although there was no general review of fee levels, the travel allowance for Marty Becker was increased by 50% to A\$62,000 to reflect the additional travel time of the Chairman. Superannuation entitlements to non-executive directors increased from 9.25% to 9.5% on 1 July 2014 in line with the increase in the superannuation guarantee rate. Total fees paid to non-executive directors in 2014 were A\$3,076,000 (2013: A\$2,775,000). The total remuneration pool available to non-executive directors remained at A\$3,300,000 per annum for 2014 as approved by shareholders at the 2013 AGM. For 2015, the Board has recommended for shareholders' approval an increase in the pool to A\$3,500,000. This will enable the Group to attract and retain non-executive directors with the appropriate experience, expertise, skills and diversity to oversee the Group's business and strategic direction. There will be a general review of directors' fees during 2015, the first since 2012. Further detail on non-executive director remuneration is provided in section 7 of the Remuneration Report.

(B) Realised 2014 remuneration

The table below sets out total remuneration realised by executives in office at 31 December 2014, including the accrued STI cash award for the 2014 financial year and the value of any deferred equity awards and conditional rights that vested during the year. 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 in sections 6(A) and 6(B) of the Remuneration Report.

CURRENT EXECUTIVES	REMUNERATION EARNED IN 2014			DEFERRED EQUITY OUTCOMES IN 2014		TOTAL REMUNERATION REALISED IN 2014 US\$000
	FIXED REMUNERATION US\$000	STI CASH ¹ US\$000	OTHER ² US\$000	CONDITIONAL RIGHTS VESTED ³ US\$000		
John Neal	1,883	586	122	315		2,906
Jason Brown	438	147	7	47		639
David Duclos	1,013	222	25	–		1,260
Mike Emmett ⁴	777	260	12	–		1,049
Colin Fagen	879	596	98	63		1,636
David Fried	727	236	703	–		1,666
Richard Pryce ⁵	1,143	870	183	382		2,578
Patrick Regan	829	339	2,502	–		3,670
Jenni Smith	649	214	73	64		1,000

1 The STI cash amount is payable in March 2015 in respect of performance in 2014. For further details, refer to section 5(A) of the Remuneration Report.

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. 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. For John Neal, this includes the provision of a life assurance policy (including fringe benefits tax (FBT)) of \$24,000. For David Fried, this includes expatriate benefits consisting of foreign taxes of \$25,000, housing allowance of \$334,000, education assistance of \$26,000 and a cost of living adjustment of \$173,000. For Patrick Regan, this includes a cash payment of \$1,211,000 (A\$1,350,000) on commencement with QBE, and a second cash payment of \$1,211,000 (A\$1,350,000) which he salary sacrificed to purchase 118,960 QBE shares on 20 August 2014 at their market value. For further details, refer to section 2(A) of the Remuneration Report.

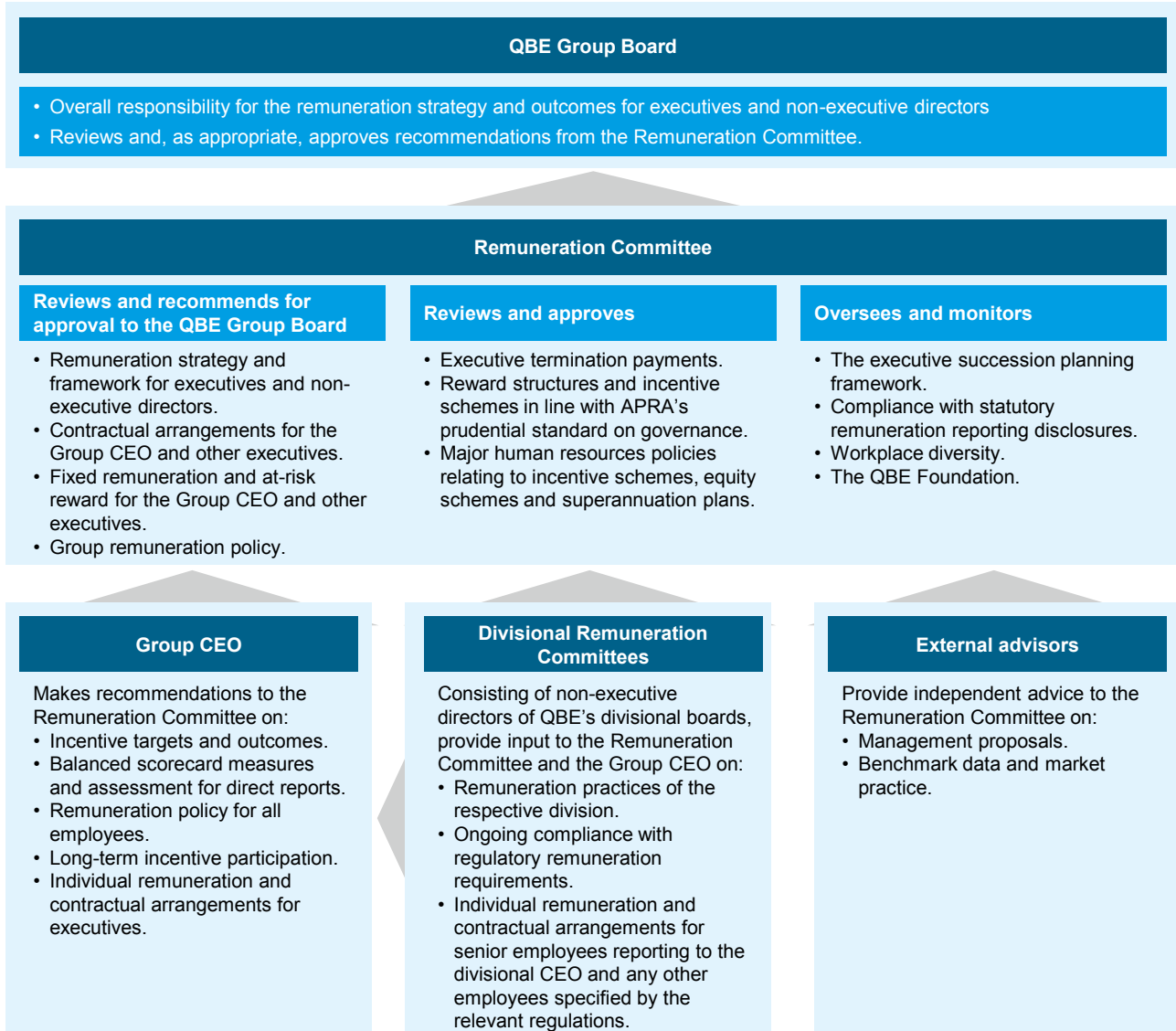
3 The value of conditional rights has been determined by reference to the closing share price on the relevant vesting date.

4 In addition, in 2014, Mike Emmett was awarded a completion bonus of \$365,000 in accordance with a contractual entitlement from his previous role as Group Head of Operational Transformation.

5 On 1 September 2012, prior to his appointment as Chief Executive Officer, European Operations, Richard Pryce was granted 33,530 conditional rights which vested during the year.

3. Remuneration governance

QBE's remuneration governance framework is set out below:



(A) 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's 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.

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).

Remuneration Report CONTINUED

(B) 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 Committee is satisfied that the advice provided by FIT during 2014 was provided free from undue influence by QBE executives.

The cost of advice and assistance provided by FIT in 2014 was \$103,000 (£62,000).

During 2014, management requested reports on market practice and benchmarking on total remuneration from PricewaterhouseCoopers and other sources. No recommendations in relation to the remuneration of KMP were provided as part of this engagement.

(C) Risk management

The Remuneration Committee works closely with Group Risk 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.

4. 2014 remuneration explained

(A) Executive remuneration strategy and framework

QBE's remuneration strategy is designed to provide market competitive remuneration that motivates and retains our executives, aligned with the creation of sustained shareholder value. Our 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 Group's performance targets, whilst providing strong governance to protect the financial soundness of the Group and shareholders' interests. An overview of the remuneration components and their link to strategy is provided below. Further detail on each remuneration component is provided throughout this section.

(B) Our remuneration principles

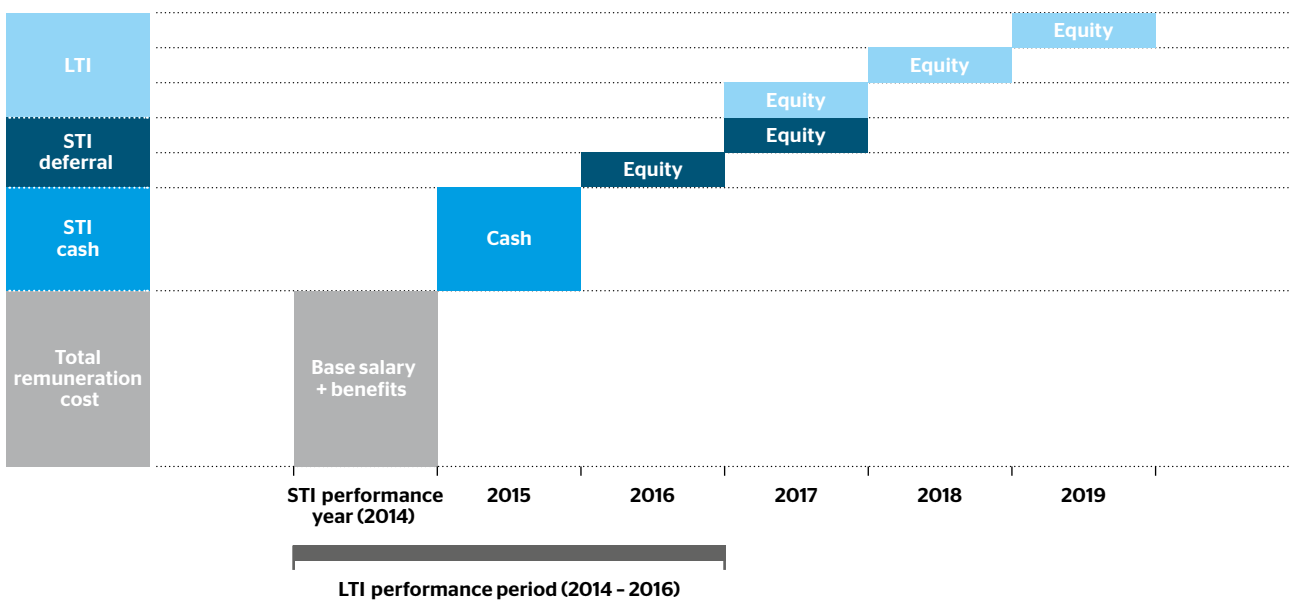
Our remuneration principles have been developed to promote robust risk management practices and are applied effectively to manage remuneration across the Group. Our principles are summarised below.

Reflect ONE QBE	Simple	At-risk reward methodology that is easily understood by internal stakeholders and transparent to external shareholders.
	Linked to strategy	Incentive performance measures that 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 that combine "stretch" targets and performance measures linked to statutory disclosures and business plans, providing transparency and motivating participants.
	Shareholder aligned	Delivery of equity awards with financial measures linked to key investor metrics and significant levels of deferral that align reward arrangements to shareholder interests. Executive minimum shareholding requirements further link their interests to those of shareholders.

(C) Remuneration framework and link to business strategy

Component	Design	Purpose and link to strategy
Fixed remuneration	Total remuneration cost (TRC) and guaranteed annual benefits <ul style="list-style-type: none"> Base (cash) salary, superannuation and packaged benefits and associated taxes. 	<ul style="list-style-type: none"> 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.
At-risk remuneration	STI cash <ul style="list-style-type: none"> An award for meeting annual business plans aimed at delivering our longer term strategic plan. 67% of any STI awarded delivered in cash (50% in the case of the Group CEO). 	<ul style="list-style-type: none"> Rewards and motivates achievement of annual business plans. Financial targets based on Group (ROE) and divisional (RoAC) performance, gives clear alignment to shareholders. The balanced scorecard of individual KPIs considers a broader view of performance and specific strategic priorities.
	STI deferred <ul style="list-style-type: none"> 33% of any STI award deferred as conditional rights to QBE shares (50% in the case of the Group CEO). 	<ul style="list-style-type: none"> Rewards sustainable performance. Encourages longer-term focus and risk management. Retention and shareholder alignment – executives are exposed to the performance of QBE shares over two years.
	LTI <ul style="list-style-type: none"> A deferred equity award of conditional rights, subject to two performance conditions measured over a three year performance period; with vesting phased over five years. 	<ul style="list-style-type: none"> Rewards longer-term performance. Performance measures (Group statutory return on equity and relative total shareholder return) provide significant linkage to global performance and strategic goals, and are key investor metrics aligning the LTI framework with shareholder value. Retention and shareholder alignment – executives are exposed to the performance of QBE shares over five years.

The diagram below illustrates the payment profile of the 2014 total remuneration framework.

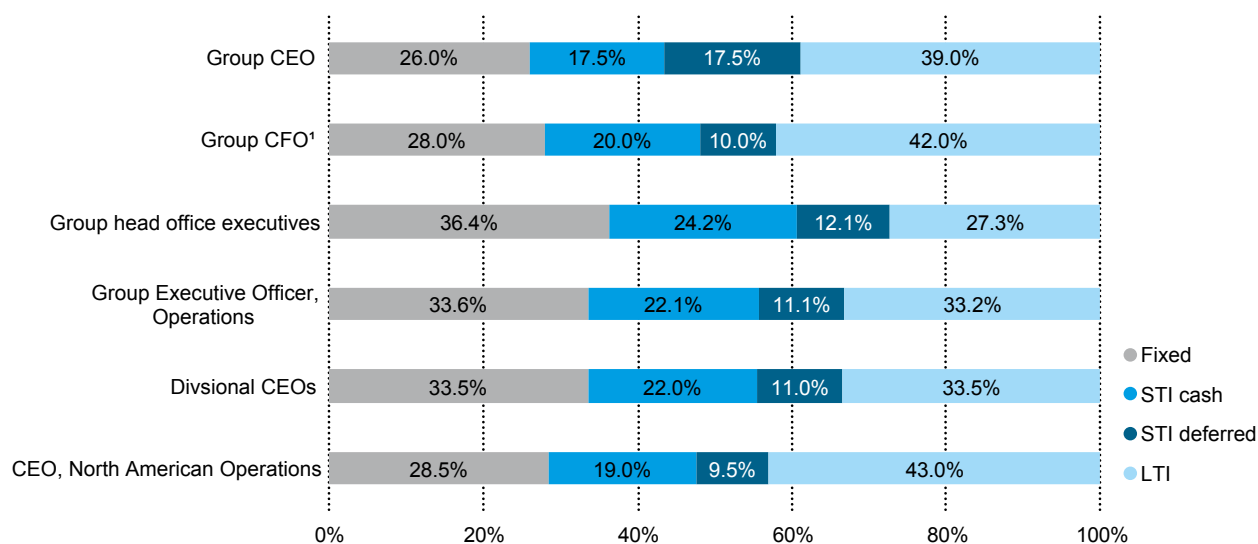


Remuneration Report CONTINUED

Target remuneration mix

The mix of total remuneration is reflective of an executive's ability to influence QBE's financial results, therefore the range is varied. The mix between short-term cash, deferred STI and LTI is focused 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 Patrick Regan. The target remuneration mix for Neil Drabsch was 33.5% fixed, 26.5% STI cash, 6.5% STI deferred and 33.5% LTI.

2014 maximum incentive opportunity

The table below shows the 2014 maximum incentive opportunity.

EXECUTIVES	2014 INCENTIVE OPPORTUNITY AS A % OF FIXED REMUNERATION		
	MAXIMUM STI %	MAXIMUM LTI %	MAXIMUM INCENTIVE %
Group CEO	200	150	350
Group CFO ¹	165	150	315
Group head office executives ²	150	75	225
Group Executive Officer, Operations	150	50	200
Divisional CEOs	150	100	250
CEO, North American Operations	150	150	300

¹ Represents the maximum incentive opportunity for Patrick Regan. For Neil Drabsch, the maximum incentive opportunity was 250% (consisting of 150% for STI and 100% for LTI).

² For George Thwaites, the maximum incentive opportunity was 150%, all in respect of STI.

Fixed remuneration

Key details of fixed remuneration are outlined below.

COMPONENT	DETAILS						
Description	<p>Fixed remuneration consists of TRC and additional annual benefits.</p> <p>TRC consists of base (cash) salary, superannuation/pension and packaged benefits and associated taxes.</p> <p>Additional annual benefits may include health insurance, life assurance, personal accident insurance, car allowances, expatriate benefits and the applicable taxes thereon.</p> <p>Excludes deemed interest on employee share loans and long service leave accruals.</p> <p>Delivered in accordance with terms and conditions of employment.</p>						
Determining fixed remuneration levels	<p>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.</p> <p>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.</p> <p>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.</p> <p>Overseas-based executives or roles that have a global reach are compared with a peer group consisting of global insurers. In 2014, the peer group of companies used for remuneration benchmarking purposes is set out in the table below.</p> <table border="1"> <thead> <tr> <th>PEER GROUP</th> <th>DESCRIPTION</th> </tr> </thead> <tbody> <tr> <td>ASX30 peer group</td> <td> <p>Excludes infrastructure trusts and companies domiciled overseas.</p> <p>The financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers.</p> <p>The sub-peer group of global companies in the ASX30 is determined based on the global complexity of the organisation using the following criteria:</p> <ul style="list-style-type: none"> • companies with greater than 25% revenue from overseas; and • companies operating in greater than two geographic locations. </td> </tr> <tr> <td>Global insurance peer group</td> <td> <p>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.</p> <p>RSA and Hartford are included in this peer group, given their similarities to QBE.</p> </td> </tr> </tbody> </table>	PEER GROUP	DESCRIPTION	ASX30 peer group	<p>Excludes infrastructure trusts and companies domiciled overseas.</p> <p>The financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers.</p> <p>The sub-peer group of global companies in the ASX30 is determined based on the global complexity of the organisation using the following criteria:</p> <ul style="list-style-type: none"> • companies with greater than 25% revenue from overseas; and • companies operating in greater than two geographic locations. 	Global insurance peer group	<p>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.</p> <p>RSA and Hartford are included in this peer group, given their similarities to QBE.</p>
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Short-term incentive

STI awards made in 2014 are summarised in the table in section 5(A) of the Remuneration Report. Key details of the STI plan are outlined below.

