

**QBE Insurance Group** Half Year Report to 30 June 2015

# Made possible by QBE

QBE's insurance experts work closely with our clients and customers in the energy sector. Our depth of experience and industry expertise in hydro, solar, wind, oil and gas helps us bring their projects to fruition and protect these vital assets.





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QBE Insurance Group Limited Half Year Report to 30 June 2015  
ABN 28 008 485 014

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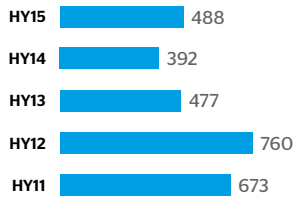
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# Half year snapshot

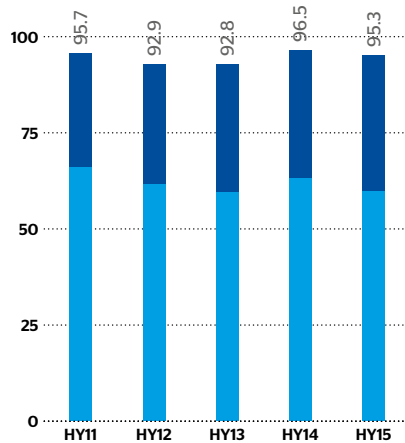
## Performance

### Net profit after income tax (US\$M)



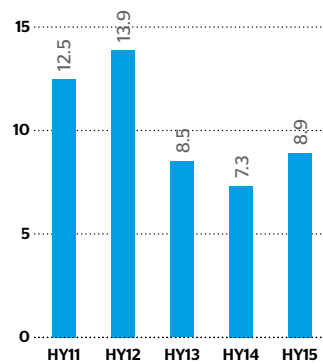
↑ 24%

### Combined operating ratio (COR) (%)

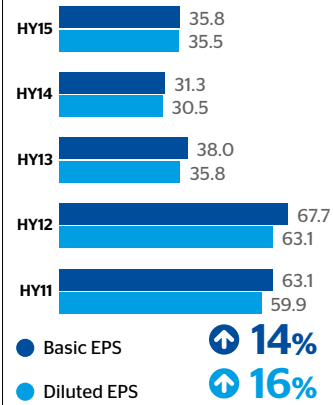


- Combined commission and expense ratio
- Net claims ratio

### Return on average shareholders' funds (%)

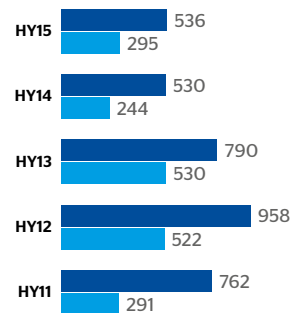


### Earnings per share (EPS) (US¢)



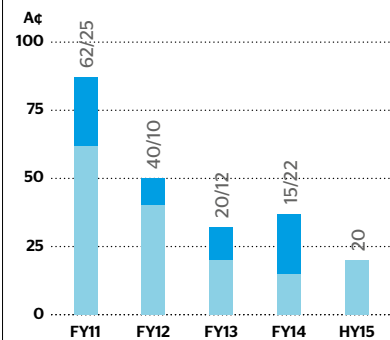
↑ 14%  
↑ 16%

### Insurance profit and underwriting result (US\$M)



↑ 1%  
↑ 21%

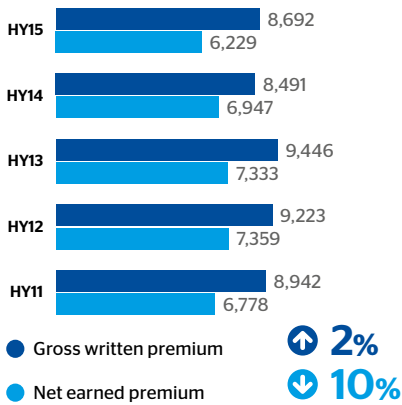
### Dividend per share (A¢)



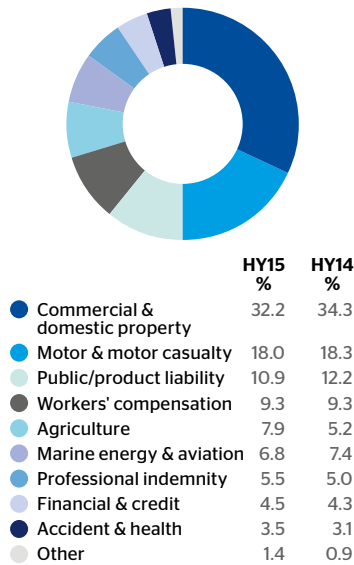
↑ 33%  
on 1H 2014

## Profile

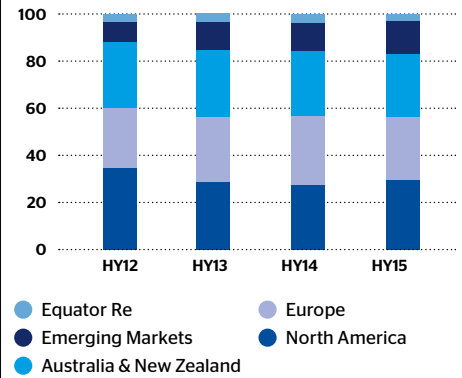
### Gross written premium and net earned premium (US\$M)



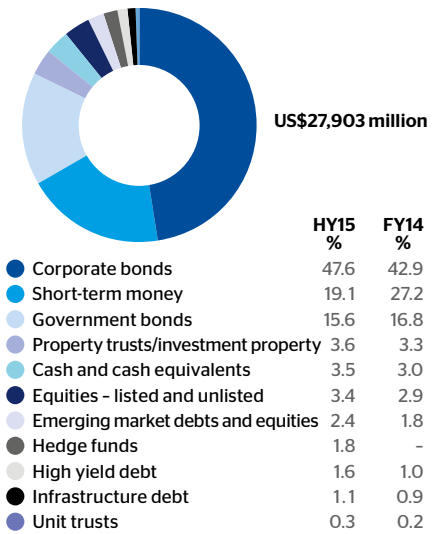
### Gross earned premium by class of business



### Divisional analysis of net earned premium (%)



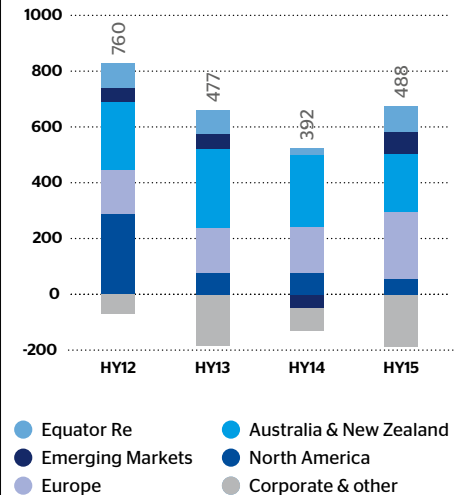
### Investments and cash at 30 June 2015



### Net earned premium by type

94%  
 direct and facultative insurance  
6%  
 inward reinsurance

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



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# First half 2015 in review

In the first half of 2015, we made significant progress against our key priorities - to achieve stable and predictable earnings, further improve the quality of QBE's balance sheet, pursue additional cost efficiencies and strongly grow dividends for our shareholders. Having largely completed remediation, attention is now turning to opportunities for growth.

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We started 2015 with the following priorities:

- delivery of stable and predictable earnings for 2015 when measured against our published plans and targets;
- further strengthening of QBE's balance sheet and the effective use of capital for available growth opportunities; and
- continued pursuit of cost savings and operational efficiencies.

Our expectation was that delivery against all of these priorities would translate into steadily growing dividends for our shareholders.

## Stable and predictable earnings

Our 2015 interim profit after tax was \$488 million, up 24% from \$392 million in the same period last year, underpinned by a 21% improvement in underwriting profitability.

The result was impacted by the following material factors which were not in our published 2015 targets or plans:

- our Argentine workers' compensation business was sold on 10 August 2015. This business was designated as "held for sale" at 31 December 2014 and 30 June 2015, and was explicitly excluded from our published 2015 targets; and
- the sale of our non-core US and Australian agency businesses and the recently announced sale of the Mortgage & Lender Services (M&LS) business gave rise to significant impacts on our reported result.

To assist comparison of our interim 2015 performance against our 2015 published targets, we have excluded the impacts for the purposes of our result commentary. Details of the impacts of these transactions are provided in notes 9 and 13 to the financial statements and in the detail on page 9 of the Chief Financial Officer's report.

The business reported an adjusted profit after tax of \$455 million underpinned by an improvement in the combined operating ratio from 94.4% to 93.4%, ahead of our FY15 guidance of 94% – 95%. Lower investment income during the half led to slightly less improvement in the insurance profit margin at 10.0% from 9.3% in the prior corresponding period.

Whilst our net claims ratio improved to 58.6% (1H14 60.8%), the total acquisition cost ratio increased to 34.8% (1H14 33.6%) of net earned premium. This reflects the distorting impact of lower net earned premium mainly due to increased reinsurance designed to reduce earnings volatility as well as the impact of selling the US and Australian agencies.

Full details of the performance of each of our divisions in the first half of the year can be found on pages 22 to 47.

**North American Operations** has continued to develop its franchise in the commercial and speciality insurance sectors. The increase in the combined operating ratio to 100.2% (1H14 98.4%) was largely due to increased catastrophe claims coupled with a higher underlying combined commission and expense ratio arising from lower net earned premium, the sale of the agencies and reduced mortgage services fee income. North American Operations has been through a substantial reorganisation and the disposal of the M&LS business completes the reset of the portfolio. Our second half focus will be on achieving further reductions in our total acquisition costs and returning to sustained profitable growth.

**European Operations** produced an excellent combined operating ratio of 85.8% with an insurance profit margin of 16.7%, reflecting the benefit of remediation activities and buoyed by strongly positive prior accident year claims development. Surplus industry capital, most notably in the London Market, and the absence of significant catastrophe claims have reduced premium rates overall. This pressure has been mitigated to some extent by the quality of our portfolios and by the diversity of our international markets business, our strong retail presence in the UK and our inwards reinsurance business, allowing us to report a strong result as well as 7% gross written premium growth on a constant currency basis.

**Australian & New Zealand Operations** delivered a commendable underwriting result with a combined operating ratio of 90.8% and an insurance profit margin of 14.8% despite multiple weather-related catastrophes, most notably on the east coast of Australia. Despite the more competitive market, rigorous underwriting discipline and an improving expense ratio give us confidence that we can achieve a strong full year result.

**Emerging Markets** produced a 99.5% combined operating ratio (1H14 102.4%) and an insurance profit margin of 4.6% (1H14 1.5%). The result was negatively impacted by two major catastrophes, Cyclone Pam in Vanuatu and the Chilean floods. Gross written premium and net earned premium were up by 13% and 14% respectively, demonstrating the momentum we continue to achieve in the important developing economies.

**Equator Re** delivered an excellent result as evidenced by a 68.6% combined operating ratio (1H14 98.6%) and a 47.8% (1H14 9.0%) insurance margin. Despite a number of catastrophes and large individual risk claims, the very strong underwriting result reflects our actions to de-risk the portfolio by modifying divisional retentions on the larger catastrophe and per risk programs.

Overall, gross written premium increased 3% to \$8.6 billion compared with \$8.3 billion for the same period last year, buoyed by \$766 million of additional crop premium as a result of refinements in our premium estimation process (which will have no full year impact). Excluding the crop premium adjustment and allowing for foreign exchange headwinds, gross written premium increased 2% on a constant currency basis. This reverses recent trends as we now look to build our business off a solid base. Net earned premium fell 11% to \$6.1 billion reflecting the impact of various remediation activities, non-core asset disposals, the cost of additional reinsurance cover and foreign exchange headwinds.

## Financial strength and flexibility

A year ago, we announced a comprehensive capital plan focused on a series of initiatives including an institutional and retail equity raising, balance sheet restructuring and, importantly, a number of non-core asset disposals.

As a result of the successful completion of these initiatives, the major ratings agencies, Standard & Poor's, A.M. Best and Fitch, recently affirmed the Group's financial strength and issuer credit ratings and revised the Group's outlook from "negative" to "stable", with Standard & Poor's encouragingly referring to QBE's Group's capital adequacy as being "at the 'AA' level."

In parallel with improved key capital metrics, we have enhanced our reinsurance purchasing to further protect our capital position and de-risk earnings. Our purchase of substantial aggregate protection cover against large individual risk and catastrophe claims has significantly reduced our sensitivity to this most volatile component of claims costs.

## Cost savings and efficiency

Launched in 2012, our operational transformation program has realised expense savings of \$242 million with other initiatives (mainly in North America) delivering an additional \$35 million of savings. By the end of 2015, total run rate savings are expected to exceed \$350 million and we are likely to employ around 3,000 people in our offshore Global Shared Service Centres as we look to improve business processes and customer experience.

We are targeting additional efficiencies and run rate cost savings of \$100 million in 2016 as we further enhance our business through continuous process improvement.

## Increasing dividend payments

Following the completion of our capital initiatives and in light of significantly improved earnings quality, capital is now above our target minimum requirement and provides the opportunity to increase the future dividend payout ratio whilst remaining comfortably within target capital levels.

As a result, the Board has increased the maximum dividend payout ratio to 65% of cash profits, up from the current maximum of 50%, commencing with the 2016 interim dividend.

The Board has declared a fully franked interim 2015 dividend of 20 Australian cents per share, a 33% increase on the 15 Australian cents declared at the same time last year.

## Continuing business transformation

The work undertaken over the past two years has set the business on a firm footing for future success.

We completed the sale of Australian and North American agencies whilst retaining the underwriting of these businesses. We similarly completed the sale of the Argentine workers' compensation business and recently announced the disposal of the M&LS business in North America. Whilst there is a financial impact of these transactions through 2015, the predictability and quality of our underwriting result will improve in 2016 and beyond as a consequence.

Excluding the crop premium adjustment, the reset of our North American business to commercial and speciality business lines has seen further minor rationalisation of the premium base which was matched by a corresponding reduction in expenses.

### Capitalising on growth opportunities

On 28 July, we announced the promotion of Colin Fagen to the role of Group Chief Strategy Officer with a brief to drive further organic profitable growth and a further meaningful reduction in our total acquisition and claims costs.

QBE's unique global franchise offers a number of opportunities where we believe meaningful profitable growth can be achieved. This includes:

- digitally-enabled small-to-medium enterprise products;
- Bancassurance solutions;
- continued and enhanced focus on execution of our Emerging Markets growth strategy;
- development of our multi-channel distribution approach in Australia & New Zealand; and
- build-out of our global corporate solutions and specialty businesses in our northern hemisphere operations.

Supporting these growth opportunities is a framework to deliver sustained operational excellence, including the creation of market leading finance processes and technology, world class claims solutions and a rollout of data and analytics capabilities throughout the business. We have continued to invest in upgrading our technology and process re-engineering as well as in our Emerging Markets growth initiatives (committing to more than \$100 million of new investment in 2015).

We recognise the critical importance our people play in our success, and have committed to invest in building the best talent in our industry. This includes continued focus on our leadership and technical academies to produce a strong pipeline of future talent.

We are well underway in the detailed planning of our strategic framework, balancing our investment to achieve optimum payback on our top and bottom line. We will be explaining our approach in more detail along with our FY15 results.

### Looking ahead

We have adjusted our 2015 forecast gross written premium and net earned premium for our current view on foreign exchange rates and the disposal of the M&LS business, which is expected to complete on 30 September.

This has resulted in a reduction in our gross written premium target range to \$15.2 billion – \$15.6 billion and a similar reduction in our net earned premium target range of \$12.3 billion – \$12.7 billion.

Our targeted combined operating ratio and insurance margin for 2015 remain unchanged at 94% – 95% and 8.5% – 10% respectively.

### In summary

Our value creation model continues to drive our strategy. The focusing of our business around our core over the last two years is now paying dividends with better quality businesses and sustainable performance. The actions we have taken to implement even more rigorous underwriting disciplines, along with our strengthened reinsurance program which reduces large individual risk and catastrophe claim volatility, give us increased confidence in the predictability of our earnings.

We have embedded a culture of continuous cost management in the business and our balance sheet is in a strong position to support our strategic ambitions. All of this is supported by a pipeline of excellent human capital from our leadership and underwriting talent development programs.

We remain confident in our ability to achieve our 2015 full year targets. The tough decisions made over the last three years are beginning to show results in improved underwriting and a more focused business. We are now well placed to deliver on the final component of the model – profitable growth. The new role of Group Chief Strategy Officer has been created to propel us to that next step.

Whilst there is more to do, I truly believe we are set up for future success.

John Neal  
Group Chief Executive Officer

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



# Operating and financial performance overview

QBE has made a good start to 2015 with improved earnings, stable reserving, increased capital and 33% growth in our interim dividend.

1 Business Review

2 Directors' Report

3 Financial Report

4 Other Information

## General overview

I am pleased to report an encouraging start to 2015. Despite a competitive global insurance pricing environment, we reported a 39% increase in profit before tax and a 33% increase in the proposed interim dividend.

Consistent with last year, I have commented on three broad areas of ongoing focus:

1. Driving financial performance and earnings stability.
2. Investment strategy and performance.
3. Financial strength and capital management.

We have made good progress in all three areas; however, there is still room for improvement.

### 1. Driving financial performance and earnings stability

I am pleased to report a significant improvement in 2015 interim earnings compared with the prior corresponding half.

Underwriting profit increased 21% to \$295 million and pre-tax profit increased 39% to \$679 million.

Our statutory profit includes the results of our recently sold Argentine workers' compensation business and a number of significant items pertaining to our non-core asset disposal program that were not included in our published 2015 targets and plans. The summary income statement on page 9 separately identifies these items and shows our adjusted or underlying result for the period.

For the remainder of this section, I will talk to the Group's adjusted results.

The improved underwriting result is equivalent to a combined operating ratio of 93.4%, slightly better than our full year 2015 target range of 94% – 95%.

In my mind, a number of activities led to this improved result.

#### a) Positive prior accident year claims development

Consistent with the immediately preceding half, we recorded net positive prior accident year claims development of \$79 million overall. Europe, Australia & New Zealand and Asia Pacific again recorded positive claims development which was partially offset by modest negative development in North America and a reduction in the estimated recovery from our Group aggregate risk treaty which mainly impacted Equator Re.

#### b) Enhanced reinsurance protection

At the end of 2014, we significantly enhanced our reinsurance structures including the purchase of crop quota share to reduce hail exposure and, most notably, a new aggregate treaty for Group large risk and catastrophe (GLRC) claims. While the extra reinsurance spend reduces our net earned premium (and therefore increases our expense ratio), the benefit to our bottom line is evident. In the first half of 2015, the GLRC treaty alone benefited the combined operating ratio by 1.1%.

### c) Portfolio changes

We have made a number of changes to our portfolio of businesses over the last year that, in addition to enhancing our capital position, have also materially reshaped the profitability of the Group. On a pro forma basis, the sale of the Argentine workers' compensation business improves the Group's interim 2015 combined operating ratio by 1.0% and the sale of the Mortgage & Lender Services business (M&LS) is expected to improve the 2016 North American combined operating ratio by around 1.5%.

### d) Underwriting strength in depth across QBE

The first half of 2015 saw the pricing environment become more challenging across all of our major markets. Premium rates fell on average by 1.6% compared with an increase of 0.7% in the prior period. Notwithstanding the competitive landscape, our underlying attritional claims ratio actually improved by 0.1%. The improvement was particularly evident in our European Operations and is testament to the skill and experience of our underwriters in risk selection and pricing.

### e) Expenses

While our underwriting expense ratio increased by 1.0% compared with the prior corresponding period, this is almost entirely due to the reduction in net earned premium as a result of our enhanced reinsurance protection. Underwriting expenses fell by \$59 million despite investing \$42 million across a range of initiatives including a new global policy administration system, IT infrastructure, Solvency II preparation and compliance and a range of efficiency initiatives. This additional investment was largely offset by a \$47 million increase in our cumulative operational transformation savings to \$242 million with savings now expected to slightly exceed our previous 2015 year end target of \$279 million.

## 2. Investment strategy and performance

Despite significant volatility in both debt and equity markets towards the end of the half year, the investment portfolio achieved an annualised net investment return of 2.9% which was broadly in line with expectations.

Key to achieving this result in the face of various headwinds was the ongoing implementation of the plan to enhance investment yield that was set out at the 2014 half year result. This was to be achieved primarily through three actions:

- increasing exposure to growth assets;
- extending the duration of assets to more closely match the duration of liabilities and pick up extra yield; and
- further diversification of the fixed income credit exposure.

As such, the portfolio's exposure to growth assets was increased from 8.9% at 31 December 2014 to 12.7% at 30 June 2015 and growth assets achieved an annualised return of 9.2% in the half. With respect to asset duration, we continue to monitor global yield curve developments to take advantage of opportunities to extend duration. The current asset duration is 0.8 years. That said, we remain considerably short of the 2.9 year weighted average term to settlement of our insurance liabilities. While our strategy is to eventually extend the duration of assets to more closely match the duration of claims liabilities, we will do so prudently and will wait for opportunities that present better value than current levels.

In addition, we are broadening the range of fixed income securities we hold and have continued to add to our infrastructure debt and structured credit holdings for additional diversification and yield.

