QBE Insurance Group

ANNUAL REPORT DECEMBER 2008

Contents

QBE's history dates back to 1886 with the foundation of The North Queensland Insurance Company Limited, which commenced business writing marine insurance for its then parent company, Burns Philp. The founder of Burns Philp and QBE was Sir James Burns, a trader who established a worldwide shipping network and infrastructure to support the growing business, alongside an insurance company which developed a similar global network.

QBE's story is one of pioneering spirit in the face of many challenges. QBE has achieved success in its chosen field through careful risk management, strategic acquisitions and selective growth to become one of the top 25 global insurers and reinsurers as measured by net written premium. Over the past two years, QBE has completed a number of strategic acquisitions in the US with QBE now generating around 40% of annual gross written premium from the Americas.

In recognition of its substantial US-based operations, QBE's 2008 annual report features images from the extensive collection of artworks in The Frick Collection in New York, acknowledging a similar story of the pioneering spirit of one of America's most successful industrialists, Henry Clay Frick (1849–1919).

JOSEPH MALLORD WILLIAM TURNER (1775–1851)
The Harbor of Dieppe, 1826

Acquired by Frick in 1914, The Harbor of Dieppe is one of Turner's classic large exhibition pieces from a series representing Northern European continental ports.

2008 in review

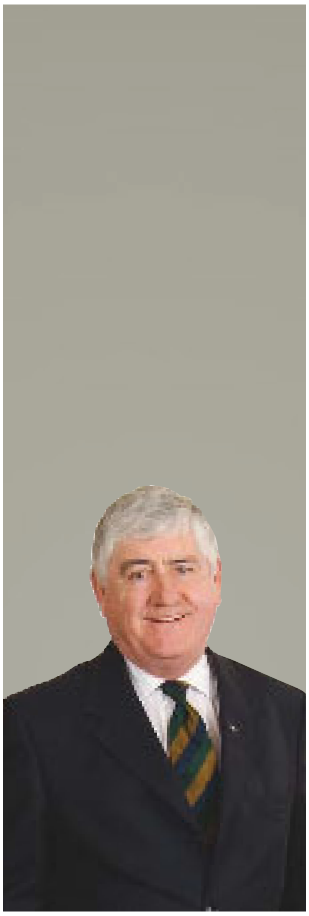
PROFIT AND DIVIDEND		2008	2007	% CHANGE
Net profit after income tax	$M	**1,859**	1,925	(3)
Profit before income tax	$M	**2,420**	2,549	(5)
Basic earnings per share[1]	cents	**207.7**	224.1	(7)
Diluted earnings per share[2]	cents	**205.9**	217.3	(5)
Dividend per share	cents	**126.0**	122.0	3
Shareholders' funds	$M	**11,159**	8,479	32
Return on average shareholders' funds[3]	%	**20.9**	26.1	

GROUP OPERATING PERFORMANCE		2008	2007	% CHANGE
Gross written premium	$M	**13,142**	12,406	6
Gross earned premium	$M	**12,853**	12,361	4
Net earned premium	$M	**11,087**	10,210	9
Combined operating ratio	%	**88.5**	85.9	
Insurance profit	$M	**2,183**	2,262	(4)
Insurance profit to net earned premium	%	**19.7**	22.2	
Cashflow from operations	$M	**2,251**	2,374	(5)

CONTRIBUTIONS BY REGION			2008	2007	% CHANGE
Australian operations	Gross earned premium	$M	**2,800**	2,518	11
	Combined operating ratio	%	**90.6**	82.9	
Asia Pacific operations	Gross earned premium	$M	**626**	570	10
	Combined operating ratio	%	**82.9**	82.7	
European operations	Gross earned premium	$M	**4,753**	5,158	(8)
	Combined operating ratio	%	**85.6**	84.8	
the Americas	Gross earned premium	$M	**4,590**	3,976	15
	Combined operating ratio	%	**93.6**	93.6	
Equator Re[4]	Gross earned premium	$M	**1,978**	1,631	21
	Combined operating ratio	%	**83.8**	80.5	
Investment income	Net of finance costs and investment expenses	$M	**1,177**	1,132	4

ALL AMOUNTS IN THIS REPORT ARE DENOMINATED IN AUSTRALIAN DOLLARS UNLESS OTHERWISE SPECIFIED.

(1) Reflects shares notified to the Australian Securities Exchange. Refer to note 25(A) to the financial statements.
(2) Assumes that all hybrid securities are fully dilutive.
(3) Weighted for the effect of the share issues in the second half of 2008.
(4) Equator Re is the Group's captive reinsurance company based in Bermuda.



John Cloney
CHAIRMAN

Chairman's report

In a year of considerable volatility in the global financial markets, I am pleased to report that QBE has produced a solid financial result for shareholders with net profit after tax of $1,859 million, down 3% compared with last year. The underwriting and insurance profit, although slightly lower than last year due to an increase in large individual risk and catastrophe claims, were nevertheless strong technical results. QBE is not immune to the impact of the global financial crisis with results affected by lower interest rates, unrealised losses on equities and foreign exchange volatility.

NET PROFIT AFTER INCOME TAX

$1,859 million

Down **3%** from last year

DIVIDEND

126.0 cents

Up **3%** from last year

SHAREHOLDERS' HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER		2008	2007
Net profit after income tax	$M	**1,859**	1,925
Basic earnings per share[1]	cents	**207.7**	224.1
Diluted earnings per share[2]	cents	**205.9**	217.3
Dividend payout	$M	**1,187**	1,068
Dividend per share[1]	cents	**126.0**	122.0
Net tangible assets per share[1]	$	**5.73**	6.83
Cashflow from operations	$M	**2,251**	2,374
Total investments and cash[3,4]	$M	**28,541**	24,606
Total assets	$M	**48,383**	39,613
Shareholders' funds	$M	**11,159**	8,479
Return on average shareholders' funds[5]	%	**20.9**	26.1
Borrowings to shareholders' funds[6]	%	**32.9**	40.8

(1) Reflects shares notified to the Australian Securities Exchange. Refer to note 25(A) to the financial statements.
(2) Assumes that all hybrid securities are fully dilutive.
(3) Excludes ABC financial assets pledged for funds at Lloyd's.
(4) Includes financial assets, cash and investment properties.
(5) Weighted for the effect of the share issues in the second half of 2008.
(6) Excludes ABC securities for funds at Lloyd's.

The Group was able to benefit from opportunities created by the market turmoil through acquisition of a number of lower priced assets, instituting a number of initiatives in relation to foreign exchange and debt markets, as well as seeking support from shareholders to fund the acquisitions and to ensure sufficient balance sheet strength and flexibility for the future.

In recognition of the strong return on equity and profit, and as a sign of our confidence in future earnings, the directors have declared a final dividend of 65.0 cents per share which includes the new share issues in December 2008 and January this year. The total dividend for 2008 is 126.0 cents per share, up 3% compared with 122.0 cents for the year ended 31 December 2007. The total dividend payout for 2008 is $1,187 million, up 11% on an

Frick had a particular fondness for landscapes as exemplified by this classic work by Constable which was acquired in 1908 when the family first moved to New York.

JOHN CONSTABLE (1776–1837)
Salisbury Cathedral from the Bishop's Garden, 1826

increased number of shares, compared with $1,068 million in 2007. The continued growth in our overseas profits means that the proportion of Australian profits and tax paid is lower resulting in a 20% franking of the final dividend, consistent with the franking rate for the interim 2008 dividend. Books close on 11 March and the final dividend is payable on 31 March.

The value of QBE shares varied considerably throughout the year; however, they outperformed the Australian All Ordinaries Accumulation Index with a reduction in value for the year of 18.4% compared with the ASX All Ordinaries Accumulation Index which recorded a reduction of 40.4%. An investment in QBE's shares has generated a compound annual average growth rate of 24% over five years, 19% over 10 years and 22% over 20 years.

Given the global financial crisis, the return on average shareholders' funds was an excellent 20.9% compared with the record of 26.1% last year.

Following funding and other capital initiatives during the year, the number of issued shares notified to the Australian Securities Exchange (including the share purchase plan in January 2009) increased by 106 million to 992 million. Shareholders' funds increased by 32% to $11,159 million from retained profits, dividend reinvestment and the recent share issues.