COMPONENT	DETAILS
Description	<p>The STI is a performance based incentive delivered in the form of an annual cash payment and a deferred award in the form of conditional rights to QBE shares. Performance is measured over a 12 month period.</p>
Performance measures and rationale	<p>STI outcomes are based on executives' performance against Group statutory ROE, divisional RoAC in the case of divisional executives and individual performance against a balanced scorecard of KPIs relevant to each executive's role.</p> <p>Group statutory ROE is calculated as statutory consolidated net profit after tax as a percentage of average shareholders' funds. Statutory ROE was selected as it is a strong measure of value created for shareholders and is transparent.</p> <p>RoAC is calculated as the divisional management-basis profit divided by allocated capital, as determined by the Group's economic capital model.</p> <p>The Group statutory ROE and divisional RoAC are adjusted for STI purposes by 50% of the effect of movements in risk-free rates during the year, which are outside of the influence of management.</p> <p>The balanced scorecard comprises financial and non-financial KPIs relevant to each executive's role which are aligned to the QBE value creation model. Executive performance against the balanced scorecard is evaluated annually by the Group CEO, and by the Chairman in respect of the Group CEO, through formal business review assessments.</p> <p>The STI rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure STI awards appropriately reflect performance.</p>

Remuneration Report CONTINUED

COMPONENT	DETAILS																																
	<p>The following table details the weighting of the performance measures for the STI.</p> <table border="1"> <thead> <tr> <th>ROLE</th> <th>GROUP ROE</th> <th>DIVISIONAL ROAC</th> <th>BALANCED SCORECARD</th> </tr> </thead> <tbody> <tr> <td>Group CEO & GHO Execs ¹</td> <td>80%</td> <td>0%</td> <td>20%</td> </tr> <tr> <td>Divisional CEOs</td> <td>30%</td> <td>50%</td> <td>20%</td> </tr> </tbody> </table> <p>1 The weighting of performance measures for Neil Drabsch was 60% Group ROE and 40% balanced scorecard to reflect specific priorities for him following his decision to defer his retirement by 12 months.</p>	ROLE	GROUP ROE	DIVISIONAL ROAC	BALANCED SCORECARD	Group CEO & GHO Execs ¹	80%	0%	20%	Divisional CEOs	30%	50%	20%																				
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Financial performance targets	<p>The table below shows the 2014 Group and divisional financial performance targets for 2014. The different ROE/RoAC targets reflect market factors.</p> <table border="1"> <thead> <tr> <th></th> <th>THRESHOLD</th> <th>TARGET</th> <th>SUPERIOR</th> </tr> </thead> <tbody> <tr> <td>Group ROE</td> <td>7.0%</td> <td>10.3%</td> <td>15.3%</td> </tr> <tr> <td>Divisional RoAC</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Asia Pacific Operations</td> <td>13.6%</td> <td>18.6%</td> <td>23.6%</td> </tr> <tr> <td> Australian & New Zealand Operations</td> <td>14.4%</td> <td>19.4%</td> <td>24.4%</td> </tr> <tr> <td> European Operations</td> <td>7.5%</td> <td>12.0%</td> <td>17.0%</td> </tr> <tr> <td> Latin American Operations</td> <td>19.2%</td> <td>24.2%</td> <td>29.2%</td> </tr> <tr> <td> North American Operations</td> <td>6.5%</td> <td>9.8%</td> <td>14.8%</td> </tr> </tbody> </table>		THRESHOLD	TARGET	SUPERIOR	Group ROE	7.0%	10.3%	15.3%	Divisional RoAC				Asia Pacific Operations	13.6%	18.6%	23.6%	Australian & New Zealand Operations	14.4%	19.4%	24.4%	European Operations	7.5%	12.0%	17.0%	Latin American Operations	19.2%	24.2%	29.2%	North American Operations	6.5%	9.8%	14.8%
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Vesting schedule	<p>The STI vesting schedule is outlined below:</p> <table border="1"> <thead> <tr> <th></th> <th>THRESHOLD</th> <th>TARGET</th> <th>SUPERIOR</th> </tr> </thead> <tbody> <tr> <td>% of STI opportunity achieved</td> <td>0%</td> <td>100%</td> <td>150%</td> </tr> </tbody> </table>		THRESHOLD	TARGET	SUPERIOR	% of STI opportunity achieved	0%	100%	150%																								
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Instrument	<p>67% of any STI award delivered in cash (50% in the case of the Group CEO).</p> <p>33% of any STI award deferred as conditional rights to QBE shares (50% in the case of the Group CEO).</p> <p>For Neil Drabsch, 67% of the Group ROE component and 100% of the balanced scorecard component is delivered in cash, with the balance deferred as conditional rights to QBE shares.</p>																																
Deferred STI mechanics	<p>Deferred STI vests in two tranches – 50% on the first anniversary of the award and the other 50% on the second anniversary of the award. Vesting is subject to service conditions and malus provisions during the deferral period.</p> <p>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 prior to the grant date.</p> <p>Notional dividends accrue during the deferral period.</p>																																
Leaver provisions	<p>“Good leaver” provisions (e.g. retirement, redundancy, ill health, injury) will apply such that:</p> <ul style="list-style-type: none"> • STI opportunity is reduced to a pro-rata amount to reflect the proportion of the performance year in service. • Deferred awards remain in the plan subject to the original vesting conditions. • On voluntary termination, dismissal or termination due to poor performance, all awards are forfeited. 																																
Malus provision	<p>STI deferral is subject to malus provisions, enabling awards to be either forfeited or reduced at the discretion of the Remuneration Committee. See section 4(D) of the Remuneration Report for more details on malus.</p>																																

Long term-incentive

LTI awards made in 2014 are summarised in the table in section 6(D) of the Remuneration Report. Key details of the LTI plan are outlined below.

COMPONENT	DETAILS																				
Description	<p>The LTI plan consists of an award of conditional rights to QBE shares. Conditional rights are awarded at no cost to the executive.</p> <p>For the Group CEO and Group CFO, the 2015 award will be subject to shareholder approval with the terms set out in the 2015 Notice of Annual General Meeting.</p>																				
Performance measures	<p>Vesting is subject to two performance conditions measured over a three year performance period:</p> <ol style="list-style-type: none"> 1. Average Group statutory ROE over three years – for 50% of the award. 2. Relative total shareholder return (RTSR) – for 50% of the award. 																				
LTI allocation	<p>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 prior to the grant date.</p>																				
Vesting schedules	<p>Group ROE The Group ROE portion vesting schedule is outlined below:</p> <table border="1"> <thead> <tr> <th>ROE PERFORMANCE</th> <th>PERCENTAGE OF CONDITIONAL RIGHTS IN THE ROE TRANCHE TO VEST</th> </tr> </thead> <tbody> <tr> <td>Below 12.1%</td> <td>0%</td> </tr> <tr> <td>At 12.1%</td> <td>50%</td> </tr> <tr> <td>Between 12.1% and 15.2%</td> <td>Straight line between 50% and 100%</td> </tr> <tr> <td>At or above 15.2%</td> <td>100%</td> </tr> </tbody> </table> <p>The Remuneration Committee has used and will continue to use 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. This acknowledges that QBE's results are heavily influenced by movements in risk-free rates that are beyond the influence of participants.</p> <p>Relative Total Shareholder Return The RTSR vesting schedule is outline below:</p> <table border="1"> <thead> <tr> <th>QBE RTSR RANKING RELATIVE TO THE COMPARATOR GROUP</th> <th>PERCENTAGE OF CONDITIONAL RIGHTS IN THE RTSR TRANCHE TO VEST</th> </tr> </thead> <tbody> <tr> <td>Less than the 50th percentile</td> <td>0%</td> </tr> <tr> <td>At the 50th percentile</td> <td>50%</td> </tr> <tr> <td>Between the 50th and the 75th percentile</td> <td>Straight line between 50% and 100%</td> </tr> <tr> <td>75th percentile or greater</td> <td>100%</td> </tr> </tbody> </table> <p>The RTSR comparator 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. The comparator group for the 2014 LTI award is set out below:</p> <ul style="list-style-type: none"> • ACE Ltd (US) • Allstate Corp (US) • Allianz SE-Reg (Germany) • American International Group (US) • Assicurazoni Generali (Italy) • Aviva Plc (UK) • AXA – SA (France) • Chubb Corp (US) • IAG Ltd (Australia) • RSA Group (UK) • Suncorp Group Ltd (Australia) • The Hartford (US) • The Travellers Cos Inc (US) • QBE Insurance Group Ltd (Australia) • Zurich Insurance Group (Switzerland) 	ROE PERFORMANCE	PERCENTAGE OF CONDITIONAL RIGHTS IN THE ROE TRANCHE TO VEST	Below 12.1%	0%	At 12.1%	50%	Between 12.1% and 15.2%	Straight line between 50% and 100%	At or above 15.2%	100%	QBE RTSR RANKING RELATIVE TO THE COMPARATOR GROUP	PERCENTAGE OF CONDITIONAL RIGHTS IN THE RTSR TRANCHE TO VEST	Less than the 50 th percentile	0%	At the 50 th percentile	50%	Between the 50 th and the 75 th percentile	Straight line between 50% and 100%	75 th percentile or greater	100%
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Vesting of LTI	<p>Following assessment of performance measures at the end of the three year performance period, conditional rights will vest in three tranches as set out in the table below, subject to service conditions and malus provisions.</p> <table border="1"> <thead> <tr> <th>TRANCHE</th> <th>VESTING DATE</th> <th>PORTION OF ELIGIBLE CONDITIONAL RIGHTS TO VEST</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>End of the three year performance period</td> <td>33%</td> </tr> <tr> <td>2</td> <td>First anniversary of the end of the performance period</td> <td>33%</td> </tr> <tr> <td>3</td> <td>Second anniversary of the end of the performance period</td> <td>34%</td> </tr> </tbody> </table> <p>"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.</p> <p>Notional dividends accrue during the vesting period.</p>	TRANCHE	VESTING DATE	PORTION OF ELIGIBLE CONDITIONAL RIGHTS TO VEST	1	End of the three year performance period	33%	2	First anniversary of the end of the performance period	33%	3	Second anniversary of the end of the performance period	34%								
TRANCHE	VESTING DATE	PORTION OF ELIGIBLE CONDITIONAL RIGHTS TO VEST																			
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Malus	<p>LTI is subject to malus provisions such that awards may be either forfeited or reduced at the discretion of the Remuneration Committee.</p>																				

Remuneration Report CONTINUED

(D) 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 and 1.5 times fixed remuneration for the Group CEO by 31 March each year. 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 2014, the minimum shareholding requirement was met by all current executives.

Equity counting towards the minimum requirement includes all unvested conditional rights not subject to a future performance condition. For the 2014 test, the following dual calculation method was applied:

- all 'issued shares' – using the closing share price as at 1 April 2014; and
- all unvested conditional rights without a performance condition – using the greater of the 'cost at grant' price and the closing share price as at 1 April 2014.

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 in section 8(E) of the Remuneration Report.

Malus

From 2010, the Remuneration Committee introduced a discretionary "clawback" provision to enable unvested equity awards 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 statements. 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 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 STI 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 Remuneration Committee has discretion to determine how unvested conditional rights should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change of control.

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 equity has vested, there is an alignment between the interests of executives and shareholders, with the effect that share price 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.

Dilution limits for share plans

Shares awarded under QBE's employee share plans may be purchased on market or issued subject to Board discretion and the requirements of the Corporations Act 2001 and the ASX Listing Rules.

As at 31 December 2014, the proportion of shares and unvested conditional rights and options held in a QBE employee share plan is 1.84%. This is significantly less than the maximum of 10% over a 10 year period allowed under the plan rules.

5. Executive remuneration outcomes for 2014

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.

(A) How did QBE's performance affect remuneration in 2014?

The incentive structure and financial targets are approved annually by the Remuneration Committee. The achievement of ROE and TSR outcomes have been the primary measures for at-risk remuneration purposes, demonstrating an alignment of profit growth over time and incentive awards for Group executives.

The table below shows Group ROE and divisional RoAC performance for incentive purposes for 2014.

	ROE / ROAC PERFORMANCE					GROUP
	NORTH AMERICAN OPERATIONS	EUROPEAN OPERATIONS	AUSTRALIAN & NEW ZEALAND OPERATIONS	ASIA PACIFIC OPERATIONS	LATIN AMERICAN OPERATIONS	
Performance	3.0%	15.5%	22.4%	15.1%	(15.7)%	8.1%
% achievement of target	–	135.0%	130.0%	30.0%	–	33.3%

The table below shows the performance and total 2014 STI outcomes (both the cash and deferred portions) achieved by Group executives as at 31 December 2014.

CURRENT EXECUTIVES	PERFORMANCE AS A % OF TARGET			TARGET STI	ACTUAL STI OUTCOME ¹				
	GROUP ROE	DIVISIONAL ROAC	BALANCED SCORECARD	TOTAL STI OUTCOME	% OF FIXED REMUNERATION	% OF FIXED REMUNERATION	TOTAL US\$000	STI CASH US\$000	STI DEFERRED US\$000
Group head office									
John Neal	33.3%	N/A	100.0%	46.7%	133.0%	62.2%	1,172	586	586
Jason Brown ²	33.3%	N/A	106.3%	55.7%	100.0%	47.9%	219	147	72
Patrick Regan ²	33.3%	N/A	115.0%	56.7%	110.0%	62.3%	506	339	167
Mike Emmett ^{2,3}	33.3%	N/A	115.0%	49.7%	100.0%	49.7%	389	260	129
Jenni Smith	33.3%	N/A	110.0%	48.7%	100.0%	48.7%	319	214	105
Divisional									
David Duclos	33.3%	0.0%	112.5%	32.5%	100.0%	32.5%	332	222	110
Colin Fagen	33.3%	130.0%	120.0%	99.0%	100.0%	99.0%	890	596	294
David Fried	33.3%	30.0%	103.0%	45.6%	100.0%	45.6%	353	236	117
Richard Pryce	33.3%	135.0%	110.0%	99.5%	100.0%	99.5%	1,299	870	429

- 1 The STI award is calculated as a percentage of fixed remuneration as at 31 December 2014, except for David Fried for whom fixed remuneration is calculated using his fixed remuneration as CEO, Asia Pacific Operations up to 14 August and his fixed remuneration as CEO, Emerging Markets from 15 August 2014.
- 2 The STI awards for Jason Brown, Patrick Regan and Mike Emmett reflects the portion of 2014 they were in their role.
- 3 In addition, in 2014, Mike Emmett was awarded a completion bonus of \$365,000 in accordance with a contractual entitlement from his previous role as Group Head of Operational Transformation.

Remuneration Report CONTINUED

(B) Measuring performance

In 2014, QBE introduced a balanced scorecard of individual key performance indicators (KPIs) to ensure that a broader view of performance and specific strategic priorities are considered when assessing performance and incentive outcomes. All executives have 20% of their STI outcome determined with reference to individual KPIs (40% for the former Group CFO, Neil Drabsch reflecting the specific priorities set for him following his agreement to defer his retirement by 12 months).

The scorecard is aligned to QBE's business plans and measures objectives which support the elements of our value creation model.

The balanced scorecard for each executive is reviewed by the Remuneration Committee to ensure they are appropriate. The table below sets out a summary of the key objectives for the Group Chief Executive Officer for 2014. The objectives for other executives are consistent.

VALUE CREATION COMPONENT	2014 OBJECTIVES	OUTCOME	COMMENTS
Profitable growth and diversification	<ul style="list-style-type: none"> Develop long-term opportunities and drive growth in Asia Pacific and Latin America Identify and progress major new business opportunities 	<ul style="list-style-type: none"> Slightly below target 	<ul style="list-style-type: none"> Asia Pacific growth strategy on track Latin America results impacted by adverse prior accident year development in workers' compensation portfolio
Leadership in our core business	<ul style="list-style-type: none"> Achieve profitable growth in line with corporate ambition Manage potential M&A activity and non-core or underperforming businesses in line with business strategy 	<ul style="list-style-type: none"> Slightly below target 	<ul style="list-style-type: none"> Opportunities for growth limited in challenging markets Strong progress on sale of Australian and US agency businesses
Operational excellence – global reach and scale	<ul style="list-style-type: none"> Continue operational transformation Continue to improve reinsurance program Achieve major trading partner growth and profitability targets Global Operating Model objectives 	<ul style="list-style-type: none"> At target 	<ul style="list-style-type: none"> Solid delivery of transformation objectives for expense management and procurement strategy Delivered improved reinsurance structure Continued to develop strong relationships with major trading partners. No growth in GWP achieved Established Global Operating Model. Implementation in progress
Financial strength and flexibility	<ul style="list-style-type: none"> Demonstrate improvements in risk, capital and investment management 	<ul style="list-style-type: none"> Above target 	<ul style="list-style-type: none"> Maintained Standard & Poor's A+ and A.M. Best A insurer financial strength rating Strong progress made against revised capital benchmarks
World class talent and leadership	<ul style="list-style-type: none"> Demonstrate QBE values Continue to develop mentoring and leadership programs Improve employee engagement Continue to develop diversity and inclusion plans Support talent framework and succession planning 	<ul style="list-style-type: none"> At target 	<ul style="list-style-type: none"> Leadership initiatives on track Achieved targets of 20% of senior executive positions held by women across all divisions and exceeded target of 25% in Group head office Employee engagement results below desired level

For 2014, the Board approved a balanced scorecard outcome of 20% for the Group CEO, being two thirds of the maximum opportunity.

(C) Long-term company performance and incentive outcomes

The following table shows key performance indicators of the Group over the last five years.

FINANCIAL RESULTS		2014	2013	2012	2011	2010
Combined operating ratio	%	96.1	97.8	97.1	96.8	89.7
Profitability measures						
Net profit (loss) after income tax (NPAT)	US\$M	742	(254)	761	704	1,278
Diluted earnings per share	cents	55.8	(22.8)	61.6	61.3	119.6
Weighted average risk-free discount rate ¹	%	1.4	2.2	1.6	2.0	3.2
Net investment yield	%	2.7	2.6	4.1	2.9	2.8
Return on equity						
Return on average shareholders' funds ²	%	6.9	(2.3)	7.0	6.8	13.1
Return to shareholders						
Dividend per share	Australian cents	37	32	50	87	128
Share price at 31 December	A\$ per share	11.21	11.51	10.90	12.95	18.15
Underwriting profit	US\$M	547	341	453	494	1,168
Total Shareholder Return ³	%	(0.37)	7.72	(11.44)	(22.62)	(24.11)

1 Excludes the Argentine peso.

2 Group statutory ROE is a performance measure for STI from 2014 and for LTI awards.

3 Total Shareholder Return is a performance measure for LTI from 2014.

Our 2010 to 2013 net investment income and net profit after tax was significantly impacted by lower risk-free rates, 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 and 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. Net profit after tax for the year to 31 December 2014 has benefited from a significantly improved underwriting result in our North American Operations.

Incentive outcomes for executives reflect this performance with no short-term incentives awarded to Group head office executives for 2011 to 2013 (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 ROE and combined operating ratio targets in respect of outstanding LTI awards made in 2011, 2012 and 2013 is tracking below the level required for these awards to vest, though five year diluted EPS targets may be met if future business plans are achieved.

Group ROE and RTSR performance conditions for 2014 LTI awards are still in the early stages of the performance period.

Remuneration Report CONTINUED

6. Remuneration in detail

(A) 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 2014. Remuneration has been converted to US dollars using the cumulative average rate of exchange for the relevant year.

EXECUTIVES	YEAR	SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS SUPERANNUATION US\$000	OTHER LONG-TERM EMPLOYEE BENEFITS LEAVE ACCRUALS ⁴ US\$000	SHARE-BASED PAYMENTS ¹		TERMINATION BENEFITS ⁵ US\$000	TOTAL US\$000
		BASE SALARY US\$000	OTHER ² US\$000	STI CASH ³ US\$000			CONDITIONAL RIGHTS US\$000	OPTIONS US\$000		
Group head office										
John Neal	2014	1,883	122	586	–	–	731	5	–	3,327
	2013	2,011	82	–	–	(40)	816	36	–	2,905
Jason Brown	2014	421	7	147	17	1	177	–	–	770
	2013	–	–	–	–	–	–	–	–	–
Mike Emmett ⁶	2014	760	27	260	17	(15)	284	–	–	1,333
	2013	–	–	–	–	–	–	–	–	–
Patrick Regan	2014	829	2,483	339	–	19	3,042	–	–	6,712
	2013	–	–	–	–	–	–	–	–	–
Jenni Smith	2014	632	30	214	17	43	232	2	–	1,170
	2013	656	32	–	17	28	99	14	–	846
Divisional										
David Duclos	2014	1,000	17	222	21	–	768	–	–	2,028
	2013	733	16	1,000	41	23	179	–	–	1,992
Colin Fagen	2014	862	136	596	17	(38)	740	1	–	2,314
	2013	862	39	1,107	17	(13)	256	6	–	2,274
David Fried	2014	714	694	236	21	–	498	–	–	2,163
	2013	477	1,915	273	13	16	204	–	–	2,898
Richard Pryce	2014	1,143	183	870	–	–	451	–	–	2,647
	2013	267	161	128	–	4	205	–	–	765
Former executives										
Neil Drabsch	2014	452	75	248	–	26	256	2	2,370	3,429
	2013	1,031	159	–	17	85	277	29	–	1,598
Jose Sojo	2014	392	17	–	–	(10)	121	1	(330)	191
	2013	575	24	134	–	12	177	7	–	929
George Thwaites	2014	143	3	43	–	(6)	21	–	–	204
	2013	639	21	–	17	62	98	13	–	850
Total 2014	2014	9,231	3,794	3,761	110	20	7,321	11	2,040	26,288
Total 2013⁷	2013	7,251	2,449	2,642	122	177	2,311	105	–	15,057

- 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 the section 8 of the Remuneration Report.
- "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, tax payments and other one-off expenses. For John Neal this includes the provision of a life assurance policy (including FBT) of \$24,000. For Patrick Regan this includes a cash payment of \$1,211,000 (A\$1,350,000) on commencement with QBE, a second cash payment of \$1,211,000 (A\$1,350,000) which he salary sacrificed to purchase 118,960 QBE shares on 20 August 2014 at their market value. For further details, refer to section 2(A) of the Remuneration Report. For David Fried, this includes expatriate benefits consisting of foreign taxes of \$25,000, housing allowance of \$334,000, education assistance of \$26,000 and a cost of living adjustment of \$173,000.
- Cash STI is payable in March 2015 for performance in 2014.
- Includes the movement in annual leave and long service leave provisions during the year.
- Termination benefits in respect of Neil Drabsch and Jose Sojo include apportioned fixed remuneration paid for the balance of the notice period to the termination date and STI cash awards from the date of ceasing to be KMP to the date of termination, as well as the accelerated accounting charge or reversal of equity vesting or cancellation. Details are set out in more detail in the table in section 6(B) of the Remuneration Report.
- In addition to the amounts included in the table above, in 2014 Mike Emmett was awarded a completion bonus of \$365,000 in accordance with a contractual entitlement from his previous role as Group Head of Operational Transformation.
- Comparative information is provided for executives who were also disclosed in QBE's 2013 Remuneration Report. As a result, the 2013 totals above are not the same as those disclosed in the 2013 Remuneration Report.

(B) Former executives

The following table provides further detail on the remuneration of executives who ceased employment during the financial year ended 31 December 2014, as determined under applicable Australian Accounting Standards.