Overall, despite the changes designed to enhance returns, the Group's investment strategy remains conservative relative to our global peers. The portfolio is of high credit quality with liquidity in excess of claims payment obligations. We will therefore continue to selectively add higher yielding assets into the portfolio over the course of the year as opportunities present themselves.

## 3. Financial strength and capital management

In August 2014, we announced a comprehensive capital plan aimed at significantly reducing our gearing and increasing our regulatory and rating agency capital. I am pleased to say that we have now completed this capital plan.

Debt to tangible equity has fallen from 78% at 31 December 2013 to 50% at 30 June 2015. Over the past 12 months our APRA PCA multiple has increased from 1.56x to an indicative 1.72x (adjusted for the impact of the disposal of our Argentine workers' compensation and M&LS businesses) and Standard & Poor's described QBE's capital adequacy as being "at the 'AA' level".

Having regard to our borrowings profile, there is significant opportunity to increase the weighting to regulatory and rating agency capital qualifying subordinated debt from non-qualifying senior debt. We will consider this mix as senior debt maturities present.

The other area we highlighted for focus was free cash flow generation (measured by cash remittances from the divisions to the Group centre). In 2014, we increased free cash flow by 44% to \$770 million and we aim to equal or even better that level in 2015. Our external interest obligations at the Group centre and cash dividend cost amounted to \$352 million in 2014 versus the \$770 million of free cash flow giving rise to surplus free cash flow of \$418 million. Surplus free cash generation obviously allows us to build cash at the Group centre and supports our ability to grow dividends.

## Operating and financial performance

### Summary income statement

FOR THE HALF YEAR ENDED	STATUTORY RESULT		ARGENTINE WORKERS' COMP	HELD FOR SALE & DISPOSALS	ADJUSTED RESULT	
	30 JUNE 2015	30 JUNE 2014	30 JUNE 2015	30 JUNE 2015	30 JUNE 2015	30 JUNE 2014
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Gross written premium	8,692	8,491	135	–	8,557	8,277
Gross earned premium revenue	7,293	7,819	145	–	7,148	7,704
Net earned premium	6,229	6,947	145	–	6,084	6,828
Net claims expense	(3,727)	(4,378)	(165)	–	(3,562)	(4,151)
Net commission	(1,073)	(1,191)	(7)	–	(1,066)	(1,184)
Underwriting and other expenses	(1,134)	(1,134)	(24)	(55)	(1,055)	(1,114)
Underwriting result	295	244	(51)	(55)	401	379
Net investment income on policyholders' funds	241	286	32	–	209	256
Insurance profit	536	530	(19)	(55)	610	635
Net investment income on shareholders' funds	145	143	20	(12)	137	125
Financing and other costs	(127)	(150)	–	–	(127)	(150)
Gains (losses) on sale of entities	150	(2)	–	150	–	(2)
Share of net profits of associates	–	1	–	–	–	1
Amortisation and impairment of intangibles	(25)	(35)	–	–	(25)	(35)
Profit before tax	679	487	1	83	595	574
Income tax expense	(189)	(91)	(1)	(50)	(138)	(121)
Profit after tax	490	396	–	33	457	453
Profit attributable to non-controlling interests	(2)	(4)	–	–	(2)	(4)
Net profit after income tax	488	392	–	33	455	449

### Overview of the 2015 interim result

The Group reported a 2015 statutory interim net profit after tax of \$488 million, up 24% from \$392 million in the prior period, largely reflecting a 21% uplift in underwriting profit and gains on entity disposals, partly offset by an increase in the effective tax rate.

On 24 February 2015, QBE published the Group's 2015 target combined operating ratio of 94% – 95% and a target insurance profit margin of 8.5% – 10.0%. To assist comparison of our interim 2015 performance against these targets, the statutory result in the table above has been adjusted to exclude the following material items which were not included in our published 2015 targets or plans:

- the sale of our Argentine workers' compensation business was completed on 10 August 2015. The results of this business have been excluded from both the 2014 and 2015 adjusted interim results above to assist comparability with our targets and to assist year on year comparability;
- the sale of the Australian and US agency businesses and other non-material disposals during the period gave rise to realised gains on sale of \$150 million which are excluded from the adjusted 2015 interim result above; and
- the M&LS business was "held for sale" at 30 June 2015, giving rise to a \$55 million write down of deferred acquisition costs which is excluded from the adjusted 2015 interim result above. This sale is expected to complete on 30 September 2015.

The profit and loss commentary following refers to the Group's adjusted results as per the table above.

Net profit after tax increased 1% to \$455 million from \$449 million in the prior period despite a slightly higher effective tax rate and a \$55 million adverse foreign exchange impact.

On a constant currency basis, net profit after tax increased 14%.

Excluding amortisation of intangibles and other non-cash items, cash profit for the half was \$471 million, up 13% from \$416 million for the same period last year or up 30% on a constant currency basis.

Gross written premium increased 3% during the half to \$8,557 million from \$8,277 million in the prior period.

On a constant currency basis, gross written premium increased 11% largely reflecting increased premium writings in our European Operations coupled with an improved approach to estimating crop premium between halves which increased North American gross written premium by \$766 million relative to the prior period.

Excluding the change in the estimation of crop premium, gross written premium increased 2% on a constant currency basis, reflecting premium growth in European Operations and Emerging Markets partially offset by premium contraction in North America and an increasingly competitive global pricing landscape.

Group-wide premium rate reductions averaged 1.6% during the half compared with an average rate increase of 0.7% in the prior corresponding period. Premium rates are under pressure globally but especially so in Europe, Australia & New Zealand and increasingly in Asia Pacific.

The Group's reinsurance expense ratio increased to 14.9% during the half from 11.4% in the prior period, primarily due to the increased cost of the Group's enhanced large individual risk and catastrophe aggregate protection coupled with the purchase of additional crop quota share reinsurance, which more than offset premium rate reductions and reduced aggregate exposure.

Net earned premium fell 11% to \$6,084 million or 3% on a constant currency basis. Excluding the change in the estimation of crop premium, adjusted net earned premium fell by 5% on a constant currency basis due to the decline in gross writings coupled with the aforementioned increase in reinsurance spend.

The Group's combined operating ratio improved to 93.4% from 94.4% in the prior period, due to a significant improvement in the net claims ratio to 58.6% from 60.8% previously. This was partially offset by an increase in the combined commission and expense ratio to 34.8% from 33.6%, primarily caused by the aforementioned reduction in net earned premium (including a significant increase in reinsurance expenditure) and the sale of the Australian and US agencies.

The Group reported an insurance profit of \$610 million, down 4% from \$635 million in the prior period, due to significantly lower investment income on technical reserves. The insurance margin for the half improved to 10.0% compared with 9.3% in the prior period, with a stronger underwriting performance partially offset by lower investment income.

The overall net investment yield on technical reserves declined to 2.4% from 2.5% a year earlier, contributing 3.4% to the adjusted insurance profit margin compared with 3.7% in the first half of 2014.

Although fixed income returns were lower during the current half, investment income on shareholders' funds increased to \$137 million from \$125 million in the prior period, reflecting higher returns generated from the Group's increased exposure to growth assets.

Interest expense fell to \$127 million from \$150 million a year earlier, consistent with the \$715 million or 17% reduction in borrowings since 30 June 2014.

The effective tax rate increased to 23% of pre-tax profit from 21% in the first half of 2014 and is broadly consistent with QBE's expected longer term underlying tax rate.

## Cash profit

FOR THE HALF YEAR ENDED	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Cash profit before tax	621	522
Tax expense on cash profit	(148)	(102)
Profit attributable to non-controlling interests	(2)	(4)
Net cash profit after tax	471	416
Gains on sale of entities after tax	88	–
M&LS deferred acquisition cost write down	(55)	–
Amortisation and impairment of intangibles after tax	(16)	(24)
Net profit after tax	488	392
Basic earnings per share – cash basis (US cents)	34.5	33.2
Dividend payout ratio (percentage of cash profit)	42%	42%

## Significant items in adjusted 2015 interim result

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

The total net cost of large individual risk and catastrophe claims fell by 20% to \$552 million compared with \$690 million in the prior period, primarily reflecting the benefit of recoveries under the Group's enhanced aggregate reinsurance protection. Although the northern hemisphere and especially Europe enjoyed relatively benign catastrophe experience, catastrophe claims costs increased materially due to increased frequency of weather-related catastrophe claims in Australia and Cyclone Pam which devastated Vanuatu.

Risk-free rates used to discount net outstanding claims liabilities increased during the half, particularly Sterling and Euro, resulting in a positive discount rate adjustment of \$45 million compared with a \$118 million cost in the prior period. Over the half, the currency weighted average risk-free rate (excluding the Argentine peso) increased from 1.45% to 1.60%.

An improved approach to estimating crop premium increased North American gross written premium and net earned premium by \$766 million and \$135 million respectively relative to the prior period, and resulted in an overall benefit to pre-tax profit of \$20 million.

Pleasingly, the 2015 interim result included \$79 million of favourable prior accident year claims development compared with a \$16 million charge in the prior period.

Consistent with a reduction in the central estimate of net outstanding claims, the result included a risk margin release of \$14 million compared with a \$56 million release in the prior period. Despite this release, the probability of adequacy of net outstanding claims liabilities increased to 89.0% from 88.7% at 31 December 2014.

### Significant items in adjusted profit before tax

FOR THE HALF YEAR ENDED	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Cost of large individual and catastrophe claims (current accident year)	(552)	(690)
Discount rate benefit (cost), excluding Argentine peso	45	(118)
Underwriting result impact – crop premium estimation	20	–
Prior accident year central estimate claims development <sup>1</sup>	79	(16)
Risk margin release	14	56

<sup>1</sup> Net of \$3 million of discount reduction (2014 \$37 million) due to long tail classes (dust disease in Australia) where the level of assumed claims inflation is directly linked to the discount rate.

As noted above, the adjusted result specifically excludes the following impacts:

- the recently announced sale of the M&LS business in North America which resulted in a \$55 million write down of deferred acquisition costs to recoverable value resulting from the contractual terms agreed on disposal; and
- the sale of agency businesses in Australia and the US as well as various entities in Central and Eastern Europe which gave rise to a total pre-tax profit on sale of \$150 million.

### Premium income

The premium commentary following refers to the Group's adjusted results.

Gross written premium increased 3% during the half to \$8,557 million from \$8,277 million in the prior period.

On a cumulative average basis and compared with the first half of 2014, the Australian dollar and Sterling depreciated 14% and 8% respectively against the US dollar while the Euro depreciated by 18%. Coupled with other intra-divisional cross currency movements against the US dollar, foreign exchange movements adversely impacted reported premium income by \$655 million including a \$324 million adverse impact in Australia & New Zealand Operations, \$240 million in European Operations and \$91 million in Emerging Markets.

On a constant currency basis, gross written premium increased by 11% largely reflecting increased premium writings in our European Operations coupled with an improved approach to estimating crop premium between halves which boosted North American gross written premium by \$766 million relative to the prior period. Refinements in our estimation process, which enable us to reliably estimate crop written premium from the date of risk inception rather than from the date of acreage reporting, result in a more appropriate balance of earned premium across halves reflecting the risk profile of the portfolio.

Excluding the crop premium adjustment, gross written premium increased 2% on a constant currency basis.

The global pricing landscape has become increasingly competitive. Group-wide premium rate reductions averaged 1.6% during the half compared with an increase of 0.7% in the prior period and expectations of broadly flat premium rates on average across the portfolio. Premium rates are under pressure globally but especially so in Europe, Australia & New Zealand and increasingly in Asia Pacific where premium rate reductions averaged 3.3%, 2.3% and 3.3% respectively. Premium rates in North America were flat while Latin American rate increases are consistent with above average inflation.

Gross written premium growth in our European Operations was 7% on a constant currency basis, an especially encouraging outcome in light of the extent of portfolio remediation and disposals undertaken by the business in 2013 and 2014. Premium growth was achieved across the business and is attributable to the successful execution of numerous strategic initiatives combined with a significant improvement in renewal retentions.

Excluding the recently sold Argentine workers' compensation business, Emerging Markets recorded gross written premium growth of 14% on a constant currency basis with growth in Asia Pacific and Latin America of 13% and 15% respectively. Growth in Asia Pacific was strongest in Indonesia, Macau, Malaysia and Vietnam while growth in Latin America was strongest in Argentina, Chile, Brazil and Mexico.

Australian & New Zealand Operations reported a 1% decline in gross written premium on a constant currency basis, primarily due to a 20% industry-driven decline in lenders' mortgage insurance premium and general softening in the market, particularly in strata-title insurance products. Excluding the lenders' mortgage insurance portfolio, premium income increased by 1% on a constant currency basis which was below expectations, largely due to the delayed finalisation of a number of large new business opportunities which we had expected to complete in the first half of 2015. A number of these initiatives were finalised subsequent to the balance date.

Excluding the crop premium adjustment, North American gross written premium fell by 5% largely due to standard commercial lines where, in addition to an increasingly competitive rate environment, premium production was adversely impacted by the termination of underperforming programs and corrective underwriting actions. Conversely, strong growth was achieved in standard personal lines and specialty.

Equator Re recorded gross written premium growth of 61% reflecting the provision of higher limits on the property and casualty per risk and catastrophe treaties for each of the divisions, partially offset by an overall reduction in premium rates consistent with market conditions, some divisional exposure reductions and minor adverse foreign exchange movements.

Gross earned premium fell 7% during the half to \$7,148 million from \$7,704 million in the prior period. On a constant currency basis and excluding the \$187 million impact from the crop premium adjustment, gross earned premium fell 2%.

The Group's reinsurance expense ratio increased to 14.9% during the half from 11.4% in the prior period, primarily due to the incremental \$112 million cost of the Group's enhanced large individual risk and catastrophe aggregate protection coupled with the purchase of an additional \$64 million of crop quota share reinsurance which more than offset premium rate reductions and reduced aggregate exposure.

Net earned premium fell 11% to \$6,084 million from \$6,828 million in the prior period or 3% on a constant currency basis. Excluding the \$135 million crop premium adjustment, net earned premium fell by 5% due to the 2% decline in gross earned premium coupled with the aforementioned increase in reinsurance spend.

## Underwriting performance

### Key ratios – Group

FOR THE HALF YEAR ENDED	30 JUNE 2015		30 JUNE 2014	
	STATUTORY	ADJUSTED <sup>1</sup>	STATUTORY	ADJUSTED <sup>1</sup>
	%	%	%	%
Net claims ratio	59.8	58.6	63.1	60.8
Net commission ratio	17.3	17.5	17.1	17.3
Expense ratio	18.2	17.3	16.3	16.3
Combined operating ratio	95.3	93.4	96.5	94.4
Insurance profit margin	8.6	10.0	7.6	9.3

<sup>1</sup> Excludes Argentine workers' compensation business and the \$55 million deferred acquisition cost write down on the classification of M&LS as "held for sale".

## Divisional performance

### Contributions by region

FOR THE HALF YEAR ENDED	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
	30 JUNE 2015	30 JUNE 2014	30 JUNE 2015	30 JUNE 2014	30 JUNE 2015	30 JUNE 2014	30 JUNE 2015	30 JUNE 2014
	US\$M	US\$M	US\$M	US\$M	%	%	US\$M	US\$M
North American Operations	3,109	2,472	1,832	1,917	100.2	98.4	29	56
European Operations	2,659	2,705	1,660	2,033	85.8	94.2	278	180
Australian & New Zealand Operations	1,928	2,275	1,668	1,916	90.8	87.4	247	330
Emerging Markets	929	896	741	718	99.5	102.4	34	11
Equator Re	976	607	182	280	68.6	98.6	87	25
Equator Re elimination	(976)	(607)	–	–	–	–	–	–
Corporate adjustments	(68)	(71)	1	(36)	–	–	(65)	33
<b>Group adjusted</b>	<b>8,557</b>	<b>8,277</b>	<b>6,084</b>	<b>6,828</b>	<b>93.4</b>	<b>94.4</b>	<b>610</b>	<b>635</b>
Held for sale and disposals	–	–	–	–	0.9	–	(55)	–
Argentine workers' comp business	135	214	145	119	135.2	213.4	(19)	(105)
<b>Group statutory</b>	<b>8,692</b>	<b>8,491</b>	<b>6,229</b>	<b>6,947</b>	<b>95.3</b>	<b>96.5</b>	<b>536</b>	<b>530</b>
Direct and facultative	7,871	7,668	5,851	6,457	96.0	96.9	454	468
Inward reinsurance	821	823	378	490	83.0	91.6	82	62
<b>Group statutory</b>	<b>8,692</b>	<b>8,491</b>	<b>6,229</b>	<b>6,947</b>	<b>95.3</b>	<b>96.5</b>	<b>536</b>	<b>530</b>

## Incurred claims

The claims commentary following refers to the Group's adjusted results.

The Group's combined operating ratio improved to 93.4% from 94.4% in the prior year reflecting a significant reduction in the net claims ratio which more than offset an increase in the combined commission and expense ratio due to reduced net earned premium. Although the cost of large individual risk and catastrophe claims before aggregate reinsurance recoveries increased significantly relative to the prior period due to adverse catastrophe experience, the net cost actually fell due to material recoveries under the Group's enhanced large individual risk and catastrophe aggregate reinsurance protection.

The enhanced aggregate reinsurance protection delivered a net combined operating ratio benefit of 1.1%. This benefit comprised a 2.6% reduction in the large individual risk and catastrophe claims ratio, partially offset by an increase in the attritional claims and combined commission and expense ratios of 1.0% and 0.6% respectively due to lower net earned premium (as a result of the incremental cost of the enhanced aggregate protection).

The following table provides a summary of the major components of the first half net claims ratio including and excluding the recently sold Argentine workers' compensation business.

### Analysis of net claims ratio

FOR THE HALF YEAR ENDED	30 JUNE 2015		30 JUNE 2014	
	STATUTORY %	ADJUSTED %	STATUTORY %	ADJUSTED %
Attritional claims	54.2	49.1	49.8	47.5
Large individual risk and catastrophe claims	8.9	9.1	9.9	10.1
Claims settlement costs	2.8	3.0	2.5	2.5
Claims discount	(6.6)	(1.9)	(4.6)	(2.5)
Net incurred central estimate claims ratio (current accident year)	59.3	59.3	57.6	57.6
Changes in undiscounted prior accident year central estimate	<sup>1</sup> (1.1)	<sup>2</sup> (1.3)	11.9	20.2
Other (including unwind of prior year discount)	1.8	0.8	4.4	3.8
Net incurred central estimate claims ratio	60.0	58.8	63.9	61.6
Movement in risk margins	(0.2)	(0.2)	(0.8)	(0.8)
Net incurred claims ratio (current financial year)	59.8	58.6	63.1	60.8

1 Net of \$140 million of discount movement (2014 \$472 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.

2 Net of \$3 million of discount reduction (2014 \$37 million) due to long tail classes (dust disease in Australia) where the level of assumed claims inflation is directly linked to the discount rate.

QBE has historically provided an analysis of the Group's underlying current accident year attritional claims ratio excluding various influences that distort the apparent year-on-year movement in the reported attritional claims ratio. As tabled below, excluding the US crop and lender-placed businesses and the impact of the \$112 million incremental cost of the Group's enhanced aggregate reinsurance protection (which had a \$213 million beneficial impact on the net cost of large individual risk and catastrophe claims during the period), the underlying attritional claims ratio was broadly stable at 47.0%.

This is an especially pleasing result in light of the increasingly competitive global pricing landscape and, at a high level, reflects a very significant improvement in the attritional claims ratio of QBE's European Operations following remediation initiatives undertaken over the past two years, offset by an increase in the underlying attritional claims ratio in Australia & New Zealand and Latin America.

The increase in the Australian & New Zealand attritional claims ratio is largely due to the incremental cost of the revised aggregate reinsurance protection, business mix changes (principally increased CTP exposure) and the lower Australian dollar which resulted in a migration of claims from large individual risk claims (defined as being >US\$2.5 million) to attritional.

While the Asia Pacific attritional claims ratio was broadly stable, the Latin American attritional claims ratio increased, primarily reflecting the challenging Colombian SOAT environment.

### Analysis of attritional claims ratio

FOR THE HALF YEAR ENDED	30 JUNE 2015		30 JUNE 2014	
	NEP US\$M	ATTRITIONAL %	NEP US\$M	ATTRITIONAL %
Rest of world	5,719	47.0	6,414	47.1
Group large individual & catastrophe risk aggregate <sup>1</sup>	(112)	—	—	—
Crop insurance <sup>2</sup>	216	85.1	145	67.0
M&LS <sup>3</sup>	261	39.7	269	46.9
QBE Group adjusted	6,084	49.1	6,828	47.5

1 Incremental cost of the Group's enhanced large individual risk and catastrophe aggregate reinsurance protection.

2 Crop attritional claims ratio is no longer assumed constant at 67.0%. All crop claims were deemed attritional in 1H15.

3 The low and relatively volatile attritional claims ratio of the M&LS business distorts the trend in the Group's underlying attritional claims ratio.