QBE's attention to risk management and our cautious approach to managing the balance sheet have assisted the company to weather the volatility in financial markets in 2008 and enabled the company to take advantage of opportunities to assist growth and increase shareholder wealth. During the year we completed a number of acquisitions in Australia, the UK and the Americas for a total cost of approximately $3.4 billion. Funds to assist completion of the acquisitions were provided from excess capital built up in prior years, and an institutional share placement and a share purchase plan providing $2.1 billion of additional capital in total.

I would particularly like to acknowledge the over 48,000 retail shareholders who participated in the share purchase plan which was restricted by law to a maximum $5,000 subscription per shareholder at the institutional placement price of $20.50 per share. Due to substantial oversubscriptions against our target of $100 million, the directors scaled back applications on the most equitable basis which was based on the number of shares held. In total we issued an additional 5.6 million shares to retail shareholders raising $115 million. The percentage scaled back for retail shareholders was approximately the same as for institutional shareholders.

The volatility in debt markets allowed us to repurchase over $1,003 million of our long-term perpetual debt securities at a substantial 30% discount. The long-term debt was acquired without cash through an offer to exchange $702 million of short-term senior debt. In addition, short-term bank finance of around $500 million was utilised to assist cash flow and refinance other borrowings. This enabled us to reduce the ratio of borrowings to shareholders' funds to 32.9%, which is the lowest level for many years and will provide increased flexibility when debt markets improve.

Following considerable acquisition, capital and funding activity during the year and the effect of the weaker Australian dollar at year end, capital and solvency are now considered to be at near optimum levels. Based on the estimated capital requirement for Australian regulated insurance companies, the Group capital adequacy multiple at 31 December 2008, after allowing for the final dividend, was around 1.7 times the minimum requirement of $4.6 billion. This compares with $3.6 billion at the end of last year. The increase in the minimum requirement is due to higher risk-based capital charges introduced by the Australian Prudential Regulation Authority ("APRA"), the weaker Australian dollar and acquisitions during the year. We have made a number of assumptions in applying APRA's risk-based capital approach for Australian insurers, taking into account regulation for corporate groups due to commence on 31 March 2009.

The directors continue to ensure that the financial strength of all QBE's operating entities is maintained at levels adequate to meet the requirements of our policyholders, business counterparties, regulatory authorities and rating agencies. During the year, Standard & Poor's confirmed its A+ financial strength rating for our main operating entities and equivalent ratings have been confirmed by AM Best, Fitch and Moody's.

While the majority of the global insurance industry has fared reasonably well in managing the impact of the global financial crisis, there is an expectation of an increase in regulatory supervision. QBE is well placed to comply with the new regulatory requirements and considers that capital at entity and Group level is more than adequate to meet our expected requirements.

Due to our now substantial overseas businesses in 45 countries, 76% of all premium revenue is derived in currencies other than Australian dollars and a similar level of our net assets is held in foreign currencies. We manage our exposure to foreign currency in each territory by matching our assets and liabilities. We also have a policy of fully hedging our investments in our overseas subsidiaries to ensure that shareholders' funds in Australian dollars are protected where practical. The hedging of our investment in overseas subsidiaries is completed using a combination of the purchase of forward foreign exchange contracts and borrowings in foreign currencies. There was considerable volatility in foreign exchange rates during 2008 resulting in the Australian dollar moving in a range from US$0.98 to US$0.60 during the year. The use of forward foreign exchange contracts results in regular settlement funding and, in times of volatility, requires careful management in order to mitigate liquidity risk and fluctuation of Group capital levels. During the forthcoming year, we intend to consolidate further our forward foreign exchange contracts and reduce the number and exposure to these contracts where possible. We have reviewed our hedging policy and may consider not hedging part or all of our investment in foreign subsidiaries from time to time. The management of our foreign exchange exposures is to preserve liquidity and to ensure greater stability of our solvency and capital adequacy levels at Group and divisional level.

The nature of our business, operating in the financial sector, requires a strong focus on risk management. QBE has an effective risk management structure with a clear focus on the key profit drivers and has demonstrated over many years that it does have effective risk controls in place. The annual report includes a number of statements on our risk management framework and associated corporate governance structure. Details are set out on pages 16 to 18 in the statement on risk management, regulatory developments and climate change, and pages 45 to 46 in the Group's corporate governance statement.

The success of QBE's business is highly dependent on the quality of our staff. The board strongly supports staff development, succession planning and the provision of adequate incentives to reward and retain our quality people. As in past years, the annual report includes extensive detail on the Group's remuneration practices, including at risk pay through incentives and deferred compensation entitlements for senior management. Details of the incentive arrangements and key management remuneration are set out in notes 27 and 28 to the financial statements and the remuneration report which forms part of the directors' report.

The majority of our incentive schemes commence on achievement of a minimum return on shareholders' funds of 14% for Group employees and 15% for divisional employees using the seven year spread basis of accounting. This basis of accounting allocates realised and unrealised gains on equities and properties evenly over a period of seven years. The net profit after tax for 2008 using the seven year spread basis of accounting was $1,818 million compared with $1,894 million in 2007. Applying this basis, the return on opening shareholders' funds adjusted for dividends and share capital issued during the year was 22.6% compared with 28.4% last year.

2009 will be another difficult year with interest rates in Australia, UK and the US at their lowest level for a long time, the banks nervous about lending, profits of most corporations under pressure and many countries with high unemployment and negative growth. In these circumstances, we will be very pleased if we are able to maintain profitability at 2008 levels.

The Group's targets for 2009 are set out on page 15. The achievement of these targets is subject to there being no material movement in budgeted foreign exchange rates, large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans, and no further fall in interest rates. Our targets are based on our proven and successful strategy for growth through acquisition and product and geographic diversification. This strategy has been successful over many years and has consistently added to the wealth of QBE shareholders. Management has in place efficient and effective business planning processes, clearly focused on minimising risk relating to our insurance and investment operations and designed to protect the interests of all our stakeholders. Our prospects for the future have been, and will continue to be, influenced by changes in global economic and environmental conditions. With changing market conditions, your directors and management will maintain a careful watch on markets and matters affecting our industry and will adjust our strategies and plans as appropriate.

On behalf of the directors, I acknowledge the significant achievements and hard work of all staff around the world. In particular, congratulations to the CEO, Frank O'Halloran, and his management team for their oversight and contribution in protecting the assets of the Group and producing another solid financial and technical result in what has been a very difficult year for the insurance and financial sector. The board recognises the dedication of the QBE staff and their commitment to customer service and upholding the values associated with the unique QBE culture that has been such an important part of the company's history, growth and success over many years.

I would particularly like to acknowledge the significant contribution of each of my fellow directors to the development and supervision of the Group during the year.

John Cloney
Chairman

10 year history

FOR THE YEAR ENDED 31 DECEMBER[1]		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Gross written premium	$M	**13,142**	12,406	10,372	9,408	8,766	8,350	7,723	6,793	4,406	2,877
Gross earned premium	$M	**12,853**	12,361	10,069	9,171	8,571	7,816	7,197	6,298	4,399	2,692
Net earned premium	$M	**11,087**	10,210	8,158	7,386	6,781	6,036	5,642	4,634	3,456	2,204
Claims ratio	%	**57.6**	54.3	55.8	59.9	61.3	63.3	67.6	76.6	71.2	70.1
Commission ratio	%	**17.2**	18.5	17.0	16.9	17.5	18.2	17.7	20.2	18.3	19.9
Expense ratio	%	**13.7**	13.1	12.5	12.3	12.4	12.3	12.4	12.8	13.0	13.9
Combined operating ratio	%	**88.5**	85.9	85.3	89.1	91.2	93.8	97.7	109.6	102.5	103.9

The 2008 underwriting result and insurance profit were solid technical results in a year of increased frequency of large individual risk and catastrophe claims.

		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Investment income[2]											
before investment gains/losses	$M	**1,210**	776	609	502	431	303	340	336	250	189
after investment gains/losses	$M	**1,177**	1,132	822	718	519	413	189	349	310	243
Insurance profit (loss)	$M	**2,183**	2,262	1,788	1,288	928	627	406	(119)	186	56
Insurance profit (loss) to net earned premium	%	**19.7**	22.2	21.9	17.4	13.7	10.4	7.2	(2.6)	5.4	2.5
Operating profit (loss)											
before income tax	$M	**2,420**	2,549	2,012	1,523	1,115	765	311	(99)	220	156
after income tax and minority interest	$M	**1,859**	1,925	1,483	1,091	857	572	279	(25)	179	132

Volatility in financial markets had an adverse effect on equity markets and reduced interest yields. QBE's results benefited from foreign exchange gains and profit on the repurchase of debt securities.