FORMER EXECUTIVES	APPORTIONED FIXED REMUNERATION TO TERMINATION DATE ¹ US\$000	STI CASH ² US\$000	STI DEFERRED ³ US\$000	ACCELERATED ACCOUNTING CHARGE – CONDITIONAL RIGHTS & OPTIONS ⁴ US\$000	TOTAL ⁵ US\$000
Neil Drabsch ⁶	862	328	–	1,180	2,370
Jose Sojo ⁷	170	–	–	(500)	(330)

- 1 Apportioned fixed remuneration from the date of ceasing to be KMP to the date of termination of employment.
- 2 Apportioned STI cash payment from the date of ceasing to be KMP to the date of termination of employment.
- 3 Apportioned STI deferred payment from the date of ceasing to be KMP to the date of termination of employment.
- 4 Accounting charge accelerated or reversed due to termination.
- 5 Amounts have been converted to US dollars using the average rate of exchange for the 2014 year.
- 6 Neil Drabsch ceased being a KMP on 6 June 2014. He remains a full-time employee until his retirement becomes effective on 28 February 2015.
- 7 Jose Sojo ceased being a KMP on 15 August 2014. In accordance with his notice period, his termination date was effective on 31 December 2014.

(C) Equity-based remuneration

Executive investment in QBE as at 31 January 2015

The table below shows the investment exposure of QBE's current executives as at 31 January 2015. 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 2015 NUMBER	VALUE OF POTENTIAL SHARES IN QBE AT 31 JAN 2015 US\$000	COST TO REPAY SHARE LOANS US\$000	NET INVESTMENT IN QBE AT 31 JAN 2015 ¹ US\$000
Group head office						
John Neal	202,981	458,285	661,266	5,462	–	5,462
Jason Brown	33,667	78,348	112,015	925	(110)	815
Mike Emmett	–	93,326	93,326	771	–	771
Patrick Regan	118,960	732,930	851,890	7,037	–	7,037
Jenni Smith	33,287	83,223	116,510	962	–	962
Divisional						
David Duclos	–	284,225	284,225	2,348	–	2,348
Colin Fagen	81,186	239,791	320,977	2,651	(401)	2,250
David Fried	–	163,187	163,187	1,348	–	1,348
Richard Pryce	31,949	232,230	264,179	2,182	–	2,182

- 1 The closing share price at 31 January 2015 was A\$10.61 (\$8.26 using the 31 January 2015 closing rate of exchange).

(D) Conditional rights

Deferred equity awards

Details of conditional rights provided as remuneration to executives during 2014 under the terms of the 2013 QIS-DEA or contractual arrangements as set out below. When exercisable, each conditional right is convertible into one ordinary share in QBE.

CURRENT EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE US\$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US\$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US\$000
Group head office						
John Neal	–	–	27,807	315	–	–
Jason Brown	20,176	229	4,102	47	–	–
Mike Emmett	36,410	414	–	–	–	–
Jenni Smith	–	–	5,631	64	–	–
Divisional						
David Duclos	70,666	804	–	–	–	–
Colin Fagen	72,736	827	5,544	63	–	–
David Fried	19,276	219	–	–	–	–
Richard Pryce	38,078	433	33,530	382	–	–
Former executives						
Neil Drabsch	–	–	46,577	534	–	–
Jose Sojo	9,440	107	–	–	67,019	682
George Thwaites	–	–	5,704	65	–	–

Remuneration Report CONTINUED

Long-term incentive plan

Details of conditional rights provided as remuneration to executives during 2014 under the terms of the 2014 LTI plan are set out below. LTI conditional rights are subject to future performance hurdles as detailed in section 4(C) of the Remuneration Report. When exercisable, each conditional right is convertible into one ordinary share in QBE.

CURRENT EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE ¹ US\$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US\$000
Group head office				
John Neal ²	248,423	2,825	–	–
Jason Brown	38,446	437	–	–
Mike Emmett	33,712	383	–	–
Patrick Regan	207,035	1,987	–	–
Jenni Smith	41,507	472	–	–
Divisional				
David Duclos	135,204	1,537	–	–
Colin Fagen	72,737	827	–	–
David Fried	59,219	673	–	–
Richard Pryce	113,462	1,290	–	–
Former executives				
Neil Drabsch	94,637	1,076	–	–
Jose Sojo	50,792	578	57,534	578

1 The value at grant date is calculated in accordance with AASB 2 Share-based Payments.

2 Granted following shareholder approval at the 2014 AGM.

Future performance conditional rights

Details of conditional rights to ordinary shares in QBE provided as remuneration to executives during 2014 are set out below. When exercisable, each conditional right is convertible into one ordinary share of the company.

CURRENT EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE US\$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US\$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US\$000
John Neal ¹	–	–	–	–	60,823	668
Patrick Regan ²	516,474	4,956	–	–	–	–

1 On 1 January 2011, John Neal was granted 25,000 conditional rights following his appointment to CEO, Global Underwriting. The underwriting target over the three year vesting period has not been met therefore the conditional rights lapsed in 2014.

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 targets for the 2012 and 2013 tranches were not met and as a result these tranches of conditional rights (and associated dividends) lapsed in 2013 and 2014 respectively. The minimum ROE target for 2014 has also not been met and the third tranche of conditional rights (and associated notional dividends) will lapse in 2015.

2 On 20 August 2014, Patrick Regan was granted conditional rights as compensation for incentives forfeited on ceasing his previous employment to join QBE. Further details are provided in section 2(A) of the Remuneration Report.

(E) 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 2014 were earned under the legacy DCP terms for the 2008 performance year and were granted in March 2009. No options were granted or exercised in the current year.

	OPTIONS VESTED IN THE YEAR NUMBER	OPTIONS LAPSED/CANCELLED IN THE YEAR NUMBER
Group head office		
John Neal	62,741	41,956
Jason Brown	6,877	5,214
Jenni Smith	24,611	16,146
Divisional		
Colin Fagen	9,993	7,576
Former executives		
Neil Drabsch	51,144	35,169
Jose Sojo	14,094	4,792
George Thwaites	23,113	14,516

(F) 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 and are subject to applicable law.

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. QBE may elect to make a payment in lieu of notice.
Treatment of incentives on involuntary termination	All	On termination with cause or for poor performance All unvested incentives are forfeited. On termination without cause For STI in the year of termination, the executive remains eligible to be considered for an award on a pro-rata basis with any award to be determined following the end of the performance year and subject to the standard deferral arrangements. Unvested deferred STI conditional rights remain in the plan subject to the original vesting dates and malus provisions. A pro-rata number of LTI conditional rights, reflecting the portion of the three year performance period the executive was in service, remain in the plan subject to the original performance and vesting conditions. LTI awards in prior years generally remain in the plan subject to the original performance and vesting conditions, though the Remuneration Committee has discretion to vest these awards. Legacy QIS-DEA awards generally remain in the plan subject to the original vesting conditions. 50% of QIS-DEA awards in 2010, 2011 and 2012 may vest at the time of termination at the discretion of the Remuneration Committee.
Treatment of incentives on voluntary termination	All	All unvested incentives are forfeited.
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 leave".
Post-employment restraints	John Neal	12 month non-compete and non-solicitation.
	All others	Six month non-compete and non-solicitation.

Remuneration Report CONTINUED

7. Non-executive directors' remuneration

(A) Remuneration philosophy

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain experienced independent 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.

(B) Fee structure and components

The aggregate amount approved by shareholders at the 2013 AGM was A\$3,300,000 per annum.

Under the current fee framework, non-executive directors receive a base fee expressed 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.

An increase of 10% was made to the base fees of the Deputy Chairman to A\$222,000. No change was made to the base fees of the Chairman or other directors.

Active committees in 2014 were as follows:

- Audit Committee
- Investment Committee
- Remuneration Committee
- Risk and Capital Committee

The non-executive director fee structure for 2014 and 2013 is shown in the table below. Fees paid to the Chairman and other non-executive directors will next be reviewed with effect from 1 April 2015.

FEE FRAMEWORK	2014 A\$000	2013 A\$000
Chairman base fee	644	644
Deputy Chairman base fee	222	N/A
Non-executive director base fee	202	202
Committee chairman base fee	49	49
Committee membership fee	27	27

(C) 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.

The travel allowance for Marty Becker was increased by 50% to A\$62,000 given his additional travel requirements on becoming Chairman.

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.

Superannuation entitlements to non-executive directors increased from 9.25% to 9.5% on 1 July 2014 in line with the increase in the superannuation guarantee rate.

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.

With the retirement of Belinda Hutchinson on 31 March 2014, there are no longer any non-executive directors with a retirement allowance.

Minimum shareholding requirement

With effect from 1 April 2014, a non-executive director minimum shareholding requirement was introduced for Group Board directors. Under this requirement, directors have five years to build a minimum shareholding equal to 100% of annual base fees.

To assist current and new non-executive directors in meeting the requirement, a Director Share Acquisition Plan (DSAP) was established with effect from 1 June 2014. The DSAP allows non-executive directors to sacrifice a portion of their pre-tax director fees to acquire QBE shares. Where the minimum shareholding requirement has not been met, directors are required to sacrifice a mandatory minimum amount of 20% of pre-tax fees until the minimum shareholding is met. Shares acquired in this way are not subject to performance targets, as they are acquired in place of cash payments.

Directors' shareholdings are shown in section 8(E) of the Remuneration Report.

(D) 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 2014 are set out in the table below:

	YEAR	SHORT-TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		RETIREMENT BENEFITS US\$000	TOTAL ⁴ US\$000
		FEES ¹ US\$000	OTHER ² US\$000	SUPERANNUATION - SGC ³ US\$000	SUPERANNUATION - OTHER US\$000		
Non-executive directors							
Marty Becker	2014	584	–	4	–	–	588
	2013	117	–	1	–	–	118
Stephen Fitzgerald	2014	72	–	3	1	–	76
	2013	–	–	–	–	–	–
John Graf ⁵	2014	385	–	5	–	–	390
	2013	335	–	2	–	–	337
John M Green	2014	266	–	16	9	–	291
	2013	292	–	16	10	–	318
Margaret Leung	2014	288	–	3	–	–	291
	2013	112	–	2	–	–	114
Sir Brian Pomeroy ⁶	2014	263	–	–	–	–	263
	2013	–	–	–	–	–	–
Jann Skinner ⁷	2014	88	–	7	1	–	96
	2013	–	–	–	–	–	–
Former non-executive directors							
Duncan Boyle	2014	262	1	16	8	–	287
	2013	266	1	16	8	–	291
Isabel Hudson	2014	305	–	13	–	–	318
	2013	329	–	4	–	–	333
Belinda Hutchinson AM	2014	142	–	4	9	3	158
	2013	650	–	16	9	10	685
Total	2014	2,655	1	71	28	3	2,758
	2013	2,101	1	57	27	10	2,196

1 Travel allowances, additional fees in lieu of superannuation in Australia and amounts sacrificed in relation to the Director Share Acquisition Plan are included in directors' fees.

- Isabel Hudson and Sir Brian Pomeroy are UK residents, John Graf is a resident of the US, Margaret Leung is a resident of Hong Kong and Stephen Fitzgerald is based in the UK. They each receive an annual travel allowance of \$37,000 (A\$42,000). Marty Becker is a resident of the US and received an annual equivalent travel allowance of \$37,000 (A\$42,000) for the period 1 January to 31 March 2014 and \$56,000 (A\$62,000) for the period 1 April to 31 December 2014.
- Isabel Hudson, Sir Brian Pomeroy, John Graf, Marty Becker and Margaret Leung receive additional fees of 9.25% for the period 1 January to 30 June 2014 and 9.5% from 1 July to 31 December 2014, in lieu of superannuation in Australia.
- Marty Becker, Margaret Leung, Sir Brian Pomeroy and Stephen Fitzgerald all participate in the Director Share Acquisition Plan.

2 Duncan Boyle received staff insurance discounts during the year.

3 Duncan Boyle, John Green, Belinda Hutchinson and Jann Skinner are Australian residents. Superannuation is calculated as 9.25% of fees for the period 1 January to 30 June 2014 and 9.5% of fees from 1 July to 31 December 2014. Superannuation in excess of the statutory minimum may be taken as additional cash fees or in the form of superannuation contributions 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 Includes fees of \$78,000 for his role as a non-executive director on subsidiary boards in QBE North American Operations to 31 July 2014.

6 Includes fees of \$87,000 for his role as a non-executive director on subsidiary boards in QBE European Operations to 31 October 2014.

7 Includes fees and superannuation of \$31,000 and \$3,000 respectively for her role as a non-executive director on subsidiary boards in QBE Australian & New Zealand Operations.

Remuneration Report CONTINUED

8. Appendix

(A) 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.
Diluted earnings per share	Refer to note 25 to the financial statements.
Executives	Key management personnel other than non-executive directors.
Key management personnel (KMP)	<p>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.</p> <p>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 in section 1(A) of the Remuneration Report 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.</p>
Legacy Long-Term Incentive Plan (LTI)	<p>A legacy remuneration arrangement which ceased from 1 January 2014.</p> <p>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 in section 8(B) of the Remuneration Report.</p>
Long-Term Incentive Plan (LTI)	The at-risk reward structure that grants equity awards subject to a three year vesting period and performance hurdles. Applies to LTI equity awards granted in March 2014, March 2012 and March 2013. Details are provided in section 4(C) of the Remuneration Report.
QBE Incentive Scheme (QIS)	<p>A legacy remuneration arrangement which ceased from 1 January 2014.</p> <p>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 in section 8(B) of the Remuneration Report.</p>
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.
Relative total shareholder return (RTSR)	RTSR is the change in share price plus dividends paid and any capital returns measured over the three year performance period (i.e. total return of a shareholders' investment) compared with companies in the peer group (presented as a percentile rank).
Short-Term Incentive Plan (STI)	The at-risk reward structure that comprises cash awards and deferred equity awards effective from 1 January 2014. Details are provided in section 4(C) of the Remuneration Report.
Statutory return on equity (statutory ROE)	<p>NPAT on an AIFRS basis as a percentage of average shareholders' funds. Alternatively referred to as return on average shareholders' funds. It is used to determine the achievement of incentives under the Group's STI and LTI framework. This will also be a key performance measure for short-term and long-term incentives of all executives from 2014.</p> <p>For incentive purposes the ROE is adjusted for 50% of the effect of the movement in risk-free rates.</p>

(B) Legacy equity schemes

EQUITY SCHEME	DESCRIPTION
Legacy Long-Term Incentive Plan (LTI) Until 31 December 2013	<p>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:</p> <ul style="list-style-type: none"> • 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 • 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. <p>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.</p>
QBE Incentive Scheme (QIS) Until 31 December 2013	<p>The QBE Incentive Scheme (QIS) is a short term 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 to March 2014.</p> <p>Under the QIS, the directors could approve the issue of conditional rights to shares to executives who achieved predetermined performance targets. The maximum deferred equity award was based on an amount which was 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 was paid. The deferred equity award was used as the basis for calculating the number of conditional rights as follows:</p> <ul style="list-style-type: none"> • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after three years; and • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after five years. <p>During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company.</p> <p>The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).</p> <p>The shares issued pursuant to the conditional rights vest only if the individual has remained in the Group's service throughout the vesting period. For awards made prior to 2012, 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 (including to zero) for any material deterioration of the relevant entity's return on equity during the vesting period.</p>
Deferred Compensation Plan (DCP) Until 31 December 2008 and applicable to awards granted in March 2009 and prior	<p>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.</p> <p>This DCP award amount was used to acquire conditional rights to fully paid shares and options respectively as follows:</p> <ul style="list-style-type: none"> • 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). <p>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.</p>

Remuneration Report CONTINUED

EQUITY SCHEME	DESCRIPTION
From 1 January 2009 and applicable to awards granted in March 2010	<p>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.</p> <p>The maximum DCP award was used as the basis of calculating the number of conditional rights to fully paid shares as follows:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
All awards	<p>Conditional rights and any options relating to the achievement of profit targets in the financial year were granted in March of the following year.</p> <p>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.</p>

(C) 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	FAIR VALUE PER RIGHT AT GRANT DATE ¹
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
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 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	26 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
4 March 2014	3 March 2017	A\$12.68
4 March 2014	3 March 2018	A\$12.68
4 March 2014	3 March 2019	A\$12.68
4 March 2014	3 March 2017	A\$8.34
4 March 2014	3 March 2018	A\$8.34
4 March 2014	3 March 2019	A\$8.34
4 March 2014	3 March 2017	A\$12.75
4 March 2014	3 March 2018	A\$12.75
4 March 2014	3 March 2019	A\$12.75
4 March 2014	3 March 2017	A\$8.60
4 March 2014	3 March 2018	A\$8.60
4 March 2014	3 March 2019	A\$8.60
20 August 2014	1 March 2015	A\$11.23
20 August 2014	1 March 2016	A\$11.23
20 August 2014	1 March 2017	A\$11.23
20 August 2014	3 March 2017	A\$10.70
20 August 2014	3 March 2018	A\$10.70
20 August 2014	3 March 2019	A\$10.70
20 August 2014	3 March 2017	A\$6.08
20 August 2014	3 March 2018	A\$6.08
20 August 2014	3 March 2019	A\$6.08

1 The fair value of conditional rights at grant date 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 section 8(D) of the Remuneration Report.

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 OPTION AT GRANT DATE ¹
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 of options at grant date 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 section 8(D) of the Remuneration Report.

Remuneration Report CONTINUED

(D) Key management personnel – equity instruments

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 section 4(C) of the Remuneration Report.

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 STI, QIS and DCP are provided below.

	BALANCE AT 1 JAN 2014 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	VESTED AND TRANSFERRED IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2014 NUMBER
2014						
Executive directors						
John Neal	80,901	–	1,207	(27,807)	–	54,301
Other key management personnel						
Jason Brown	22,085	20,176	869	(4,102)	–	39,028
David Duclos	72,037	70,666	3,246	–	–	145,949
Mike Emmett	21,132	36,410	1,308	–	–	58,850
Colin Fagen	79,032	72,736	3,325	(5,544)	–	149,549
David Fried	81,060	19,276	2,282	–	–	102,618
Richard Pryce	109,058	38,078	2,584	(33,530)	–	116,190
Jenni Smith	23,080	–	396	(5,631)	–	17,845
Former key management personnel						
Neil Drabsch	46,577	–	–	(46,577)	–	–
Jose Sojo	56,237	9,440	1,342	–	(67,019)	–
George Thwaites	22,889	–	391	(5,704)	–	17,576

None of these conditional rights were vested or exercisable at 31 December 2014.

Long 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 and legacy LTI plan are provided below. No conditional rights to ordinary shares in the company were provided to key management personnel under the any legacy schemes.

	BALANCE AT 1 JAN 2014 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2014 NUMBER
2014					
Executive directors					
John Neal	114,986	248,423	8,262	–	371,671
Patrick Regan	–	207,035	2,696	–	209,731
Other key management personnel					
Jason Brown	–	38,446	874	–	39,320
David Duclos	–	135,204	3,072	–	138,276
Mike Emmett	–	33,712	764	–	34,476
Colin Fagen	15,497	72,737	2,008	–	90,242
David Fried	–	59,219	1,350	–	60,569
Richard Pryce	–	113,462	2,578	–	116,040
Jenni Smith	22,415	41,507	1,456	–	65,378
Former key management personnel					
Neil Drabsch	59,946	94,637	3,515	–	158,098
Jose Sojo	5,464	50,792	1,278	(57,534)	–
George Thwaites	22,415	–	510	–	22,925

None of these conditional rights were vested or exercisable at 31 December 2014.

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.

	BALANCE AT 1 JAN 2014 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	VESTED AND TRANSFERRED IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2014 NUMBER
2014						
Executive directors						
John Neal	92,418	–	718	–	(60,823)	32,313
Patrick Regan	–	516,474	6,725	–	–	523,199

None of these conditional rights were vested or exercisable at 31 December 2014.

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.

	BALANCE AT 1 JAN 2014 NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2014 NUMBER	VESTED AND EXERCISABLE AT 31 DEC 2014 NUMBER	EXERCISE COST AT 31 DEC 2014 ¹ A\$000
2014					
Executive director					
John Neal	104,697	(41,956)	62,741	62,741	1,102
Other key management personnel					
Jason Brown	12,091	(5,214)	6,877	6,877	121
Colin Fagen	17,569	(7,576)	9,993	9,993	176
Jenni Smith	40,757	(16,146)	24,611	24,611	432
Former key management personnel					
Neil Drabsch	86,313	(35,169)	51,144	51,144	899
Jose Sojo	18,886	(4,792)	14,094	14,094	248
George Thwaites	37,629	(14,516)	23,113	23,113	406

1 All options are exercisable at A\$17.57.

(E) 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.