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

### Large individual risk and catastrophe claims

	COST US\$M	% OF ADJUSTED NEP
<b>IN THE HALF YEAR ENDED 30 JUNE 2015</b>		
Cyclone Pam (13 March)	85	1.4
NSW east coast storms (19 April)	61	1.0
Sydney hailstorm (25 April)	39	0.6
Cyclone Marcia (19 February)	39	0.6
North American wind/hail (April/May)	39	0.6
Chilean floods (March)	30	0.5
South East QLD & Northern NSW coastal storms (30 April)	19	0.3
North American winterstorm (16 February)	15	0.3
Cyclone Olwyn (11 March)	15	0.2
Other catastrophe claims including bulk IBNR	77	1.3
Group large risk and catastrophe aggregate recoveries	(106)	(1.7)
<b>Total catastrophe claims including bulk IBNR</b>	<b>313</b>	<b>5.1</b>
Pemex (1 April)	79	1.3
Petrobras (11 February)	40	0.6
Chevron Corp (29 May)	22	0.4
Avalonbay Communities Inc (21 January)	20	0.3
Ultra Cargo (4 April)	15	0.2
Other individual risk claims including bulk IBNR	169	2.8
Group large risk and catastrophe aggregate recoveries	(107)	(1.6)
<b>Total large individual risk claims including bulk IBNR</b>	<b>239</b>	<b>4.0</b>
<b>Total large individual risk and catastrophe claims including bulk IBNR</b>	<b>552</b>	<b>9.1</b>

### Large individual risk and catastrophe claims

	COST US\$M	% OF ADJUSTED NEP
<b>IN THE HALF YEAR ENDED 30 JUNE 2014</b>		
Total catastrophe claims including bulk IBNR	273	4.0
Total large individual risk claims including bulk IBNR	417	6.1
<b>Total large individual risk and catastrophe claims including bulk IBNR</b>	<b>690</b>	<b>10.1</b>

The total net cost of large individual risk and catastrophe claims fell to \$552 million or 9.1% of net earned premium compared with \$690 million or 10.1% of net earned premium in the prior period. This compares with the Group's historical annual large individual risk and catastrophe allowance of 9.5% (excluding crop insurance) or around 8.5% on a seasonally adjusted basis.

Gross of \$213 million of recoveries against the Group's enhanced aggregate reinsurance protections, the total cost of large individual risk and catastrophe claims increased to \$765 million or 12.3% of net earned premium compared with \$704 million or 10.3% in the prior period. This reflected a material increase in the cost of catastrophe claims, partially offset by improved large individual risk claims experience.

The net cost of catastrophe claims increased to \$313 million or 5.1% of net earned premium compared with \$273 million or 4.0% in the prior period. Gross of aggregate recoveries, the cost of catastrophe claims increased to \$419 million or 6.8% of net earned premium compared with \$273 million or 4.0% in the prior period. This reflected a significant increase in frequency of weather-related catastrophe claims, particularly in Australia and the Pacific, following a relatively benign prior period.

Australia was adversely impacted by the worst series of weather events since 2011. A number of cyclones and an unusually high frequency of storms on the eastern seaboard gave rise to materially higher claims than the long term average for catastrophe costs in the June half. Asia Pacific and Equator Re were also significantly impacted by Tropical Cyclone Pam which was a category 5 cyclone that devastated Vanuatu in March 2015 and gave rise to gross claims of \$85 million. Catastrophe experience was relatively benign in Europe while catastrophe costs increased modestly in North America following an especially benign prior period.

The net cost of large individual risk claims declined to \$239 million or 4.0% of net earned premium from \$417 million or 6.1% of net earned premium in the prior period. Excluding aggregate recoveries, the cost of large individual risk claims declined to \$346 million or 5.6% of net earned premium from \$431 million or 6.3% of net earned premium in the prior period. With the exception of European Operations which experienced a greater severity of large individual risk claims, particularly in the International Markets division, large individual risk claim frequency and severity improved materially across the rest of the Group.

Notwithstanding significant intra-period volatility, the Group's currency weighted average risk-free rate (excluding the Argentine peso) used to discount net outstanding claims liabilities increased from 1.45% to 1.60%, primarily due to higher



Sterling and Euro risk-free rates. This gave rise to a favourable underwriting impact of \$45 million that reduced the net claims ratio by 0.7%, compared with a charge of \$118 million in the prior period, increasing the net claims ratio by 1.7%.

In the context of the Group's recent history, it is pleasing to report \$79 million of favourable prior accident year claims development compared with a charge of \$16 million in the prior period and a charge of \$153 million in the first half of 2013. Significantly favourable development was recorded in European Operations and, to a lesser degree Australia & New Zealand Operations, while North America experienced modest adverse development, albeit significantly improved from the prior period.

Equator Re was impacted by significant adverse prior accident year claims development reflecting a reduction in assumed recoveries under the Group aggregate risk reinsurance program due to claims subsequently falling below the (US dollar denominated) program attachment point, primarily as a result of adverse foreign exchange movements.

Consistent with a reduction in the Group's net discounted central estimate, the result also included an overall risk margin release of \$14 million which reduced the net claims ratio by 0.2% compared with a \$56 million release in the prior period. European Operations benefited from a risk margin release which was partially offset by a modest risk margin strengthening in North America and Emerging Markets.

### Commission and expenses

The commission and expense commentary following refers to the Group's adjusted results.

The Group's combined commission and expense ratio increased to 34.8% from 33.6% in the prior corresponding period.

Numerous factors contributed to this increase including a 0.3% impact from the sale of the Australian and US agency businesses and a 2.6% impact from the overall reduction in net earned premium (including the aforementioned 0.6% impact due to the revised aggregate reinsurance protection). This was partially offset by the improved approach to estimating North American crop premium between halves which benefited the Group's combined commission and expense ratio by 0.8%.

The commission ratio increased slightly to 17.5% from 17.3% in the prior period, primarily reflecting a 0.5% adverse impact from the sale of the Australian and US agency businesses partially offset by a 0.4% beneficial impact from the crop premium adjustment. Changes in divisional premium mix had minimal impact on the commission expense ratio overall with an increased influence from the higher than average commission paying North American Operations' largely offset by a currency related reduction in the relative premium contribution from the European Operations and a significant year-on-year reduction in the commission expense ratio in Latin America.

Despite the sale of agency businesses and the North American crop premium adjustment which benefited the expense ratio by 0.2% and 0.4% respectively, the Group's expense ratio increased to 17.3% from 16.3% in the prior period. This was due to a 1.6% adverse impact associated with lower net earned premium, including 0.6% caused by additional reinsurance expenditure (primarily the revised aggregate protection and additional crop quota share reinsurance) and 1.0% attributable to generally lower gross writings consistent with the more competitive premium pricing landscape.

### Income tax expense

The Group's reported statutory income tax expense of \$189 million during the first half of 2015 compared with income tax expense of \$91 million in the previous corresponding period.

Income tax expense as a percentage of profit before tax was 28% compared with 19% in the prior period. Although less than our prima facie rate, the effective tax rate of 28% was broadly in line with management expectations and reflected the mix of corporate tax rates in the countries where QBE operates as well as the de-recognition of deferred tax assets in Australia and North America following the disposal of the Australian and North American agency businesses.

Excluding the impact of the Australian and North American agency sales, the effective tax rate would have been 23%.

QBE paid \$192 million in corporate income tax to tax authorities globally in the six months to 30 June 2015, including \$102 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A\$408 million as at 30 June 2015. The Group is therefore capable of fully franking A\$952 million of dividends.

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

### Foreign exchange

As a significant proportion of our underwriting activity is denominated in US dollars, the Group's financial statements are presented in this currency. Assets and liabilities of all our foreign operations that have a functional currency different from the Group's presentation currency are translated to US dollars at the closing balance date rates of exchange and income and expenses are translated at the cumulative average rates of exchange for the period.

During the first half of 2015, the US dollar strengthened against the majority of the Group's major currencies.

As at 30 June 2015, the Australian dollar and Euro had depreciated 6% and 9% respectively against the US dollar while Sterling appreciated by 1% compared with closing rates at 31 December 2014. When comparing cumulative average rates, the Australian dollar and the Euro depreciated 14% and 18% respectively against the US dollar while Sterling depreciated by 8% relative to the prior period.

The impact of exchange rate movements on the 2015 interim result was an operational foreign exchange loss of \$29 million compared with no impact in the prior period. The net movement in the foreign currency translation reserve, share capital and other reserves due to foreign currency fluctuation was a \$406 million negative impact on equity before tax.

### Impact of exchange rate movements

	2015	2015 AT 2014	EXCHANGE RATE IMPACT	
	ACTUAL	EXCHANGE RATES <sup>1</sup>	US\$M	%
	US\$M	US\$M	US\$M	
Gross written premium	8,692	9,367	(675)	(8)
Gross earned premium	7,293	7,913	(620)	(9)
Net earned premium	6,229	6,779	(550)	(9)
Net profit after tax	488	558	(70)	(14)
Total investments and cash	27,903	28,811	(908)	(3)
Total assets	46,101	47,178	(1,077)	(2)
Gross outstanding claims provision	19,119	19,776	(657)	(3)
Total liabilities	35,096	36,168	(1,072)	(3)

<sup>1</sup> Income statement items are restated to 30 June 2014 average rates of exchange and balance sheet items to 30 June 2014 closing rates of exchange.

## Balance sheet

### Capital management summary

Following execution of the Group's capital plan in the preceding six months to improve balance sheet strength and financial flexibility, no new capital management initiatives were undertaken or deemed necessary in the current period.

Consistent with a significantly strengthened capital position, the major ratings agencies, Standard & Poor's, A.M.Best and Fitch, recently affirmed the Group's financial strength and issuer credit ratings and revised the Group's outlook from "negative" to "stable" with Standard & Poor's referring to QBE's Group's capital adequacy as being "at the 'AA' level."

### Capital summary

AS AT	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
Net assets	11,005	11,082
Less: intangible assets	(3,751)	(3,831)
Net tangible assets	7,254	7,251
Add: borrowings	3,591	3,581
Total capitalisation	10,845	10,832

AS AT	30 JUNE 2015 US\$M	31 DEC 2014' US\$M
APRA's Prescribed Capital Amount (PCA)	5,886	5,816
QBE's regulatory capital base	9,804	9,704
PCA multiple	1.67x	1.67x

1 Indicative APRA PCA calculation at 31 December 2014 updated to be consistent with subsequently finalised APRA returns.

At 30 June 2015, the Group's estimated APRA PCA multiple was stable at 1.67x.

Significant retained profit growth during the half was largely offset by a \$431 million or a 26% increase in the asset risk charge to \$2,113 million following an increase in the exposure to growth assets to 12.7% of the total cash and investments portfolio from 8.9% at 31 December 2014.

Excluding the impact of the lower Australian dollar, the indicative APRA PCA multiple would have been around 1.70x.

Although the regulatory capital position is fractionally below our benchmark range at 30 June 2015, allowing for the recently announced sale of the Argentine workers' compensation and M&LS businesses, the indicative APRA PCA multiple improves to around 1.72x and within our benchmark PCA multiple range of 1.7x-1.9x.

### Key financial strength ratios

	BENCHMARK	30 JUNE 2015	31 DEC 2014
Debt to equity	25% to 35%	32.8%	32.5%
Debt to tangible equity		49.9%	49.7%
PCA multiple <sup>1</sup>	1.7x to 1.9x	1.67x	1.67x
Premium solvency <sup>2</sup>		54.3%	51.5%
Probability of adequacy of outstanding claims	87.5% to 92.5%	89.0%	88.7%

1 Indicative APRA PCA calculation at 31 December 2014 updated to be consistent with subsequently finalised APRA returns.

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

## Borrowings

Total borrowings at 30 June 2015 were \$3,591 million, up slightly from \$3,581 million at 31 December 2014, reflecting the impact of the slight appreciation of Sterling on our Sterling denominated debt.

At 30 June 2015, the ratio of borrowings to shareholders' funds was 32.8% and within our benchmark range of 25%-35%. Although up fractionally from 32.5% at the end of 2014, gearing would have reduced to around 32% except for the adverse impact of the stronger US dollar on closing equity. Notwithstanding the adverse foreign exchange impact, debt to tangible equity was stable at 49.9% reflecting a further reduction in intangibles as discussed overleaf.

Interest expense for the period was \$127 million, down 15% from \$150 million for the same period last year, broadly consistent with the \$715 million or 17% reduction in borrowings since 30 June 2014. The weighted average annualised cost of borrowings outstanding at the balance date was 6.2%, unchanged from 31 December 2014.

The Group's treasury department was not active in debt markets during the half and hence there is no change in the term or profile of borrowings. That said, there is significant opportunity to increase the proportion of the Group's borrowings in regulatory and rating agency capital qualifying subordinated debt versus non-qualifying senior debt.

### Borrowings maturity<sup>1</sup>

AS AT	30 JUNE 2015 %	31 DEC 2014 %
Less than one year	13	13
One to five years	26	26
More than five years	61	61

### Borrowings profile

AS AT	30 JUNE 2015 %	31 DEC 2014 %
Subordinated debt	61	61
Senior debt	30	30
Capital securities	9	9

<sup>1</sup> Based on first call date.

Further details of borrowings are set out in note 10 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	30 JUNE <sup>1</sup> 2015 US\$M	31 DEC <sup>1</sup> 2014 US\$M	31 DEC 2013 US\$M	31 DEC 2012 US\$M	31 DEC 2011 US\$M
Net outstanding claims	16,038	16,948	18,208	18,412	16,984
Unearned premium net of deferred insurance costs <sup>2</sup>	5,712	5,341	5,968	6,023	5,929
	21,750	22,289	24,176	24,435	22,913
Central estimate – outstanding claims	14,718	15,595	16,643	17,079	15,783
Central estimate – unearned premium	4,822	4,398	4,956	5,024	5,062
Risk margin – outstanding claims	1,320	1,353	1,565	1,333	1,201
Risk margin – unearned premium <sup>2</sup>	890	943	1,012	999	867
	21,750	22,289	24,176	24,435	22,913
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	1,334	1,396	1,606	1,374	1,152
	%	%	%	%	%
Probability of adequacy – outstanding claims	89.0	88.7	90.7	87.5	86.3
Probability of adequacy – total insurance liabilities	94.5	94.7	95.3	93.9	92.6
Weighted average discount rate	1.9	1.7	2.8	2.2	2.1
Weighted average term to settlement	2.9	2.8	3.0	2.9	2.9

<sup>1</sup> Excludes Argentine workers' compensation.

<sup>2</sup> Includes deferred reinsurance expense for future business not yet written of \$614 million (2014 \$6 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 on our investments.

As at 30 June 2015, risk margins in net outstanding claims were \$1,320 million compared with \$1,353 million at 31 December 2014. Risk margins reduced by \$33 million during the period reflecting an overall risk margin release of \$14 million and a \$19 million adverse foreign exchange impact. As the net discounted central estimate fell by a proportionally larger 6% or \$877 million to \$14,718 million, risk margins increased to 9.0% of the net discounted central estimate from 8.7% at 31 December 2014.

Similarly, the probability of adequacy increased by 0.3% to 89.0% mainly due to the increase in the margin above central estimate outlined above, partially offset by an increase in the Group coefficient of variation (CoV). The increase in the CoV largely reflects a lower level of short tail claims as a proportion of net outstanding claims liabilities at 30 June 2015.

The probability of adequacy of total insurance liabilities was 94.5% compared with 94.7% at 31 December 2014, with the level of risk margins deemed appropriate to cover the inherent uncertainty in the net discounted central estimate.

### Intangible assets

As at 30 June 2015, the carrying value of intangible assets (identifiable intangibles and goodwill) was \$3,751 million, down 2% from \$3,831 million at 31 December 2014 and down 16% from \$4,480 million at 31 December 2013.

During the half, the carrying value of intangibles reduced by \$80 million primarily due to an \$87 million foreign exchange impact. Additions and reclassifications of \$75 million during the period were largely offset by the transfer to "held for sale" status of \$33 million of intangibles pertaining to the pending sale of the M&S business and an amortisation charge against identifiable intangibles of \$35 million, consistent with the prior period.

At 30 June 2015, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard.

Noting the limited headroom (being the excess of recoverable value over carrying value) in respect of the year end 2014 valuation of goodwill in North American Operations, a detailed impairment test was completed. Although the latest impairment testing indicated that the headroom at the balance date increased to \$266 million compared with \$158 million at 31 December 2014, the 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 long-term investment return assumptions. Details of the sensitivities associated with this valuation are included in note 2(B) to the financial statements.

### Reconciliation of movement in intangible assets

AS AT	30 JUNE 2015			31 DEC 2014		
	IDENTIFIABLE INTANGIBLES US\$M	GOODWILL US\$M	TOTAL US\$M	IDENTIFIABLE INTANGIBLES US\$M	GOODWILL US\$M	TOTAL US\$M
Opening balance	423	3,408	3,831	579	3,901	4,480
Transfer to assets held for sale	(3)	(30)	(33)	(35)	(291)	(326)
Additions/reclassifications	70	5	75	9	1	10
Amortisation/impairment <sup>1</sup>	(35)	–	(35)	(106)	(11)	(117)
Foreign exchange	(4)	(83)	(87)	(24)	(192)	(216)
Closing balance	451	3,300	3,751	423	3,408	3,831

<sup>1</sup> \$10 million of amortisation expense is included in underwriting expenses (2014 nil).

### Investment performance and strategy

Gross investment income for the half year was broadly in line with expectations and the prior corresponding period despite the volatility in financial markets from the Greek debt crisis and the Chinese stock market sell-off.

The short duration of the fixed income portfolio insulated us during the bond market sell-off towards the end of the first half, ensuring the portfolio delivered returns that were in line with expectations. Looking ahead, this short duration strategy is likely to provide some protection to the portfolio as monetary policy normalisation begins in the US.

We have continued to broaden the exposure in our credit portfolio and extend spread duration to enhance yield. This enhanced running yield offset any negative capital impact as spreads widened over the half. Allocations to infrastructure debt and structured credit have continued to increase with these assets generating good returns in the first half of the year.

Standout performance was achieved in unlisted property and emerging market equity which both had returns greater than 5%. High yield debt and developed market equity also contributed significantly to returns for the half year. While emerging market debt and alternatives had returns below expectations, both of these asset classes produced positive returns in a volatile market environment.

The results from growth assets highlight the diversification benefits the addition of these asset classes have had on the investment portfolio. The portfolio's exposure to growth assets was increased from 8.9% at 31 December 2014 to 12.7% at 30 June 2015. We have used market volatility to tactically allocate across asset classes during the first half, with intra-period allocation to growth assets having been as high as 14%.

The Group's investment strategy remains conservative relative to our global peers both in exposure to growth assets and in credit quality. We will continue to selectively add higher yielding assets into the portfolio over the course of the year as opportunities present themselves.

**Total net investment income**

FOR THE HALF YEAR ENDED	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
	Income on growth assets	105	53	58	16	163
Fixed interest, short-term money and cash income	173	245	100	129	273	374
Gross investment income	278	298	158	145	436	443
Investment expenses	(9)	(12)	(5)	(6)	(14)	(18)
Net investment income	269	286	153	139	422	425
Foreign exchange loss	(20)	–	(9)	–	(29)	–
Other income	–	–	1	4	1	4
Other expenses	(8)	–	–	–	(8)	–
Net investment and other income	241	286	145	143	386	429

**Annualised gross and net yield**

FOR THE HALF YEAR ENDED	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	30 JUNE 2015 %	30 JUNE 2014 %	30 JUNE 2015 %	30 JUNE 2014 %	30 JUNE 2015 %	30 JUNE 2014 %
	Gross investment yield <sup>1</sup>	3.1	2.9	2.9	2.7	3.0
Net investment yield <sup>2</sup>	3.0	2.8	2.9	2.6	2.9	2.7
Net investment income and other yield <sup>3</sup>	2.7	2.8	2.7	2.7	2.7	2.8

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

3 Net investment income and other yield is calculated with reference to net investment and other income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

**Total investments and cash**

AS AT	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	30 JUNE 2015 US\$M	31 DEC 2014 US\$M	30 JUNE 2015 US\$M	31 DEC 2014 US\$M	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
	Cash and cash equivalents	594	544	370	308	964
Short-term money	3,282	4,965	2,045	2,806	5,327	7,771
Government bonds	2,680	3,077	1,670	1,738	4,350	4,815
Corporate bonds	8,189	7,827	5,104	4,422	13,293	12,249
Infrastructure debt	194	162	121	92	315	254
Unit trusts	52	47	32	26	84	73
Strategic equities	–	–	106	114	106	114
Other equities	516	466	322	264	838	730
Emerging market debt	163	155	101	88	264	243
Emerging market equity	263	155	164	88	427	243
High yield debt	267	176	166	100	433	276
Hedge funds	303	–	189	–	492	–
Property trusts	613	606	382	342	995	948
Investment properties	9	10	6	5	15	15
Total investments and cash	17,125	18,190	10,778	10,393	27,903	28,583

**Interest bearing financial assets**

SECURITY GRADING			CURRENCY MIX		MARKET VALUE OF GROWTH ASSETS		MARKET VALUE OF TOTAL INVESTMENTS AND CASH	
AS AT	30 JUNE 2015 %	31 DEC 2014 %	AS AT	30 JUNE 2015 %	31 DEC 2014 %	30 JUNE 2015 %	31 DEC 2014 %	
<b>Moody's rating</b>			US dollar	<b>43</b>	61	<b>31</b>	32	
Aaa	<b>25</b>	26	Australian dollar	<b>43</b>	25	<b>31</b>	32	
Aa	<b>32</b>	30	Sterling	<b>11</b>	11	<b>21</b>	19	
A	<b>37</b>	39	Euro	<b>3</b>	3	<b>7</b>	7	
<A	<b>6</b>	5	Other	<b>-</b>	-	<b>10</b>	10	

**Closing remarks**

Our focus for the rest of 2015 remains on delivering a result that meets our guidance, demonstrating reserving stability and generating free cash flow to allow us to continue to grow our dividend.