		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Number of shares on issue[3]	millions	**987**	886	819	794	745	672	615	585	429	395
Shareholders' funds	$M	**11,159**	8,479	6,283	5,093	4,032	3,313	2,954	2,620	1,709	1,135
Total assets	$M	**48,383**	39,613	31,757	29,665	25,036	20,443	20,567	18,611	13,948	8,559
Net tangible assets per share[3]	$	**5.73**	6.83	5.95	4.76	4.10	4.17	3.96	3.67	3.13	2.57
Borrowings to shareholders' funds[4]	%	**32.9**	40.8	37.6	41.8	44.8	40.3	49.3	32.0	53.5	22.7
Basic earnings per share[3]	cents	**207.7**	224.1	184.8	142.5	123.1	86.5	42.7	(10.5)	42.6	33.8
Diluted earnings per share[5]	cents	**205.9**	217.3	173.5	131.5	109.3	77.5	43.4	(4.9)	40.7	33.8
Return on average shareholders' funds[6]	%	**20.9**	26.1	26.1	23.9	24.5	18.3	10.0	(1.1)	12.6	12.0
Dividend per share	cents	**126.0**	122.0	95.0	71.0	54.0	42.0	35.0	30.0	31.0	32.5
Dividend payout	$M	**1,187**	1,068	774	556	392	281	213	155	132	130
Cash flow from operations	$M	**2,251**	2,374	2,039	1,987	2,110	2,089	1,511	280	173	242
Total investments and cash[7,8]	$M	**28,541**	24,606	19,972	17,597	14,975	11,823	11,504	9,183	7,334	5,232

Shareholders were rewarded with a strong return on shareholders' funds and a dividend payout up 11% on an increased number of shares.

(1) Financial information for 2004 and subsequent years is presented in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"). Financial information for 2003 and prior years has not been restated to AIFRS.
(2) Excludes amortisation and impairment of goodwill/intangibles.
(3) Reflects shares notified to the Australian Securities Exchange. Refer to note 25(A) to the financial statements.
(4) Excludes ABC securities for funds at Lloyd's.
(5) Assumes that all hybrid securities are fully dilutive.
(6) 2008 return has been weighted for the effect of the share issues in the second half of that year.
(7) Excludes ABC financial assets pledged for funds at Lloyd's.
(8) Includes financial assets at fair value through the income statement, cash and cash equivalents and investment properties.

Frank O'Halloran
CHIEF EXECUTIVE OFFICER

Chief executive officer's report

2008 has been one of the most difficult years for the insurance industry in a long time.

GROSS WRITTEN PREMIUM

$13,142 million

Up **6%** from last year

INSURANCE PROFIT MARGIN

19.7%

Compared with **22.2%** last year

GROUP KEY RATIOS

		HALF YEAR TO 30 JUN 2008	HALF YEAR TO 31 DEC 2008	FULL YEAR TO 31 DEC 2008	HALF YEAR TO 30 JUN 2007	HALF YEAR TO 31 DEC 2007	FULL YEAR TO 31 DEC 2007
Gross written premium	$M	**6,603**	**6,539**	**13,142**	6,520	5,886	12,406
Gross earned premium	$M	**5,958**	**6,895**	**12,853**	5,751	6,610	12,361
Net earned premium	$M	**5,108**	**5,979**	**11,087**	4,749	5,461	10,210
Claims ratio	%	**54.7**	**60.1**	**57.6**	55.7	53.2	54.3
Commission ratio	%	**17.2**	**17.2**	**17.2**	18.2	18.7	18.5
Expense ratio	%	**13.9**	**13.5**	**13.7**	12.3	13.7	13.1
Combined operating ratio	%	**85.8**	**90.8**	**88.5**	86.2	85.6	85.9
Insurance profit to net earned premium	%	**21.8**	**17.7**	**19.7**	22.2	22.1	22.2
Return on average shareholders' funds	%	**19.9**	**22.0**	**20.9**	28.1	24.8	26.1

GEOGRAPHIC SEGMENTS

GROSS EARNED PREMIUM	2008 %	2007 %
Australia	**21.8**	20.4
Asia Pacific	**4.9**	4.6
European operations	**37.0**	41.7
the Americas	**35.7**	32.2
Equator Re	**0.6**	1.1

Ville-d'Avray, purchased in 1898 and referred to by Frick as "the gem of his collection", is the earliest of his acquisitions to be seen in the Frick gallery today.

JEAN-BAPTISTE-CAMILLE COROT (1796–1875)
Ville-d'Avray, c.1860

The industry has witnessed a significant increase in the frequency of catastrophe claims and property, financial and credit-related large individual risk claims, a major fall in equity markets and substantially lower interest rates. QBE was not immune to these adverse events; however, through careful risk management, QBE has produced a solid insurance result and emerged with its business in excellent shape and a strong balance sheet to enable us to convert new opportunities.

Against a background of these difficult insurance and investment conditions, we are reasonably pleased to report a net profit after income tax of $1,859 million, down 3%, and an insurance profit before income tax of $2,183 million, down 4%. The profit after income tax was after a number of significant items resulting from the global financial crisis, including substantial unrealised losses on our equity portfolios, large foreign exchange gains, profit on the restructure of our debt, an increase in provisions for potential large individual risk claims on financial and credit insurance policies and the impact on investment income of lower interest rates. The large foreign exchange gains and the profit on the repurchase of our perpetual debt offset the equity losses. The significant items resulting from the financial downturn during the year were:

- realised and unrealised net losses on equities of $554 million before tax compared with a gain of $100 million last year;
- foreign exchange gains of $409 million before tax, mainly from the forward purchase of US dollars for the PMI Australia acquisition, compared with gains of $15 million last year;
- profit of $303 million before tax on the repurchase of some perpetual debt announced in December;
- our prudent approach in reserving $200 million before tax for reported and potential claims on financial and trade credit insurance policies; and
- a lower yield on cash and fixed interest investments of 5.1%, down from 5.9% due to lower interest rates.

The insurance profit was especially pleasing given the circumstances that prevailed during the year. For the greater part of the year, insurance pricing continued to be under pressure, particularly in large commercial risks. We experienced an overall average reduction of less than 2% in premium rates, albeit less than expected, for our worldwide portfolio. This, together with an increase in the frequency of large individual risk and catastrophe claims and lower interest yields on policyholders' funds, has meant that the ratio of insurance profit to net earned premium reduced from 22.2% to 19.7%. Our insurance profit margin was in line with our upgraded target of around 20% advised to shareholders in August 2008.

HANS HOLBEIN, THE YOUNGER (1497/1498–1543)
Sir Thomas More, 1527

Frick delivered an extraordinary coup in 1912 when he succeeded in acquiring Holbein's celebrated portrait of Sir Thomas More which had tantalised American collectors for 15 years or more.

As previously indicated to the market, we have absorbed the majority of the impact of the significantly lower interest rates through our risk margins in outstanding claims. We believe that the current risk-free government rates for 2010 onwards are artificially low and we expect them to increase over the longer term to the more normalised rates experienced over the past 30 years. With the exception of Australia, no explicit adjustment has been made for the potential lower inflation rate. Our probability of adequacy of outstanding claims using current risk-free government rates was 86.1%. This compares with a probability of 89.4% using swap rates and 93.9% based on our expectations for longer term risk-free government interest rates.

Cash flow from operations was again very strong at $2.3 billion. This compares with $2.4 billion last year. Cash flow, new investment portfolios from acquisitions and the weaker Australian dollar have increased Group investments and cash from $24.6 billion to $28.5 billion at year end.

Income tax expense reduced from 24% of profit before tax to 23%. The lower tax rate is due to the increase in profit earned in lower tax jurisdictions and lower corporate tax rates in the UK.