	INTEREST IN SHARES AT 1 JAN 2014 NUMBER	CONDITIONAL RIGHTS VESTED NUMBER	SHARES PURCHASED (SOLD) NUMBER	DIVIDENDS REINVESTED IN THE YEAR NUMBER	INTEREST IN SHARES AT 31 DEC 2014 NUMBER	INTEREST IN SHARES AT 31 DEC 2014 SUBJECT TO NON- REOURSE LOANS NUMBER
2014						
Non-executive directors						
Marty Becker	45,000	–	22,736	–	67,736	–
John Graf	29,600	–	–	–	29,600	–
John M Green	37,258	–	–	–	37,258	–
Margaret Leung	–	–	286	–	286	–
Sir Brian Pomeroy	–	–	828	–	828	–
Jann Skinner ¹	20,000	–	–	–	20,000	–
Executive directors						
John Neal	170,657	27,807	–	4,517	202,981	–
Patrick Regan	–	–	118,960	–	118,960	–
Other key management personnel						
Jason Brown	27,364	4,102	1,485	716	33,667	2,205
Colin Fagen	73,434	5,544	1,485	723	81,186	17,609
Richard Pryce	15,261	33,530	(17,000)	158	31,949	–
Jenni Smith	62,656	5,631	(35,000)	–	33,287	–
Former key management personnel						
Duncan Boyle	19,019	–	–	–	19,019	–
Neil Drabsch	255,881	46,577	(67,549)	5,322	240,231	182,562
Isabel Hudson	11,737	–	–	–	11,737	–
Belinda Hutchinson AM	113,648	–	2,970	–	116,618	–
Jose Sojo	39,085	–	–	183	39,268	–
George Thwaites	45,300	5,704	1,485	825	53,314	9,880

1 Represents interest in shares on 1 October 2014, Jann Skinner's date of appointment as a non-executive director.

Remuneration Report CONTINUED

(F) Key management personnel – loans

Details of the loans made by the Group to key management personnel are set out below.

Personal recourse share loans

	BALANCE AT 1 JAN 2014 A\$000	LOANS MADE IN THE YEAR A\$000	REPAYMENTS A\$000	BALANCE AT 31 DEC 2014 A\$000	INTEREST NOT CHARGED ¹ A\$000	HIGHEST BALANCE IN THE PERIOD A\$000
2014						
Key management personnel						
Jason Brown	107	–	–	107	5	107
Colin Fagen	134	–	–	134	8	134
Former key management personnel						
George Thwaites	131	–	–	131	2	131

¹ Deemed value of interest not charged for the period as key management personnel.

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.

	BALANCE AT 1 JAN 2014 A\$000	LOANS MADE IN THE YEAR A\$000	REPAYMENTS A\$000	BALANCE AT 31 DEC 2014 A\$000	INTEREST NOT CHARGED ¹ A\$000	HIGHEST BALANCE IN THE PERIOD A\$000
2014						
Key management personnel						
Jason Brown	3	–	–	3	–	3
Colin Fagen	267	–	–	267	16	267
Former key management personnel						
Neil Drabsch ²	1,926	–	–	1,926	52	1,926
George Thwaites	43	–	–	43	1	43

¹ Deemed value of interest not charged for the period as key management personnel.

² All recourse and non-recourse amounts are due to be paid within 10 days of ceasing employment.

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

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 non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 30 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

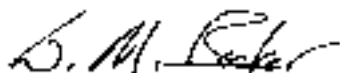
A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 100.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 30 to the financial statements.

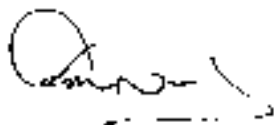
Rounding of amounts

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 24th day of February 2015 in accordance with a resolution of the directors.



W. Marston Becker
 Director



John Neal
 Director

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

Auditor's independence declaration for the year ended 31 December 2014

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2014, 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.



RJ Clark
Partner, PricewaterhouseCoopers

Sydney
24 February 2015

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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 this Financial Report are presented in US dollars unless otherwise stated. QBE Insurance Group Limited is a company limited by its 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 6 to 27 and 30 to 51, none of which is part of this Financial Report. The Financial Report was authorised for issue by the directors on 24 February 2015. 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 Report 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 2014

	NOTE	2014 US\$M	2013 US\$M
Gross written premium		16,332	17,975
Unearned premium movement		189	(86)
Gross earned premium revenue	6(A)	16,521	17,889
Outward reinsurance premium		(2,480)	(2,347)
Deferred reinsurance premium movement		43	(146)
Outward reinsurance premium expense	6(B)	(2,437)	(2,493)
Net earned premium (a)		14,084	15,396
Gross claims expense	6(B),7	(10,326)	(11,180)
Reinsurance and other recoveries revenue	6(A),7	1,426	1,249
Net claims expense (b)	7	(8,900)	(9,931)
Gross commission expense	6(B)	(2,642)	(2,880)
Reinsurance commission revenue	6(A)	279	300
Net commission (c)		(2,363)	(2,580)
Other acquisition costs (d)	6(B)	(1,095)	(1,257)
Underwriting and other expenses (e)	6(B)	(1,179)	(1,287)
Underwriting result (a)+(b)+(c)+(d)+(e)		547	341
Investment and other income – policyholders' funds		553	523
Investment expenses – policyholders' funds		(26)	(23)
Insurance profit		1,074	841
Investment and other income – shareholders' funds		284	312
Investment expenses – shareholders' funds		(14)	(11)
Financing and other costs	6(B)	(297)	(345)
Share of net profits of associates		1	–
Amortisation and impairment of intangibles	6(B)	(117)	(1,245)
Profit (loss) before income tax		931	(448)
Income tax (expense) credit	8	(182)	204
Profit (loss) after income tax		749	(244)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve	23(B)	54	371
Net movement in cash flow hedges	23(B)	–	1
Associates' share of other comprehensive income	23(B)	–	(7)
Income tax relating to these components of other comprehensive income		(5)	72
<i>Items that will not be reclassified to profit or loss</i>			
(Losses) gains on remeasurement of defined benefit superannuation plans	21	(42)	69
Gains (losses) on revaluation of owner occupied property	23(B)	2	(20)
Income tax relating to these components of other comprehensive income		15	(13)
Other comprehensive income after income tax		24	473
Total comprehensive income after income tax		773	229
Profit (loss) after income tax attributable to:			
Ordinary equity holders of the company		742	(254)
Non-controlling interests		7	10
		749	(244)
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		766	219
Non-controlling interests		7	10
		773	229

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

	NOTE	2014 US CENTS	2013 US CENTS
Basic earnings per share	25	57.4	(22.8)
Diluted earnings per share	25	55.8	(22.8)

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

Consolidated balance sheet

AS AT 31 DECEMBER 2014

	NOTE	2014 US\$M	2013 US\$M
Assets			
Cash and cash equivalents	9	852	1,238
Investments	10	27,716	29,368
Derivative financial instruments		20	33
Trade and other receivables	11	4,748	5,119
Current tax assets		5	16
Deferred insurance costs	12	2,031	2,221
Reinsurance and other recoveries on outstanding claims	19	3,464	3,461
Other assets		15	11
Assets held for sale	13	1,096	50
Defined benefit plan surpluses	21	44	39
Property, plant and equipment	14	362	408
Deferred tax assets	15	787	801
Investment properties		15	13
Investment in associates		14	13
Intangible assets	16	3,831	4,480
Total assets		45,000	47,271
Liabilities			
Derivative financial instruments		73	20
Trade and other payables	17	1,228	1,614
Current tax liabilities		192	219
Liabilities held for sale	13	671	-
Unearned premium	18	7,366	8,184
Outstanding claims	19	20,412	21,669
Provisions	20	95	114
Defined benefit plan deficits	21	117	80
Deferred tax liabilities	15	183	397
Borrowings	22	3,581	4,571
Total liabilities		33,918	36,868
Net assets		11,082	10,403
Equity			
Share capital	23(A)	9,391	9,195
Reserves	23(B)	(1,405)	(1,470)
Retained profits		3,044	2,631
Shareholders' funds		11,030	10,356
Non-controlling interests		52	47
Total equity		11,082	10,403

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 2014

	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
2014								
As at 1 January	9,195	–	–	(1,470)	2,631	10,356	47	10,403
Profit after income tax	–	–	–	–	742	742	7	749
Other comprehensive income	–	–	–	51	(27)	24	–	24
Total comprehensive income	–	–	–	51	715	766	7	773
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	(12)	–	–	–	(12)	–	(12)
Share-based payment expense	–	–	–	54	–	54	–	54
Shares vested and/or released to participants	–	12	–	(12)	–	–	–	–
Contributions of equity, net of transaction costs and tax	1,112	–	–	–	–	1,112	–	1,112
Purchase of non-controlling interests	–	–	–	(16)	–	(16)	(1)	(17)
Owner occupied property	–	–	–	(2)	2	–	–	–
Dividends paid on ordinary shares	–	–	–	–	(309)	(309)	–	(309)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	5	5	–	5
Foreign exchange movement	(916)	–	–	(10)	–	(926)	(1)	(927)
As at 31 December	9,391	–	–	(1,405)	3,044	11,030	52	11,082

	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
2013								
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

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 US\$M	2013 US\$M
Operating activities			
Premium received		16,552	17,863
Reinsurance and other recoveries received		1,596	2,800
Outward reinsurance paid		(2,058)	(2,789)
Claims paid		(10,754)	(11,859)
Acquisition and other underwriting costs paid		(4,802)	(4,906)
Interest received		715	715
Dividends received		66	18
Other operating income		26	23
Other operating payments		(288)	(303)
Interest paid		(338)	(296)
Income taxes paid		(383)	(416)
Net cash flows from operating activities ¹	9(B)	332	850
Investing activities			
Proceeds on sale of growth assets		898	1,514
Purchase of growth assets		(2,853)	(1,937)
(Payments for) proceeds from foreign exchange transactions		(44)	14
Proceeds on sale (purchase) of interest bearing financial assets		1,597	(929)
Payments for controlled entities and businesses acquired ²		(25)	(6)
Proceeds on disposal of controlled entities		–	74
Proceeds on sale of investment property		4	–
Proceeds on sale of property, plant and equipment		44	–
Payments for property, plant and equipment		(83)	(140)
Net cash flows from investing activities		(462)	(1,410)
Financing activities			
Proceeds from issue of shares		780	–
Share issue expenses		(10)	–
Purchase of treasury shares		(12)	(20)
Proceeds from settlement of staff share loans		3	3
Proceeds from borrowings		1,398	1,086
Repayment of borrowings		(2,085)	(955)
Dividends paid		(216)	(233)
Net cash flows from financing activities		(142)	(119)
Net movement in cash and cash equivalents		(272)	(679)
Cash and cash equivalents at the beginning of the year		1,238	2,025
Effect of exchange rate changes		(31)	(108)
Cash transferred to assets held for sale		(83)	–
Cash and cash equivalents at the end of the year	9	852	1,238

1 Included within net cash flows from operating activities are premiums received of \$1,537 million (2013 \$1,513 million), reinsurance recoveries received of \$466 million (2013 \$943 million), outward reinsurance paid of \$368 million (2013 \$407 million) and claims paid of \$1,571 million (2013 \$2,210 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.

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& Overview2 Business
review

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Report5 Financial
Report6 Other
Information

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Summary of significant accounting policies

The 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).

(A) Basis of preparation

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, interpretations of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. QBE is a for-profit entity.

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 2014. These standards have introduced new measurement and disclosure requirements but did not materially change the amounts recognised in the financial statements.

TITLE

AASB 1031	Materiality
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
AASB 2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part B
Interpretation 21	Levies

(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 because a significant proportion of the Group's 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 judgements and estimates

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

(B) 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 2014 and the results for the financial year then ended. Control exists when the Group 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 of 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, with the exception of the Emerging Markets segment where risks are broadly similar across the Latin America and Asia Pacific geographic regions but not across the operating segment as a whole.

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.

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 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.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

(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 substantively 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.

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, listed and unlisted equities and collective investment schemes (emerging market debt, emerging market equity, high yield debt and property trusts). Investments are designated as fair value through profit or loss on initial recognition, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date.

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.

(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).

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

(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. 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).

(iv) Exchange rates

The principal exchange rates used in the preparation of the financial statements were:

	2014		2013	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A\$/US\$	0.897	0.816	0.960	0.893
£/US\$	1.645	1.558	1.572	1.657
€/US\$	1.323	1.210	1.330	1.375

(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.

(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.

(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 are 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.

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FOR THE YEAR ENDED 31 DECEMBER 2014

(AB) 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.

(AC) 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.

(AD) 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.

(AE) 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.

(AF) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through sale rather than through continuing use, and are measured at the lower of their carrying amount and fair value less costs to sell. To be classified as held for sale:

- a sale must be highly probable;
- the asset or disposal group must be available for immediate sale in its present condition; and
- the sale must be expected to complete within one year.

Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

2. New accounting standards and amendments issued but not yet effective

TITLE	OPERATIVE DATE	
AASB 9	Financial Instruments	1 January 2018
AASB 9 (revised)	Financial Instruments	1 January 2018
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2018
2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part C	1 January 2015
2014-1	Amendments to Australian Accounting Standards [Part A – Annual Improvements]	1 January 2015
2014-1	Amendments to Australian Accounting Standards [Part B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)]	1 January 2015
2014-1	Amendments to Australian Accounting Standards [Part E – Financial Instruments]	1 January 2018
2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations	1 January 2016
2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
AASB 15	Revenue from Contracts with Customers	1 January 2017
2014-9	Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
2014-10	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	1 January 2016
Various	Annual Improvements to IFRSs 2012-2014 cycle	1 January 2016

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.

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. QBE is in the process of assessing the potential impact of AASB 9. Specifically, QBE has no plans to early adopt AASB 9 due to the interaction between the standard and the proposed new insurance accounting standard currently being developed by the IASB, which is currently expected to be issued in late 2015.

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, being the basis upon which 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 38 countries. The business is managed as follows:

- North American Operations writes general insurance and reinsurance business in the US.
- 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.
- Emerging Markets writes general insurance business in North, Central and South America and provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- 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.

During the period, QBE changed the way information is presented to the Group Executive reflecting changes in the way the business is now managed as follows:

- management now places greater focus on divisional results before internal quota share reinsurance and certain other internal arrangements; and
- our former Asia Pacific Operations and Latin American Operations merged to form Emerging Markets, consistent with the announcement to the market in August 2014.

The changes have been reflected in the profit and loss disclosed in the segment note and comparative information has been restated accordingly. The presentation of the balance sheet is consistent with prior years, other than the merger of Asia Pacific Operations and Latin American Operations to form Emerging Markets.

Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

2014	NORTH AMERICAN OPERATIONS US\$M	EUROPEAN OPERATIONS US\$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US\$M	EMERGING MARKETS US\$M	EQUATOR RE US\$M	TOTAL REPORTABLE SEGMENTS US\$M	CORPORATE US\$M	OTHER US\$M	TOTAL US\$M
Total assets	12,026	17,623	11,319	3,655	6,608	51,231	566	(6,797)	45,000
Total liabilities	9,603	14,599	8,113	2,859	5,276	40,450	265	(6,797)	33,918
Net assets	2,423	3,024	3,206	796	1,332	10,781	301	-	11,082
Other non-current assets	1,951	677	1,289	234	-	4,151	57	-	4,208
Gross written premium	5,310	4,526	4,392	2,179	642	17,049	-	(717)	16,332
Gross earned premium revenue – external	5,457	4,805	4,386	1,942	-	16,590	-	(69)	16,521
Gross earned premium revenue – internal	-	-	-	-	764	764	-	(764)	-
Outward reinsurance premium expense	(986)	(1,238)	(552)	(237)	(239)	(3,252)	-	815	(2,437)
Net earned premium	4,471	3,567	3,834	1,705	525	14,102	-	(18)	14,084
Net claims expense	(3,023)	(2,000)	(2,242)	(1,245)	(389)	(8,899)	-	(1)	(8,900)
Net commission	(698)	(718)	(532)	(368)	(18)	(2,334)	-	(29)	(2,363)
Underwriting and other expenses	(788)	(626)	(562)	(309)	(13)	(2,298)	8	16	(2,274)
Underwriting result	(38)	223	498	(217)	105	571	8	(32)	547
Net investment income on policyholders' funds	46	122	182	108	40	498	61	(32)	527
Insurance profit (loss)	8	345	680	(109)	145	1,069	69	(64)	1,074
Net investment income on shareholders' funds	38	35	78	58	12	221	(17)	66	270
Financing and other costs	-	-	-	-	-	-	(297)	-	(297)
Share of net profits of associates	-	-	-	-	-	-	-	1	1
Amortisation/impairment of intangible assets	-	-	-	-	-	-	-	(117)	(117)
Profit (loss) before income tax	46	380	758	(51)	157	1,290	(245)	(114)	931
Income tax credit (expense)	29	(69)	(227)	31	(6)	(242)	46	14	(182)
Profit (loss) after income tax	75	311	531	(20)	151	1,048	(199)	(100)	749
Profit after income tax attributable to non-controlling interests	-	-	-	-	-	-	-	(7)	(7)
Net profit (loss) after income tax	75	311	531	(20)	151	1,048	(199)	(107)	742

The corporate segment includes non-operating holding companies and financing entities which do not form part of the Group's insurance operations.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

Other includes the impact of consolidation adjustments and internal reinsurance eliminations, together with the costs associated with amortisation of intangibles which do not form part of the divisional management results.

2013	NORTH AMERICAN OPERATIONS US\$M	EUROPEAN OPERATIONS US\$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US\$M	EMERGING MARKETS US\$M	EQUATOR RE US\$M	TOTAL REPORTABLE SEGMENTS US\$M	CORPORATE US\$M	OTHER US\$M	TOTAL US\$M
Total assets	12,238	18,498	12,196	3,606	7,486	54,024	324	(7,077)	47,271
Total liabilities	10,171	16,151	9,075	2,643	5,639	43,679	266	(7,077)	36,868
Net assets	2,067	2,347	3,121	963	1,847	10,345	58	–	10,403
Other non-current assets	2,235	751	1,524	324	–	4,834	67	–	4,901
Gross written premium	5,951	5,236	4,805	2,107	783	18,882	–	(907)	17,975
Gross earned premium revenue – external	6,225	5,146	4,626	1,984	–	17,981	–	(92)	17,889
Gross earned premium revenue – internal	–	–	–	–	802	802	–	(802)	–
Outward reinsurance premium expense	(1,195)	(986)	(598)	(282)	(293)	(3,354)	–	861	(2,493)
Net earned premium	5,030	4,160	4,028	1,702	509	15,429	–	(33)	15,396
Net claims expense	(3,804)	(2,486)	(2,347)	(976)	(400)	(10,013)	–	82	(9,931)
Net commission	(795)	(768)	(572)	(364)	(21)	(2,520)	–	(60)	(2,580)
Underwriting and other expenses	(1,011)	(646)	(623)	(304)	(8)	(2,592)	24	24	(2,544)
Underwriting result	(580)	260	486	58	80	304	24	13	341
Net investment income on policyholders' funds	45	116	207	63	55	486	48	(34)	500
Insurance (loss) profit	(535)	376	693	121	135	790	72	(21)	841
Net investment income on shareholders' funds	72	61	102	47	19	301	5	(5)	301
Financing and other costs	–	–	–	–	–	–	(345)	–	(345)
Share of net profits of associates	–	–	–	–	–	–	–	–	–
Amortisation/impairment of intangible assets	–	–	–	–	–	–	–	(1,245)	(1,245)
(Loss) profit before income tax	(463)	437	795	168	154	1,091	(268)	(1,271)	(448)
Income tax credit (expense)	153	(83)	(237)	(49)	(7)	(223)	(13)	440	204
(Loss) profit after income tax	(310)	354	558	119	147	868	(281)	(831)	(244)
Profit after income tax attributable to non-controlling interests	–	–	–	–	–	–	–	(10)	(10)
Net (loss) profit after income tax	(310)	354	558	119	147	868	(281)	(841)	(254)

(B) Geographical analysis

All operating segments except for Emerging Markets 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. No country within Emerging Markets is individually material.

Gross earned premium revenue – external for Australia, QBE's country of domicile, was \$4,122 million (2013 \$4,368 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).

4. Critical accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect amounts reported in the consolidated statement of comprehensive income and the balance sheet. The diversity and complexity of the Group is evidenced by its operations in 38 countries and the broad product range as shown in the class of business analysis in note 5B(i).

In view of its 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.

Given the centralised approach to many of its activities and the product and geographic diversification, sensitivity analyses in respect of critical accounting estimates and judgements 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 key areas in which critical estimates and judgements 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;
- less amounts recoverable from reinsurers based on the gross central estimate;
- less an amount to reflect the discount to present value using risk-free rates of return to reflect the time value of money;
- plus 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 some 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;
- the existence of complex underlying exposures, often at high attachment points (e.g. program business in the US);
- the 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 (e.g. UK bodily injury claims); and
- changing social, political and economic trends, for example price and wage inflation.