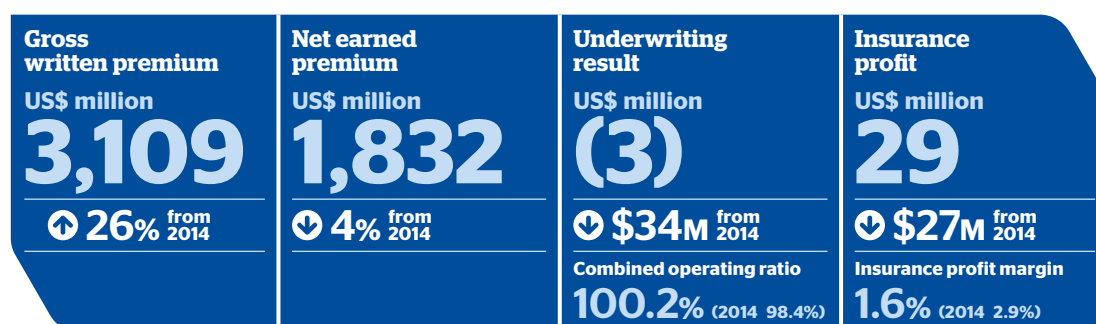
Patrick Regan  
**Group Chief Financial Officer**

# North American Operations business review

“In 2013, North American Operations launched a multi-year transformation to deliver top quartile performance as a specialist insurer and reinsurer. Portfolio remediation is now largely complete and the development of an operating model to support profitable growth is progressing well. The recently announced sale of the mortgage & lender services business will allow us to focus more acutely on commercial lines and the build out of our specialty underwriting capabilities.”

**David Duclos**

Chief Executive Officer • North American Operations



## Competitive landscape

Following the sale of the mortgage & lender services (M&LS) business (expected to close on 30 September 2015), North American Operations has been reset as a specialist insurer and reinsurer comprising four business units: standard lines, specialty lines, crop and assumed reinsurance, the latter being a component of QBE's global reinsurance business headquartered in London.

Standard lines includes multi-line commercial and personal lines business produced through managing general agents, independent agents and brokers. Specialty lines is focused on management liability and professional lines, accident and health, aviation, trade credit and surety and is sourced through brokers, specialty producers and managing agents. Crop includes multi-peril crop insurance (MPCI) as well as hail coverage and is largely produced through independent agents while assumed reinsurance sources business primarily through reinsurance brokers.

Competition has continued to build in the first half of 2015, particularly in standard commercial lines.

Premium rates were flat on average across all business lines (excluding lender-placed and crop) compared with an increase of 1% during 2014.



## Underwriting performance

North American Operations recorded a combined operating ratio of 100.2% for the first half of 2015 compared with full year 2014 combined operating ratio of 100.8%.

Due to an improved approach to estimating crop written premium which has dampened seasonality, an increase in the level of crop premium earned in the first half increased the claims ratio by 1.8% and reduced the combined commission and expense ratio by 2.9%. Underwriting income increased by \$20 million overall as a consequence.

Allowing for these movements, the increase in the combined operating ratio compared with the prior period largely reflects an increase in the underlying combined commission and expense ratio due to a combination of lower net earned premium, the sale of the agency businesses and reduced mortgage services fee income.

Prior accident year claims development was modest and improved relative to the corresponding prior year period.

The insurance profit margin was 1.6% compared with 2.9% in the prior period.

## Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	<b>3,109</b>	2,472	2,750	3,229
Gross earned premium	US\$M	<b>2,309</b>	2,259	2,598	3,063
Net earned premium	US\$M	<b>1,832</b>	1,917	2,115	2,557
Net incurred claims	US\$M	<b>1,145</b>	1,152	1,293	1,416
Net commission	US\$M	<b>329</b>	357	395	475
Expenses	US\$M	<b>361</b>	377	412	378
Underwriting result	US\$M	<b>(3)</b>	31	15	288
Net claims ratio	%	<b>62.5</b>	60.1	61.1	55.3
Net commission ratio	%	<b>18.0</b>	18.6	18.7	18.6
Expense ratio	%	<b>19.7</b>	19.7	19.5	14.8
Combined operating ratio	%	<b>100.2</b>	98.4	99.3	88.7
Insurance profit margin	%	<b>1.6</b>	2.9	1.8	12.7

## Premium Income

North American Operations' gross written premium was up 26% to \$3,109 million compared with \$2,472 million at the same period last year, primarily reflecting an improvement in the estimation process used to allocate crop premium between the first and second half of each year. The change resulted in an increase in first half gross written premium of \$766 million and net earned premium of \$135 million. Refinements in our estimation process, which enable us to more accurately estimate crop written premium from the date of risk inception rather than from the date of acreage reporting, result in a better balance of earned premium across halves reflecting the risk profile of the portfolio.

Excluding the change in the estimation of crop premium, gross written premium was down 5% relative to the prior period but broadly in line with expectations. The underlying reduction in premium is largely due to standard commercial lines where, in addition to an increasingly competitive rate environment, premium production was adversely impacted by the termination of underperforming programs and corrective underwriting actions. Conversely, we continue to see strong performance in standard personal lines. New business is up 17% in the consumer business due to an increase in housing starts, which drives revenue growth in both tenant and owner occupied home insurance.

The specialty business continues to execute upon its business expansion agenda focused on organic growth and entry into targeted new lines, which is expected to enhance portfolio balance and drive improved underwriting results over time. Gross written premium increased 27%, albeit off a relatively small base. Higher retention and strong new business drove increased premium production across management liability and professional lines, aviation, trade credit and surety. We added transactional liability to our specialty product range during the first half of 2015.

Net earned premium fell 4% to \$1,832 million from \$1,917 million a year earlier or down 11% on an underlying basis excluding the change in the estimation of crop premium. The significant increase in North American Operations' reinsurance expense ratio reflects additional crop quota share reinsurance, North America's share of the incremental cost of the Group's significantly enhanced aggregate reinsurance protection and a change in reporting basis for assumed reinsurance.

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED	30 JUNE 2015 %	30 JUNE 2014 %
Commercial & domestic property	42.0	46.4
Agriculture	20.1	11.9
Motor & motor casualty	14.0	14.7
Workers' compensation	9.0	10.6
Public/product liability	7.7	10.3
Accident & health	3.8	3.1
Professional indemnity	1.7	1.0
Marine energy & aviation	1.0	0.8
Financial & credit	0.7	1.2

## Claims expense

North American Operations' net claims ratio was 62.5% compared with 60.1% in the first half of 2014.

Claims experience was impacted by an increase in the attritional and catastrophe claims ratios, partly due to increased levels of IBNR held against first quarter winter weather losses following adverse development with respect to winter storms in the first half of 2014.

The attritional claims ratio increased to 52.5% from 49.1% in the prior corresponding period, primarily reflecting the increased weighting to crop premium coupled with the incremental cost of the enhanced Group aggregate reinsurance cover. Excluding these impacts, the modest increase in the attritional claims ratio largely reflected heightened small claims frequency associated with the especially harsh winter, particularly in the program business.

The cost of large individual risk and catastrophe claims increased to 5.4% from 5.0% previously, driven by increased catastrophe claims in standard lines, assumed reinsurance and mortgage services. Large individual risk claims experience improved by 0.5% on the prior year.

Adverse prior accident year claims development improved to \$16 million from \$50 million in the prior period and included development of 2014 weather events impacting the consumer and agri portfolios coupled with late crop claims notifications.

Risk-free rates increased during the half giving rise to a small discount rate benefit compared with a small charge in the prior corresponding period.

## Commission and expenses

The combined commission and expense ratio improved to 37.7% from 38.3% a year earlier, reflecting the positive business mix impact of increased crop premium which has a comparatively low expense ratio. Excluding this impact, the underlying combined commission and expense ratio increased to 40.6%.

The commission ratio improved to 18.0% from 18.6% in the first half of 2014; however, the underlying commission ratio increased to 19.4%. Lower commission income following the sale of the agency businesses was partially offset by additional commission income from the crop quota share reinsurance strategy implemented during the current year to reduce crop hail related claims volatility.

The underwriting expense ratio was stable at 19.7% on a reported basis; however, the underlying expense ratio increased to 21.2%. Notwithstanding a \$47 million reduction in controllable costs due to organisational restructuring, the underlying expense ratio increased as a result of lower net earned premium coupled with lower fee income associated with the contraction of the mortgage services business which added approximately 1% to the underwriting expense ratio relative to the prior corresponding period.

In driving towards an improved expense ratio, additional expense management efforts are underway, including integrating and streamlining operations, consolidating our real estate footprint, and greater utilisation of the GSSC. Collectively, these efforts are making our expense base more variable and leading to an operating model that is better positioned for growth.

## Other developments

Numerous initiatives are underway to enhance the balance of the North American portfolio and ensure more predictable, higher quality results.

Expansion of our specialty platform continues with new lines of business being added. Following the launch of surety, cyber liability and transactional liability during the first half of 2015, we plan to launch inland marine and healthcare over the coming year.

Additionally and as announced with the release of our 2014 full year result, a number of strategies have been implemented to reduce volatility in the crop business. This includes restructuring our external reinsurance arrangements with the purchase of significant additional hail quota share reinsurance, as well as the purchase of derivative protection to mitigate the downside risk of material commodity price declines.

During the half we hired a leader reporting to the divisional CEO to build out a field operations team that is responsive to the needs of the rapidly evolving marketplace. This underscores our commitment to improving producer relationships and driving profitable growth through a product-centric and customer-focused approach. Another executive level position was created through the appointment of a Chief Underwriting Officer. This structure will enhance our client offering through a sharp focus on technical excellence in underwriting, driving strong business performance and, in turn, stability in our underwriting appetites.

Transformation initiatives continue with a focus on creating the right environment and tools to deliver sustainable profitable growth and quality, predictable results. In 2015, we are executing upon a technology and operations roadmap to improve our systems and support scalability and new business growth. Through an infusion of new leadership, structural changes, process improvements and greater alignment with key departments, we have strengthened our actuarial department. The build out of our data and analytics capability continues to enhance our risk selection and pricing capabilities.

Having concluded that the M&LS business is no longer core to our commercial specialty focus, we recently announced its sale to National General including the related agency operations, loan tracking activity and provision of insurance protection. National General will assume the existing insurance liabilities of the M&LS business along with an equivalent amount of cash and other assets through a reinsurance arrangement. Pending regulatory approval, the transaction is expected to close on 30 September 2015.

The sale of the M&LS business is expected to free up in excess of \$100 million of capital that will be available for reinvestment elsewhere in North American Operations. While 2016 gross written premium will reduce by around \$400 million, the sale of the M&LS business is expected to improve North America's budgeted 2016 combined operating ratio and return on allocated capital by approximately 1.5% and 1.8% respectively.

In the first half of 2015, we completed the sale of North America's agency businesses, which included Community Association Underwriters (CAU), Deep South and SIU. QBE maintains the underwriting portion of these businesses while aligning with specialty distribution partners that can help accelerate growth in our program business.

“North American Operations continues to strengthen its executive leadership and attract top talent at all levels of the organisation. With field operations and underwriting leaders now in place, we have the technical capabilities and distribution platform to support profitable growth.”

## North American Operations Outlook for full year 2015

 2015 target full year GWP: **US\$4.9 billion<sup>1</sup>**

 2015 target full year NEP: **US\$3.7 billion**

Improvements in underlying business trends demonstrate that the transformation of North American Operations is on the right path. After a solid interim result, we expect to report a 2015 underwriting profit underpinned by a significantly improved second half result. On the back of cost efficiencies and our renewed focus on speciality lines following the sale of the M&LS business, we anticipate a further material improvement in underwriting profitability in 2016 and again in 2017.

Critically important at this stage of the transformation is that we are stabilising the portfolio and increasing the quality of business we write. Our focus remains on achieving modest premium growth goals while maintaining underwriting discipline, both of which will drive a more sustainable expense ratio and a lower claims ratio.

Furthermore, we are pleased to have addressed the challenged M&LS business. The sale is expected to improve North American Operations' combined operating ratio and return on allocated capital in 2016 and beyond. Along with the sale of our agencies earlier this year, this transaction enables us to better focus on our core businesses in support of our strategy to be a leading specialist insurer and reinsurer in North America.

Although market conditions remain challenging, we are on track to steadily improve underwriting profitability over the medium term.

We have revised our FY15 gross written premium expectations down by around 5% or \$300 million. This is largely due to the sale of the M&LS business which will impact premium by in excess of \$100 million coupled with increased competition impacting new business and retention in standard commercial lines, particularly program.

<sup>1</sup> Includes allowance for the exit of in excess of \$100 million of premium as a result of the sale of M&LS which is expected to close on 30 September 2015.

# European Operations business review

“European Operations delivered a strong performance with an excellent underwriting result buoyed by benign catastrophe experience, continued favourable prior accident year reserve development and a significantly improved attritional claims ratio. The combined operating ratio was 85.8% and the insurance profit margin was 16.7%. Despite challenging market conditions, gross written premium increased by 7% on a constant currency basis.”

**Richard Pryce**

Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US\$ million	US\$ million	US\$ million	US\$ million
<b>2,659</b>	<b>1,660</b>	<b>236</b>	<b>278</b>
↓ 2% from 2014	↓ 18% from 2014	↑ \$119M from 2014	↑ \$98M from 2014
		Combined operating ratio	Insurance profit margin
		<b>85.8%</b> (2014 94.2%)	<b>16.7%</b> (2014 8.9%)

## Competitive landscape

We continue to experience challenging trading conditions. This is especially so in the London Market driven mainly by an abundance of competition and London carriers responding to the increased threat from local markets, particularly in Asia and Latin America. Continental Europe remains less competitive in part due to the tacit renewal process.

While we have seen much more pricing pressure in primary short tail lines during the first half of 2015, there are emerging signs of some moderation in competition in the property catastrophe reinsurance market.

Mixed economic news has impacted our business. The significant reduction in the oil price has suppressed trading activity and values in the energy arena, with a knock on effect on our booked premiums. Notwithstanding the ongoing Greek saga, the European economy has not deteriorated and we are seeing some increase in UK economic activity.

Our strategy to combine underwriting excellence with a broad distribution base and increased emphasis on client engagement has helped us withstand the competition and selectively grow our business.

## Underwriting performance

Higher risk-free rates and prior accident year reserve releases contributed to an especially strong start to the year, assisting European Operations to report a materially improved combined operating ratio of 85.8% compared with 94.2% in the prior corresponding period.

While all business units reported improved margins, the most significant improvement in overall underwriting performance occurred in the retail division and particularly in the UK.

Despite minimal catastrophe activity, the cost of large individual risk and catastrophe claims increased due to heightened large risk claim severity while the attritional claims ratio improved significantly due to portfolio remediation initiatives.

As a result of a more proactive approach to premium renewals we saw a marked improvement in our retention ratio during the period. Unfortunately, the premium pricing environment is more competitive than we had budgeted for. Renewal premium rate reductions averaged 3.3% during the first half compared with a reduction of 0.6% in the prior corresponding period and a 2015 planned reduction of 1.6%. Pleasingly, however, these recorded rate movements are not entirely reflective of the broader competitive landscape and were mitigated by longer term agreements and strong customer relationships.

## Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	<b>2,659</b>	2,705	3,154	2,797
Gross earned premium	US\$M	<b>2,112</b>	2,471	2,469	2,290
Net earned premium	US\$M	<b>1,660</b>	2,033	2,003	1,863
Net incurred claims	US\$M	<b>815</b>	1,214	1,230	1,105
Net commission	US\$M	<b>312</b>	383	383	334
Expenses	US\$M	<b>297</b>	319	277	273
Underwriting result	US\$M	<b>236</b>	117	113	151
Net claims ratio	%	<b>49.1</b>	59.7	61.4	59.4
Net commission ratio	%	<b>18.8</b>	18.8	19.1	17.9
Expense ratio	%	<b>17.9</b>	15.7	13.8	14.6
Combined operating ratio	%	<b>85.8</b>	94.2	94.3	91.9
Insurance profit margin	%	<b>16.7</b>	8.9	8.4	13.6

## Premium income

Gross written premium was down 2% to \$2,659 million from \$2,705 million a year earlier, reflecting significant Sterling weakness against the US dollar.

On a constant currency basis, gross written premium increased by 7%, which is particularly encouraging given the extent of portfolio remediation and disposals undertaken by the business during 2013 and 2014. Premium growth was achieved across the business and is attributable to the successful execution of numerous strategic initiatives combined with a significant improvement in renewal retention as previously mentioned.

Net earned premium fell 18% to \$1,660 million or 11% on a constant currency basis and was marginally below plan. The main reasons for the significant premium contraction during the half were more reinsurance purchased at a local and Group level, increased outwards reinstatement premiums following several large energy claims and reduced premium earnings for QBE Re consistent with low levels of catastrophe activity suppressing inwards reinstatement premiums.

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED

	30 JUNE 2015 %	30 JUNE 2014 %
Commercial & domestic property	27.4	26.4
Public/product liability	20.8	22.1
Marine energy & aviation	14.8	16.0
Professional indemnity	14.2	12.0
Motor & motor casualty	11.4	11.4
Workers' compensation	6.0	6.3
Financial & credit	1.5	2.0
Accident & health	1.3	1.4
Life	1.2	0.7
Other	1.2	1.1
Agriculture	0.1	0.6

## Claims expense

European Operations' net claims ratio improved significantly to 49.1% from 59.7% in the prior corresponding period.

Pleasingly, and following significant portfolio remediation initiatives undertaken in recent years, the attritional claims ratio improved to 43.9% from 47.2%.

Notwithstanding minimal catastrophe activity, the cost of large individual risk and catastrophe claims increased to 15.5% of net earned premium from 11.3% in the first half of 2014. This reflected significantly increased large risk claim severity, particularly in the International Markets division, coupled with increased casualty and motor per risk retentions and a commensurate increase in IBNR relative to the prior corresponding period.

The net claims ratio benefited from \$140 million of positive prior accident year claims development, up from \$47 million in the prior period, emerging broadly across the European Operations' portfolio. A significant second quarter increase in Sterling and Euro risk-free rates gave rise to an overall \$36 million positive discount rate benefit compared with a significant charge in the prior corresponding half.

The net claims ratio also benefited from a risk margin release, in line with the prior corresponding half, reflecting continued positive reserve development and European Operations' significantly reduced net central estimate. Risk margins as a percentage of the net undiscounted central estimate increased slightly, as did the reserving probability of adequacy.

## Commission and expenses

The commission ratio remained stable at 18.8% despite an expected business mix related reduction in the half. Suppressed premium income due to increased reinsurance costs (including outwards reinstatement premiums, particularly in the energy book) coupled with increased gross commission rates adversely impacted the ratio relative to plan.

The increase in commission rates reflects the competitive landscape where many brokers believe that they are able to demand higher commissions on individual accounts as well as higher commissions on package business more generally.

European Operations' underwriting expense ratio increased sharply to 17.9% from 15.7% in the prior period, reflecting the previously noted greater than planned reduction in net earned premium combined with significant non-recurring expense items such as our IT infrastructure upgrade and Solvency II implementation.

Although peaking in the first half, the underwriting expense ratio will likely remain above trend for the full year.

### Other developments

During the half we continued to build technical skills to support the profitable growth of the business. In particular, we invested in the retail business across the UK and Continental Europe. Elsewhere, QBE Re's Bermuda branch started trading in January and we are pleased with results in the first six months.

We have made good progress in combining our client engagement and risk management capabilities to supplement our traditional underwriting strengths and it is pleasing to see the value this approach is bringing to the business. We will continue to build out specific industry capabilities for our clients in conjunction with colleagues in other QBE divisions.

Solvency II will finally become reality from 1 January 2016. This is a significant change for the European insurance industry. We submitted our Internal Model Application to the Prudential Regulatory Authority in June 2015 and submitted our equivalent Solvency Capital Requirement to Lloyd's a few weeks later. Both submissions represent significant developments in the protracted Solvency II process.

Our non-core asset disposal program is materially complete with commercial terms and deals agreed to exit our remaining Central and Eastern European locations, although operational separation may not complete until early 2016.



“ Despite the competitive environment, we have made excellent progress in all areas of our business. The difficult but necessary organisational and operational changes implemented over the past 24 months are now bearing fruit as evidenced in our reported performance and also in our enhanced reputation with clients and brokers.”

## European Operations

# Outlook for full year 2015

 2015 target full year GWP: **US\$4.5 billion**

 2015 target full year NEP: **US\$3.4 billion**

We anticipate that market conditions will become more competitive in the second half of the year. If the relatively benign claims environment persists competition may well intensify, especially in short tail and natural resources classes. We will continue to make the correct underwriting decisions to preserve our margins.

Proactive strategic planning will be prioritised at a client, portfolio and geographic level to protect our existing business and deliver selective profitable growth. We will work with our broker partners to build a new business pipeline which will include selling additional products to existing clients. Part of our analytics project is to build the capability to assist our underwriters to identify the best new business opportunities.