QBE continued its successful strategy of growth from acquisitions with a further 11 businesses acquired during the year. We have now completed around 120 acquisitions in the past 25 years to build our worldwide business and our product diversification and geographic spread. The 2008 acquisitions assisted growth and profit for the year, with the contribution in 2009 expected to add around $900 million of additional gross written premium and around $375 million of profit after tax. The acquisitions include:

- Deep South, a specialist commercial motor underwriting agency in the US, effective from 1 January;
- North Pointe Holdings, a specialist general insurer in the US, effective from 30 April;
- Residential lenders' mortgage insurers, PMI Australia and PMI Asia ("QBE LMI"), effective from 23 October and 17 December respectively;
- Community Association Underwriters agency in the US, effective from 1 November;
- ZC Sterling, a specialist home insurance underwriting agency in the US, effective from 1 December;
- Burnetts marine and energy agency in the US, effective from 31 December; and
- Compusure, FPUA and UAA underwriting agencies in Australia and the SIU underwriting agency in the US.

The acquisition of nine specialist product underwriting agencies in the past two years is part of our strategy to increase our distribution channels, secure profitable premium income and further diversify our products. The acquisitions have also enabled us to reduce our total commission and expense ratios because we consolidate the profits of the acquired agencies.

QBE's investments are substantially managed by our in-house investment team. We continued our strategy of maintaining a low risk absolute return approach to our investment portfolio. This focus on a quality short duration high rated cash and fixed interest portfolio rather than yield in the current economic climate has meant that we have had no impairment of any cash or fixed interest investments during 2008. Our equity portfolio outperformed market benchmarks; however, we did incur significant realised and unrealised losses.

INSURANCE PROFITABILITY

The Group's insurance profit reduced from $2,262 million last year to $2,183 million. Insurance profit comprises the underwriting result plus income on investments set aside to meet our liabilities to policyholders. The reduction in insurance profit was due to a higher frequency of large individual risk and catastrophe claims and lower investment yields. We monitor our performance against our peers and we continue to outperform the majority in the various markets in which we operate. Our consistent outperformance reflects the Group's focus on each product and each country meeting QBE's minimum requirements for return on allocated capital and on the development of our people.

The Group's combined operating ratio (total claims, commissions and expenses as a percentage of net earned premium) was 88.5% compared with 85.9% last year. The higher combined operating ratio is primarily due to an increase in frequency of large individual risk and catastrophe claims. We were able to maintain our overall attritional claims at 2007 levels even though we experienced a slight increase in attritional claims ratios in some products due to lower pricing and claims inflation. All of our insurance divisions continue to produce strong underwriting profits and the great majority of our products and operations in 45 countries continue to meet our minimum profit requirements.

Gross written premium increased by 6% to $13,142 million and gross earned premium increased by 4% to $12,853 million. Growth was mainly from the acquisitions made in 2007 and the acquisition of new distribution channels. We continued to achieve a high customer retention; however, new business was less than our target due to our unwillingness to compete at inadequate prices. Overall average premium rates declined although they were slightly better than expected. Net earned premium increased by 9% to $11,087 million. The higher growth in net earned premium compared with the growth in gross earned premium is due to the lower overall cost of reinsurance protections as a percentage of premium earned.

The Group's cost of reinsurance protections as a percentage of gross earned premium decreased from 17% to 14%. This is due to generally lower reinsurance costs, synergies from new acquisitions and increased participation of our captive reinsurer, Equator Re. QBE's net exposure to major catastrophes from the largest single disaster scenario was 3.7% of net earned premium at year end compared with 3.5% at the end of last year. The purchase of reinsurance protections is a very important part of risk management involving the protection of our balance sheet and profitability from large individual risk claims and catastrophes. The 2008 reinsurance protections included a new group aggregate cover for large individual risk claims and catastrophes and this has been beneficial given the level of large claims in 2008.

Gross claims incurred as a percentage of gross earned premium increased from 53.8% to 60.2%. Net claims incurred, which is after recoveries from our reinsurance protections, as a percentage of net earned premium, increased from 54.3% to 57.6%. Our overall attritional claims ratio (i.e. claims below $2.5 million) was in line with last year and our expectations. The attritional claims ratio was assisted by savings on central estimates. The net claims ratio from large individual risk claims and catastrophes (i.e. claims of $2.5 million and above) was considerably higher at 10.2% compared with 6.6% last year. QBE experienced an increased frequency of claims from small to medium size natural catastrophes and large individual risk claims during the year. Large individual risk claims include a prudent provision of $200 million for reported and potential claims on financial and credit policies exposed to the global financial crisis. We incurred claims from 29 weather-related catastrophes with a net cost of $424 million compared to 21 catastrophes in 2007 at a net cost of $317 million. Catastrophes included windstorms in Australia and flood, hail, tornadoes and hurricane losses in the US, particularly Hurricane Ike. Large individual risk claims were considerably more than we anticipated due to the increased frequency of large losses from property and our credit related and professional indemnity products.

The combined commission and expense ratio reduced from 31.6% to 30.9% reflecting the benefit of acquiring underwriting agencies. The commission ratio was 17.2% compared with 18.5%, with the reduction due to the elimination of the commission margins paid to agents acquired in the past two years. The expense ratio increased from 13.1% to 13.7% primarily due to the expenses of the acquired underwriting agencies.

More detail on insurance profitability is contained in the report on each division on pages 24 to 37.

INVESTMENTS

Investment income net of borrowing costs and investment expenses increased from $1,132 million to $1,177 million. The substantial realised and unrealised net losses on our equity portfolio of $554 million and the lower interest yields have been offset by large foreign exchange gains of $409 million and the profit of $303 million on the repurchase of some of our perpetual debt in December 2008. We have continued with our low risk absolute return strategy, with our focus during 2008 being directed to the quality of our investment portfolio rather than yield. We continue to remain at the short end of the yield curve to provide us with the flexibility that we need to move quickly. Our strategy has meant that we have avoided writedowns to date on our cash and fixed interest portfolios and we have slightly outperformed on external equity benchmarks. Gross investment income was $766 million compared with $1,398 million last year. The gross investment yield was 2.9% compared with 6.3%.

We have received numerous queries from analysts and shareholders relating to the quality of our investment portfolio and asking for details of our exposure to financial institutions affected by the global financial crisis. On regular occasions, we have updated the market on our investment portfolio. The fact that we have no impairment in any one of our cash and fixed interest portfolios is testament to the effectiveness of our low risk strategy. There are some third parties who suggest that the payout pattern of our liabilities should be matched by a similar maturity pattern of our cash and fixed interest investment portfolios. We are pleased that we have maintained our short duration strategy and we believe that we would otherwise have had exposure to a number of impaired investments, incurring a significant discount or total loss to book value. Our quality cash and fixed interest investments currently have an average duration of 0.6 years.

Since year end, we have reduced our net equity exposure to below 4% of total investments and cash after approximately one third of the equity portfolio was hedged on 16 January 2009. We will maintain a low weighting to equities until there are clearer signs that equity markets will improve.

BALANCE SHEET

Our balance sheet remains conservative with a low risk investment portfolio, strong risk margins in insurance liabilities, a low debt to equity ratio and Group capital adequacy at 1.7 times APRA's minimum capital requirements for Australian licensed insurers. Assets and liabilities, where practical, were matched by currency and our investment in overseas subsidiaries is protected in Australian dollars through forward foreign exchange contracts. There was considerable volatility on foreign exchange markets during the year and, at year end, the value of the Australian dollar was down 20% against the US dollar and was 9% stronger against sterling when compared with rates at the end of 2007. The weakening of the Australian dollar against the US dollar has increased the value of our assets and liabilities when converted into Australian dollars. This is particularly the case with reinsurance recoveries on outstanding claims which have increased from $4,360 million to $5,043 million. We continue to maintain prudent provisions for doubtful reinsurance and other recoveries.

For the purposes of discounting our outstanding claims as required by Australian accounting standards, we have adopted the significantly lower government bond yields at year end as the indicative risk-free rate. These lower yields have had a large adverse impact on the probability of adequacy of outstanding claims which has reduced from 94.0% to 86.1%, or 89.4% using swap rates as proxy risk-free rates. This is still well in excess of the minimum 75% required by APRA. The lower interest rates have reduced the amount of discount applicable to outstanding claims (and included in risk margins) by approximately $800 million. Whilst we have used the risk-free government rates for calculating the discount, we are of the view that this approach is extremely conservative, particularly as our low risk investment portfolios consistently yield well in excess of government rates. We also anticipate investment yields to be higher beyond 2010. Outstanding claims of $16.1 billion are expected to be paid out over 25 years with 34% estimated to be paid in 2009, 22% in 2010 and the balance over longer periods. Importantly, our overall undiscounted risk margins as a percentage of undiscounted outstanding claims are at the same level as last year.