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 judgemental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate. The net central estimate is discounted at risk-free rates of return to reflect the time value of money. Details of the key assumptions applied in the discounting process are summarised in note 4(A)(iv).

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

(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 already described. 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 Group 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 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 generally 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 in the same jurisdiction.

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. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgement of experienced and qualified actuaries.

The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from 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 years in 10. The probability of adequacy is not of itself an accounting policy 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.

	2014 %	2013 %
North American Operations	1.37	1.57
European Operations	1.08	1.91
Australian & New Zealand Operations	2.47	3.52
Emerging Markets ¹	11.48	13.47
Equator Re	1.48	1.96
Group ²	3.51	2.77

¹ Emerging markets excluding the Argentine peso is 2.15% (2013 1.91%).

² Group excluding the Argentine peso is 1.45% (2013 2.17%).

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.

	2014 YEARS						2013 YEARS					
	US\$	£	A\$	€	OTHER	TOTAL	US\$	£	A\$	€	OTHER	TOTAL
North American Operations	2.1	–	–	–	–	2.1	2.1	–	–	–	–	2.1
European Operations	2.6	3.3	4.0	5.1	2.7	3.7	2.7	3.4	3.8	5.1	3.5	3.8
Australian & New Zealand Operations	–	–	2.5	–	1.5	2.4	–	–	2.5	–	1.6	2.5
Emerging Markets	1.2	–	–	–	1.4	1.4	0.7	–	–	–	1.9	1.9
Equator Re	1.9	4.0	3.1	3.7	2.6	2.7	2.2	3.6	3.0	3.6	2.5	2.7
Group	2.1	3.4	2.6	5.0	2.0	2.8	2.3	3.4	2.7	5.0	2.4	3.0

(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. Over the medium to longer term, 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, if the central estimate was to increase by 5%, at least part of the increase may result in a change in the level of risk margins rather than in a change to profit after tax, depending on the nature of the change in the central estimate. Likewise, if the coefficient of variation were to increase by 1%, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax.

	SENSITIVITY %	PROFIT (LOSS) ^{1,2}	
		2014 US\$M	2013 US\$M
Central estimate	+5	(546)	(582)
	-5	546	582
Risk margin	+5	(47)	(55)
	-5	47	55
Inflation rate	+0.5	(150)	(170)
	-0.5	144	164
Discount rate	+0.5	144	164
	-0.5	(150)	(170)
Coefficient of variation	+1	(135)	(159)
	-1	135	160
Probability of adequacy	+1	(45)	(56)
	-1	42	51
Weighted average term to settlement	+10	55	106
	-10	(55)	(107)

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 in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (refer note 18(D)). 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, with the exception of Emerging Markets where the risks are broadly similar across the Latin American and Asia Pacific geographic regions but not across the operating segment as a whole. 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.

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).

(C) Intangible assets

Identifiable intangible assets with a finite useful life 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 16(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. The assumptions used and the sensitivities inherent in the impairment testing of identifiable intangibles are included in note 16(A)(vi).

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(D) 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 in the period in which the taxable losses can be utilised.

In North American Operations, a deferred tax asset (DTA) of \$573 million (2013 \$573 million) has been recognised, comprising \$362 million (2013 \$345 million) of carry forward tax losses and \$211 million (2013 \$228 million) of 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 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 judgement that North American Operations will be able to generate sufficient taxable profits over the foreseeable future, based upon its future business plans. Key assumptions include a return to taxable profit driven by no deterioration in the claims provision, a return of crop profitability to historical averages, benefits flowing from initiatives to reduce the cost base of the division, future increases in investment yields and the benefits from a review of the capital structure resulting in lower funding costs.

Losses expire over the next 20 years, with the majority expiring between 2030 and 2034. 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.

(E) 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 21(C).

The discount rate 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 indexation 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) ¹	
		2014 US\$M	2013 US\$M
Discount rate	+1	90	54
	-1	(107)	(95)
Pension indexation rate	+1	(45)	(29)
	-1	37	24

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

5. Risk management

The Group's risk management policies, 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 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 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 and has documented minimum requirements for carrying out due diligence.

(ii) Capital management risk

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

(B) Insurance risk

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome. 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 to achieve a sufficiently large population of risks, within each of these categories, 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 that 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 level and are included within business plans for individual classes of business.

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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.

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.

	2014 US\$M	2013 US\$M
GROSS EARNED PREMIUM		
Property	5,374	6,080
Motor & motor casualty	2,831	2,898
Agriculture	1,815	2,039
Public/product liability	1,815	1,571
Workers' compensation	1,434	1,526
Marine energy & aviation	1,104	1,281
Professional indemnity	760	1,136
Financial & credit	750	662
Accident & health	501	540
Other	137	156
At 31 December	16,521	17,889

The Group has potential exposure to catastrophe events that may impact more than one operating division and has set a risk appetite for the amount of concentration risk it is prepared to take. Exposures are calculated as part of the business planning process using realistic disaster scenarios (RDSs) based on industry standards and QBE determined probable maximum losses and various catastrophe models. These are then aggregated across all portfolios, divisions and to Group level using the Economic Capital Model. The concentrations must be less than the Group's appetite, otherwise steps are taken to limit the exposure, such as the purchase of additional reinsurance.

(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 through the implementation of 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 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 qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events, 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 Group 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 94% 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) Outward 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 states that QBE Group has also assessed its major exposure to be a catastrophe loss that may impact more than one class of business and more than one of the Group's divisions and is estimated using RDSs, Group aggregate methodology and catastrophe modelling. The Group's exposure is further managed through Group aggregate covers and sideways protections, aimed at containing large risk and catastrophe claims over \$2.5 million within the risk appetite.

(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 credit risk policy is in place which defines what constitutes credit risk for QBE and sets out the credit risk management framework, including the credit risk appetite. 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. Minimum credit ratings for investments are established where appropriate.
- QBE has strict guidelines covering the limits and terms of net open derivative positions and the counterparties with whom 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				SPECULATIVE GRADE US\$M	NOT RATED US\$M	TOTAL US\$M
	Aaa US\$M	Aa US\$M	A US\$M	Baa US\$M			
As at 31 December 2014							
Cash and cash equivalents	16	62	707	31	10	26	852
Interest-bearing investments	6,830	7,768	9,425	773	271	95	25,162
Derivative financial instruments	–	9	9	2	–	–	20
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

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.

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.

	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL US\$M
		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	
As at 31 December 2014						
Premium receivable	1,603	536	110	28	22	2,299
Other trade debtors	202	1	1	–	1	205
Other debtors	202	2	5	2	6	217
Treasury receivables	4	–	–	–	–	4
Investment receivables	167	–	–	–	–	167
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

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(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 claims and potential future losses based on the Group's insurance concentrations.
- 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 \$1,662 million (2013 \$1,973 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					NOT RATED US\$M	TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M	SPECULATIVE GRADE US\$M		
As at 31 December 2014							
Reinsurance recoveries on outstanding claims ^{1,2}	39	1,990	943	23	9	82	3,086
Reinsurance recoveries on paid claims ¹	–	786	116	4	8	12	926
As at 31 December 2013							
Reinsurance recoveries on outstanding claims ^{1,2}	10	1,884	1,062	22	16	119	3,113
Reinsurance recoveries on paid claims ¹	–	734	86	5	10	17	852

1 Net of a provision for impairment.

2 Excludes other recoveries of \$378 million (2013 \$348 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				TOTAL US\$M	
		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		
Reinsurance recoveries on paid claims ¹	2014	724	108	23	20	51	926
	2013	724	83	14	16	15	852

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 against the US dollar 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)(i). The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged.

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.

EXPOSURE CURRENCY	2014			2013		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) ¹ US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) ¹ US\$M
Australian dollar	(43)	+10 -10	(3) 3	8	+10 -10	1 (1)
Sterling	(47)	+10 -10	(3) 3	(4)	+10 -10	- -
Euro	82	+10 -10	6 (6)	(23)	+10 -10	(2) 2
Hong Kong dollar	3	+10 -10	- -	14	+10 -10	1 (1)
Canadian dollar	1	+10 -10	- -	21	+10 -10	1 (1)
New Zealand dollar	2	+10 -10	- -	17	+10 -10	1 (1)

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 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 appropriate 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.

At the balance date, \$3,641 million (2013 \$4,603 million) of borrowings and accrued interest were designated as hedges of net investments in foreign operations.

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 cannot hedge this exposure.

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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.

	2014			2013		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M
Australian dollar	6,126	+10 -10	613 (613)	6,350	+10 -10	635 (635)
Sterling	1,972	+10 -10	197 (197)	399	+10 -10	40 (40)
Euro	572	+10 -10	57 (57)	1,016	+10 -10	102 (102)
Hong Kong dollar	72	+10 -10	7 (7)	57	+10 -10	6 (6)
Argentinian peso	203	+10 -10	20 (20)	324	+25 -25	81 (81)
New Zealand dollar	151	+10 -10	15 (15)	140	+10 -10	14 (14)
Singapore dollar	117	+10 -10	12 (12)	102	+10 -10	10 (10)
Colombian peso	55	+10 -10	6 (6)	76	+10 -10	8 (8)

(ii) Interest rate risk

QBE is exposed to interest rate risk through its holdings in interest-bearing assets, emerging market debt and high yield debt investments. 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 predominantly 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 measured 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, over the longer term, 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. At 31 December 2014, the average modified duration of cash and fixed interest securities was 0.65 years (2013 0.51 years).

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	
		2014 US\$M	2013 US\$M
Interest rate movement – interest-bearing financial assets	+0.5	(59)	(54)
	-0.5	52	47
Interest rate movement – collective investment schemes	+0.5	(7)	–
	-0.5	7	–

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 2014, 2.9% (2013 0.9%) of the Group's investments and cash was held in listed equities, of which the majority was publicly traded in the major financial markets and 0.9% (2013 nil) of the Group's investments and cash was held in emerging market equity.

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	
		2014 US\$M	2013 US\$M
ASX 200	+20	39	18
	-20	(39)	(18)
FTSE 100	+20	10	5
	-20	(10)	(5)
EURO STOXX	+20	7	6
	-20	(7)	(6)
S&P 500	+20	44	5
	-20	(44)	(5)
MSCI Emerging Markets Index	+20	32	-
	-20	(32)	-

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

QBE is also exposed to price risk on its interest-bearing investments (fixed interest and floating interest rate securities) and collective investment schemes. All securities are measured at fair value through profit or loss. Movements in credit spreads impact the value of corporate interest-bearing securities and collective investment schemes (emerging market debt and high yield debt) and therefore impact reported profit after tax. This risk is managed by investing in high quality, liquid interest-bearing 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 interest-bearing securities and collective investment schemes held by the Group at the balance date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2014 US\$M	2013 US\$M
Credit spread movement – corporate interest-bearing financial assets	+0.5	(76)	(110)
	-0.5	57	89
Credit spread movement – collective investment schemes	+0.5	(8)	-
	-0.5	8	-

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 unlisted 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 \$66 million (2013 \$22 million) net of tax at the Group's prima facie rate of 30%.

(E) Liquidity risk

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and other creditors. This includes the risk associated with asset and liability management. A 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 on policyholders' and shareholders' funds.

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 risk policy, a minimum percentage of QBE's liabilities is held in cash and liquid securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations.

The maturity of the Group's interest-bearing financial assets is shown in the table below.

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						TOTAL
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	
As at 31 December 2014								
Fixed rate	US\$M	10,961	1,780	1,774	190	676	58	15,439
Weighted average interest rate	%	1.5	1.7	1.7	2.7	1.8	3.8	1.6
Floating rate	US\$M	3,048	3,916	1,605	427	369	1,210	10,575
Weighted average interest rate	%	1.6	2.0	2.4	3.3	4.8	2.7	2.2
As 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

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FOR THE YEAR ENDED 31 DECEMBER 2014

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 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 22.

	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 2014						
Forward foreign exchange contracts	73	–	–	–	–	73
Trade payables	289	132	5	–	37	463
Treasury payables	34	–	–	–	–	34
Investment payables	27	–	–	–	–	27
Borrowings ¹	468	917	–	2,208	–	3,593
Contractual undiscounted interest payments	237	543	320	230	–	1,330
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

¹ Excludes net capitalised expenses of \$12 million (2013 \$26 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 19(B).

(F) Operational risk

Operational risk is the risk of 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 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.

6. Income and expenses

(A) Income summary

	2014 US\$M	2013 US\$M
Gross earned premium revenue		
Direct and facultative ¹	15,206	16,369
Inward reinsurance	1,315	1,520
	16,521	17,889
Other revenue		
Reinsurance and other recoveries revenue	1,426	1,249
Reinsurance commission revenue	279	300
	18,226	19,438
Other income		
Dividends received or receivable	66	20
Interest received or receivable	643	677
Other investment income	8	2
Net fair value gains on financial assets	137	85
Net fair value gains on investment properties	–	1
Net fair value gains on owner occupied properties	3	–
Realised gains on sale of controlled entities	–	42
Gain on repurchase of debt securities	–	2
Foreign exchange gains	17	24
Share of net profits of associates	1	–
	875	853
Income	19,101	20,291

1 The earnings pattern of the Australian lenders' mortgage insurance business was revised to more appropriately reflect the pattern of the incidence of risk. Earned premium increased by \$85 million.

(B) Expenses summary

	2014 US\$M	2013 US\$M
Outward reinsurance premium expense	2,437	2,493
Gross claims expense	10,326	11,180
Gross commission expense	2,642	2,880
Other acquisition costs	1,095	1,257
Underwriting and other expenses ¹	1,179	1,287
Net fair value losses on investment properties	2	–
Net fair value losses on owner occupied properties	–	5
Net fair value losses on sale of controlled entities	17	–
Net fair value losses on assets held for sale	–	10
Net fair value losses on sale of associate	–	3
Loss on repurchase of debt securities	18	–
Investment expenses	40	34
Financing and other costs	297	345
Amortisation of intangibles and impairment of goodwill/intangibles ²	117	1,245
Expenses	18,170	20,739

1 Includes \$99 million (2013 \$169 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 \$55 million (2013 \$603 million). Details are provided in note 16.

(C) Specific items

	2014 US\$M	2013 US\$M
Defined contribution superannuation expense	92	105
Payments on operating leases	69	40
Depreciation of property, plant and equipment	103	138

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FOR THE YEAR ENDED 31 DECEMBER 2014

7. Claims expense

(A) Claims analysis

	2014 US\$M	2013 US\$M
Gross claims and related expenses		
Direct and facultative	9,493	10,445
Inward reinsurance	833	735
	10,326	11,180
Reinsurance and other recoveries revenue		
Direct and facultative	1,283	1,154
Inward reinsurance	143	95
	1,426	1,249
Net claims expense	8,900	9,931
Analysed as follows:		
Movement in net discounted central estimate	9,084	9,665
Movement in risk margin	(184)	266
Net claims expense	8,900	9,931

(B) Net central estimate claims development

Current year claims relate to claims that occurred in the current reporting year. Prior year claims relate to a reassessment of the claims that occurred in all previous reporting years.

	FOR THE YEAR ENDED 31 DECEMBER 2014			FOR THE YEAR ENDED 31 DECEMBER 2013		
	CURRENT YEAR US\$M	PRIOR YEARS US\$M	TOTAL US\$M	CURRENT YEAR US\$M	PRIOR YEARS US\$M	TOTAL US\$M
Gross claims and related expenses						
Undiscounted	10,430	474	10,904	10,803	548	11,351
Discount	(536)	142	(394)	(346)	(91)	(437)
	9,894	616	10,510	10,457	457	10,914
Reinsurance and other recoveries						
Undiscounted	1,094	306	1,400	1,282	(48)	1,234
Discount	22	4	26	62	(47)	15
	1,116	310	1,426	1,344	(95)	1,249
Net claims expense						
Undiscounted	9,336	168	9,504	9,521	596	10,117
Discount	(558)	138	(420)	(408)	(44)	(452)
Movement in net discounted central estimate	8,778	306	9,084	9,113	552	9,665

(C) Reconciliation of movement in net discounted central estimate to claims development table

The development of the net undiscounted central estimate for the 10 most recent accident years is shown in note 19(E). This note is a reconciliation of the amounts in note 7(B) above and the current financial year movements in the claims development table.

	FOR THE YEAR ENDED 31 DECEMBER 2014			FOR THE YEAR ENDED 31 DECEMBER 2013		
	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 ^{1,2}	8,956	(1)	8,955	9,011	552	9,563
Acquisitions during the financial year	-	-	-	(3)	-	(3)
Net undiscounted central estimate development	8,956	(1)	8,955	9,008	552	9,560
Medical malpractice reinsurance ²	-	(362)	(362)	-	-	-
Movement in claims settlement costs	392	9	401	394	(4)	390
Movement in discount ¹	(558)	661	103	(408)	25	(383)
Other movements	(12)	(1)	(13)	119	(21)	98
Movement in net discounted central estimate (note 7(B))	8,778	306	9,084	9,113	552	9,665

1 \$523 million (2013 \$69 million) of prior accident year discount movement is netted off against prior accident year undiscounted central estimate movement for long tail classes such as dust disease in Australia and workers' compensation in Argentina, where the level of assumed claims inflation is directly linked to the discount rate.

2 Prior accident year undiscounted central estimate movement in 2014 includes a \$362 million reinsurance recovery resulting from the Group's reinsurance of medical malpractice liabilities to a third party.

Net prior accident year central estimate development was a release of \$1 million compared with a net strengthening of \$552 million in the previous financial year.

Adverse claims development of \$212 million in our Latin American Operations, mainly in relation to Argentine workers' compensation business, was more than offset by net positive development across all other divisions. In Argentina, a review of claims liabilities was undertaken in response to an observed increase in litigated workers' compensation claims following legislation changes in 2012 and 2013, and partly in response to deteriorating economic conditions in that jurisdiction.

Outside of Latin America, we experienced positive development in European, Australian & New Zealand and Asia Pacific Operations, partially offset by modest adverse development in North American Operations, mainly due to industry-wide late reporting of 2013 claims in our crop portfolio.

8. Income tax

Reconciliation of prima facie tax to income tax expense

	2014 US\$M	2013 US\$M
Profit (loss) before income tax	931	(448)
Prima facie tax payable (receivable) at 30%	279	(134)
Tax effect of non-temporary differences:		
Untaxed dividends	(5)	(3)
Differences in tax rates	(104)	(163)
Non-deductible goodwill	–	158
Other, including non-allowable expenses and non-taxable income	(48)	(30)
Prima facie tax adjusted for non-temporary differences	122	(172)
Deferred tax assets no longer recognised	58	32
Under (over) provision in prior years	2	(64)
Income tax expense (credit)	182	(204)
Analysed as follows:		
Current tax	415	338
Deferred tax	(235)	(478)
Under (over) provision in prior years	2	(64)
	182	(204)
Deferred tax credit comprises: ¹		
Deferred tax assets recognised in profit or loss	103	(430)
Deferred tax liabilities recognised in profit or loss	(338)	(48)
	(235)	(478)

1 Consolidated deferred tax expense includes \$10 million (2013 \$23 million) credited to profit as a result of changes in income tax rates.

9. Cash and cash equivalents

	2014 US\$M	2013 US\$M
Cash at bank and on hand	656	772
Overnight money	60	21
Cash management trusts	34	228
Term deposits	102	217
	852	1,238
Analysed as follows:		
Fixed interest rate	102	217
Floating interest rate	750	1,021
	852	1,238

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 \$83 million (2013 \$100 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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FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014 US\$M	2013 US\$M
Profit (loss) after income tax	749	(244)
Depreciation/impairment of property, plant and equipment	103	145
Amortisation and impairment of intangibles	117	1,245
Realised losses (gains) on sale of controlled entities	17	(32)
Realised loss on sale of associates	–	3
Losses (gains) on repurchase of debt securities	18	(2)
(Gain) loss on sale of plant and equipment	(38)	47
Net foreign exchange gains	(17)	(24)
Other gains on financial assets	(123)	(68)
(Decrease) increase in net outstanding claims	(389)	293
(Decrease) increase in unearned premium	(189)	86
Decrease in deferred insurance costs	90	238
Decrease (increase) in trade debtors	407	(299)
Increase in net operating assets	(199)	(123)
Share of net profit of associates	(1)	–
(Decrease) increase in trade payables	(67)	214
Decrease in tax liabilities	(188)	(620)
Increase in share-based payments	54	15
Decrease in net defined benefit deficit	(12)	(24)
Cash flows from operating activities	332	850

10. Investments

	2014 US\$M	2013 US\$M
Fixed interest rate		
Short-term money	7,621	6,430
Government bonds	4,042	6,262
Corporate bonds	3,658	3,882
Infrastructure debt	16	–
	15,337	16,574
Floating interest rate		
Short-term money	150	95
Government bonds	773	1,282
Corporate bonds	8,591	10,565
Infrastructure debt	238	160
Unit trusts	73	85
	9,825	12,187
Equities		
Equities – listed	817	265
Equities – unlisted	27	28
	844	293
Collective investment schemes		
Emerging market debt	243	–
Emerging market equity	243	–
High yield debt	276	–
Property trusts – unlisted	948	314
	1,710	314
Total investments	27,716	29,368
Amounts maturing within 12 months	13,157	14,272
Amounts maturing in greater than 12 months	14,559	15,096
Total investments	27,716	29,368

(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 28.