Assuming no further currency impact during the second half, full year 2015 gross written premium is forecast to be \$4.5 billion and net earned premium is forecast to be \$3.4 billion.

Pressure on commissions is expected to continue as brokers exploit the competitive market and seek to preserve and improve their margins.

European Operations is fortunate to have such a strong team. I am delighted to see how many new colleagues have been welcomed to the organisation and the combination of the new and the old makes us a much stronger business. I would like to thank all my colleagues for their contribution to such a successful start to the year. Although we have much more to accomplish, our culture now embraces the concept of continuous improvement.

# Australian & New Zealand Operations business review

“The first half combined operating ratio of 90.8% is an extremely pleasing result considering the severe eastern seaboard storm activity and the heightened competitive landscape. This has been achieved while delivering significant change programs and maintaining focus on strengthening our underwriting controls, claims and expense management. Our core intermediated portfolios saw modest underlying growth with stronger growth expected during the second half.”

**Colin Fagen**

Chief Executive Officer • Australian & New Zealand Operations

<b>Gross written premium</b> US\$ million <b>1,928</b> ↓ 15% from 2014	<b>Net earned premium</b> US\$ million <b>1,668</b> ↓ 13% from 2014	<b>Underwriting result</b> US\$ million <b>153</b> ↓ \$88M from 2014 <b>Combined operating ratio</b> <b>90.8%</b> (2014 87.4%)	<b>Insurance profit</b> US\$ million <b>247</b> ↓ \$83M from 2014 <b>Insurance profit margin</b> <b>14.8%</b> (2014 17.2%)
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## Competitive landscape

The heightened catastrophe activity in the first half has added short term pressure to an already competitive landscape. Recent catastrophe activity included Tropical Cyclone Marcia and storms on the eastern seaboard which caused major flooding in New South Wales and Southern Queensland as well as hail damage in Sydney. This has been widely acknowledged as the worst series of weather events since 2011.

The commercial insurance market in Australia and New Zealand remains competitive although there are some early signs of potential price flattening. Retention remains the key focus for all of our traditional intermediated markets. The large corporate segment of the market, which is a small proportion of QBE's portfolio, is experiencing heightened interest from international insurers, particularly the American underwriters.

Competition in the Australian personal lines market has intensified with significantly increased advertising spend to enhance brand awareness.

Strong property price appreciation, particularly in NSW, has led the Reserve Bank and APRA to pressure the banks to tighten credit terms and conditions in the mortgage market, which has flowed through to significantly reduced new business flows in our lenders' mortgage insurance business.

Australia continues to present as a two tier economy with the mining boom largely over but replaced, in part, by a residential building uplift in some cities. The New Zealand economy continues to grow, buoyed by a strong agricultural sector. Interest rates have trended down in both countries, with investment returns at levels equal to or lower than inflation. The Australian Government has been unable to restrain the high level of deficits and consequently debt levels continue to rise. Despite negative sentiment and weak consumer confidence, unemployment in Australia has remained relatively low and both the Australian and New Zealand economies continue to grow, albeit more slowly than in previous years.

In light of the competitive landscape, our results are particularly pleasing and are underpinned by an ongoing focus on strong underwriting controls and claims and expense management.

## Underwriting performance

Compared with the exceptionally benign period last year, the first half of 2015 was highly active from a catastrophe perspective with seven named events. In spite of this, Australian & New Zealand Operations delivered an especially strong result, reporting a 90.8% combined operating ratio and 14.8% insurance margin. Many portfolios were impacted by the eastern seaboard storms, particularly the short tail property and motor portfolios.

Most business classes remain profitable despite considerable competitive pressures. Long tail classes performed particularly well and have generally sustained their performance above expectations.

The performance of our lenders' mortgage insurance portfolio remains sound with most economic indicators over the past few years being quite favourable. The combination of low interest rates, relatively stable and low unemployment as well as rising house prices in most regions has contributed to very low claims activity.

The acquisition cost ratio continues to be managed downwards through a range of expense management initiatives and some product mix changes towards lower commission products, such as CTP.

## Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	<b>1,928</b>	2,275	2,517	2,489
Gross earned premium	US\$M	<b>1,913</b>	2,192	2,406	2,366
Net earned premium	US\$M	<b>1,668</b>	1,916	2,106	2,041
Net incurred claims	US\$M	<b>1,050</b>	1,134	1,238	1,267
Net commission	US\$M	<b>235</b>	267	293	268
Expenses	US\$M	<b>230</b>	274	343	337
Underwriting result	US\$M	<b>153</b>	241	232	169
Net claims ratio	%	<b>62.9</b>	59.2	58.8	62.1
Net commission ratio	%	<b>14.1</b>	13.9	13.9	13.2
Expense ratio	%	<b>13.8</b>	14.3	16.3	16.5
Combined operating ratio	%	<b>90.8</b>	87.4	89.0	91.8
Insurance profit margin	%	<b>14.8</b>	17.2	16.4	14.5

## Premium income

Gross written premium fell 15% to \$1,928 million from \$2,275 million a year earlier, reflecting the weaker Australia dollar.

On a constant currency basis, gross written premium fell by only 1% primarily due to a 20% industry-driven decline in lenders' mortgage insurance premium and the general softening of the market, particularly in strata-title insurance products. Excluding the lenders' mortgage portfolio, premium income in our traditional markets increased by 1%.

Net earned premium fell by 13% to \$1,668 million from \$1,916 million a year earlier, again reflecting currency movements.

On a constant currency basis, net earned premium increased by 2% and stronger than gross written premium, largely due to the earning of lenders' mortgage insurance premium growth from the previous three years (given a nine year risk based earning pattern).

The minor increase in the reinsurance ratio to 12.8% of gross earned premium from 12.6% in the same period last year belies significant underlying movement. Reduced reinsurance costs across most classes and savings as a result of increased divisional per risk and catastrophe retention were more than offset by Australian & New Zealand's share of the incremental cost of the Group's significantly enhanced large individual risk and catastrophe aggregate protection.

Premium rate reductions averaged 2.1% (down 1.8% in Australia and 6.9% in New Zealand), slightly more than anticipated; however, the June renewal season showed some evidence of potential flattening. For renewable portfolios, retention increased to 83.0% from 81.3% in the prior corresponding period. Our ability to retain business in a highly competitive environment is testament to the quality of our brand and the success of our relationship management.

New business growth was strongest in our core broker markets across both Australia and New Zealand and in our Australian CTP portfolio.

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED	30 JUNE 2015 %	30 JUNE 2014 %
Commercial & domestic property	33.5	35.6
Motor & motor casualty	23.0	21.8
Financial & credit	13.4	11.6
Public/product liability	8.7	9.3
Workers' compensation	7.0	7.8
Agriculture	5.0	5.0
Accident & health	3.8	3.1
Marine energy & aviation	3.1	3.1
Professional indemnity	2.3	2.4
Life	0.2	0.3

## Claims expense

The increase in the net claims ratio to 62.9% from 59.2% in 2014 is primarily attributable to the cost of the eastern seaboard storms. These storms gave rise to a gross claims cost of \$180 million which is materially higher than the long term average for catastrophe costs in the June half, though less than our equivalent cost on a market share basis.

Large individual risk claims frequency and severity is down on the same period last year reflecting improved underwriting controls and claims management focus at all stages of the claims process, particularly with respect to the management of our long tail claims portfolios.

Reflecting heightened catastrophe activity, the overall net cost of large individual risk and catastrophe claims increased to 9.0% of net earned premium from only 5.7% in the prior period.

The attritional claims ratio increased to 53.4% from 50.4% in the prior period, reflecting the incremental cost of the enhanced Group aggregate reinsurance cover, the stronger US dollar (fewer claims exceeded the US\$2.5 million large individual risk claim threshold relative to the prior period), business mix including the Group's increased exposure to CTP insurance which generates a materially higher attritional claims ratio and the moderately softer pricing environment.

The efficient and effective management of our long tail claims portfolio is an area of ongoing focus and gave rise to a \$45 million release of prior accident year claims reserves, which benefited the net claims ratio by 2.7% compared with only 0.2% in the prior corresponding period.

Notwithstanding significant intra-period volatility, risk-free rates ended the period only fractionally below 31 December 2014 levels, resulting in a modestly adverse impact on the net claims ratio compared with the prior period.

## Commission and expenses

Australia & New Zealand's combined commission and expense ratio improved further to 27.9% from 28.3% in the same period last year largely, reflecting expense efficiencies which contributed to a reduction in the expense ratio to 13.8% from 14.3% in the prior corresponding period.

Within the overall acquisition cost ratio, the sale of agency businesses contributed to a slight increase in the commission ratio and a partially offsetting reduction in the underwriting expense ratio.

We continue to drive operational excellence and productivity improvements through incremental usage of our Group Shared Services Centre (GSSC). These ongoing initiatives, combined with anticipated second half premium growth, will assist in delivering further scale benefits.

## Other developments

We continue to encourage dynamic change across our business and our improved agility is delivering benefits to our customers, community, shareholders and people.

In particular, the process improvements we have introduced across our business have been evident during the first six months of this year. Our customers benefited from this during the period of weather-related catastrophes with faster decision making and claims settlement. Enhanced scalability within the business has given our teams greater flexibility to respond and will aid us in meeting changing stakeholder needs.

We continue to invest in a range of initiatives to increase customer centricity. This includes new and improved technology platforms, with an emphasis on delivering simplicity and speed of engagement in order to have more capacity for face-to-face interaction.

There is a range of other initiatives currently underway designed to foster collaboration across Australia & New Zealand and the GSSC. To this end, a number of our colleagues from the GSSC will undertake an internship in Australia in order to develop a thoroughly shared understanding of our goals and objectives and to facilitate improved customer service.

As an organisation, we value diversity and have pledged our support to marriage equality within Australia. We are proud to have taken this step to publicly show our support for equality. We have also launched our Reconciliation Action Plan, endorsed by Reconciliation Australia, to build strong relationships and enhanced respect between Aboriginal and Torres Strait Islander peoples and other Australians.

There is increasing attention on the importance of insurance at all levels of government; however, we have been particularly disappointed with some of the Federal Government's statements which have been unfounded or inaccurate such as relative costs of insurance which match the varying risk of different communities. We are an active participant in the far North Queensland market across most of our product range. As a leader in the industry, we have made a concerted effort to work with governments and the industry to provide better outcomes for communities in their time of need.

“ This year's weather-related catastrophes have reinforced the value and importance of insurance to individuals and the community. We will work towards building greater collaboration among all stakeholders and a longer term view to create resilience in our wider society.”

## Australian & New Zealand Operations Outlook for full year 2015

 2015 target full year GWP: **US\$3.8billion**

 2015 target full year NEP: **US\$3.3billion**

Despite the expected slowing of the Australian and New Zealand economies, we anticipate solid premium growth in the second half of 2015 and throughout 2016, assisted by finalisation of a number of large new business opportunities in both the small business and personal lines markets which we had expected to complete in the previous 12 months.

These initiatives should generate in excess of \$150 million in new annualised gross written premium, further utilising the capacity of the GSSC and, in turn, enhancing our increasingly scalable acquisition cost ratio.

Nevertheless, we have revised our FY15 gross written premium expectations down by around 5% or \$200 million. This is due to the delayed inception of the aforementioned new business opportunities, an industry wide downturn in lenders' mortgage insurance new business volumes, a slightly more competitive pricing landscape and a currency impact of close to \$100 million due to the weaker Australian dollar.

Our ongoing focus on operational excellence combined with an increased investment in technology positions us well to deliver further customer service enhancements, increase our peoples' engagement and further reduce our expense ratio.

As a result of lower economic growth and limited business growth opportunities, we expect the insurance market will remain highly competitive across all sectors. To counter this, insurers will continue to investigate profitable niche markets and innovation in product and technology.

We will maintain our efforts to ensure Australian & New Zealand Operations is representative of the wider community in all its diverse facets and to make QBE a great place to work.

As ever, none of this is possible without our people. The team has built a fantastic foundation for future growth in what will remain a highly competitive environment. The adaptability and agility of our team in the face of significant change while still producing extremely good results for the Group is testament to their industry knowledge, talent and commitment.

I thank them for their efforts and am proud of their dedication and diligence.

# Emerging Markets business review

“Emerging Markets has seen strong organic growth in the first half of 2015. Both Asia Pacific and Latin America achieved double digit premium growth on a constant currency basis. On 10 August, we closed the sale of our Argentine workers' compensation business. The sale of this business and a well-considered strategy supports both our growth ambitions as well as improved underwriting profitability for the full year and beyond.”

## 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
<b>929</b>	<b>741</b>	<b>4</b>	<b>34</b>
↑ 4% from 2014	↑ 3% from 2014	↑ \$21M from 2014	↑ \$23M from 2014
		Combined operating ratio <b>99.5%</b> (2014 102.4%)	Insurance profit (loss) margin <b>4.6%</b> (2014 1.5%)

All amounts in the above table exclude Argentine workers' compensation business.

## Asia Pacific

### Competitive landscape

The Asia Pacific general insurance market continues to expand, buoyed by significant infrastructure investment across a range of sectors including energy and power, transportation, telecommunications and urban development.

From 2010 to 2020, infrastructure investment in Asia will total an estimated \$8 trillion<sup>1</sup>. Rising intra-regional trade flows between Asian economies are also contributing to insurance market growth. These trends are providing opportunities for QBE to help satisfy evolving insurance needs in construction and engineering, property, marine and trade credit. Factors such as under penetration, rising affluence, an ageing population and the increasing usage of digital channels in the region are also creating opportunities.

Against this backdrop, an abundance of capacity and pricing pressures due to the aggressive pursuit of market share by some competitors remain a key challenge.

<sup>1</sup> Asia Development Bank.

## Underwriting performance

QBE has maintained its organic growth momentum through the successful implementation of the Asia Pacific profitable growth strategy. On a constant currency basis and despite premium rate reductions averaging 3.5% across the region, Asia Pacific recorded a 13% increase in both gross written and net earned premium during the first half of 2015.

Notwithstanding the significant impact of Cyclone Pam in Vanuatu, Asia Pacific Operations recorded a strong underwriting result of \$16 million against \$21 million in the prior period.

Insurance profit fell slightly to \$19 million from \$23 million in the prior period, reflecting the impact of Cyclone Pam, continued investment in the growth strategy and foreign exchange movements that adversely impacted results in most countries.

## Premium income

During the first half of 2015 and notwithstanding a stronger US dollar, both gross written and net earned premium increased by around 7% to \$424 million and \$304 million respectively.

Premium growth on a constant currency basis was significantly stronger at 13%.

Riding on infrastructure investment and regional trade flow growth, strong headline premium growth was recorded during the first half of 2015 in marine (11%), engineering (17%) and professional indemnity (10%).

Successful implementation of our profitable growth strategy is evidenced by our market position in our targeted market segments. QBE is ranked as the largest<sup>2</sup> general insurer in Hong Kong, including first in workers' compensation and second in mortgage insurance with 2014 market shares of 18% and 23%<sup>3</sup> respectively. In Singapore, QBE is ranked first in cargo (13% market share) and second in both hull (22%) and professional indemnity (15%)<sup>4</sup>. QBE remains the number one general insurer in the Pacific markets of Fiji, Papua New Guinea, the Solomon Islands and Vanuatu.

Headline gross written premium in Asia (ex-Pacific) increased 8% to \$368 million. On a constant currency basis, gross written premium grew by an even more impressive 16%. All operations recorded premium growth on this basis with Indonesia and Macau posting premium growth of around 45% and Malaysia and Vietnam both recording premium growth in excess of 20%. Collectively, the four largest gross written premium contributors — Hong Kong, Singapore, Malaysia and Indonesia — contributed approximately 90% of first half Asian premium production.

The Pacific countries wrote \$56 million of gross written premium during the first half, with a particularly strong performance on a constant currency basis in Papua New Guinea (10% growth) and New Caledonia (8% growth). Strong growth in these countries was partially offset by rate reductions and the loss of major accounts in Fiji due to heightened competition.

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED	30 JUNE 2015 %	30 JUNE 2014 %
Commercial & domestic property	26.5	27.2
Marine energy & aviation	19.6	18.4
Workers' compensation	18.8	18.6
Motor & motor casualty	11.4	12.1
Public/product liability	8.3	8.6
Accident & health	8.3	8.5
Professional indemnity	4.7	4.6
Financial & credit	2.4	2.0

## Claims expense

Asia Pacific's net claims ratio increased slightly to 52.2% from 51.5% in the prior corresponding period, largely due to the impact of Cyclone Pam. The storm caused tremendous devastation in Vanuatu, with the QBE Group receiving some 700 claims totalling approximately \$85 million across the Group, with a \$9 million net impact to the Asia Pacific region.

Reflecting the impact of Cyclone Pam, the cost of large individual risk and catastrophe claims increased to 5.8% of net earned premium compared with 4.1% in the first half of 2014. Large individual risk claims experience improved to 3.1% from 4.1% a year earlier.

The attritional claims ratio was broadly stable reflecting the impact of premium rate pressure largely offset by changes in portfolio mix.

<sup>2</sup> Office of the Commissioner of Insurance, March 2015; largest in terms of underwriting profit.

<sup>3</sup> Office of the Commissioner of Insurance, March 2015; in terms of net written premium.

<sup>4</sup> General Insurance Association of Singapore, Q1 2015; rankings in terms of gross written premium.



Consistent with the prior corresponding period, the net claims ratio also benefited from positive prior accident year claims development, largely due to favourable experience in Hong Kong, Malaysia and Singapore.

## Commission and expenses

The net commission ratio increased to 21.4% from 20.4% in the previous corresponding period reflecting higher commissions in Hong Kong, Singapore and Indonesia driven by market competition coupled with new product/channel launches and a business mix shift towards marine and engineering.

Asia Pacific Operation's underwriting expense ratio was also slightly higher at 21.1% in the first half of 2015 due to continued investment to support the long term growth strategy with a particular emphasis on technology and people, including a significant strengthening of our underwriting resourcing.

## Asia Pacific underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	424	394	400	265
Gross earned premium	US\$M	368	346	312	245
Net earned premium	US\$M	304	285	252	194
Net incurred claims	US\$M	159	147	134	103
Net commission	US\$M	65	58	51	40
Expenses	US\$M	64	59	52	37
Underwriting result	US\$M	16	21	15	14
Net claims ratio	%	52.2	51.5	53.3	53.2
Net commission ratio	%	21.4	20.4	20.4	20.7
Expense ratio	%	21.1	20.7	20.5	19.3
Combined operating ratio	%	94.7	92.6	94.2	93.2
Insurance profit margin	%	6.3	8.1	6.7	8.0

## Other results impacts

The ongoing and successful implementation of our strategy remains critical to sustaining profitable premium growth over the longer term.

To sustain long term profitable growth, several key initiatives are being introduced in Asia Pacific. In Hong Kong, a new operating model is being implemented that includes the relocation of administrative and claims services to the QBE Group Shared Service Centre in the Philippines. This new operating model will enhance operational efficiency, scalability and service consistency.

Technological transformation in Asia Pacific is also continuing. A market-leading electronic underwriting platform called SmartQ was launched in the first half of 2015. Initially launched in Malaysia, SmartQ is a new quote and renewal case management system that replaces manual and paper-based underwriting processes. It represents another milestone in efforts to extend the use of electronic business applications and further drive business growth in the region. With QBE intermediaries in Malaysia already seeing increased efficiencies in the underwriting process, SmartQ is now being gradually rolled out to other countries in Asia.

## Latin America

### Competitive landscape

Latin America continues to have a positive long-term economic outlook that will drive insurance industry premium growth. The combination of an expanding middle class and investment in energy, transportation and social infrastructure as well as global trade flows will provide opportunities for insurance market growth and increased market penetration.

In the short term, however, the economic and political landscape in Latin America may prove challenging. Many countries failed to implement fundamental economic reforms during the commodity boom and are struggling to fill the void created by the collapse in commodity prices. Conditions in Argentina remain difficult, with continuing economic uncertainty ahead of October's presidential elections. Global economic uncertainty has translated into currency volatility together with stagflation, most notably in Argentina and Brazil. Overall, insurance markets in Latin America are experiencing flat or falling premium rates.

The sale of our Argentine workers' compensation business to La Caja Aseguradora de Riesgos de Trabajo ART SA was completed on 10 August 2015.

The result commentary following excludes the Argentine workers' compensation business to ensure a clear understanding of the trends in QBE's ongoing Latin American operations. To assist with analysis, tabled overleaf are the current and historical underwriting results for Latin America including and excluding the Argentine workers' compensation business.

## Underwriting performance

Latin America has continued to see business improvement and has a strong foundation from which to launch the recently formulated profitable growth strategy.

On a constant currency basis, gross written premium increased by 15% relative to the first half of 2014.

The combined operating ratio improved to 102.7% from 108.8% in the prior corresponding period. Sound underwriting profitability was recorded in Brazil, Mexico, Puerto Rico and Ecuador. Our Chilean business continues to grow but was adversely impacted by severe flooding in the Atacama desert in March which cost \$17 million and impacted the combined operating ratio by 3.8%. In response to the challenging Colombian SOAT environment significant changes have been made to the business, including the removal of over 1,200 unprofitable points of sale from our portfolio, as well as the termination of distribution agreements and changes to leadership. The combination of these remediation actions will lead to an improvement in underwriting profitability.