Note 22 in the annual report includes an undiscounted net claims development table for 2001 to 2008 accident years. Our claims incurred and the claims development statistics are maintained on either an accident year or underwriting year basis for each product, business unit and operating entity. For the annual financial statements, the claims development of our overseas operations is converted into Australian dollars using exchange rates at the end of the current financial year. We continue to experience a positive run-off of recent accident years from our conservative approach to claims provisioning which resulted in the release of risk margins as the claims were settled for amounts less than central estimates. The 2008 and prior accident years include substantial risk margins which will be released over time assuming our claims continue to be settled within central estimates.

As mentioned at the time of reporting the acquisition of the residential lenders' mortgage insurer, QBE LMI, we retain significant insurance provisions and risk margins to cover the possible impact of the current financial downturn on mortgage defaults. Included in unearned premium and outstanding claims liabilities are significant risk margins. These, together with additional reinsurance cover, provide protection for a potential deterioration of around 15 times the current 60 day mortgage default rate in Australia, New Zealand and Hong Kong.

OUTLOOK

The acquisitions made in 2008 together with anticipated overall premium rate increases will benefit gross written premium growth in 2009. Growth will also be assisted by the weaker Australian dollar on the conversion of our substantial overseas premium, particularly for our US dollar business, if the Australian dollar remains at current levels. We expect to maintain our high customer retention ratio, increase overall average premium rates by up to 4% and maintain organic growth at least sufficient to replace lapsed business. These will be partly offset by the impact on premium income of lower sales turnover and higher self-insurance for many of our clients due to the economic downturn. At projected average exchange rates of US$0.68 and £0.45, we expect gross written premium and net earned premium to increase by over 20% in 2009.

The risk profile of our insurance and reinsurance operations around the world continues to be carefully managed. The additional reinsurance protection we purchased for three years commencing from 1 January 2008 provides cover against a frequency of catastrophes and large individual risk claims in 2009 of between 8.5% and 9.9% of targeted net earned premium. The maximum event retention from our largest estimated realistic disaster scenario, which is currently a US$75 billion industry insured loss from a San Francisco earthquake, is 3.8% of projected net earned premium with the increase over 2008 primarily due to the weaker Australian dollar on conversion of US dollar exposures. Our 2008 attritional claims ratio (i.e. net claims less than $2.5 million) was in line with expectations and we expect it to continue to remain below 50% in 2009 due to our product diversification, geographic spread, new initiatives and the expected overall average premium rate increases. Subject to large individual risk claims and catastrophes, net of reinsurance protections, not exceeding the significant allowance in our business plans, we expect to achieve a combined operating ratio of less than 88% and an insurance profit margin of between 16.0% to 18.0% on the increased net earned premium income in 2009. The expected overall premium rate increases and the lower interest rate environment is factored into our reduced insurance profit margins for 2009.

The combined commission and expense ratio is targeted to reduce to around 29.0% in 2009 due to the benefits of the acquisition of underwriting agencies over the past 18 months. Underwriting agencies are targeted to contribute a significant increase in profit in 2009 compared with 2008, all of which will be included in the underwriting profit. The substantial majority of insurance premium produced by our underwriting agencies is underwritten by QBE.

The gross investment yield will be impacted adversely by the lower yields on our worldwide cash and fixed interest investment portfolios. Given the uncertainty and volatility in fixed interest and equity markets, our investment yields will be lower. With a cautious approach to investments we are targeting a gross investment yield of around 3%. Our focus in 2009 will be to continue to maintain a quality investment portfolio with a relatively low exposure to equities and to remain short on the yield curve for our cash and fixed interest securities.

2009 TARGETS

GROSS WRITTEN PREMIUM GROWTH

Over **20%**

NET EARNED PREMIUM GROWTH

Over **20%**

INSURANCE PROFIT MARGIN TARGET RANGE

16% to **18%** of net earned premium

COMBINED OPERATING RATIO

Below **88%**

The Group's probability of adequacy of outstanding claims is expected to remain well above the 75% APRA benchmark using risk-free government interest rates. Based on the strength of our undiscounted claims liabilities, we believe it is appropriate that we retain our probability of adequacy at the low end of our internal target range for the time being given the current low risk-free interest rates and the strength of our undiscounted outstanding claims. A 1% increase in interest rates across all years is equivalent to a $392 million increase in our risk margins and a 1% increase in inflation is equivalent to a $404 million decrease in our risk margins.

In the past three decades, we have built a significant and profitable presence in the major insurance markets in Europe, the Americas and Australasia through our acquisition strategy and the development of our people. We will continue to pursue our successful strategy of growth by acquisition and to develop our people using our proven nine essential behaviours known as OPENUPQBE. We have a number of experienced QBE teams around the world looking for acquisitions of insurance companies and distribution channels at prices meeting our established criteria, particularly being earnings per share accretive in year one.

In recent times, we have targeted acquisitions of independent agencies with specialist insurance programme business to secure and enhance our distribution and product diversification. We have invested over $1.9 billion on acquisitions of independent agencies in the past 18 months. This includes consideration which is contingent on future profit performance. We expect the return on this investment to exceed 20% in 2009 and beyond. A recent review of the performance of our around 120 acquisitions in the past 25 years shows that, with a few minor exceptions, they have met or exceeded our expectations.

We will continue with our successful strategy of product diversification and geographic spread of business through our worldwide operations. We lead the terms and conditions for most of the business in each of the countries in which we operate. We do not hesitate to withdraw from classes of business where we believe the rewards are insufficient for our shareholders. We have already made a number of changes to our underwriting of financial institutions and trade receivables to improve results. In November, we finalised each of our product business plans and we are pleased that the substantial majority are budgeted to meet QBE's minimum profit hurdles in 2009. We continue to manage carefully our attritional claims ratios with the support of comprehensive segmentation and other detailed analysis of each of our portfolios. The recent premium rate increases in a number of classes of business after three years of premium rate reductions give us confidence regarding our outlook. Our focus on retaining quality customers will continue.

We continue to have a low turnover of senior staff and have a pool of quality individuals capable of filling more senior roles in the Group. All of our teams around the world understand that they must operate within the parameters of our approved business plans and that capital will only be allocated to products capable of meeting our minimum return on equity requirements.

An area outside our control that will continue to impact us is the movement in the Australian dollar. We currently have around 76% of our gross written premium in overseas currencies. An average 5% appreciation or depreciation of the Australian dollar against all currencies impacts gross written premium by around $496 million and net profit after tax by around $77 million.

2009 will be another difficult year for most businesses. We are confident about our ability to achieve targeted underwriting profitability because of our quality people, businesses and product and geographic diversification. We will continue a low risk absolute return approach to investments and this will mean lower yields until markets return to business as usual.

The 2008 result was an excellent achievement considering the financial downturn in the second half of 2008. We would not have achieved these results without the dedication of our professional teams around the world. I appreciate the enormous support and loyalty that I have received from the QBE team. I also appreciate the support, guidance and encouragement that the directors have given to me especially during the difficult past few months for all.

I look forward to working with the QBE team to gain the benefits from our acquisitions and further build the Group in 2009 for the benefit of our shareholders.