(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 one or more significant inputs are not based on observable market data.

	2014				2013			
	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								
Short-term money	1,167	6,604	–	7,771	921	5,604	–	6,525
Government bonds ¹	2,634	2,178	3	4,815	4,018	3,518	8	7,544
Corporate bonds	–	12,249	–	12,249	–	14,447	–	14,447
Infrastructure debt	–	99	155	254	–	–	160	160
Unit trusts	–	73	–	73	–	85	–	85
Equities – listed	816	–	1	817	264	–	1	265
Equities – unlisted	–	–	27	27	–	–	28	28
Emerging market debt	–	243	–	243	–	–	–	–
Emerging market equity	–	243	–	243	–	–	–	–
High yield debt	–	276	–	276	–	–	–	–
Property trusts – unlisted	–	948	–	948	–	314	–	314
Total investments	4,617	22,913	186	27,716	5,203	23,968	197	29,368

1 In 2013, \$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.

Emerging market debt and equity, high yield debt and unlisted property trusts

These assets 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.

	2014 US\$M	2013 US\$M
LEVEL 3		
At 1 January	197	172
Transfers to assets held for sale	(4)	–
Reclassifications to level 2 ¹	–	(137)
Purchases	43	164
Disposals	(43)	(3)
Unrealised gains recognised in profit or loss ²	3	1
Realised gains recognised in profit or loss ²	1	–
Foreign exchange	(11)	–
At 31 December	186	197

1 In 2013, \$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.

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(E) Restrictions on use

Included in investments are amounts totalling \$3,508 million (2013 \$3,651 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 \$498 million (2013 \$369 million) of short-term money.

11. Trade and other receivables

	2014 US\$M	2013 US\$M
Trade debtors		
Premium receivable ¹	2,299	2,550
Reinsurance and other recoveries ¹	926	852
Unclosed premium	930	1,015
Other trade debtors	205	158
	4,360	4,575
Other debtors	217	242
Treasury receivables	4	5
Investment receivables	167	297
Trade and other receivables	4,748	5,119
Receivable within 12 months	4,585	4,713
Receivable in greater than 12 months	163	406
Trade and other receivables	4,748	5,119

¹ Net of a provision for impairment.

(A) Provision for impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECOVERIES	
	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M
At 1 January	75	90	30	44
Amounts recognised in profit or loss	12	6	5	(12)
Other movements	(15)	(16)	–	(1)
Foreign exchange	(6)	(5)	(3)	(1)
At 31 December	66	75	32	30

(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.

12. Deferred insurance costs

	2014 US\$M	2013 US\$M
Deferred reinsurance premium	502	495
Deferred net commission	1,019	1,222
Deferred acquisition costs	510	504
Deferred insurance costs	2,031	2,221
To be expensed within 12 months	1,933	2,218
To be expensed in greater than 12 months	98	3
Deferred insurance costs	2,031	2,221

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M
At 1 January	495	663	1,222	1,399	504	544
Acquisitions	–	2	–	–	–	–
Costs deferred in financial year	477	379	871	1,072	381	425
Amortisation of costs deferred in previous financial years	(434)	(525)	(1,004)	(1,164)	(344)	(439)
Disposals	–	–	–	(1)	–	(1)
Foreign exchange	(36)	(24)	(70)	(84)	(31)	(25)
At 31 December	502	495	1,019	1,222	510	504

13. Assets held for sale

	2014 US\$M	2013 US\$M
Goodwill and intangible assets	326	-
Investments	424	-
Other assets	346	50
Assets held for sale	1,096	50
Outstanding claims	(414)	-
Other liabilities	(257)	-
Liabilities held for sale	(671)	-

At the balance date, the following non-core businesses were classified as available for sale:

- Australian agencies: CHU, Corporate Underwriting Agencies and Underwriting Agencies of Australia.
- North American agencies: Community Association Underwriters, Deep South and SIU Agencies.
- Other non-core underwriting activities.

On 2 February 2015, the North American agencies were sold for cash consideration of \$217 million, with the potential for a further \$83 million over the next five years, contingent on the achievement of specified performance criteria.

On 16 February 2015, QBE announced the sale of the Australian agencies for a cash consideration of A\$290 million, with the potential of an adjustment to an amount in the range of A\$232 million to A\$348 million, contingent on the achievement of specified performance criteria.

14. Property, plant and equipment

	OWNER OCCUPIED PROPERTIES US\$M	LEASEHOLD IMPROVEMENTS US\$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US\$M	MOTOR VEHICLES US\$M	TOTAL US\$M
2014					
Cost or valuation					
At 1 January	116	171	583	8	878
Additions/reclassifications	(1)	7	66	1	73
Revaluations	3	-	-	-	3
Disposal of entities	-	-	(3)	-	(3)
Disposals	-	(28)	(50)	(3)	(81)
Foreign exchange	(3)	(11)	(22)	-	(36)
At 31 December	115	139	574	6	834
Accumulated depreciation and impairment losses					
At 1 January	-	(80)	(385)	(5)	(470)
Disposal of entities	-	-	1	-	1
Disposals	-	26	48	1	75
Reclassifications	-	-	5	1	6
Depreciation charge for the year	-	(14)	(88)	(1)	(103)
Foreign exchange	-	4	14	1	19
At 31 December	-	(64)	(405)	(3)	(472)
Carrying amount					
At 31 December	115	75	169	3	362

	OWNER OCCUPIED PROPERTIES US\$M	LEASEHOLD IMPROVEMENTS US\$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US\$M	MOTOR VEHICLES US\$M	TOTAL US\$M
2013					
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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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. There were no transfers in or out of level 3 in the hierarchy during 2014 or 2013. 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 7.25% – 12.0% (2013 7.5% – 12.0%).

The cost of owner occupied properties at 31 December 2014 was \$127 million (2013 \$130 million).

15. Deferred income tax

	2014 US\$M	2013 US\$M
Deferred tax assets	787	801
Deferred tax liabilities	(183)	(397)

(A) Deferred tax assets

(i) The balance comprises temporary differences attributable to:

	2014 US\$M	2013 US\$M
Amounts recognised in profit or loss		
Financial assets – fair value movements	1	73
Provision for impairment	20	22
Employee benefits	68	72
Intangible assets	163	229
Insurance provisions	537	625
Tax losses recognised	487	476
Other	121	124
	1,397	1,621
Amounts recognised in other comprehensive income		
Capitalised expenses	3	1
Defined benefit plans	57	42
Other	1	1
	61	44
Deferred tax assets before set-off	1,458	1,665
Set-off of deferred tax liabilities	(671)	(864)
	787	801
Deferred tax assets before set-off analysed as follows:		
Recoverable within 12 months	57	253
Recoverable in greater than 12 months	1,401	1,412
	1,458	1,665

(ii) Movements:

	2014 US\$M	2013 US\$M
At 1 January	1,665	1,292
Amounts recognised in profit or loss	(103)	430
Amounts recognised in other comprehensive income	17	(13)
Amounts transferred to assets held for sale	(56)	–
Foreign exchange	(65)	(44)
At 31 December	1,458	1,665

(B) Tax losses

The Group has not brought to account \$161 million (2013 \$99 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. \$133 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, and \$28 million 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.

(C) Deferred tax liabilities**(i) The balance comprises temporary differences attributable to:**

	2014 US\$M	2013 US\$M
Amounts recognised in profit or loss		
Intangible assets	(148)	(210)
Insurance provisions	(541)	(762)
Taxation of Financial Arrangements transitional adjustment	–	(30)
Financial assets – fair value movements	(5)	(82)
Other provisions	(54)	(28)
Other items	(95)	(138)
	(843)	(1,250)
Amounts recognised in other comprehensive income		
Owner occupied property	(3)	(3)
Defined benefit plans	(8)	(8)
	(11)	(11)
Deferred tax liabilities before set-off	(854)	(1,261)
Set-off of deferred tax assets	671	864
	(183)	(397)
Deferred tax liabilities before set-off analysed as follows:		
Recoverable within 12 months	(46)	(208)
Recoverable in greater than 12 months	(808)	(1,053)
	(854)	(1,261)

(ii) Movements:

	2014 US\$M	2013 US\$M
At 1 January	(1,261)	(1,361)
Amounts recognised in profit or loss	338	48
Amounts recognised in other comprehensive income	–	1
Amounts transferred to liabilities held for sale	5	–
Foreign exchange	64	51
At 31 December	(854)	(1,261)

16. Intangible assets

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
	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
2014								
Cost								
At 1 January	91	1,441	48	50	87	46	3,901	5,664
Write-off fully written down assets	–	(387)	–	–	(24)	(5)	–	(416)
Transfer to assets held for sale	–	(63)	(4)	–	(4)	–	(291)	(362)
Additions/reclassifications	–	9	–	–	–	–	1	10
Impairment	–	(36)	(4)	–	–	(4)	(11)	(55)
Foreign exchange	(6)	(26)	(2)	–	–	(2)	(192)	(228)
At 31 December	85	938	38	50	59	35	3,408	4,613
Amortisation								
At 1 January	–	(1,040)	(21)	–	(84)	(39)	–	(1,184)
Write-off fully written down assets	–	387	–	–	24	5	–	416
Amortisation for the year	–	(55)	(4)	–	(2)	(1)	–	(62)
Transfer to assets held for sale	–	31	1	–	4	–	–	36
Foreign exchange	–	10	–	–	–	2	–	12
At 31 December	–	(667)	(24)	–	(58)	(33)	–	(782)
Carrying amount								
At 31 December	85	271	14	50	1	2	3,408	3,831

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	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
	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
2013								
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

(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. 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 16 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 10 months to 15 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 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 month to four 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)(ii). 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 and 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 or groups of 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:

	2014 US\$M	2013 US\$M
North American Operations	1,573	1,754
European Operations	502	452
Australian Operations	1,260	1,480
Other ¹	73	215
	3,408	3,901

1 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)(i). The recoverable amount of each cash generating unit or group of cash generating units has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts, including investment returns, based on the latest three year business plan which has been approved by the Group Board. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors and the benefit of committed cost saving measures;
- 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 or group of cash generating units 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 or group of cash generating units. The pre-tax discount rates used were: North American Operations 11.8% (2013 12.1%), Australian Operations 12.2% (2013 12.7%) and European Operations 9.9% (2013 10.5%). The post-tax discount rates used were: North American Operations 10.0% (2013 10.0%), Australian Operations 9.4% (2013 9.7%) and European Operations 8.3% (2013 8.7%).

The following table shows the recoverable amount and carrying value for each material group of cash generating units at the date of the impairment test:

	CARRYING AMOUNT US\$M	RECOVERABLE AMOUNT US\$M
North American Operations ¹	4,743	4,901
European Operations ²	2,618	6,152
Australian Operations ²	4,411	6,773

1 Date of impairment test was 31 December 2014.

2 Date of impairment test was 30 September 2014.

(C) Impairment losses

Goodwill and identifiable intangibles in North American Operations and in Emerging Markets of \$55 million (2013 \$603 million) were impaired following management's review of future cash flows attributable to these assets.

(D) Impact of a possible change in key assumptions

At 31 December 2013, QBE recognised a \$600 million impairment of goodwill in relation to North American Operations. At 31 December 2014, QBE has updated this impairment calculation and has determined that the recoverable amount exceeded the carrying value, albeit only by around 3%. The goodwill impairment valuation continues to be highly sensitive to a range of assumptions, in particular to increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and investment return assumptions.

If the terminal value combined operating ratio used was increased by 1% compared with QBE's estimate (94.0% to 95.0%), the goodwill impairment charge would be \$162 million. If the post-tax discount rate was increased by 1% (10.0% to 11.0%), the goodwill impairment charge would be \$425 million. If the long-term investment return was reduced by 1% (4.5% to 3.5%), the goodwill impairment charge would be \$119 million.

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17. Trade and other payables

	2014 US\$M	2013 US\$M
Trade payables	463	698
Other payables and accrued expenses	704	748
Treasury payables	34	49
Investment payables	27	119
Trade and other payables	1,228	1,614
Payable within 12 months	1,165	1,475
Payable in greater than 12 months	63	139
Trade and other payables	1,228	1,614

18. Unearned premium

(A) Unearned premium

	2014 US\$M	2013 US\$M
At 1 January	8,184	8,559
Acquisitions	3	6
Deferral of premium on contracts written in the period	6,651	7,090
Earning of premium written in previous periods	(6,840)	(7,004)
Disposals	-	(6)
Transfer to liabilities held for sale	(144)	-
Foreign exchange	(488)	(461)
At 31 December	7,366	8,184
To be earned within 12 months	6,572	7,169
To be earned in greater than 12 months	794	1,015
Unearned premium	7,366	8,184

(B) Net premium liabilities

	NOTE	2014 US\$M	2013 US\$M
Unearned premium		7,366	8,184
Deferred insurance costs	12	(2,031)	(2,221)
Net premium liabilities		5,335	5,963

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

	2014 US\$M	2013 US\$M
Undiscounted central estimate	4,625	5,387
Discount to present value	(227)	(431)
	4,398	4,956
Risk margin	197	222
Expected present value of future cash flows for future claims including risk margin	4,595	5,178

(D) Liability adequacy test

In assessing the adequacy of net premium liabilities AASB 1023 requires the inclusion of a risk margin, 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% (2013 4.5%) 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% (2013 70%) for net unearned premium liabilities on a standalone basis.

The application of the liability adequacy test in respect of net unearned premium liabilities identified a surplus at 31 December 2014 and 2013.

(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% (2013 4.5%).

19. Outstanding claims

(A) Net outstanding claims

	2014 US\$M	2013 US\$M
Gross discounted central estimate	19,059	20,104
Risk margin	1,353	1,565
Outstanding claims	20,412	21,669
Reinsurance and other recoveries on outstanding claims	(3,464)	(3,461)
Net outstanding claims provision	16,948	18,208
Analysed as follows:		
Net undiscounted central estimate	16,323	18,122
Discount to present value	(728)	(1,479)
Net discounted central estimate	15,595	16,643
Risk margin	1,353	1,565
Net outstanding claims provision	16,948	18,208
Gross undiscounted central estimate	19,476	21,308
Claims settlement costs	397	419
	19,873	21,727
Discount to present value	(814)	(1,623)
Gross discounted central estimate	19,059	20,104
Payable within 12 months	7,495	7,420
Payable in greater than 12 months	11,564	12,684
Gross discounted central estimate	19,059	20,104
Reinsurance and other recoveries on outstanding claims ¹	3,550	3,605
Discount to present value	(86)	(144)
Reinsurance and other recoveries on outstanding claims	3,464	3,461
Receivable within 12 months	1,560	1,619
Receivable in greater than 12 months	1,904	1,842
Reinsurance and other recoveries on outstanding claims	3,464	3,461

¹ Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of \$24 million (2013 \$27 million).

(B) Maturity profile of net central estimate

The expected maturity of the Group's discounted central estimate is analysed below.

	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
2014							
North American Operations	1,337	454	292	186	99	244	2,612
European Operations	1,708	1,069	738	532	379	1,292	5,718
Australian & New Zealand Operations	1,159	663	454	294	171	343	3,084
Emerging Markets	424	137	70	43	20	24	718
Equator Re	1,307	678	454	297	207	520	3,463
	5,935	3,001	2,008	1,352	876	2,423	15,595
2013							
North American Operations	1,279	516	328	203	108	253	2,687
European Operations	1,671	1,153	814	629	435	1,533	6,235
Australian & New Zealand Operations	1,194	705	473	313	179	374	3,238
Emerging Markets	437	156	84	50	30	74	831
Equator Re	1,220	744	522	353	264	549	3,652
Group	5,801	3,274	2,221	1,548	1,016	2,783	16,643

An analysis of the weighted average term to settlement of the central estimate is included in note 4(A)(iv).

(C) Risk margin

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

The risk margin included in net outstanding claims is 8.7% (2013 9.4%) of the central estimate. The decrease in the risk margin reflects reduced uncertainty in the net discounted central estimate at 31 December 2014. As a consequence, the probability of adequacy at 31 December 2014 is 88.7% (2013 90.7%) which is well above APRA's 75% benchmark. Net profit after tax would have reduced by \$93 million if the probability of adequacy was maintained at 90.7%.

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(D) Reconciliation of movement in outstanding claims provision

	2014			2013		
	OUTSTANDING CLAIMS US\$M	REINSURANCE US\$M	NET US\$M	OUTSTANDING CLAIMS US\$M	REINSURANCE US\$M	NET US\$M
At 1 January	21,669	(3,461)	18,208	22,789	(4,377)	18,412
Increase in net claims expense in current accident year	9,894	(1,116)	8,778	10,457	(1,344)	9,113
Movement in prior accident year claims provision	616	(310)	306	457	95	552
Movement in risk margins	(184)	–	(184)	266	–	266
Incurred claims recognised in the income statement	10,326	(1,426)	8,900	11,180	(1,249)	9,931
Transfers to (liabilities) assets held for sale	(414)	9	(405)	–	–	–
Acquisitions / disposals	–	–	–	9	(1)	8
Claims payments	(10,099)	1,379	(8,720)	(11,661)	2,221	(9,440)
Foreign exchange	(1,070)	35	(1,035)	(648)	(55)	(703)
At 31 December	20,412	(3,464)	16,948	21,669	(3,461)	18,208

(E) Claims development – net undiscounted central estimate

	2004 & PRIOR 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	2014 US\$M	TOTAL US\$M
Net central estimate												
Estimate of net ultimate claims cost at end of accident year		3,713	3,326	6,353	6,027	5,958	7,967	9,970	9,113	8,798	8,956	
One year later		3,717	3,221	6,125	6,193	5,995	8,060	10,268	9,244	8,832		
Two years later		3,462	3,129	6,247	6,171	5,936	8,115	10,302	9,277			
Three years later		3,466	3,067	6,242	6,306	5,976	8,134	10,218				
Four years later		3,466	3,007	6,232	6,310	6,100	8,358					
Five years later		3,436	3,002	6,222	6,472	6,127						
Six years later		3,455	3,026	6,289	6,450							
Seven years later		3,410	3,052	6,291								
Eight years later		3,410	3,031									
Nine years later		3,448										
Current estimate of net cumulative claims cost		3,448	3,031	6,291	6,450	6,127	8,358	10,218	9,277	8,832	8,956	
Cumulative net payments to date		(3,268)	(2,962)	(5,763)	(5,943)	(5,530)	(6,277)	(8,503)	(6,796)	(5,497)	(2,815)	
Net undiscounted central estimate	767	180	69	528	507	597	2,081	1,715	2,481	3,335	6,141	18,401
Transfer to held for sale												(1,392)
Foreign exchange												(1,105)
Net undiscounted central estimate at 31 Dec 2014												15,904
Discount to present value												(728)
Risk margin												1,353
Claims settlement costs												397
Other												22
Net outstanding claims												16,948
Movement in accident year undiscounted claims estimate												
Movement in accident year undiscounted claims estimate	(71)	38	(21)	2	(22)	27	224	(84)	33	34	8,956	9,116
Movement excluding reinsurance of medical malpractice liabilities ¹	(69)	47	1	52	42	107	268	(52)	57	69	8,956	9,478

1 Prior accident year undiscounted central estimate movement in 2014 excludes a \$362M reinsurance recovery resulting from the Group's reinsurance of medical malpractice liabilities to a third party.

A reconciliation of the net claims development in the table above to 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 2014 cumulative average rate of exchange.

The central estimate claims development table is presented net of reinsurance. With operations in 38 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.