## Premium income

During the first half of 2015 and reflecting the stronger US dollar, gross written and net earned premium increased by less than 1% to \$505 million and \$437 million respectively.

On a constant currency basis, both gross written and net earned premium growth was significantly stronger at 15%. With the exception of Colombia where we have quite deliberately reduced our SOAT portfolio, all countries across the region experienced growth. Gross written premium growth exceeded 25% in Argentina, Chile and Brazil while growth in Mexico was a still impressive 13%.

Latin America's three largest operations — Argentina, Colombia and Ecuador — contributed in excess of 70% of premium in the first half of the year while the best performing lines of business in terms of percentage gross written premium growth were commercial property (18%), marine (42%) and liability (36%).

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED	30 JUNE 2015 %	30 JUNE 2015 EXCL. WC %	30 JUNE 2014 %
Motor & motor casualty	40.3	52.1	43.8
Commercial & domestic property	19.5	25.3	20.9
Workers' compensation	22.7	0.0	18.4
Marine energy & aviation	4.1	5.3	3.8
Accident & health	3.6	4.7	4.1
Public/product liability	2.9	3.8	2.6
Life	2.9	3.8	3.5
Agriculture	2.5	3.2	1.7
Financial & credit	0.6	0.8	0.8
Other	0.6	0.6	0.2
Professional indemnity	0.3	0.4	0.2

## Claims expense

Latin America's net claims ratio improved materially to 59.0% from 65.8% reported in the same period last year.

This was largely due to the non-recurrence of \$54 million of prior accident year claims development which impacted the prior corresponding period.

The attritional claims ratio increased to 57.2% from 55.7% in the prior corresponding period, primarily due to the challenging Colombian SOAT environment which has brought about the remediation activities noted previously. The total cost of large individual risk and catastrophe claims increased to 2.6% from 0.7% in the prior corresponding period, largely due to the Chilean floods which cost \$17 million. Large individual risk claims costs fell due to the non-recurrence of adverse risk claim activity in the prior period, particularly a major fire claim in Mexico.

## Commission and expenses

The net commission ratio decreased to 24.0% from 26.6% in the prior period driven mainly by changes in portfolio mix. The reduced size of our Colombian SOAT portfolio coupled with reduced exposure to Argentine extended warranty business, both of which historically commanded high commissions, were partially offset by an increase in marine cargo commission rates during the period.

The underwriting expense ratio increased to 19.7% compared with 16.4% in the prior period. Expenses were impacted by inflationary pressures, most notably in Argentina, together with costs associated with a strengthened governance framework including the establishment of the Miami office and investment initiatives to underpin business development.

## Latin America underwriting result (excluding Argentine workers' compensation)

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	505	502	587	370
Gross earned premium	US\$M	496	509	548	351
Net earned premium	US\$M	437	433	460	279
Net incurred claims	US\$M	258	285	271	148
Net commission	US\$M	105	115	120	76
Expenses	US\$M	86	71	75	47
Underwriting result	US\$M	(12)	(38)	(6)	8
Net claims ratio	%	59.0	65.8	58.9	53.1
Net commission ratio	%	24.0	26.6	26.1	27.2
Expense ratio	%	19.7	16.4	16.3	16.8
Combined operating ratio	%	102.7	108.8	101.3	97.1
Insurance profit margin	%	3.4	(2.8)	1.1	4.7

## Latin America underwriting result (including Argentine workers' compensation)<sup>5</sup>

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	640	716	733	511
Gross earned premium	US\$M	641	624	694	493
Net earned premium	US\$M	582	548	606	421
Net incurred claims	US\$M	425	512	370	239
Net commission	US\$M	113	122	131	91
Expenses	US\$M	109	90	92	64
Underwriting result	US\$M	(65)	(176)	13	27
Net claims ratio	%	73.1	93.4	61.1	56.6
Net commission ratio	%	19.4	22.2	21.6	21.7
Expense ratio	%	18.7	16.3	15.2	15.3
Combined operating ratio	%	111.2	131.9	97.9	93.6
Insurance profit margin	%	2.4	(24.6)	6.8	10.7

## Latin America profitable growth strategy

The Latin America profitable growth strategy was endorsed by the QBE Group Board in December 2014. The strategy will build on existing pockets of strength in Latin America and on the Group's global strengths, to grow a leading commercial and specialty insurance business (corporate, specialty, SME and specialty personal through partnerships).

The strategy will require operational changes to QBE's Latin American business including alignment, where appropriate, with the Asia Pacific strategy. Regional governance is now being driven by the QBE team in Miami and a number of senior management appointments have been made to ensure the successful implementation of the Latin America strategy. Over the next three years, QBE has committed to a cumulative investment of \$58 million in technology, distribution agreements, underwriters and the Miami regional office.

In addition to implementing this new strategy, remediation activities are continuing across the region to improve performance and ensure a return to profitability. The sale of the Argentine workers' compensation business enables us to focus on growing core business lines consistent with the strategy. In Colombia, we have significantly reduced exposure to the unprofitable elements of the SOAT business and continue to diversify the portfolio across other lines of business.

Latin America is an attractive growth market and QBE is represented in all strategically important markets in the region. We are confident this strategy will strengthen our foundation and help us achieve our organic growth targets.

<sup>5</sup> The sale of the Argentine workers' compensation completed on 10 August 2015.

“With continued enhancement in operational efficiencies and the distribution strategy in Asia Pacific and clear strategic direction in Latin America, the overall outlook for the Emerging Markets Division is very positive in the second half of 2015 and also beyond.”

## Emerging Markets Operations Outlook for full year 2015

 2015 target full year GWP: **US\$2.0billion**

### Asia Pacific Operations

US\$ million  
**900**

### Latin America Operations

US\$ million  
**1,100**

 2015 target full year NEP: **US\$1.6billion**

The outlook for the second half of 2015 and beyond in Emerging Markets is positive.

Against a backdrop of continuing infrastructure investment and property development in Asia Pacific, coupled with QBE's enhancements in distribution strategy and operational efficiencies, we remain confident that regional retention levels will improve and both business and profitability will grow.

Likewise in Latin America, we are positive about growth as our profitable growth strategy clearly defines the classes of business we will focus on. The further strengthening of our business foundation including the establishment of the Miami office will enable us to achieve our full growth potential. We continue to monitor the uncertainty in economic conditions in the region; however, the impact of economic volatility in Argentina has been mitigated by the sale of our workers' compensation portfolio in that country.

With our Emerging Markets executive team now in place, our divisional operating model will continue to evolve to meet the changing market conditions. We believe that our further growth will be driven from the synergies and opportunities arising from the leveraging of cross-divisional skills and experience.

I would like to thank all our employees for the delivery of a strong first half result and our business partners who continue to support our growing business. I am confident that the Emerging Markets division will deliver on its targets, further solidifying its role as the growth engine of the QBE Group.

# Equator Re business review

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Information

“Equator Re continues to be critical to the management of the Group’s risk appetite and capital through its role in optimising divisional retentions and managing our innovative global reinsurance program. Quality underwriting, informed by our in-depth knowledge of the Group’s business, continues to produce excellent results despite a number of catastrophe and large individual risk claims in the period.”

## Jim Fiore

Group Chief Reinsurance Officer • Equator Re

Gross written premium US\$ million	Net earned premium US\$ million	Underwriting result US\$ million	Insurance profit US\$ million
<b>976</b>	<b>182</b>	<b>57</b>	<b>87</b>
↑ 61% from 2014	↓ 35% from 2014	↑ \$53M from 2014	↑ \$62M from 2014
		Combined operating ratio <b>68.6%</b> (2014 98.6%)	Insurance profit margin <b>47.8%</b> (2014 9.0%)

## Competitive landscape

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.

Relatively benign catastrophe and large risk claims experience contributed to further softening in premium rates across most lines of business; however, rates were maintained or increased for loss affected programs.

Our actions to de-risk the portfolio by modifying divisional retentions on the larger catastrophe and per risk programs were successful during the period to 30 June 2015. We also successfully completed the restructuring of the portfolio, with Equator Re now providing increased limits on the property and casualty per risk and catastrophe treaty reinsurances offered to divisions on a bespoke basis. The increased premium associated with the higher limits has, however, been partially offset by reductions in underlying divisional subject business volumes and the aforementioned premium rate movements.

## Underwriting performance

The 68.6% combined operating ratio for the period ended 30 June 2015 represented a very significant improvement on the 98.6% combined operating ratio reported for the same period last year.

During the current period, the catastrophe portfolio was impacted by Tropical Cyclone Pam which struck the South Pacific island of Vanuatu in March and cost Equator Re \$76 million. Reflecting increased divisional retentions, the significant catastrophe activity that impacted Australia & New Zealand Operations did not give rise to a claim to Equator Re. Large individual risk claims experience was relatively benign over the half with just two large individual risk claims breaching Equator Re's increased attachment point.

Gross of reinsurance, prior accident year claims developed broadly in line with expectations. Net of reinsurance, however, Equator Re was adversely impacted by significant prior accident year claims development reflecting a reduction in recoveries under the Group aggregate risk reinsurance program, primarily as a result of foreign exchange movements.

Equator Re benefits from the Group's external catastrophe, per risk and aggregate reinsurance program, as well as a significant Equator Re specific quota share.

There were no recoveries for Equator Re under our external excess of loss reinsurance programs. Recoveries under the new and significantly enhanced large individual risk and catastrophe aggregate cover and quota share have been reflected in the results for the period.

## Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2015	2014	2013	2012
Gross written premium	US\$M	<b>976</b>	607	775	796
Gross earned premium	US\$M	<b>485</b>	404	417	412
Net earned premium	US\$M	<b>182</b>	280	266	273
Net incurred claims	US\$M	<b>106</b>	267	197	246
Net commission	US\$M	<b>13</b>	5	11	9
Expenses	US\$M	<b>6</b>	4	4	4
Underwriting result	US\$M	<b>57</b>	4	54	14
Net claims ratio	%	<b>58.2</b>	95.4	74.0	90.2
Net commission ratio	%	<b>7.1</b>	1.8	4.1	3.5
Expense ratio	%	<b>3.3</b>	1.4	1.7	1.3
Combined operating ratio	%	<b>68.6</b>	98.6	79.8	95.0
Insurance profit margin	%	<b>47.8</b>	9.0	21.8	14.5

## Premium income

Gross written premium increased by 61% to \$976 million compared with \$607 million for the previous period, whilst net earned premium decreased 35% to \$182 million compared with \$280 million for the previous period.

Gross written premium growth was driven by Equator Re providing higher limits on the property and casualty per risk and catastrophe treaty reinsurance for each of the divisions from 1 January 2015. This was partially offset by an overall reduction in premium rates consistent with market conditions, some divisional exposure reductions and adverse foreign exchange movements.

In contrast with previous years, Equator Re now purchases the Group per risk and catastrophe programs and quota share against its own account, hence the overall reduction in net earned premium despite a significant increase in gross earned premium. 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.

## Gross earned premium by class of business

FOR THE HALF YEAR ENDED

	30 JUNE 2015 %	30 JUNE 2014 %
Commercial & domestic property	73.6	56.5
Public/product liability	6.3	13.9
Marine energy & aviation	6.1	5.5
Financial & credit	5.3	7.6
Professional indemnity	4.6	10.3
Other	2.5	0.7
Workers' compensation	1.0	2.7
Motor & motor casualty	0.6	2.8

## Claims expense

The net claims ratio improved to 58.2% compared with 95.4% for the previous period.

Various divisions were impacted by natural catastrophe and large individual risk claims during the six months to 30 June 2015, which were ceded to Equator Re under the revised program structures. This current year experience was offset by recoveries under the aggregate reinsurance program.

Gross of reinsurance, prior accident year claims developed broadly in line with expectations; however, net of reinsurance Equator Re was adversely impacted by \$51 million of prior accident year claims development. This reflected a reduction in recoveries under the Group aggregate risk reinsurance program due to claims subsequently falling below the (US dollar denominated) program attachment point, primarily as a result of foreign exchange movements. In particular, recent US dollar strength has seen outstanding Australian dollar and Sterling claims subsequently fall below the \$5 million franchise, thereby rendering them no longer eligible for inclusion in the aggregate risk recovery assessment.

The \$51 million of adverse prior accident year claims development in the current half compared with \$12 million of adverse prior accident year claims development in the first half of 2014.

The result also included a small positive impact from higher risk-free rates used to discount net outstanding claims liabilities, particularly Sterling. This compares with a modest adverse impact a year earlier.

## Commission and expenses

The overall combined commission and expense ratio increased to 10.4% compared with 3.2% in the prior period.

The commission ratio deteriorated to 7.1% from 1.8% a year earlier, principally due to changes in business mix and profit commissions.

The expense ratio deteriorated to 3.3% compared with 1.4% in the first half of 2014. This increase principally reflects the continuing investment in our operating model upgrade and build-out of capabilities in Bermuda, the effect of the reduction in net earned premiums and a change in the basis of expense allocation between the excess of loss and proportional portfolios.

## Other developments

QBE Insurance Group's reinsurance program was further enhanced in 2015.

The new structure provides robust protection against large individual risk and catastrophe claims while at the same time reducing overall volatility of claims accumulated over the course of 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.

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

Equator Re historically only provided cover up to the Group's retention. From 1 January 2015, Equator Re provides higher limits on the property and casualty per risk and catastrophe treaty reinsurance for each of our divisions. This new structure increases the gross premium written into Equator Re and, in turn, Equator Re has purchased the Group per risk and catastrophe programs on its own account. 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 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 and reflected analysis indicating 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 in 2014 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 claim and event protections, we further restructured our 2015 program to more consistently deliver total annual net claims within our large individual risk and catastrophe allowance. This has been achieved by combining our per risk and catastrophe aggregate covers and materially reducing the threshold at which claims 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 to further improve data quality.



“ Our core focus remains on delivering satisfactory underwriting results and providing innovative, multi-faceted reinsurance solutions to the Group and its operating divisions to optimise capital, risk management and returns.”

## Equator Re Operations Outlook for full year 2015

 2015 target full year GWP: **US\$1.0billion**

 2015 target full year NEP: **US\$0.4billion**

Equator Re will continue to play an increasingly central role within the Group's external reinsurance program by facilitating the Group's catastrophe program through expanded divisional protections. With the significant majority of Equator Re's assumed and ceded business placed at the 1 January renewal date, we expect generally stable net earned premiums for the remainder of the year.

Market dynamics are expected to impact Equator Re's revenue and profit capabilities in a manner similar to the first six months of 2015. Underwriting profit expectations remain strong.

Efforts to improve our operating model and broaden capabilities will continue as we build out our operations in Bermuda and leverage the enhanced operational service offering of the Group's Shared Service Centre in Manila. The transition efforts to relocate operations were both challenging and rewarding for Equator Re and its employees as our efforts to improve performance and capabilities required a significant investment of time and energy. With this process now complete, Equator Re has a strong foundation to build on and we are confident of delivering on our strategic objectives.

The first six months of 2015 demonstrated the value of our enhanced and expanded divisional protections and anticipated benefits of our expanded reinsurance coverages. I would like to thank the team for their hard work and dedication and look forward to implementing further business enhancements over the remainder of 2015.

# Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2015

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2015.

## Directors

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

Marty Becker (Chairman)  
 Stephen Fitzgerald  
 John Graf  
 John M Green  
 Margaret Leung  
 John Neal  
 Sir Brian Pomeroy  
 Patrick Regan  
 Jann Skinner

## Consolidated results

FOR THE HALF YEAR ENDED	STATUTORY RESULT		ADJUSTMENTS		ADJUSTED RESULT <sup>1</sup>	
	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Gross written premium	8,692	8,491	135	214	8,557	8,277
Gross earned premium revenue	7,293	7,819	145	115	7,148	7,704
Net earned premium	6,229	6,947	145	119	6,084	6,828
Net claims expense	(3,727)	(4,378)	(165)	(227)	(3,562)	(4,151)
Net commission	(1,073)	(1,191)	(7)	(7)	(1,066)	(1,184)
Underwriting and other expenses	(1,134)	(1,134)	(79)	(20)	(1,055)	(1,114)
Underwriting result	295	244	(106)	(135)	401	379
Net investment income on policyholders' funds	241	286	32	30	209	256
Insurance profit	536	530	(74)	(105)	610	635
Net investment income on shareholders' funds	145	143	8	18	137	125
Financing and other costs	(127)	(150)	–	–	(127)	(150)
Gains (losses) on sale of entities	150	(2)	150	–	–	(2)
Share of net profits of associates	–	1	–	–	–	1
Amortisation and impairment of intangibles	(25)	(35)	–	–	(25)	(35)
Profit before income tax	679	487	84	(87)	595	574
Income tax expense	(189)	(91)	(51)	30	(138)	(121)
Profit after income tax	490	396	33	(57)	457	453
Net profit attributable to non-controlling interests	(2)	(4)	–	–	(2)	(4)
Net profit after income tax	488	392	33	(57)	455	449

<sup>1</sup> The non-IFRS financial information contained within this table has not been reviewed in accordance with Australian Auditing Standards.

## Result

Net profit after tax for the period to 30 June 2015 was \$488 million, up from a profit of \$392 million for the same period last year. The underwriting result was a profit of \$295 million compared with \$244 million for the same period last year, reflecting a combined operating ratio of 95.3%, down from 96.5%.

On 24 February 2015, QBE published the Group's FY 15 target combined operating ratio of 94 – 95% and a target insurance profit margin of 8.5 – 10.0%. To assist comparison of our interim 2015 performance against these targets, the result in the table above has been adjusted to reflect the following material items, which are not in our targets or plans:

- our Argentine workers' compensation business was designated as held for sale in the financial statements at both 31 December 2014 and 30 June 2015, with the sale of this business completed on 10 August 2015. The results of this business were explicitly excluded from our published targets and are excluded from both the 2014 and 2015 interim results to assist year on year comparability;
- the Australian and US agency businesses were held for sale at 31 December 2014, with the respective transactions completed in early 2015, realising a gain of \$140 million. These gains on sale, and gains on other non-material disposals in the period, are excluded from the adjusted result above; and
- our North American Mortgage & Lender Services (M&LS) business was held for sale at 30 June 2015, giving rise to a write down of deferred acquisition costs of \$55 million which is excluded from the adjusted 2015 result above. This transaction is expected to complete on 30 September 2015.

Details of these transactions are set out in notes 9 and 13 to the financial statements.

Adjusted net earned premium of \$6,084 million was down 11% compared with the same period last year, and down 3% on a constant currency basis. The decrease reflects a higher reinsurance expense due to the increased cost of the Group's enhanced large individual risk and catastrophe claims aggregate protection and additional crop quota share reinsurance to reduce the volatility in our crop result. These factors were partly offset by the recognition of an additional \$135 million of crop net earned premium, reflecting enhancements to our crop premium estimation process. Further detail of the crop adjustment is provided in note 2(D) to the financial statements.

The Group's adjusted underwriting result was a profit of \$401 million compared with a profit of \$379 million in the same period last year, reflecting a combined operating ratio of 93.4% compared with 94.4%. The result benefited from a significant improvement in the net claims ratio (58.6% compared with 60.8%), partially offset by an increase in the combined commission and expense ratio (34.8% compared with 33.6%) primarily caused by the reduction in net earned premium and the sale of the Australian and US agencies.

Adjusted net investment income of \$346 million was down slightly compared with \$381 million for the same period last year, but was in line with our expectations. Prior year investment income benefited from unrealised gains on fixed income securities due to the narrowing of credit spreads, which have widened slightly in the current period.

The adjusted tax rate was 23% of net profit, up slightly from 21% in the same period last year, reflecting the mix of corporate tax rates in the countries in which QBE operates.

## Dividends

The directors are pleased to announce an interim dividend of 20 Australian cents per share for the period ended 30 June 2015 compared with 15 Australian cents per share for the period ended 30 June 2014. The interim dividend will be franked at 100%. The total dividend payout is A\$274 million compared with an interim dividend payout of A\$192 million in 2014.

Our objective is to deliver a stable and growing dividend to our shareholders. Our current dividend policy sets the dividend payout ratio at up to 50% of cash profit with a likely weighting of the dividend to 40% of cash profits for the interim dividend and 60% for the final. Following the completion of our capital initiatives, we are seeing the Group's capital levels start to stabilise at a level that provides a comfortable buffer over our target minimum level and the opportunity to increase the maximum payout ratio for future dividends to achieve this objective whilst remaining comfortably inside our target capital levels. As a result, the Board has reviewed the dividend policy and is proposing to increase the maximum dividend payout ratio to 65% of cash profits commencing with the interim 2016 dividend.

## Presentation currency

The Group has presented this half year 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 out on pages 4 to 47 of this half year 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 and 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 inherent uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 30 June 2015 was 89.0% compared with 88.7% at 31 December 2014. The APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

## 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 22 to 47 of this half year report.

## Material business risks

As a global insurance and reinsurance business, QBE is subject to a substantial variety of different 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 Group's financial statements for the year ended 31 December 2014 which we urge you to read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report in the Annual Report and that part of the Corporate Governance Statement in respect of ASX CGC Principle 7: Recognise and Manage Risk which is located on the Corporate Governance section of the QBE website at [www.qbe.com](http://www.qbe.com).

Commentary on significant judgements and estimates affecting the 30 June results and balance sheet is included in note 2 to the financial statements for the half year ended 30 June 2015.