Frank O'Halloran
Chief executive officer

WORLDWIDE PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %
Property	**27.4**	27.8
Motor and motor casualty	**19.6**	18.0
Liability	**16.8**	18.7
Marine, energy and aviation	**10.0**	9.9
Workers' compensation	**9.2**	9.7
Professional indemnity	**6.9**	7.3
Accident and health	**3.8**	3.7
Other	**2.5**	1.4
Financial and credit	**2.1**	2.0
Bloodstock	**1.7**	1.5
Total	**100.0**	100.0

CONTRIBUTIONS BY REGION

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		NET PROFIT AFTER INCOME TAX		COMBINED OPERATING RATIO	
FOR THE YEAR ENDED 31 DECEMBER	2008 $M	2007 $M	2008 $M	2007 $M	2008 $M	2007 $M	2008 %	2007 %
Australia	**2,914**	2,596	**2,363**	2,141	**560**	445	**90.6**	82.9
Asia Pacific	**661**	583	**451**	416	**76**	89	**82.9**	82.7
European operations	**5,011**	5,137	**3,252**	3,653	**574**	806	**85.6**	84.8
the Americas	**4,462**	3,656	**3,108**	2,574	**281**	247	**93.6**	93.6
Equator Re	**2,231**	1,990	**1,913**	1,426	**368**	338	**83.8**	80.5
Elimination – internal reinsurance	**(2,137)**	(1,556)	**–**	–	**–**	–	**–**	–
Group	**13,142**	12,406	**11,087**	10,210	**1,859**	1,925	**88.5**	85.9
Direct and facultative	**11,779**	11,171	**9,828**	8,932	**1,697**	1,623	**88.0**	86.5
Inward reinsurance	**1,363**	1,235	**1,259**	1,278	**162**	302	**92.5**	81.6
Group	**13,142**	12,406	**11,087**	10,210	**1,859**	1,925	**88.5**	85.9

OTHER INSURANCE RATIOS

FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %	2006 %	2005 %	2004 %
Premium growth					
Gross written	**5.9**	19.6	10.2	7.3	5.0
Net earned	**8.6**	25.2	10.5	8.9	12.3
Reinsurance ceded to gross written premium	**12.9**	16.0	17.8	19.0	20.3
Insurance profit to average shareholders' funds	**24.5**	30.6	31.4	28.2	26.6

IMPACT OF EXCHANGE RATE MOVEMENTS

	2008 ACTUAL $M	2008 AT 2007 EXCHANGE RATES(1) $M	EXCHANGE RATE IMPACT $M	 %
Gross written premium	**13,142**	13,296	(154)	(1)
Gross earned premium	**12,853**	12,998	(145)	(1)
Net earned premium	**11,087**	11,138	(51)	(1)
Net investment income	**1,177**	1,198	(21)	(2)
Net profit after income tax	**1,859**	1,887	(28)	(2)
Total investments and cash	**28,541**	26,327	2,214	8
Total assets	**48,383**	44,644	3,739	8
Gross outstanding claims	**21,204**	19,663	1,541	7
Total liabilities	**37,138**	34,502	2,636	7

(1) Income statement items are restated to 31 December 2007 cumulative average rates of exchange and balance sheet items are restated to 31 December 2007 closing rates of exchange.

Group financial targets and performance goals

2008 FINANCIAL PERFORMANCE

TARGETS*	ACTUAL
• Achieve an insurance profit margin of 19% to 20%	• Insurance profit margin of 19.7%
• Gross written premium growth of close to 7.5%	• Gross written premium increased by 6%
• Net earned premium growth of close to 10%	• Net earned premium increased by 9%
• Reinsurance ratio of around 15% of gross written premium	• Reinsurance ratio of 13%
• Achieve a combined commission and expense ratio of 31.5% or less	• Combined commission and expense ratio of 30.9% mainly due to changes in distribution following acquisition of agencies
• Tax rate of around 24%	• Tax rate of 23%
• Maintain Group capital adequacy multiple of more than 1.75 times APRA's minimum requirement for Australian licensed insurers	• Capital adequacy of 1.7 times the minimum requirement
• Gross investment yield of around 5.5%	• Gross yield of 2.9% is down on target due to lower yields on cash and fixed interest investments and equity losses

2008 OPERATIONAL PERFORMANCE

PERFORMANCE GOALS	ACTUAL
• Protect our quality customer base and manage further softening market conditions and increased competition	• Increased customer retention. New business below target due to inadequate pricing
• Focus on securing acquisitions that meet our proven criteria	• 11 acquisitions completed and expected to add around $900 million of additional gross written premium and around $375 million of profit after tax in 2009
• Maintain attritional claims ratio at less than 50% of net earned premium	• Attritional claims ratio of 47.5%
• Achieve 2008 targets from 2007 acquisitions	• US acquisitions down against written premium targets due to soft markets and competition but on track for synergies and profit
• Continue high retention of key staff	• Only minor movement of key staff
• Complete process and system changes in Europe and Australia	• System changes in Australia and Europe progressing well and on track
• Maintain a low risk investment strategy and absolute return criteria	• No impairment of fixed interest and cash portfolios – focus on asset quality

* Targets 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; and no material change to key inflation and economic growth forecasts.

Strategy and planning

QBE has a business planning framework which ensures that there is a systematic and disciplined approach to planning throughout the Group.

The framework helps to:

- establish a clear direction and parameters for carrying on business in each operating division;
- build confidence in our ability to execute our corporate strategies and deliver against our business plans;
- more accurately project profitability and financial performance;
- improve alignment of internal resources with external opportunities;
- generate greater accountability and transparency in decision making; and
- target the reduction of uncertainty and volatility, thereby reducing the likelihood and impact of events that could threaten our ability to meet our business objectives.

The QBE board of directors approves the Group's strategy and detailed business plans prepared by management and reviews actual performance against the plans. The strategy is consistent with shareholder expectations, our corporate financial profile, our organisational culture and our capacity to manage risks effectively. The strategy and plans form the basis of our risk tolerance within the Group.

Business plans are developed for all classes of insurance business, for our investment portfolios and for all support functions. The plans clearly document our strategy for achieving financial targets and performance goals within the limits set. Annual budgets included in the business plans form the basis for delegating authorities to all managers and staff with specific responsibilities, including underwriters, investment managers and claims managers.

Business plans are subject to detailed review by local and Group senior management. They are prepared annually and actual results are monitored regularly to identify adverse trends so that remedial action can be taken at an early stage. Regular reporting to both local and Group boards on performance against the business plans, including action plans to correct adverse variances, is a fundamental control within the Group.

2009 FINANCIAL PERFORMANCE

TARGETS*

- Achieve an insurance profit margin of 16% to 18%
- Achieve a combined operating ratio of less than 88%
- Gross written and net earned premium growth of over 20%
- Reinsurance ratio of less than 13% of gross written premium
- Achieve a combined commission and expense ratio of around 29.0%
- Tax rate of around 24%
- Maintain Group capital adequacy multiple of more than 1.5 times APRA's increased minimum requirement for Australian licensed insurers
- Gross investment yield of around 3%

2009 OPERATIONAL PERFORMANCE

PERFORMANCE GOALS

- Maintain high retention ratios on renewable business and protect our quality customer base
- Target premium rate increases in all portfolios – overall average up at least 4% on renewed business
- Secure acquisitions that add value
- Maintain all key balance sheet ratios at levels that will provide security and flexibility for growth
- Extend the OPENUPQBE manager programmes to maintain our unique culture and management style
- Maintain our low risk investment strategy and absolute return criteria

Risk management, regulatory developments and climate change

Our ability to manage risk is central to the success of our business. Over time, we have developed processes and internal controls to identify and manage risks in all key areas of risk exposure. As risk management is a continuous process, our approach is targeted to ensure risk management is tailored to suit our business requirements whilst remaining within our risk tolerances.

George Thwaites
GROUP CHIEF RISK OFFICER

Blair Nicholls
GROUP CHIEF ACTUARIAL OFFICER

RISK MANAGEMENT

QBE's risk management strategy is underpinned by a number of robust processes which are aimed at reducing uncertainty and volatility and avoiding unwelcome surprises. Risks are subject to rigorous identification and evaluation throughout the business management cycle.

The Group risk management policy, strategy and framework are embedded in the Group head office and each of the divisions, providing a consistent approach to managing risk across the organisation. The implementation of risk management at the divisional level enables local management to use their specialised knowledge of each portfolio to ensure that risks are mitigated at that level. The consistency of approach allows a Group-wide view of relative risks and returns.

Risk tolerances are in place for each of the categories of risk faced by the Group:

- insurance risk;
- operational risk, including loss of key QBE people;
- acquisition risk; and
- funds management and treasury risks.

By evaluating risks against our predetermined tolerances, QBE is able to direct resources appropriately and manage risk to acceptable levels. QBE's internal capital modelling process enables assessment of the risk to reward profile of each business unit, with capital allocated to reflect the risks in that business unit. The Group's overall tolerance for each category of risk is defined in terms of the maximum pre-tax loss that the Group is prepared to accept whilst continuing to achieve profitability targets. Our internal risk models have continued to develop in 2008 and are regularly utilised with our key stakeholders to quantitatively demonstrate the benefits of QBE's diversification and strong processes for managing the risks of the business.

As part of the overall risk management process, QBE applies a rigorous methodology to assessing potential catastrophe claims including the use of realistic disaster scenarios, commercial catastrophe loss models and in-house catastrophe loss assessment tools.

Between 1914 and 1915, several iconic contemporary paintings were added to the collection. The Ocean is one of Frick's more daring purchases given Whistler's experimental and advanced style of painting for the time.