20. Provisions

	PROVISION FOR EMPLOYEE BENEFITS US\$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US\$M	OTHER PROVISIONS US\$M	TOTAL PROVISIONS US\$M
2014				
At 1 January	99	3	12	114
Payments	(16)	(3)	–	(19)
Amount charged (credited) to the income statement	4	–	(3)	1
Other movement/reclassifications	3	–	3	6
Foreign exchange	(6)	–	(1)	(7)
At 31 December	84	–	11	95
Payable within 12 months	22	–	5	27
Payable in greater than 12 months	62	–	6	68
At 31 December	84	–	11	95

	PROVISION FOR EMPLOYEE BENEFITS US\$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US\$M	OTHER PROVISIONS US\$M	TOTAL PROVISIONS US\$M
2013				
At 1 January	116	6	15	137
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

21. Defined benefit plans

	2014 US\$M	2013 US\$M
Defined benefit plan surpluses	44	39
Retirement benefit deficits	(107)	(71)
Post-employment healthcare benefit deficit	(10)	(9)
Defined benefit plan deficits	(117)	(80)
Net defined benefit plan deficits	(73)	(41)

Entities in the Group participate in a number of superannuation plans which have been established for 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 defined benefit 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 each plan 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 2014.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

(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)	
		2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M	2014 US\$M	2013 US\$M
Defined benefit plans¹							
Iron Trades insurance staff trust	31 Dec 14	320	298	(276)	(259)	44	39
European staff retirement benefit plan	31 Dec 14	14	13	(17)	(15)	(3)	(2)
Janson Green final salary superannuation scheme	31 Dec 14	205	200	(209)	(204)	(4)	(4)
Secura defined benefit plan	31 Dec 14	11	10	(20)	(21)	(9)	(11)
QBE Australia defined benefit plan	31 Dec 14	17	19	(23)	(22)	(6)	(3)
QBE the Americas plan	31 Dec 14	215	231	(296)	(277)	(81)	(46)
Other plans	31 Dec 14	2	3	(6)	(8)	(4)	(5)
		784	774	(847)	(806)	(63)	(32)
Defined benefit post-employment healthcare plan²							
QBE Regional pension restoration plan	31 Dec 14	–	–	(10)	(9)	(10)	(9)
		784	774	(857)	(815)	(73)	(41)

1 Defined benefit plan obligations are funded.

2 Defined benefit post-employment healthcare plan obligations are not funded.

(B) Reconciliation

	FAIR VALUE OF PLAN ASSETS US\$M	PRESENT VALUE OF PLAN OBLIGATIONS US\$M	NET DEFICITS US\$M
2014			
At 1 January	774	(815)	(41)
Amounts recognised in profit of loss			
Current service cost	–	(2)	(2)
Interest income (expense)	34	(35)	(1)
	34	(37)	(3)
Remeasurements recognised in other comprehensive income			
Return on plan assets, excluding amounts included in interest income	66	–	66
Actuarial losses from change in demographic assumptions	–	(10)	(10)
Actuarial losses from change in financial assumptions	–	(87)	(87)
Experience losses	–	(10)	(10)
	66	(107)	(41)
Employer contributions	14	–	14
Benefits and expenses paid	(64)	65	1
Foreign exchange	(40)	37	(3)
At 31 December	784	(857)	(73)

The charge recognised in profit or loss in the year of \$3 million (2013 \$5 million) has been included in underwriting expenses. The actual return on plan assets was a gain of \$100 million (2013 \$26 million).

	FAIR VALUE OF PLAN ASSETS US\$M	PRESENT VALUE OF PLAN OBLIGATIONS US\$M	NET DEFICITS US\$M
2013			
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	(5)	–	(5)
Actuarial losses from change in demographic assumptions	–	(3)	(3)
Actuarial gains 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)

(C) Principal actuarial assumptions

	2014 %	2013 %
Pre-tax discount rate	1.8 – 7.0	3.1 – 7.9
Future salary increases	2.4 – 7.0	2.8 – 8.0
Future pension increases	1.4 – 5.5	1.8 – 5.0

(D) Analysis of plan assets

	2014 US\$M	2013 US\$M
Equities	207	210
Bonds	549	538
Property	1	1
Other	27	25
	784	774

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.

(E) Historical summary

	2014 US\$M	2013 US\$M	2012 US\$M	2011 US\$M	2010 US\$M
Experience (losses) gains arising on plan liabilities	(10)	3	(1)	5	1
	2014 US\$M	2013 US\$M	2012 US\$M	2011 US\$M	2010 US\$M
Present value of plan obligations	(857)	(815)	(860)	(776)	(762)
Fair value of plan assets	784	774	767	728	678
Net deficits	(73)	(41)	(93)	(48)	(84)

(F) Funding

Employer contributions to the defined benefit 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 2015 amount to \$25 million.

The weighted average duration of the defined benefit obligations ranges from 10 to 27 years.

(G) Risk exposure

The measurement of the assets and liabilities in defined benefit 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 remeasurements recognised in other comprehensive income, together with the defined benefit assets and liabilities recognised in the balance sheet.

The Group reduces the level of investment risk by investing in assets that match, where possible, the profile of the liabilities. This involves holding a mixture of government and corporate bonds. 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.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

22. Borrowings

	2014 US\$M	2013 US\$M
Payable within 12 months	467	478
Payable in greater than 12 months	3,114	4,093
Total borrowings	3,581	4,571

(A) Details of borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	2014 US\$M	2013 US\$M
Senior debt			
14 March 2014	Nil (2013 \$175 million)	–	174
14 March 2014	Nil (2013 £184 million)	–	304
28 September 2015	£300 million (2013 £550 million)	467	909
1 May 2018	\$600 million	598	597
		1,065	1,984
Subordinated debt			
23 December 2038	Nil (2013 \$500 million)	–	490
11 December 2039	Nil (2013 \$250 million)	–	247
24 May 2041	\$1,000 million	998	996
24 May 2041	£325 million	506	537
2 December 2044	\$700 million	695	–
		2,199	2,270
Capital securities			
No fixed date	£9 million	15	15
No fixed date	\$302 million	302	302
		317	317
Total borrowings		3,581	4,571

(B) Finance costs

Finance costs of \$6 million (2013 \$15 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 2013, the Group repurchased \$36 million and £7 million of the senior notes respectively. On 14 March 2014, the Group repaid \$175 million and £184 million of senior debt from cash reserves.

(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. During 2014, QBE repurchased and cancelled £250 million of these senior notes.

(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) Subordinated debt

(i) Subordinated debt due 2038

On 23 December 2013, the company 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.

The securities were repurchased during 2014 for cash and subsequently cancelled.

(ii) Subordinated debt due 2039

On 11 December 2012, the company 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.

On 30 December 2013, the Group repaid \$250 million of subordinated debt due 2039. On 11 June 2014, the Group converted the remaining \$250 million of subordinated debt due 2039 to 24 million ordinary shares in the company.

(iii) 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 time 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.

(iv) Subordinated debt due 2044

On 2 December 2014, the company raised \$700 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 6.75% per annum until 2 December 2024, at which time the rate will reset to a 10 year mid market swap rate plus a margin of 4.3%. The rate will reset again, on the same basis, on 2 December 2034. Interest is payable semi-annually in arrears.

The securities are redeemable prior to the ultimate maturity date at the option of QBE with the written approval of APRA on 2 December 2024, 2 December 2034 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

(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.

(F) 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. Between 2008 and 2012, £291 million of capital securities were repurchased by the Group for cash, at a discount. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the statement of comprehensive income.

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. Between 2008 and 2012, \$248 million of capital securities were repurchased by the Group for cash, at a discount. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the statement of comprehensive income.

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.

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.

(G) Fair value of borrowings

	2014 US\$M	2013 US\$M
Senior notes	1,083	2,041
Subordinated debt	2,376	2,349
Capital securities	325	308
	3,784	4,698

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).

	2014				2013			
	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
Borrowings	-	3,784	-	3,784	-	2,918	1,780	4,698

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.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

23. Equity

(A) Share capital

	NUMBER OF SHARES MILLIONS	US\$M
2014		
Issued ordinary shares, fully paid at 1 January	1,247	9,195
Shares issued under the Employee Share and Option Plan	–	2
Shares issued	108	1,029
Shares issued under the Dividend Reinvestment Plan	8	88
Share issue expenses (net of taxation)	–	(7)
Foreign exchange	–	(916)
Issued ordinary shares, fully paid at 31 December	1,363	9,391
Shares notified to the Australian Securities Exchange	1,365	9,403
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	(2)	(12)
Issued ordinary shares, fully paid at 31 December	1,363	9,391
2013		
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 the 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 IFRS	(2)	(15)
Issued ordinary shares, fully paid at 31 December	1,247	9,195

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) Reserves

	2014 US\$M	2013 US\$M
Owner occupied property revaluation reserve ¹		
At 1 January	11	25
Valuation increase (decrease)	2	(20)
Sale of owner occupied property, net of taxation	(2)	–
Deferred taxation	–	8
Foreign exchange	(1)	(2)
At 31 December	10	11
Cash flow hedges reserve ²		
At 1 January	1	–
Transfers into reserve	1	1
Transfers out of reserve	(1)	–
At 31 December	1	1
Foreign currency translation reserve ³		
At 1 January	(1,590)	(2,033)
Gains on translation	243	1,046
Losses on hedging transactions	(189)	(675)
Taxation	(5)	72
At 31 December	(1,541)	(1,590)
Option reserve ⁴		
At 1 January	158	159
Options and conditional rights expense	54	35
Transfers from reserve on vesting of options and conditional rights	(12)	(20)
Foreign exchange	(15)	(16)
At 31 December	185	158
Associates ⁵		
At 1 January	1	9
Movement in the year	–	(7)
Foreign exchange	–	(1)
At 31 December	1	1
Premium on purchase of non-controlling interests ⁶		
At 1 January	(51)	(30)
Purchase of non-controlling interest	(16)	(25)
Foreign exchange	6	4
At 31 December	(61)	(51)
Total reserves at 31 December	(1,405)	(1,470)

- 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 changes in ownership interest that do not result in loss of control. Recognises any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received.

(C) 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 performance indicators which were updated during 2014:

- 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 2014 at around 1.7 – 1.9 times (2013 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 25 – 35% (2013 less than 45%). The ratio of borrowings to shareholders' funds at 31 December 2014 was 32.5% (2013 44.1%).
- Insurer financial strength ratings provided by the major rating agencies which demonstrate the Group's 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.

24. Dividends

(A) Dividends

	2014		2013	
	INTERIM	FINAL	FINAL	INTERIM
Dividend per share (Australian cents)	15	12	12	20
Franking percentage	100%	100%	100%	100%
Franked amount per share (Australian cents)	15	12	12	20
Dividend payout (A\$M)	192	150	150	244
Payment date	23 Sep 2014	31 Mar 2014	31 Mar 2014	23 Sep 2013

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On 24 February 2015, the directors determined to pay a 100% franked final dividend of 22 Australian cents per share payable on 13 April 2015. The final dividend payout is A\$300 million (2013 A\$150 million).

	NOTE	2014 US\$M	2013 US\$M
Previous year final dividend paid on ordinary shares			
Franked		139	125
Unfranked		–	–
		139	125
Interim dividend paid on ordinary shares			
Franked		170	231
Unfranked		–	–
		170	231
Bonus Share Plan dividend foregone	24(C)	(5)	(7)
Total dividend paid		304	349

(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 to participate in the DRP or the BSP is 6 March 2015.

(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 410,642 (2013 467,132) ordinary shares were issued under the BSP.

(D) Franking credits

The franking account balance on a tax paid basis at 31 December 2014 was a surplus of A\$404 million (2013 A\$272 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\$271 million (2013 A\$285 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 2014 dividend. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

25. Earnings per share

	2014 US CENTS	2013 US CENTS
Basic earnings per share	57.4	(22.8)
Diluted earnings per share	55.8	(22.8)

(A) Reconciliation of earnings used in calculating earnings per share

	2014 US\$M	2013 US\$M
Net profit (loss) after income tax attributable to ordinary equity holders of the company	742	(254)
Less: extraordinary dividend after income tax on convertible securities	–	(22)
Net profit (loss) after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	742	(276)
Add: finance costs of convertible securities	19	–
Earnings used in calculating diluted earnings per share	761	(276)

(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	2014 NUMBER OF SHARES MILLIONS	2013 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	1,294	1,212
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	(2)	(2)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,292	1,210
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	12	–
Convertible securities	61	–
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,365	1,210

26. 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 VWAP for 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 within the Plan under the Short-Term Incentive (STI) plan and the Long-Term Incentive (LTI) plan. A summary of the current deferred equity awards plans together with the legacy deferred equity awards plans is set out below.

(i) Current QBE deferred equity plans

Short-Term Incentive plan

The STI plan was introduced from 1 January 2014 and replaces the QBE Incentive Scheme (QIS). The STI plan is a short-term at-risk reward scheme that comprises both cash and deferred equity elements. The first awards under this plan will be made in March 2015 subject to performance hurdles in relation to 2014 financial performance being achieved.

Executives and key senior employees

STI award outcomes are based on:

- performance against the Group statutory return on average shareholders' funds (ROE) target;
- individual performance management ratings; and
- for divisional executives, performance against divisional return on allocated capital (RoAC) targets.

STI awards to executives are approved by the Group Board following recommendations made by the Remuneration Committee. The STI plan rules provide suitable discretion for the Remuneration Committee to adjust any formulaic outcome to ensure that awards made under the STI plan appropriately reflect performance.

STI awards are structured as follows:

- 67% of the award is delivered in cash (50% in the case of the Group CEO); and
- 33% of the award is deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO).

The conditional rights to ordinary QBE shares are deferred into two equal tranches. The tranches vest one and two years after the award date, subject to service conditions and malus provisions being met.

During the period from the date of the STI grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.

Long-Term Incentive plan

The LTI plan was introduced from 1 January 2014 and replaces the legacy LTI plan. The first awards under this plan were made in March 2014 with performance hurdles to be achieved in relation to performance in financial years 2014 to 2017.

The LTI plan comprises an award of conditional rights to fully paid ordinary QBE shares without payment by the executive. Vesting will be subject to two performance conditions measured over a three year performance period:

- average Group ROE over three years – for 50% of the award; and
- 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) apply such that a pro-rata amount of LTI conditional rights remain subject to the original performance and vesting conditions.

During the period from the date of the LTI grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.

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 actual risk-free rates turn out to be materially different from plan (up or down), the Remuneration Committee envisages adjusting the vesting target against which performance is measured to reflect actual risk-free rates 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.

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FOR THE YEAR ENDED 31 DECEMBER 2014

(ii) Legacy QBE deferred equity plans

QBE Incentive Scheme – legacy scheme applicable to the 2010 to 2013 financial years

The QIS is a short term 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 to March 2014.

Executives

Under the QIS, the directors could issue conditional rights to shares to executives who achieved predetermined performance targets. The maximum deferred equity award was based on an amount which was 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 was paid. The deferred equity award was used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after three years; and
- conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after five years.

Other key senior employees

Other key senior employees of the QBE Group were 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 was used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 60% of the award amount converted to fully paid ordinary QBE shares after three years; and
- conditional rights to the value of 60% of the award amount converted to fully paid ordinary QBE shares after five years.

During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company.

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 vest only if the individual has remained in the Group's service throughout the vesting period. For awards made prior to 2012, 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. Vesting of the conditional rights is subject to service conditions and malus provisions being met.

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 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.

During the period from the date of the DCP grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company.

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. Vesting of the conditional rights is subject to service conditions and malus provisions being met.

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 conditional rights 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 with a maximum five year term 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.

The last award under the DCP vests in March 2015.

Long-Term Incentive plan – legacy scheme applicable to the 2013 financial year (legacy LTI)

The legacy LTI plan was introduced from 1 January 2010 and replaced the Group Executive Restricted Share Plan (GERSP). Only executives, including the Group Chief Executive Officer, were invited to participate. The legacy LTI plan comprised 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 conditional rights 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 Remuneration Committee continues to exercise discretion when determining the vesting of awards under the legacy LTI plan. 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. Vesting of the conditional rights is subject to service conditions and malus provisions being met.

(iii) Share Incentive Plan

In 2013 and prior years, most 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 were invited to participate in the Share Incentive Plan (SIP). Under the SIP, which was introduced in 2005, the directors provided shares up to A\$1,000 to employees without payment being made by employees. The allocation of shares was based on the period of service. The shares were purchased on-market and are held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier.

No award was made under the SIP in 2014 and the SIP will be replaced in 2015 with a new all-employee share plan.

(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 are as follows:

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2014

GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2014	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 2014
5 March 2010	4 March 2015	A\$20.90	794,827	-	14,810	(159,104)	(40,063)	610,470
1 January 2011	1 January 2014	A\$18.44	29,228	-	-	-	(29,228)	-
7 March 2011	6 March 2014	A\$17.93	953,414	-	-	(778,661)	(174,753)	-
7 March 2011	6 March 2016	A\$17.93	1,196,804	-	25,496	(48,746)	(54,381)	1,119,173
5 April 2011	4 April 2016	A\$17.93	25,610	-	583	-	-	26,193
1 June 2011	31 March 2014	A\$17.48	11,249	-	108	(11,357)	-	-
1 June 2011	31 March 2016	A\$17.48	11,249	-	256	-	-	11,505
1 January 2012	1 January 2015	A\$13.11	32,251	-	733	-	-	32,984
7 March 2012	6 March 2015	A\$11.78	1,000,755	-	20,395	(106,155)	(79,793)	835,202
7 March 2012	6 March 2017	A\$11.78	1,308,188	-	28,123	(39,519)	(79,735)	1,217,057
16 March 2012	15 March 2015	A\$12.49	16,117	-	367	-	-	16,484
5 April 2012	4 April 2015	A\$14.25	63,190	-	718	-	(31,595)	32,313
1 September 2012	1 March 2014	A\$13.03	33,530	-	-	(33,530)	-	-
1 September 2012	1 March 2015	A\$13.03	33,530	-	763	-	-	34,293
1 September 2012	1 March 2016	A\$13.03	9,862	-	225	-	-	10,087
5 March 2013	5 March 2016	A\$13.18	1,538,063	-	31,280	(93,317)	(127,468)	1,348,558
27 March 2013	4 March 2018	A\$13.18	1,150,144	-	24,909	(36,911)	(50,016)	1,088,126
27 March 2013	26 March 2018	A\$13.02	60,230	-	1,369	-	-	61,599
2 April 2013	1 April 2016	A\$13.18	36,018	-	819	-	-	36,837
2 April 2013	1 April 2018	A\$13.18	36,019	-	819	-	-	36,838
8 April 2013	7 April 2016	A\$13.61	40,530	-	922	-	-	41,452
8 April 2013	7 April 2018	A\$13.61	40,530	-	922	-	-	41,452
30 April 2013	30 April 2016	A\$13.18	10,133	-	230	-	-	10,363
12 August 2013	12 August 2016	A\$17.01	10,133	-	230	-	-	10,363
13 August 2013	13 August 2016	A\$16.90	10,133	-	230	-	-	10,363
19 August 2013	19 August 2016	A\$17.07	20,265	-	460	-	-	20,725
4 September 2013	4 September 2016	A\$15.21	25,331	-	576	-	-	25,907
30 September 2013	31 March 2017	A\$14.73	5,000	-	114	-	-	5,114
1 November 2013	1 November 2016	A\$14.61	33,948	-	773	-	-	34,721
11 November 2013	11 November 2016	A\$14.78	10,726	-	244	-	-	10,970
2 January 2014	2 January 2015	A\$11.63	-	2,500	57	-	-	2,557
2 January 2014	2 January 2016	A\$11.63	-	2,500	57	-	-	2,557
2 January 2014	2 January 2017	A\$11.63	-	2,500	57	-	-	2,557
10 February 2014	10 March 2014	A\$11.02	-	25,000	-	(25,000)	-	-
10 February 2014	10 March 2015	A\$11.02	-	25,000	569	-	-	25,569
10 February 2014	10 March 2016	A\$11.02	-	25,000	569	-	-	25,569
4 March 2014	3 March 2017	A\$8.34	-	332,916	7,542	-	(2,034)	338,424
4 March 2014	3 March 2017	A\$12.68	-	1,968,701	44,476	-	(56,599)	1,956,578
4 March 2014	3 March 2018	A\$8.34	-	332,916	7,542	-	(2,034)	338,424
4 March 2014	3 March 2018	A\$12.68	-	332,943	7,543	-	(2,035)	338,451
4 March 2014	3 March 2019	A\$8.34	-	343,009	7,779	-	(2,097)	348,691
4 March 2014	3 March 2019	A\$12.68	-	1,857,942	42,161	-	(41,517)	1,858,586
15 March 2014	15 March 2015	A\$12.68	-	5,000	65	-	-	5,065
15 March 2014	15 March 2016	A\$12.68	-	5,000	65	-	-	5,065
15 March 2014	15 March 2017	A\$12.68	-	5,000	65	-	-	5,065
30 June 2014	29 June 2015	A\$11.04	-	12,037	157	-	-	12,194
30 June 2014	29 June 2016	A\$11.04	-	12,038	157	-	-	12,195
1 July 2014	1 March 2015	A\$11.04	-	85,305	1,111	-	-	86,416
1 July 2014	1 March 2016	A\$11.04	-	42,653	555	-	-	43,208
1 July 2014	1 March 2017	A\$11.04	-	42,652	555	-	-	43,207
11 August 2014	10 August 2015	A\$10.86	-	7,435	97	-	-	7,532
11 August 2014	10 August 2016	A\$10.86	-	7,436	97	-	-	7,533
20 August 2014	1 March 2015	A\$11.23	-	258,238	3,363	-	-	261,601
20 August 2014	1 March 2016	A\$11.23	-	129,118	1,681	-	-	130,799
20 August 2014	9 June 2016	A\$11.11	-	40,504	527	-	-	41,031
20 August 2014	1 March 2017	A\$11.23	-	129,118	1,681	-	-	130,799
20 August 2014	3 March 2017	A\$6.08	-	50,919	663	-	-	51,582
20 August 2014	3 March 2017	A\$10.70	-	50,920	663	-	-	51,583
20 August 2014	3 March 2018	A\$6.08	-	50,919	663	-	-	51,582
20 August 2014	3 March 2018	A\$10.70	-	50,920	663	-	-	51,583
20 August 2014	3 March 2019	A\$6.08	-	52,461	683	-	-	53,144
20 August 2014	3 March 2019	A\$10.70	-	52,462	683	-	-	53,145
2 September 2014	2 September 2015	A\$11.37	-	6,283	82	-	-	6,365
2 September 2014	2 September 2016	A\$11.37	-	6,283	82	-	-	6,365
2 September 2014	2 September 2017	A\$11.37	-	6,283	82	-	-	6,365
29 September 2014	29 September 2015	A\$10.92	-	9,158	-	-	-	9,158
13 October 2014	13 October 2015	A\$11.35	-	3,987	-	-	-	3,987
13 October 2014	13 October 2016	A\$11.35	-	3,987	-	-	-	3,987
15 October 2014	3 March 2016	A\$11.17	-	617,147	-	-	-	617,147
15 October 2014	3 March 2017	A\$6.08	-	136,426	-	-	-	136,426
15 October 2014	3 March 2017	A\$11.17	-	753,577	-	-	-	753,577
15 October 2014	3 March 2018	A\$6.08	-	136,426	-	-	-	136,426
15 October 2014	3 March 2018	A\$11.17	-	136,451	-	-	-	136,451
15 October 2014	3 March 2019	A\$6.08	-	140,562	-	-	-	140,562
15 October 2014	3 March 2019	A\$11.17	-	140,583	-	-	-	140,583
			8,547,007	8,438,215	289,266	(1,332,300)	(773,348)	15,168,840

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2014 is A\$12.29 (2013 A\$13.10).
The weighted average fair value of conditional rights granted during the year ended 31 December 2014 is A\$11.23 (2013 A\$13.27).