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## Directors' Report CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

### Events after the balance sheet date

On 16 July 2015, QBE announced the sale of its M&LS business in North America, with the transaction expected to complete on 30 September 2015. The transaction has two components as follows:

- the sale of the agency business for proceeds of \$45 million; and
- the 100% reinsurance of estimated net technical liabilities, net of deferred insurance costs, for a premium of around \$300 million.

This transaction is expected to give rise to a full year net loss of approximately \$120 million, of which \$55 million of write down of deferred acquisition costs is included in the Group's underwriting result for the period to 30 June 2015.

This business is subject to litigation and regulatory examinations in the normal course of business. We do not believe that the outcome of such litigation or regulatory examinations in which the business is currently involved will be material. As part of the sale transaction, the purchaser will assume responsibility for all potential future litigation in relation to the business. The sale transaction specifically excludes liabilities associated with litigation or regulatory examinations that are currently in process.

On 10 August 2015, QBE completed the sale of QBE Argentina Aseguradora de Riesgos del Trabajo SA for proceeds of \$55 million, resulting in an expected gain on sale before tax and foreign exchange reclassification of \$21 million. After the reclassification of applicable amounts in the foreign currency translation reserve and related funding costs, the net loss on disposal is expected to be approximately \$73 million.

Management continues to review a number of strategic options in relation to QBE Lenders' Mortgage Insurance, including sale or partial sale as well as reinsurance opportunities.

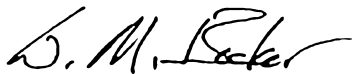
### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51.

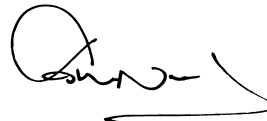
### Rounding of amounts

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 18th day of August 2015 in accordance with a resolution of the directors.



WM Becker  
Director



JD Neal  
Director

## Auditor's independence declaration for the half year ended 30 June 2015

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2015, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of QBE Insurance Group Limited and the entities it controlled during the period.



RJ Clark  
Partner, PricewaterhouseCoopers  
Sydney  
18 August 2015

# Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2015

	NOTE	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Gross written premium		8,692	8,491
Unearned premium movement		(1,399)	(672)
Gross earned premium revenue	4(A)	7,293	7,819
Outward reinsurance premium		(2,484)	(1,485)
Deferred reinsurance premium movement		1,420	613
Outward reinsurance premium expense	4(B)	(1,064)	(872)
Net earned premium (a)		6,229	6,947
Gross claims expense	4(B)	(4,197)	(4,879)
Reinsurance and other recoveries revenue	4(A)	470	501
Net claims expense (b)		(3,727)	(4,378)
Gross commission expense	4(B)	(1,238)	(1,262)
Reinsurance commission revenue	4(A)	165	71
Net commission (c)		(1,073)	(1,191)
Underwriting and other expenses (d)	4(B)	(1,134)	(1,134)
<b>Underwriting result (a)+(b)+(c)+(d)</b>		<b>295</b>	<b>244</b>
Investment and other income – policyholders' funds		250	298
Investment expenses – policyholders' funds		(9)	(12)
<b>Insurance profit</b>		<b>536</b>	<b>530</b>
Investment and other income – shareholders' funds		150	149
Investment expenses – shareholders' funds		(5)	(6)
Financing and other costs		(127)	(150)
Gains (losses) on sale of entities	13	150	(2)
Share of net profits of associates		–	1
Amortisation and impairment of intangibles		(25)	(35)
Profit before income tax		679	487
Income tax expense		(189)	(91)
Profit after income tax		490	396
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve		119	(187)
Income tax relating to net movement in foreign currency translation reserve		26	(15)
<i>Items that will not be reclassified to profit or loss</i>			
Losses on remeasurement of defined benefit superannuation plans		(15)	(8)
Income tax relating to remeasurement of defined benefit superannuation plans		(1)	1
Other comprehensive income after income tax		129	(209)
Total comprehensive income after income tax		619	187
<b>Profit after income tax attributable to:</b>			
Ordinary equity holders of the company		488	392
Non-controlling interests		2	4
		490	396
<b>Total comprehensive income after income tax attributable to:</b>			
Ordinary equity holders of the company		617	183
Non-controlling interests		2	4
		619	187
<b>Earnings per share for profit after income tax attributable to ordinary equity holders of the company</b>			
	NOTE	30 JUNE 2015 US CENTS	30 JUNE 2014 US CENTS
Basic earnings per share	5	35.8	31.3
Diluted earnings per share	5	35.5	30.5

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

# Consolidated balance sheet

AS AT 30 JUNE 2015

	NOTE	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
<b>Assets</b>			
Cash and cash equivalents		964	852
Investments	6	26,924	27,716
Derivative financial instruments	7	111	20
Trade and other receivables		5,767	4,748
Current tax assets		76	5
Deferred insurance costs		3,481	2,031
Reinsurance and other recoveries on outstanding claims	8	3,081	3,464
Other assets		11	15
Assets held for sale	9	792	1,096
Defined benefit plan surpluses		40	44
Property, plant and equipment		312	362
Deferred tax assets		763	787
Investment properties		15	15
Investment in associates		13	14
Intangible assets		3,751	3,831
<b>Total assets</b>		<b>46,101</b>	<b>45,000</b>
<b>Liabilities</b>			
Derivative financial instruments	7	44	73
Trade and other payables		2,444	1,228
Current tax liabilities		208	192
Liabilities held for sale	9	739	671
Unearned premium		8,579	7,366
Outstanding claims	8	19,119	20,412
Provisions		97	95
Defined benefit plan deficits		122	117
Deferred tax liabilities		153	183
Borrowings	10	3,591	3,581
<b>Total liabilities</b>		<b>35,096</b>	<b>33,918</b>
<b>Net assets</b>		<b>11,005</b>	<b>11,082</b>
<b>Equity</b>			
Share capital	11	8,913	9,391
Reserves		(1,239)	(1,405)
Retained profits		3,275	3,044
Shareholders' funds		10,949	11,030
Non-controlling interests		56	52
<b>Total equity</b>		<b>11,005</b>	<b>11,082</b>

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

# Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2015

	SHARE CAPITAL US\$M	TREASURY SHARES HELD IN TRUST US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	SHARE- HOLDERS' FUNDS US\$M	NON- CONTROLLING INTERESTS US\$M	TOTAL EQUITY US\$M
<b>2015</b>							
As at 1 January	9,391	–	(1,405)	3,044	11,030	52	11,082
Profit after income tax	–	–	–	488	488	2	490
Other comprehensive income	–	–	145	(16)	129	–	129
Total comprehensive income	–	–	145	472	617	2	619
<b>Transactions with owners in their capacity as owners</b>							
Shares acquired and held in trust	–	(18)	–	–	(18)	–	(18)
Share-based payment expense	–	–	29	–	29	–	29
Contribution of equity from non-controlling interest	–	–	–	–	–	2	2
Shares vested and/or released to participants	–	18	(18)	–	–	–	–
Contributions of equity, net of transaction costs and tax	41	–	–	–	41	–	41
Reclassification of premium on purchase of non controlling interest	–	–	16	(16)	–	–	–
Dividends paid on ordinary shares	–	–	–	(228)	(228)	–	(228)
Dividend reinvestment under Bonus Share Plan	–	–	–	3	3	–	3
Foreign exchange movement	(519)	–	(6)	–	(525)	–	(525)
As at 30 June	8,913	–	(1,239)	3,275	10,949	56	11,005

	SHARE CAPITAL US\$M	TREASURY SHARES HELD IN TRUST US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	SHARE- HOLDERS' FUNDS US\$M	NON- CONTROLLING INTERESTS US\$M	TOTAL EQUITY US\$M
<b>2014</b>							
As at 1 January	9,195	–	(1,470)	2,631	10,356	47	10,403
Profit after income tax	–	–	–	392	392	4	396
Other comprehensive income	–	–	(202)	(7)	(209)	–	(209)
Total comprehensive income	–	–	(202)	385	183	4	187
<b>Transactions with owners in their capacity as owners</b>							
Shares acquired and held in trust	–	(13)	–	–	(13)	–	(13)
Share-based payment expense	–	–	25	–	25	–	25
Shares vested and/or released to participants	–	12	(12)	–	–	–	–
Contributions of equity, net of transaction costs and tax	306	–	–	–	306	–	306
Purchase of non-controlling interest	–	–	(16)	–	(16)	(1)	(17)
Owner occupied property	–	–	(2)	2	–	–	–
Dividends paid on ordinary shares	–	–	–	(139)	(139)	–	(139)
Dividend reinvestment under Bonus Share Plan	–	–	–	2	2	–	2
Foreign exchange movement	519	–	5	–	524	(1)	523
As at 30 June	10,020	(1)	(1,672)	2,881	11,228	49	11,277

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



# Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2015

	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
<b>Operating activities</b>		
Premium received	7,292	7,336
Reinsurance and other recoveries received	727	845
Outward reinsurance paid	(1,663)	(1,384)
Claims paid	(4,212)	(4,422)
Acquisition and other underwriting costs paid	(2,171)	(2,052)
Interest received	292	361
Dividends received	40	22
Other operating income	28	19
Other operating payments	(136)	(192)
Interest paid	(146)	(129)
Income tax paid	(192)	(236)
Net cash flows from operating activities	(141)	168
<b>Investing activities</b>		
Proceeds on sale of growth assets	2,322	848
Payments for purchase of growth assets	(3,313)	(1,808)
(Payments for) proceeds from foreign exchange transactions	(129)	37
Proceeds on sale of interest bearing financial assets	1,197	992
Payments for entities and businesses acquired (net of cash acquired)	(21)	(15)
Proceeds on disposal of entities	449	–
Proceeds on sale of investment property	–	1
Proceeds on sale of property, plant and equipment	–	42
Payments for property, plant and equipment	(25)	(34)
Net cash flows from investing activities	480	63
<b>Financing activities</b>		
Capital contribution from non-controlling interest	2	–
Purchase of treasury shares	(17)	(12)
Proceeds on settlement of staff share loans	1	1
Proceeds from borrowings	–	629
Repayment of borrowings	–	(714)
Dividends paid	(184)	(80)
Net cash flows from financing activities	(198)	(176)
Net movement in cash and cash equivalents	141	55
Cash and cash equivalents at 1 January	852	1,238
Effect of exchange rate changes	(11)	15
Cash transferred to assets held for sale	(18)	–
Cash and cash equivalents at 30 June	964	1,308

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

# Notes to the financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2015

## 1. Basis of preparation of half year financial report

This general purpose consolidated financial report for the half year ended 30 June 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The financial report for the half year ended 30 June 2015 does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the QBE Annual Report for the financial year ended 31 December 2014 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group) during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

### New and amended standards adopted by the Group

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2015.

TITLE	
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part C
AASB 2014-1	Amendments to Australian Accounting Standards [Part A – Annual Improvements]
AASB 2014-1	Amendments to Australian Accounting Standards [Part B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)]

The adoption of these new or revised standards did not materially affect the Group's accounting policies or financial statements.

### Statement of compliance

The financial report complies with AASB 134 and, as such, is in compliance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

## 2. Significant judgements and estimates

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities.

Noted below are the most material judgements and estimates that should be considered in conjunction with note 4 to the financial statements for the year ended 31 December 2014.

### (A) Outstanding claims provision

The Group's net outstanding claims provision comprises:

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

A 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.

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 claims are paid;
- the existence of complex underlying exposures, often at high attachment points;
- 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; 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) to the financial statements for the year ended 31 December 2014.

### (B) Intangible assets

QBE monitors goodwill and identifiable intangible assets for indicators of impairment at each reporting date in accordance with the Group's policy, which is set out in note 1(T) of the financial statements for the year ended 31 December 2014.

At 30 June 2015, QBE has reviewed all material intangible assets for indicators of impairment, and has completed detailed impairment tests where indicators of impairment were identified. No impairment charge resulted from the analysis undertaken.

A detailed impairment test was completed in respect of goodwill in QBE's North American Operations. Whilst the headroom (being the excess of recoverable value over carrying value) at the balance date increased to \$266 million compared with \$158 million at 31 December 2014, the 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 long-term investment return assumptions. These key assumptions are unchanged from those adopted at 31 December 2014.

If the terminal value combined operating ratio was increased by 1% compared with QBE's estimate, the goodwill impairment charge would be \$12 million. If the post-tax discount rate was increased by 1%, the goodwill impairment charge would be \$324 million. If the long-term investment return was reduced by 1%, the goodwill impairment charge would be \$2 million.

### (C) Recoverability of future tax losses

In North American Operations, a deferred tax asset (DTA) of \$573 million continues to be recognised. Uncertainty continues to exist in relation to the recoverability 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. QBE has made a judgement that North American Operations will be able to generate sufficient taxable profits over the next several years, based on its future business plans. Losses expire over the next 19 years, with the majority expiring between 2030 and 2034. The uncertainty around the recognition of the DTA will be resolved in future years assuming that taxable profits are generated. Recovery of the DTA remains sensitive to changes in the forecast combined operating ratio, premium growth and investment yield assumptions as these items are the key drivers of future taxable income.

### (D) Crop written premium estimation

The result for the period to 30 June 2015 includes the impact of improvements in the process for estimating gross written premium on crop business in North American Operations. Previously, crop written premium recognition commenced when crop field reports were received (usually between June and August). Due to the progressively improved quality of analysis used to support the recognition of written premium, North American Operations was this year able to reliably estimate crop premium at the attachment date in March rather than waiting for crop field reports. The change has been made prospectively with no restatement of comparatives and has no impact on written premium estimation for the full year.

The impact on the result for the period is an increase in gross written premium of \$766 million, an increase in net earned premium of \$135 million and an increase in underwriting profit of \$20 million. The material impact on the balance sheet at 30 June 2015 is an increase in trade receivables of \$766 million and an increase in unearned premium of \$577 million.

## 3. Segment information

### (A) Operating segments

The Group has identified its operating segments based on information used by the Group Executive for measuring performance and determining the allocation of capital. The operating segments have been identified based on the way that the Group's underwriting products and services are managed within the various markets in which we operate.

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 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 cover 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. Materially, all inward premium received by Equator Re is derived from within the Group and is eliminated on consolidation.

During the second half of 2014, 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.

## Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

30 JUNE 2015	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 <sup>1</sup> US\$M	OTHER <sup>2,3</sup> US\$M	TOTAL US\$M
Total assets	12,730	17,600	10,983	3,964	7,603	52,880	872	(7,651)	46,101
Total liabilities	(10,437)	(14,504)	(8,207)	(3,171)	(6,210)	(42,529)	(218)	7,651	(35,096)
Net assets	2,293	3,096	2,776	793	1,393	10,351	654	–	11,005
Gross written premium	3,109	2,659	1,928	1,064	976	9,736	–	(1,044)	8,692
Gross earned premium revenue – external	2,309	2,112	1,913	1,009	–	7,343	–	(50)	7,293
Gross earned premium revenue – internal	–	–	–	–	485	485	–	(485)	–
Outward reinsurance premium expense	(477)	(452)	(245)	(123)	(303)	(1,600)	–	536	(1,064)
Net earned premium	1,832	1,660	1,668	886	182	6,228	–	1	6,229
Net claims expense	(1,145)	(815)	(1,050)	(584)	(106)	(3,700)	–	(27)	(3,727)
Net commission	(329)	(312)	(235)	(178)	(13)	(1,067)	–	(6)	(1,073)
Underwriting and other expenses	(361)	(297)	(230)	(173)	(6)	(1,067)	(8)	(59)	(1,134)
Underwriting result	(3)	236	153	(49)	57	394	(8)	(91)	295
Net investment income on policyholders' funds	32	42	94	82	30	280	4	(43)	241
Insurance profit (loss)	29	278	247	33	87	674	(4)	(134)	536
Net investment income on shareholders' funds	23	16	46	86	15	186	(9)	(32)	145
Financing and other costs	–	–	–	–	–	–	(127)	–	(127)
Gains on sale of entities	–	–	–	–	–	–	150	–	150
Amortisation and impairment of intangibles	–	–	–	–	–	–	–	(25)	(25)
Profit (loss) before income tax	52	294	293	119	102	860	10	(191)	679
Income tax credit (expense)	2	(53)	(88)	(39)	(7)	(185)	(22)	18	(189)
Profit (loss) after income tax	54	241	205	80	95	675	(12)	(173)	490
Net profit attributable to non-controlling interests	–	–	–	–	–	–	–	(2)	(2)
Net profit (loss) after income tax	54	241	205	80	95	675	(12)	(175)	488

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

2 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.

3 Other includes the write down of deferred acquisition costs to recoverable value resulting from the contractual terms agreed on disposal of the Mortgage & Lender Services business in our North American Operations (\$55 million).

30 JUNE 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 <sup>1</sup> US\$M	OTHER <sup>2</sup> US\$M	TOTAL US\$M
Total assets	12,140	19,822	13,000	3,736	7,852	56,550	280	(7,840)	48,990
Total liabilities	(9,987)	(16,777)	(9,625)	(2,924)	(6,042)	(45,355)	(198)	7,840	(37,713)
Net assets	2,153	3,045	3,375	812	1,810	11,195	82	–	11,277
Gross written premium	2,472	2,705	2,275	1,110	607	9,169	–	(678)	8,491
Gross earned premium revenue – external	2,259	2,471	2,192	970	–	7,892	–	(73)	7,819
Gross earned premium revenue – internal	–	–	–	–	404	404	–	(404)	–
Outward reinsurance premium expense	(342)	(438)	(276)	(137)	(124)	(1,317)	–	445	(872)
Net earned premium	1,917	2,033	1,916	833	280	6,979	–	(32)	6,947
Net claims expense	(1,152)	(1,214)	(1,134)	(659)	(267)	(4,426)	–	48	(4,378)
Net commission	(357)	(383)	(267)	(180)	(5)	(1,192)	–	1	(1,191)
Underwriting and other expenses	(377)	(319)	(274)	(149)	(4)	(1,123)	(11)	–	(1,134)
Underwriting result	31	117	241	(155)	4	238	(11)	17	244
Net investment income on policyholders' funds	25	63	89	42	21	240	–	46	286
Insurance profit (loss)	56	180	330	(113)	25	478	(11)	63	530
Net investment income on shareholders' funds	18	19	40	29	6	112	–	31	143
Financing and other costs	–	–	–	–	–	–	(150)	–	(150)
Loss on sale of entities	–	–	–	–	–	–	(2)	–	(2)
Share of net profits of associates	–	–	–	–	–	–	–	1	1
Amortisation and impairment of intangibles	–	–	–	–	–	–	–	(35)	(35)
Profit (loss) before income tax	74	199	370	(84)	31	590	(163)	60	487
Income tax credit (expense)	3	(36)	(111)	36	(6)	(114)	23	–	(91)
Profit (loss) after income tax	77	163	259	(48)	25	476	(140)	60	396
Net profit attributable to non-controlling interests	–	–	–	–	–	–	–	(4)	(4)
Net profit (loss) after income tax	77	163	259	(48)	25	476	(140)	56	392

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

2 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.

## Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

### 4. Income and expense

#### (A) Income summary

	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
<b>Gross earned premium revenue</b>		
Direct and facultative	6,785	7,243
Inward reinsurance	508	576
	7,293	7,819
Reinsurance and other recoveries revenue	470	501
Reinsurance commission revenue	165	71
	7,928	8,391
<b>Other income</b>		
Dividends received or receivable	44	22
Interest received or receivable	260	330
Other investment income	1	4
Net fair value gains on financial assets	132	91
Net fair value gains on owner occupied properties	–	2
Gains on sale of entities	150	–
Share of net profits of associates	–	1
	587	450
<b>Income</b>	<b>8,515</b>	<b>8,841</b>

#### (B) Expenses summary

	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Outward reinsurance premium expense	1,064	872
Gross claims expense	4,197	4,879
Gross commission expense	1,238	1,262
Underwriting and other expenses <sup>1,2</sup>	1,134	1,134
Net fair value losses on investment properties	–	2
Losses on sale of entities	–	2
Investment expenses	14	18
Financing and other costs	127	150
Amortisation of intangibles and impairment of goodwill/intangibles	25	35
Other expenses	8	–
Foreign exchange losses	29	–
<b>Expenses</b>	<b>7,836</b>	<b>8,354</b>

1 Includes the write down of deferred acquisition costs to recoverable value resulting from the contractual terms agreed on disposal of the Mortgage & Lender Services business in North American Operations (2015 \$55 million).

2 Includes \$35 million (2014 \$67 million) of agency income earned by the Group's agency operations which is treated as a recovery of the Group's underwriting expenses.