JAMES ABBOTT McNEILL WHISTLER (1834–1903)
Symphony in gray and green: The Ocean, 1866

The outcomes of these assessments help to set the level of reinsurance required by QBE and, in conjunction with QBE's risk appetite and tolerance, determine the amount of risk that is retained by the Group in any one geographic region for a particular peril. An important input into setting the risk tolerance is the planned allowance for large individual risk and catastrophe claims in the business plan. This is the level of claims that QBE can afford to fund in any one year without affecting the planned profit of the Group. To provide greater certainty, QBE renewed a reinsurance cover for certain large individual risk and catastrophe claims between 8.5% and 9.9% of 2009 targeted net earned premium.

REGULATORY DEVELOPMENTS

The flexibility of QBE's principles-based risk framework allows for adaptation in the face of changes in the regulatory or business environment. Regulators, rating agencies and investors continue to converge in their focus on understanding the risks taken by insurers, how they control those risks and the capital required in order to provide adequate protection to policyholders and other stakeholders. The core principles of the International Association of Insurance Supervisors, to which many regulators now subscribe, indicate the likelihood of further extensions of risk-based supervision with changes likely to occur on many fronts. We also expect further changes in regulation as a result of the current global dislocation of financial markets and certain well publicised company failures and bail outs.

APRA has continued to refine its approach to regulation and has issued amendments to the existing prudential framework which largely came into force on 1 July 2008. APRA's new corporate group regulation was released in December 2008 and takes effect from 31 March 2009. European Solvency II initiatives have been delayed until at least 2012 and continue to be the cause of much debate. The US National Association of Insurance Commissioners has been targeting various reforms by 2010.

Most of the major regulators overseeing the operations of the QBE Group have risk-based supervisory methodologies and risk-based capital models in place. Rating agencies also now either explicitly assess enterprise risk management in their rating process or include the key elements of risk management as part of their broader rating approach. Ongoing discussions with these stakeholders indicate that the QBE risk management framework meets expectations and Standard & Poor's currently rates the Group as strong on enterprise risk management with an improving trend noted.

QBE continues to be committed to sound and practical risk management in order to protect and enhance shareholders' and policyholders' interests.

CLIMATE CHANGE

QBE's products and services are insurance contracts which do not produce direct carbon emissions through use or disposal, and emissions relating to external distribution or logistics are negligible. To the extent that QBE Group's businesses have an indirect effect on the environment, we monitor the impacts and, where practical, Group companies adopt practices that are energy efficient and designed to eliminate waste. The Group chief risk officer and Group chief actuarial officer are responsible for monitoring and managing ongoing risks and opportunities relating to climate change in order to mitigate any adverse effect on QBE's businesses and to protect shareholders' funds.

Measurement of the Group's environmental impact to date has focused on three key carbon emission metrics, being business air travel, car fleet and electricity usage. Based on these three metrics, the Group's estimated carbon emissions (CO2e) for 2008 were 47,420 tonnes (2007 35,880 tonnes). The 2008 increase was predominantly due to the US acquisitions.

CO2e was calculated using the tools available from the Greenhouse Gas Protocol Initiative. These calculations are subjective in nature and contain a number of assumptions. Our intention is to provide high level and comparable year on year data for the Group and we continue to review the quality of the data collection and refine our calculations in order to more accurately estimate the Group's CO2e impacts.

QBE is a global business with a head office in Australia. The Group generates around 76% of its gross written premium offshore and long distance air travel is necessary to enable effective management of the business. QBE ensures that videoconferencing and teleconferencing are used wherever appropriate. QBE does not have a significant fleet of company cars. In relation to electricity usage, our preference is to occupy buildings which are accredited as energy efficient in terms of infrastructure. The majority of the Group's business premises are leased. Our heritage-listed Group head office in Sydney has been retrofitted to improve the energy efficiency of its infrastructure. QBE's claims expenditure is usually in the form of financial indemnity to customers who incur their own expenditure for goods and services. We do not currently measure indirect emissions from QBE's supply chain or external distribution.

We continue to review other areas to eliminate waste e.g. paper, printer and toner usage, the insurance policy documentation process and the utilisation of electronic storage and distribution facilities. In terms of paper usage, the annual reports for QBE Insurance Group Limited and its major subsidiaries are produced using high content recycled paper, non-petroleum based inks and environmentally safe printing processes. The annual report is available on our website on the day of release to the Australian Securities Exchange and we encourage online access wherever practicable.

RISKS AND OPPORTUNITIES ASSOCIATED WITH CLIMATE CHANGE

At present, the insurance and financial services industries are not subject to specific emission limits and direct risks to QBE are not significant. QBE Group is aware of the potential indirect impacts of climate change on the general insurance and reinsurance industry and has identified key business risks and risk mitigation strategies.

One of the operational risks for QBE and the general insurance and reinsurance industry is the potential for increased claims costs due to the impact of climate change scenarios such as those identified by the Intergovernmental Panel on Climate Change. An inherent strength of the QBE Group is a high level of product and geographical diversification which mitigates the potential impacts of extreme weather events in any one part of the world. This is evidenced by the strength of the Group's financial results notwithstanding extreme weather related events in recent years. The potential for increased frequency and/or severity in damaging weather related occurrences has and will continue to result in changes to the underwriting and retention of insurance risk.

Our comprehensive systems and modelling of realistic disaster scenarios and property aggregate accumulations include assessment of the potential impacts of climate change related risks. The models used are regularly updated to incorporate the latest scientific evidence in relation to emerging climate change scenarios such as population shifts, changing property values, extra costs incurred for goods and services from demand surge and short-term and long-term seasonal weather forecasts.

General insurance companies also face asset risk relating to potential climate change impacts on the value of their investment portfolios. QBE adopts a low risk, absolute return investment strategy and at 31 December 2008 around 93% of the Group's investments comprised high quality and very liquid fixed interest and cash with equities representing less than 6% of total investments and cash.

QBE is a provider of general insurance and reinsurance to the commercial sector including carbon intensive industries such as property, marine and energy, aviation and manufacturing, and organisations which operate motor vehicle fleets. A potential decline in demand for carbon intensive products and processes could reduce the level of insurance purchased by these companies. However, as a market leader in these specialist insurance sectors, QBE is well placed to monitor emerging trends and service the changing needs of our customer base in any transition to alternative energy technology, products and services.

The potential impacts of climate change may also create opportunities for the Group. QBE's significant presence and expertise in the global commercial insurance and reinsurance market, particularly the energy and marine sectors, will create a platform to provide insurance support for emerging alternative energy technologies, products and services. An increase in customer awareness of climate change risks should positively impact QBE, and the insurance industry generally, to the extent that increased risk mitigation by the insured could reduce claims costs. Heightened awareness of exposure to climate related losses means that customers may be more likely to purchase higher levels of insurance to protect assets and hence increase the global insurance premium pool. Potential increases in windstorm activity and resulting insurance claims may exert short-term pressure on reinsurance availability and pricing. The scale and diversity of the Group's global insurance portfolios provides an attractive risk profile to reinsurers and enhances our competitive advantage in terms of obtaining high quality reinsurance coverage at reasonable rates.

QBE people

QBE is committed to attracting, developing and retaining high quality employees. QBE Insurance Group is a global organisation currently operating in 45 countries with significant businesses in the key general insurance and reinsurance markets around the world. Following the completion of our recent acquisitions in North America, we currently have around 13,000 employees.

Jenni Smith
GROUP GENERAL MANAGER HR

OUR PEOPLE STRATEGY

Our people are selected for their ability, experience, potential and 'can do' approach to their work. The continued development and retention of our people through our personal development, performance management and reward framework is recognised as paramount for QBE to achieve consistently high standards of business excellence and ultimately deliver superior returns to our shareholders. The Group maintains a focus on six key people strategies which promote alignment of our employees' day to day activities and behaviours with our core business strategies and support the QBE vision and values. These key people strategies are to:

- promote and enhance the OPENUPQBE culture across the Group;
- retain and attract quality people;
- offer competitive remuneration and rewards that encourage our people to perform to the highest standards whilst focusing on longer term commitment to retain and reward our key managers and senior employees;
- align employee performance with company objectives;
- develop our own talent and ensure succession planning is in place; and
- provide an effective company-wide communication strategy that keeps our people informed.