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the prior year are 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	1,101,286	—	20,223	(77,765)	(90,330)	953,414
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	1,141,319	—	21,924	(79,285)	(83,204)	1,000,754
7 March 2012	6 March 2017	A\$11.78	1,488,058	—	29,490	(728)	(208,631)	1,308,189
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
11 November 2013	11 November 2016	A\$14.78	—	10,726	—	—	—	10,726
			7,373,400	3,205,333	181,776	(1,395,559)	(817,943)	8,547,007

(C) Employee options

The market value of all shares underlying the options at the balance date is A\$21 million (2013 A\$36 million). Details of the number of employee options granted, exercised and cancelled or forfeited during 2014, are as follows:

2014

GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2014	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2014
3 March 2004	A\$11.08	17,250	—	(250)	—	17,000
4 March 2008	A\$24.22	1,175,613	—	—	(1,175,613)	—
6 March 2009	A\$17.57	1,912,888	—	—	(46,909)	1,865,979
		3,105,751	—	(250)	(1,222,522)	1,882,979
Weighted average exercise price		A\$20.05	—	A\$11.08	A\$23.96	A\$17.51

The weighted average share price at the date of exercise of options during the year is A\$10.71 (2013 A\$14.71). The weighted average remaining contractual life of total options outstanding at 31 December 2014 is 0.21 years (2013 0.84 years).

Number of employee options outstanding at 31 December 2014 is as follows:

YEAR OF EXPIRY	DCP/STI	OTHER ¹	TOTAL OPTIONS
2015	1,865,979	—	1,865,979
2024	—	17,000	17,000
Vested and exercisable at 31 December 2014	1,865,979	17,000	1,882,979

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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FOR THE YEAR ENDED 31 DECEMBER 2014

Details of the number of employee options granted, exercised and cancelled or forfeited during 2013 are 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

Number of employee options outstanding at 31 December 2013 is 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.

(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 2014 and 31 December 2013, the following significant assumptions are used:

		2014	2013
Share price at grant date	A\$	10.66 – 12.68	13.37 – 17.10
Fair value of instrument at grant date	A\$	6.08 – 12.68	13.02 – 17.07
Expected life of instrument	Years	0.1 – 5.0	0 – 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 is nil (2013 278,710). The weighted average market price on the 2013 issue date is A\$15.69.

(F) Share-based payment expense

Total expenses arising from share-based payment transactions during the year included in underwriting expenses are as follows:

	2014 US\$M	2013 US\$M
Options provided under the Plan	–	1
Conditional rights provided under the Plan	54	34
Shares provided under the SIP	–	4
	54	39

27. Key management personnel

(A) Key management personnel – compensation

	2014 US\$000	2013 US\$000
Short-term employee benefits	19,442	17,000
Post employment benefits	212	219
Other long-term employment benefits	20	205
Share-based payments	7,332	3,336
Termination benefits	2,040	4,267
	29,046	25,027

Details of key management personnel and their remuneration are shown in the Remuneration Report.

28. 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 \$1,702 million (2013 \$1,468 million) were issued in support of the Group's participation in Lloyd's, along with cash and investments of \$164 million (2013 \$212 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 previously entered into acquisition agreements. The costs of certain of these acquisitions had 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. A final payment of \$3 million was made during the year in final settlement of these obligations. No further amounts are payable in the future (2013 \$2 million).

29. Operating lease commitments

	2014 US\$M	2013 US\$M
Payable:		
No later than one year	87	73
Later than one year but not later than five years	230	191
Later than five years	103	78
Total future minimum lease payments under non-cancellable operating leases	420	342

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

30. Remuneration of auditors

	2014 US\$000	2013 US\$000
PricewaterhouseCoopers (PwC) Australian firm ¹		
Audit or review of financial reports of the ultimate parent entity	1,443	1,374
Audit of financial reports of controlled entities	2,630	2,927
Audit of statutory returns	694	788
Other audit assurance services	156	371
Taxation services	187	400
Actuarial services	18	14
Advisory services	2,458	5,220
	7,586	11,094
Related practices of PwC Australian firm (including overseas PwC firms) ¹		
Audit of financial reports of controlled entities	9,611	9,730
Audit of statutory returns	2,343	2,240
Other audit assurance services	628	937
Taxation services	3,291	2,499
Advisory services	316	2,768
	16,189	18,174
	23,775	29,268
Audit and assurance services	17,505	18,367
Other services	6,270	10,901
	23,775	29,268
Other auditors		
Audit of financial reports of controlled entities	11	23

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.

31. Related parties

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2014 %	2013 %
(A) Ultimate parent entity			
QBE Insurance Group Limited	Australia		
(B) Controlled entities			
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	99.50
CHU 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	99.75
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 ²	US	-	-
DSCM Inc	US	100.00	-
Elders Insurance (Underwriting Agency) Pty Limited	Australia	100.00	90.00
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

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2014 %	2013 %
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
Insurance Box Holdings Pty Limited	Australia	100.00	–
Insurance Box Pty Limited	Australia	70.98	45.00
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 No 2 Limited	UK	100.00	100.00
Mortgage & Auto Solutions Inc	US	100.00	100.00
MMWC Pty Limited	Australia	100.00	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
New Century Finance Corporation	Puerto Rico	100.00	100.00
Newport Management Corporation	US	100.00	100.00
NIA Underwriting Agency Pty Limited	Australia	50.37	–
North Pointe Insurance Company	US	100.00	100.00
Operador Logistico de Soat-Ols SA	Ecuador	99.98	99.98
Permanent LMI Pty Limited	Australia	–	50.08
Pitt Nominees Pty Limited	Australia	100.00	100.00
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 Administration 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	100.00
QBE Asia Pacific Holdings Limited (formerly QBE International Holdings Limited)	Hong Kong	100.00	100.00
QBE Atlantic LLC	US	100.00	100.00
QBE Atlasz Ingatlankezelő zrt	Hungary	100.00	100.00
QBE Brazil Seguros SA	Brazil	99.99	99.99
QBE Capital Funding LP ²	Jersey	–	–
QBE Capital Funding II LP ²	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	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 ²	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 Finance Holdings (EO) Limited	UK	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

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FOR THE YEAR ENDED 31 DECEMBER 2014

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2014 %	2013 %
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 ¹	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
QBE Insurance Corporation	US	100.00	100.00
QBE Insurance Group of Puerto Rico Inc	Puerto Rico	100.00	100.00
QBE Insurance Holdings Pty Limited	Australia	100.00	100.00
QBE Insurance Services (Regional) Limited	UK	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 ²	Ireland	–	–
QBE Jersey Finance Limited	Jersey	100.00	–
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 Management (Ireland) Limited	Ireland	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 Partner Services (Europe) LLP	UK	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	Philippines	59.50	59.50
QBE Seguros La Buenos Aires SA	Argentina	99.85	99.85
QBE Seguros SA	Colombia	98.37	97.88
QBE Seguros Colonial SA	Ecuador	100.00	100.00
QBE Services (Europe) Limited	UK	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 GP ²	UK	–	–

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2014 %	2013 %
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 ²	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 ¹	Thailand	49.00	49.00
SIU LLC	US	100.00	100.00
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	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 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.

2 Deep South Surplus of Texas LP, QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Share Incentive Plan, QBE Capital Funding LP, QBE Capital Funding LP II and QBE UK Finance GP have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.

All equity in controlled entities is held in the form of shares or through contractual arrangements.

(C) Associates

	COUNTRY OF INCORPORATION	INVESTMENT	
		2014 %	2013 %
Pacific Re Limited	Papua New Guinea	30.97	30.97
Raheja QBE General Insurance Company	India	26.00	26.00

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

32. Ultimate parent entity financial information

(A) Summarised financial data of QBE Insurance Group Limited (the company)

	COMPANY	
	2014 US\$M	2013 US\$M
Profit (loss) after income tax for the year	791	(654)
Other comprehensive income for the year	42	15
Total comprehensive income	833	(639)
Assets due within 12 months ¹	730	1,013
Shares in controlled entities	14,315	14,705
Total assets	15,045	15,718
Liabilities payable within 12 months ²	1,653	1,830
Borrowings	1,760	2,770
Total liabilities	3,413	4,600
Net assets	11,632	11,118
Share capital	9,391	9,195
Options reserve	129	100
FCTR	351	550
Retained profits	1,761	1,273
Total equity	11,632	11,118

1 Includes amounts due from QBE Group companies of \$244 million (2013 \$656 million).

2 Includes amounts due to QBE Group companies of \$1,589 million (2013 \$1,698 million).

(B) Guarantees and contingent liabilities

The company had the following contingent liabilities:

	COMPANY	
	2014 US\$M	2013 US\$M
Letters of credit issued in support of the Group's participation in Lloyd's of London	1,702	1,468
Letters of credit issued in support of insurance provisions of controlled entities	1,043	1,802
Guarantees to investors in capital securities	1,018	1,047

Details of the guarantees to investors in capital securities and security arrangements in respect of borrowings are provided in note 22.

(C) 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 24(D).

Directors' declaration

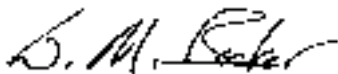
In the directors' opinion:

- (a) the financial statements and notes set out on pages 102 to 160 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 2014 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)(ii) 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 24th day of February 2015 in accordance with a resolution of the directors.



W. Marston Becker
Director



John 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 2014, 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 judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Report.

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

Independence

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

Auditor's opinion

In our opinion:

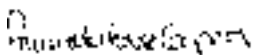
- (a) the Financial Report of QBE Insurance Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
 - (ii) complying 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 70 to 98 of the Directors' Report for the year ended 31 December 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



RJ Clark
Partner



SJ Hadfield
Partner

Sydney
24 February 2015

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".

Registered office

QBE Insurance Group Limited

Level 27, 8 Chifley Square
Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444

Facsimile: +61 2 9231 6104

Website: www.qbe.com

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, and online access to your shareholding details via the share registry.

Shareholder information and enquiries

Most enquiries and correspondence regarding shareholdings can be directed to QBE's share registrar:

Computershare Investor Services Pty Limited (Computershare)

GPO Box 2975
Melbourne VIC 3001
452 Johnston Street
Abbotsford VIC 3067

Telephone: 1300 723 487 (Australia)

Telephone: +61 3 9415 4840 (International)

Web: www.computershare.com.au

Email: qbe.queries@computershare.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. Computershare cannot assist you with these changes.

Shareholding details online

View your shareholdings and update your details online either through investor login or the portfolio login at Computershare's Investor Centre. By registering your portfolio, you can consolidate multiple shareholdings in various companies managed by Computershare under one login.

You may receive dividend statements, notices of meetings, annual reports and major company announcements electronically by registering your email address at Computershare's Investor Centre. For more information, please go to Computershare's Investor Centre.

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 Computershare's website.

Relevant interests register

Nasdaq OMX Pty Ltd of Level 8, 155 George Street, Sydney NSW 2000, Australia, maintains QBE's register of information about relevant interests. Shareholders and other parties can telephone Nasdaq OMX on +61 2 8076 2600 or facsimile on +61 2 8076 2601 if they wish to inspect this register.

American Depository Receipts (ADRs)

BNY Mellon sponsors QBE's level 1 American Depository Receipts Program (ADR) in the United States of America. 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.otcmarts.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

Telephone number (toll free): 1 888 BNY ADRS (1 888 269 2377) (within the US)

Telephone: +1 201 680 6825 (outside the US)

Email: shrelations@bnymellon.com

Shareholder information CONTINUED

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. 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.

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 Computershare's Investor Centre. 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 Computershare of their resident status. TFN forms are available from Computershare's Investor Centre.

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 Computershare immediately of changes of address or bank account details.

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
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
31 March 2014	Final	13 March 2014	12	100
23 September 2014	Interim	29 August 2014	15	100
13 April 2015	Final	6 March 2015	22	100

Annual General Meeting (AGM)

Time: 10.00am, Thursday 2 April 2015
Wesley Conference Centre, 220 Pitt Street,
Sydney NSW 2000, Australia

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.

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 update your Communication preferences at the Computershare Investor Centre.

QBE does not produce a concise financial report.

Top 20 shareholders as at 31 January 2015

NAME	NUMBER OF SHARES	% OF TOTAL ¹
HSBC Custody Nominees (Australia) Limited	363,883,256	26.66
JP Morgan Nominees Australia Limited	208,121,246	15.25
National Nominees Limited	186,621,351	13.67
Citicorp Nominees Pty Limited	79,030,428	5.79
BNP Paribas Nominees Pty Ltd (DRP)	76,003,968	5.57
Citicorp Nominees Pty Limited (Colonial First State Investment A/C)	37,486,919	2.75
HSBC Custody Nominees (Australia) Limited (Commonwealth Super Corp A/C)	13,555,115	0.99
AMP Life Limited	13,103,332	0.96
UBS Nominees Pty Ltd	10,086,225	0.74
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	8,802,293	0.64
Australian Foundation Investment Company Limited	7,457,851	0.55
Argo Investments Limited	5,011,191	0.37
UBS Wealth Management Australia Nominees Pty Ltd	4,933,507	0.36
QIC Limited	4,221,449	0.31
Navigator Australia Ltd (MLC Investment Settlement A/C)	2,659,025	0.19
Milton Corporation Limited	2,391,890	0.18
Nulis Nominees (Australia) Limited (Navigator Master Plan Settlement A/C)	2,216,755	0.16
Share Direct Nominees Pty Ltd (10026 A/C)	1,978,535	0.14
RBC Investor Services Australia Nominees Pty Limited (MBA A/C)	1,927,922	0.14
HSBC Custody Nominees (Australia) Limited	1,589,578	0.12
	1,031,081,836	75.54

1 Percentage of total at date of notice.

QBE substantial shareholders as at 31 January 2015

NAME	NUMBER OF SHARES	% OF TOTAL ¹	DATE OF NOTICE
Aberdeen Asset Management plc (and its associated entities)	89,503,697	7.14	6 June 2014
Commonwealth Bank of Australia Limited	77,022,730	6.02	23 June 2014

1 Percentage of total at date of notice.

Distribution of shareholders and shareholdings as at 31 January 2015

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 1,000	75,888	53.55	33,762,749	2.47
1,001 to 5,000	54,379	38.38	118,737,485	8.70
5,001 to 10,000	7,325	5.17	50,832,922	3.72
10,001 to 100,000	3,954	2.79	79,767,805	5.85
100,001 and over	161	0.11	1,081,844,340	79.26
Total	141,707	100.00	1,364,945,301	100.00

Shareholdings of less than a marketable parcel as at 31 January 2015

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 48 or fewer shares	5,175	3.65%	120,168	0.01%

Financial calendar

YEAR	MONTH	DAY	ANNOUNCEMENT
2015	February	24	• Profit and dividend announcement for the year ending 31 December 2014
	March	4	• Shares begin trading ex dividend
		6	• Record date for determining shareholders' entitlement to 2014 final dividend
	April	2	• Annual General Meeting
		13	• 2014 final dividend paid
	June	30	• Half year end
	August	18	• Profit and dividend announcement for the six months ending 30 June 2015
		26	• Shares begin trading ex dividend
		28	• Record date for determining shareholders' entitlement to 2015 interim dividend
	October	2	• 2015 interim dividend paid
	December	31	• Year end

Dates shown may be subject to change.

10 year history

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gross written premium	US\$M	16,332	17,975	18,434	18,291	13,629	11,239	11,015	10,391	7,839	7,171
Gross earned premium	US\$M	16,521	17,889	18,341	17,840	13,432	10,943	10,773	10,353	7,610	6,990
Net earned premium	US\$M	14,084	15,396	15,798	15,359	11,362	9,446	9,293	8,552	6,166	5,630
Claims ratio	%	63.2	64.5	66.0	68.2	59.9	60.3	57.6	54.3	55.8	59.9
Commission ratio	%	16.8	16.8	16.2	14.9	15.5	16.2	17.2	18.5	17.0	16.9
Expense ratio	%	16.1	16.5	14.9	13.7	14.3	13.1	13.7	13.1	12.5	12.3
Combined operating ratio	%	96.1	97.8	97.1	96.8	89.7	89.6	88.5	85.9	85.3	89.1
Investment income											
before investment gains/losses	US\$M	659	720	712	957	660	838	1,237	839	575	470
after investment gains/losses	US\$M	797	801	1,216	776	659	1,159	1,199	1,132	732	631
Insurance profit	US\$M	1,074	841	1,262	1,085	1,703	1,609	1,830	1,895	1,351	982
Insurance profit to net earned premium	%	7.6	5.5	8.0	7.1	15.0	17.0	19.7	22.2	21.9	17.4
Financing and other costs	US\$M	297	345	324	275	222	191	223	189	115	87
Operating profit (loss)											
before income tax	US\$M	931	(448)	941	868	1,551	1,891	2,028	2,135	1,521	1,161
after income tax and non-controlling interest	US\$M	742	(254)	761	704	1,278	1,532	1,558	1,612	1,121	832
Number of shares on issue ¹	millions	1,363	1,247	1,194	1,112	1,048	1,020	982	881	812	785
Shareholders' funds	US\$M	11,030	10,356	11,358	10,386	10,311	9,164	7,834	7,435	4,962	3,735
Total assets	US\$M	45,000	47,271	50,748	46,737	41,386	36,723	33,967	34,737	25,079	21,753
Net tangible assets per share ¹	US\$	5.32	4.75	4.49	3.93	4.78	4.64	4.04	6.02	4.74	3.53
Borrowings to shareholders' funds	%	32.5	44.1	43.4	45.8	31.5	29.1	32.9	40.8	37.6	41.8
Basic earnings per share ¹	US cents	57.4	(22.8)	65.1	64.9	123.7	152.8	175.0	189.0	140.9	110.0
Basic earnings per share – cash basis ²	US cents	63.5	62.9	89.1	73.0	127.7	156.4	177.2	190.5	141.8	110.0
Diluted earnings per share	US cents	55.8	(22.8)	61.6	61.3	119.6	149.9	172.2	181.8	131.1	99.7
Return on average shareholders' funds	%	6.9	(2.3)	7.0	6.8	13.1	18.0	22.3	26.0	25.8	24.2
	Australian cents										
Dividend per share	cents	37	32	50	87	128	128	126	122	95	71
Dividend payout	A\$M	492	394	593	956	1,336	1,306	1,187	1,068	774	556
Total investments and cash ³	US\$M	28,583	30,619	31,525	28,024	25,328	22,448	19,995	21,552	15,755	12,891

1 Reflects shares on an accounting basis.

2 Earnings per share on a cash basis is calculated with reference to cash profit, being 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.

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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.
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 including foreign exchange gains and losses and net of 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 net insurance liabilities 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.
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.

Glossary of insurance terms CONTINUED

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.
RoAC	Return on allocated capital.
ROE	Group statutory net profit after tax as a percentage of average shareholders' funds.
RTSR	Relative total shareholder return.
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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