### 5. Earnings per share

	30 JUNE 2015 US CENTS	30 JUNE 2014 US CENTS
Basic earnings per share	35.8	31.3
Diluted earnings per share	35.5	30.5

#### (A) Reconciliation of earnings used in calculating earnings per share

	30 JUNE 2015 US\$M	30 JUNE 2014 US\$M
Net profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	488	392
Add: finance costs of convertible securities	–	8
<b>Earnings used in calculating diluted earnings per share</b>	<b>488</b>	<b>400</b>

**(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share**

	30 JUNE 2015 NUMBER OF SHARES MILLIONS	30 JUNE 2014 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	1,367	1,254
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	1,365	1,252
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	10	9
Convertible securities	–	49
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,375	1,310

**6. Investments**

	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
<b>Fixed interest rate</b>		
Short-term money	5,165	7,621
Government bonds	4,021	4,042
Corporate bonds	4,298	3,658
Infrastructure debt	31	16
	13,515	15,337
<b>Floating interest rate</b>		
Short-term money	162	150
Government bonds	329	773
Corporate bonds	8,995	8,591
Infrastructure debt	284	238
Unit trusts	84	73
	9,854	9,825
<b>Equities</b>		
Equities – listed	919	817
Equities – unlisted	25	27
	944	844
<b>Collective investment schemes</b>		
Emerging market debt	264	243
Emerging market equity	427	243
High yield debt	433	276
Hedge funds	492	–
Property trusts – unlisted	995	948
	2,611	1,710
<b>Total investments</b>	<b>26,924</b>	<b>27,716</b>
Amounts maturing within 12 months	10,520	13,157
Amounts maturing in greater than 12 months	16,404	14,559
<b>Total investments</b>	<b>26,924</b>	<b>27,716</b>

**(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.

**(B) Fair value hierarchy**

The investments of the Group are disclosed in the table overleaf 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.

## Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

	30 JUNE 2015				31 DEC 2014			
	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
<b>Assets</b>								
Short-term money	838	4,489	–	5,327	1,167	6,604	–	7,771
Government bonds	2,492	1,854	4	4,350	2,634	2,178	3	4,815
Corporate bonds	–	13,292	1	13,293	–	12,249	–	12,249
Infrastructure debt	–	136	179	315	–	99	155	254
Unit trusts	–	84	–	84	–	73	–	73
Equities – listed	918	–	1	919	816	–	1	817
Equities – unlisted	–	–	25	25	–	–	27	27
Emerging market debt	–	264	–	264	–	243	–	243
Emerging market equity	–	427	–	427	–	243	–	243
High yield debt	–	433	–	433	–	276	–	276
Hedge funds	–	492	–	492	–	–	–	–
Property trusts – unlisted	–	995	–	995	–	948	–	948
<b>Total investments</b>	<b>4,248</b>	<b>22,466</b>	<b>210</b>	<b>26,924</b>	<b>4,617</b>	<b>22,913</b>	<b>186</b>	<b>27,716</b>

### (C) Valuation of investments

Group Investments values each asset, as described below, 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.

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.

#### Government and corporate 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 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.

#### Hedge funds

Hedge fund investments comprise fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and the responsibility for the valuation of the underlying security positions lies with the external manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. A combination of observable market prices or comparable market prices (where available) and other valuation techniques may be used in the determination of fair value.



#### (D) Movements in level 3 investments

LEVEL 3	2015 US\$M	2014 US\$M
At 1 January	186	197
Reclassifications from level 2 <sup>1</sup>	–	20
Purchases	44	65
Disposals	(17)	(3)
Fair value gains recognised in profit or loss <sup>2</sup>	–	3
Foreign exchange	(3)	2
At 30 June	210	284

- 1 During the half year ended 30 June 2014, \$20 million of asset backed securities were transferred from level 2 to level 3 to reflect stale pricing at the balance date.
- 2 Recognised within investment and other income (policyholders' and shareholders' funds) in the consolidated statement of comprehensive income.

#### 7. Derivative financial instruments

During the period to 30 June 2015, the Group continued to use derivatives for risk management purposes. The Group uses foreign exchange forward contracts, equity index futures and interest rate futures to manage its various exposures. Apart from an immaterial amount of foreign exchange exposure, none of these derivatives are hedge accounted.

During the period, the Group entered into put and call spreads to hedge against fluctuations in commodity prices in our North American Operations. The derivatives are held at fair value and gains and losses are recognised in investment income on policyholders' funds.

All derivative financial instruments are classified as level 1 in the fair value hierarchy in the current and prior period.

#### 8. Outstanding claims

	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
Gross discounted central estimate	17,799	19,059
Risk margin	1,320	1,353
Outstanding claims	19,119	20,412
Reinsurance and other recoveries on outstanding claims	(3,081)	(3,464)
Net outstanding claims provision	16,038	16,948
<b>Analysed as follows:</b>		
Net undiscounted central estimate	15,522	16,323
Discount to present value	(804)	(728)
Net discounted central estimate	14,718	15,595
Risk margin	1,320	1,353
Net outstanding claims provision	16,038	16,948
Gross undiscounted central estimate	18,455	19,476
Claims settlement costs	391	397
	18,846	19,873
Discount to present value	(1,047)	(814)
Gross discounted central estimate	17,799	19,059
Payable within 12 months	6,503	7,495
Payable in greater than 12 months	11,296	11,564
Gross discounted central estimate	17,799	19,059
Reinsurance and other recoveries on outstanding claims <sup>1</sup>	3,324	3,550
Discount to present value	(243)	(86)
Reinsurance and other recoveries on outstanding claims	3,081	3,464
Receivable within 12 months	1,276	1,560
Receivable in greater than 12 months	1,805	1,904
Reinsurance and other recoveries on outstanding claims	3,081	3,464

- 1 Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of \$20 million (31 December 2014 \$24 million).

## Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

### (A) Risk margin

The risk margin included in the net outstanding claims provision is 9.0% (31 December 2014 8.7%) of the net discounted central estimate. The probability of adequacy at 30 June 2015 is 89.0% (31 December 2014 88.7%) which is well above APRA's 75% benchmark. Net profit after tax would have increased by \$12 million if the probability of adequacy was maintained at 88.7%.

### (B) Prior accident year claims development

The result for the period to 30 June 2015 includes the benefit of prior accident year net central estimate releases of \$69 million, which is net of \$10 million of adverse prior accident year claims development in relation to the Argentine workers' compensation business which is held for sale at the balance date (2014: \$131 million of adverse development). This net movement reflects strong positive development in European Operations and Australian & New Zealand Operations, partly offset by adverse development in Equator Re and North American Operations.

## 9. Assets held for sale

At the balance date, the following businesses were classified as held for sale:

- Mortgage & Lender Services in North American Operations.
- QBE's workers' compensation business in Argentina.

The following table analyses the material components of assets held for sale at the balance date.

	30 JUNE 2015 US\$M	31 DEC 2014 <sup>1</sup> US\$M
Intangible assets	55	326
Investments	460	424
Other assets	277	346
Assets held for sale	792	1,096
Outstanding claims	(487)	(414)
Other liabilities	(252)	(257)
Liabilities held for sale	(739)	(671)
Net assets held for sale	53	425

1 31 December 2014 assets held for sale included North American agencies, Australian agencies and Argentine workers' compensation business.

On 16 July 2015, QBE announced the disposal of the Mortgage & Lender Services business, with the sale expected to complete on 30 September 2015. The transaction comprises two parts:

- the sale of the agency business for net proceeds of \$45 million; and
- the 100% reinsurance of estimated net technical liabilities net of deferred insurance costs, for a premium of around \$300 million.

The transaction is expected to give rise to a full year net loss of approximately \$120 million, of which \$55 million of write down of deferred acquisition costs is included in the Group's underwriting result for the period to 30 June 2015.

On 10 August 2015, QBE completed the sale of the Argentine worker's compensation business for net proceeds of \$55 million, resulting in an expected gain on sale before tax and related foreign exchange reclassification of \$21 million. After the reclassification of applicable amounts in the foreign currency translation reserve and related funding costs, the net loss on disposal is expected to be approximately \$73 million.

## 10. Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
<b>Senior debt</b>			
28 September 2015	£300 million (2014 £300 million)	472	467
1 May 2018	\$600 million (2014 \$600 million)	598	598
		1,070	1,065
<b>Subordinated debt</b>			
24 May 2041	\$1,000 million (2014 \$1,000 million)	998	998
24 May 2041	£325 million (2014 £325 million)	511	506
2 December 2044	\$700 million (2014 \$700 million)	695	695
		2,204	2,199
<b>Capital securities</b>			
No fixed date	\$302 million (2014 \$302 million)	302	302
No fixed date	£9 million (2014 £9 million)	15	15
		317	317
Total borrowings		3,591	3,581

**(A) \$550 million capital securities**

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 these capital securities were repurchased by the Group for cash at a discount, and are held on the balance sheets of controlled entities as an investment asset. 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.

**(B) £300 million 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 these capital securities were repurchased by the Group for cash at a discount, and are held on the balance sheets of controlled entities as an investment asset. 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.

**(C) Fair value of borrowings**

The Group's borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently remeasured at amortised cost. The fair value of the Group's borrowings is as follows:

	30 JUNE 2015 US\$M	31 DEC 2014 US\$M
Senior notes	1,081	1,083
Subordinated debt	2,421	2,376
Capital securities	326	325
	<b>3,828</b>	<b>3,784</b>

**11. Share capital**

	NUMBER OF SHARES MILLIONS	US\$M
<b>2015</b>		
Issued ordinary shares, fully paid at 1 January	1,363	9,391
Shares issued under the Dividend Reinvestment Plan	4	41
Foreign exchange	-	(519)
Issued ordinary shares, fully paid at 30 June	1,367	8,913
Shares notified to the Australian Securities Exchange	1,369	8,923
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	(2)	(10)
Issued ordinary shares, fully paid at 30 June	1,367	8,913

	NUMBER OF SHARES MILLIONS	2014 US\$M
<b>2014</b>		
Issued ordinary shares, fully paid at 1 January	1,247	9,195
Shares issued	24	248
Shares issued under the Dividend Reinvestment Plan	5	58
Foreign exchange	-	519
Issued ordinary shares, fully paid at 30 June	1,276	10,020
Shares notified to the Australian Securities Exchange	1,278	10,035
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	(2)	(15)
Issued ordinary shares, fully paid at 30 June	1,276	10,020

## Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2015

### 12. Dividends

	FINAL	2014 INTERIM	2013 FINAL
Dividend per share (Australian cents)	22	15	12
Franking percentage	100%	100%	100%
Franked amount per share (Australian cents)	22	15	12
Dividend payout (A\$M)	300	192	150
Payment date	13 Apr 2015	23 Sep 2014	31 Mar 2014

On 18 August 2015, the directors declared a 100% franked interim dividend of 20 Australian cents per share, payable on 2 October 2015. The interim dividend payout is A\$274 million (2014 A\$192 million). The record date is 28 August 2015.

	2015 US\$M	2014 US\$M
Final dividend paid on ordinary shares – fully franked	228	139
Dividend reinvested under the Bonus Share Plan	(3)	(2)
Total dividend paid	225	137

### 13. Acquisitions and disposals

#### (A) Acquisitions

There have been no material acquisitions in the period.

#### (B) Disposals

During the period to 30 June 2015, the following non-core businesses were disposed of:

- The North American agencies (Community Association Underwriters, Deep South and SIU Agencies) were sold on 2 February 2015.
- The Australian agencies (CHU, Corporate Underwriting Agencies and Underwriting Agencies of Australia) were sold on 1 April 2015.

Details of the disposals are set out in the table below:

	AUSTRALIAN AGENCIES US\$M	US AGENCIES US\$M
Intangibles	92	198
Other net assets	9	17
Total net assets	101	215
<b>Proceeds</b>		
Cash	220	230
Fair value of contingent consideration	14	–
Transaction costs	(5)	(3)
Total proceeds	229	227
Net gain on sale of entities	128	12

Other non-material disposals generated gains of \$10 million in the period.

### 14. 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.

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.

On 16 July 2015, QBE announced the disposal of the Mortgage & Lender Services business in North American Operations. This business is subject to litigation and regulatory examinations in the normal course of business. No such litigation or regulatory examinations in which the business is currently involved is believed to be material. As part of the sale transaction, the purchaser will assume responsibility for all potential future litigation in relation to the business. The transaction specifically excludes liabilities associated with litigation or regulatory examinations that are currently in process.

# Directors' declaration

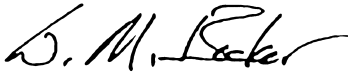
In the directors' opinion:

- (a) the financial statements and notes set out on pages 52 to 66 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 30 June 2015 and of its performance for the half 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.

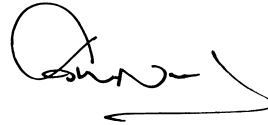
Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given 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 18th day of August 2015 in accordance with a resolution of the directors.



WM Becker  
Director



JD Neal  
Director

# Independent auditor's review report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

## Report on the half year financial report

We have reviewed the accompanying half year financial report of QBE Insurance Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for QBE Insurance Group Limited (the consolidated entity). The consolidated entity comprises both the company and the entities it controlled during that half year.

### Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

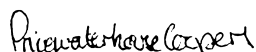
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of QBE Insurance Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



RJ Clark  
Partner

Sydney  
18 August 2015



SJ Hadfield  
Partner

# Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2015

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2015	2014	2013	2012	2011	2014	2013	2012	2011	2010
Gross written premium	US\$M	<b>8,692</b>	8,491	9,446	9,223	8,942	16,332	17,975	18,434	18,291	13,629
Gross earned premium	US\$M	<b>7,293</b>	7,819	8,413	8,404	7,834	16,521	17,889	18,341	17,840	13,432
Net earned premium	US\$M	<b>6,229</b>	6,947	7,333	7,359	6,778	14,084	15,396	15,798	15,359	11,362
Claims ratio	%	<b>59.8</b>	63.1	59.4	61.5	65.9	63.2	64.5	66.0	68.2	59.9
Commission ratio	%	<b>17.3</b>	17.1	17.8	16.8	15.8	16.8	16.8	16.2	14.9	15.5
Expense ratio	%	<b>18.2</b>	16.3	15.6	14.6	14.0	16.1	16.5	14.9	13.7	14.3
Combined operating ratio	%	<b>95.3</b>	96.5	92.8	92.9	95.7	96.1	97.8	97.1	96.8	89.7
Investment income											
before investment gains/losses	US\$M	<b>262</b>	338	367	391	531	676	691	723	948	658
after investment gains/losses	US\$M	<b>386</b>	429	388	683	646	814	772	1,227	767	657
Insurance profit	US\$M	<b>536</b>	530	790	958	762	1,074	841	1,262	1,085	1,703
Insurance profit to net earned premium	%	<b>8.6</b>	7.6	10.8	13.0	11.2	7.6	5.5	8.0	7.1	15.0
Financing and other costs	US\$M	<b>127</b>	150	168	166	114	297	345	324	275	222
Operating profit (loss)											
before income tax	US\$M	<b>679</b>	487	585	914	776	931	(448)	941	868	1,551
after income tax and non-controlling interest	US\$M	<b>488</b>	392	477	760	673	742	(254)	761	704	1,278
Number of shares on issue <sup>1</sup>	millions	<b>1,367</b>	1,276	1,218	1,178	1,089	1,363	1,247	1,194	1,112	1,048
Shareholders' funds	US\$M	<b>10,949</b>	11,228	11,163	11,546	11,209	11,030	10,356	11,358	10,386	10,311
Total assets	US\$M	<b>46,101</b>	48,990	49,105	48,852	47,781	45,000	47,271	50,748	46,737	41,386
Net tangible assets per share <sup>1</sup>	US\$	<b>5.31</b>	5.29	4.59	4.56	4.60	5.32	4.75	4.49	3.93	4.78
Borrowings to shareholders' funds	%	<b>32.8</b>	38.4	42.7	37.1	43.3	32.5	44.1	43.4	45.8	31.5
Basic earnings per share <sup>1</sup>	US cents	<b>35.8</b>	31.3	38.0	67.7	63.1	57.4	(22.8)	65.1	64.9	123.7
Basic earnings per share - cash basis <sup>2</sup>	US cents	<b>34.5</b>	33.2	49.3	75.2	66.8	63.5	62.9	89.1	73.0	127.7
Diluted earnings per share	US cents	<b>35.5</b>	30.5	35.8	63.1	59.9	55.8	(22.8)	61.6	61.3	119.6
Return on average shareholders' funds	%	<b>8.9</b>	7.3	8.5	13.9	12.5	6.9	(2.3)	7.0	6.8	13.1
Dividend per share	Australian cents	<b>20</b>	15	20	40	62	37	32	50	87	128
Dividend payout	A\$M	<b>274</b>	192	244	473	677	492	394	593	956	1,336
Total investments and cash <sup>3</sup>	US\$M	<b>27,903</b>	31,359	29,955	28,851	28,966	28,583	30,619	31,525	28,024	25,328

1 Reflects shares on an accounting basis.

2 Earnings per share on a cash basis is calculated with reference to profit after tax adjusted for amortisation and impairment of intangibles net of tax and other non-cash items.

3 Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties.

# Glossary of insurance terms

<b>Accident year experience</b>	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.
<b>Acquisition cost</b>	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.
<b>Attritional claims ratio</b>	Total of all claims with a net cost of less than \$2.5 million as a percentage of net earned premium.
<b>Admitted insurance</b>	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
<b>Agent</b>	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.
<b>Broker</b>	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.
<b>Capacity</b>	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.
<b>Casualty insurance</b>	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.
<b>Catastrophe reinsurance</b>	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.
<b>Claim</b>	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
<b>Claims incurred</b>	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
<b>Claims provision</b>	The estimate of the cost of settling present and future claims and associated claims adjustment expenses plus a risk margin that reflects the inherent uncertainty in the net discounted central estimate.
<b>Claims ratio</b>	Net claims incurred as a percentage of net earned premium.
<b>Combined operating ratio</b>	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.
<b>Commercial lines</b>	Refers to insurance for businesses, professionals and commercial establishments.
<b>Commission</b>	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.
<b>Commission ratio</b>	Net commission expense as a percentage of net earned premium.
<b>Credit spread</b>	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
<b>Credit spread duration</b>	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.
<b>Deductible</b>	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
<b>Deferred acquisition costs</b>	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.
<b>Excess of loss reinsurance</b>	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.
<b>Expense ratio</b>	Underwriting and administrative expenses as a percentage of net earned premium.
<b>Facultative reinsurance</b>	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
<b>General insurance</b>	Generally used to describe non-life insurance business including property and casualty insurance.
<b>Gross claims incurred</b>	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
<b>Gross earned premium (GEP)</b>	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.



<b>Gross written premium (GWP)</b>	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
<b>Incurred but not reported (IBNR)</b>	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.
<b>Insurance profit</b>	The sum of the underwriting result and investment income on assets backing policyholders' funds.
<b>Insurance profit margin</b>	The ratio of insurance profit to net earned premium.
<b>Inward reinsurance</b>	See Reinsurance.
<b>Large individual risk and catastrophe claims ratio</b>	The aggregate of claims each with a net cost of \$2.5 million or more as a percentage of net earned premium.
<b>Lenders' mortgage insurance (LMI)</b>	A policy that protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
<b>Lead/non-lead underwriter</b>	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.
<b>Lender-placed insurance (LPI)</b>	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.
<b>Letters of credit (LoC)</b>	Written undertaking by a financial institution to provide funding if required.
<b>Lloyd's</b>	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
<b>Lloyd's managing agent</b>	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.
<b>Long tail</b>	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.
<b>Managing General Agent (MGA)</b>	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.
<b>Maximum event retention (MER)</b>	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.
<b>Multi-peril crop scheme</b>	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
<b>Net claims incurred</b>	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
<b>Net claims ratio</b>	Net claims incurred as a percentage of net earned premium.
<b>Net earned premium (NEP)</b>	Net written premium adjusted by the change in net unearned premium for a year.
<b>Net investment income</b>	Gross investment income including foreign exchange gains and losses and net of investment expenses.
<b>Net written premium (NWP)</b>	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
<b>Outstanding claims provision</b>	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
<b>Outward reinsurance</b>	See Reinsurance.
<b>Personal lines</b>	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
<b>Policyholders' funds</b>	Those financial assets held to fund the net insurance liabilities of the Group.
<b>Premium</b>	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
<b>Prescribed Capital Amount (PCA)</b>	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.

## Glossary of insurance terms CONTINUED

<b>Probability of adequacy</b>	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.
<b>Proportional reinsurance</b>	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
<b>Prudential Capital Requirement (PCR)</b>	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
<b>Recoveries</b>	The amount of claims recovered from reinsurance, third parties or salvage.
<b>Reinsurance</b>	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.
<b>Reinsurance to close</b>	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.
<b>Reinsurer</b>	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.
<b>Retention</b>	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
<b>Retrocession</b>	Reinsurance of a reinsurer by another reinsurance carrier.
<b>RoAC</b>	Return on allocated capital.
<b>ROE</b>	Return on equity, measured as Group statutory net profit after tax as a percentage of average shareholders' funds.
<b>RTSR</b>	Relative total shareholder return.
<b>Short tail</b>	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
<b>Solvency ratio</b>	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.
<b>Stop loss reinsurance</b>	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.
<b>Surplus (or excess) lines insurers</b>	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.
<b>Survival ratio</b>	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.
<b>Syndicate</b>	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
<b>Treaty reinsurance</b>	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.
<b>Underwriting</b>	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.
<b>Underwriting expenses</b>	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
<b>Underwriting result</b>	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
<b>Underwriting year</b>	The year in which the contract of insurance commenced or was underwritten.
<b>Unearned premium</b>	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
<b>VWAP</b>	Volume weighted average price.
<b>Written premium</b>	Premiums written, whether or not earned, during a given period.



**QBE Insurance Group Limited**

Level 27, 8 Chifley Square, Sydney NSW 2000 Australia

telephone +61 2 9375 4444

[www.qbe.com](http://www.qbe.com)