QBE CULTURE

Underpinning our strategy of attracting, developing and retaining quality people is the OPENUPQBE programme which is actively promoted to staff across the Group. The programme, which was developed in 1994, has the full support of the Group board and is sponsored by the Group chief executive officer and Group chief operating officer. The programme is based on QBE "essential behaviours" which form the basis of our business performance and leadership standards and illustrate the values which embody the QBE culture. These values provide consistency in all key activities and create a

The Rehearsal, acquired in 1914, is one of the few Impressionist paintings purchased by Frick and is a classic example of the ballet compositions by Degas.

HILAIRE-GERMAIN-EDGAR DEGAS (1834–1917)
The Rehearsal, 1878–1879

common language throughout our organisation. One of the Group's core strategies over the past 25 years has been diversification by product and geography, which has largely been achieved through around 120 acquisitions. The strength of the QBE culture has provided a platform for the successful integration of the diverse teams from these acquisitions.

OPENUPQBE IN ACTION

The OPENUPQBE programme continues to evolve and is now an established series of workshops on how the OPENUPQBE values and behaviours can be applied to increase the capabilities and commercial awareness of staff in key functional areas and, in so doing, deliver improved leadership and focus on business acumen. The content of the programme is written by experienced senior managers to provide rigour and credibility and deliver practical applications. The OPENUPQBE series of workshops is structured as action-learning programmes that immerse participants in intensive 'real' business projects. This enables the identification and leveraging of development opportunities for both the individual and the organisation that have direct relevance to actual business processes and operations. Within the framework of the QBE essential behaviours, the OPENUPQBE workshops exercise each individual participant's skills and develop their knowledge through the rigour of the business improvement projects, whilst their approaches and management philosophies are explored through QBE case studies. By addressing key strategic and tactical issues within the company through real business projects and case study teaching, OPENUPQBE aims to:

- broaden the participants' business awareness;
- provide a forum for ideas;
- encourage communication that builds successful teamwork and understanding;
- identify best practice; and
- formulate and propose recommendations that will positively influence QBE's key profit drivers and deliver superior returns to shareholders.

During 2008, we ran the inaugural OPENUP Actuarial programme in Australia, the challenge being to impact positively on QBE's net claims ratio through improvements in actuarial processes and procedures. With its own bespoke case study and business improvement projects, OPENUP Actuarial continues the QBE tradition of leveraging our culture through the nine essential behaviours to achieve positive business outcomes.

We also ran OPENUP Finance workshops in Australia and Europe to engage finance teams in identifying projects that can impact the Group's return on average shareholders' funds positively. OPENUP Finance in Europe was our first cross functional workshop involving employees from finance, legal and human resources areas to bring different skill sets to business improvement projects, build cross functional networks and to continue to drive the OPENUPQBE culture throughout the organisation.

We also extended OPENUP Claims into the Americas, building upon the work over the past two years and extending the QBE culture across new employees who joined QBE from recent acquisitions.

We have held initial workshops for OPENUP Underwriting and we will commence our roll out of the programme to underwriters during 2009.

PERFORMANCE MANAGEMENT, EMPLOYEE DEVELOPMENT AND SUCCESSION PLANNING

Our annual performance review process provides the forum for setting objectives and measuring employee performance, with most individuals assessed against QBE essential behaviours as outlined above. QBE is also committed to providing a range of personal development opportunities for employees to realise their full potential and progress within the organisation. Our principal goal is to ensure that the best people occupy the key positions at all levels of the business and that robust succession plans are in place for each of those roles. Key roles throughout the organisation have been identified and documented using a formalised succession management framework. As a result of cascading the succession planning process throughout the organisation, we have mapped our pipeline of potential candidates for future expert and business leadership roles and their development needs. We have created a Group-wide talent management strategy which brings together all of our succession and people development activities into a single framework of consistent processes around identifying, developing and retaining high performing, high potential individuals for the future at all levels of the organisation.

REMUNERATION AND REWARD

QBE operates in a competitive global market where the diversity of individual roles and the complexity of each operating environment is considered when designing remuneration and reward structures. QBE aims to provide a mix of financial and non-financial rewards to attract, motivate and retain high performing 'can do' people within a cost structure aligned to shareholders' interests and which is sustainable in the long-term. Our very low turnover of senior and middle management staff demonstrates the effectiveness of our remuneration and reward system and other retention policies.

In order to encourage high levels of performance and to achieve our objective of increasing shareholder wealth, at risk incentive arrangements are in place for most employees worldwide through participation in short-term incentive ("STI") arrangements. These arrangements reward individuals when they achieve or exceed financial targets and/or meet personal performance objectives. Our senior management group and other selected high performing individuals participate in an annual deferred compensation award, the Deferred Compensation Plan ("DCP"), with awards in the form of equity in QBE. The value of the DCP is linked to our future share price and hence to the creation of shareholder wealth. It also assists in the retention of key staff. Under the DCP, participants are granted conditional rights to fully paid shares and options to subscribe for shares at market value. Participation in the annual equity award is contingent on meeting financial targets for STI purposes and there is a vesting period of a minimum of three years, other than for certain equitable circumstances, before the DCP conditional rights and options are exercisable. Also central to our incentive arrangements is the award of shares to all staff (subject to meeting eligibility requirements) under the Employee Share and Option Plan ("the Plan") which has been in place since 1981. Around 10,000 of our employees at all levels of the organisation now hold shares in QBE through the Plan. Details of the Plan and the DCP are set out in note 27 to the financial statements.

In summary, QBE aims to operate a total reward framework which is aligned with the interests of our shareholders and conveys to our people the full value they represent to the business. The total package includes all components from base salary, short-term and deferred compensation incentives as well as more intangible non-cash benefits such as development and career path opportunities.

QBE IN THE COMMUNITY

QBE Group's involvement in the community is encouraged and is structured along divisional lines with initiatives being generated from the ground up. A common element is that QBE's community and social involvement is based around local initiatives about which employees are highly engaged and passionate. As well as donations by the Group and the divisions to numerous local charitable and other community organisations, QBE employees also make contributions through payroll deductions and giving of their time to local community volunteer projects.

The QBE teams around the world have identified various nominated charities including Mission Australia, Create Foundation, United Way and Breast Cancer Network in Australia; the Starlight Children's Foundation and the Lloyd's community programme in the UK; and, in the Americas, QBE staff engaged with a number of organisations across multiple states with a focus on three main areas: cancer treatment and research; child and family welfare; and disaster prevention and neighbourhood safety.

Group operations executive

The Group operations executive comprises the chief executive officer, the chief operating officer, the chief financial officer and the heads of the QBE insurance divisions. The key objective of this team is to build and control QBE's insurance business and to maximise opportunities available to the Group in the markets in which we choose to operate.

FRANK O'HALLORAN

FCA, AGE 62

Mr O'Halloran was appointed chief executive officer in January 1998. He joined QBE in 1976 as Group financial controller. He was appointed chief financial officer in 1982, joined the board as director of finance from 1987 to 1994 and was director of operations from 1994 to 1997. Mr O'Halloran is a chartered accountant and has had extensive experience in professional accountancy for 14 years and insurance management for 32 years.

NEIL DRABSCH

FCA, FAICD, FCIS, AGE 60

Mr Drabsch was appointed chief financial officer of QBE Insurance Group in 1994. He joined QBE in 1991 and was the Group company secretary from 1992 to 2001. Mr Drabsch has 42 years experience in insurance and reinsurance management, finance and accounting, including 24 years as a practising chartered accountant.

VINCE McLENAGHAN

FANZIIF, AGE 49

Mr McLenaghan was appointed chief operating officer of the Group in 2006. Mr McLenaghan has been in the insurance industry for 32 years. During his 26 years with QBE, he has served in a number of general management roles including as managing director of our Australian and Asia Pacific operations. In addition to his role as chief operating officer of the Group, he is currently acting president and chief executive officer of QBE the Americas.

STEVEN BURNS

FCA, AGE 50

Mr Burns is chief executive officer of QBE's European operations. He is a chartered accountant and was finance director of the Janson Green managing agency at Lloyd's from 1987, prior to it being acquired by Limit in 1998. Mr Burns became chief executive officer of the Limit Group in August 2000. In September 2004, he was appointed chief executive officer of European operations as part of the restructure of our European company operations and Lloyd's division.

MICHAEL GOODWIN

BVSc, FIAA, FAICD, AGE 50

Mr Goodwin was appointed chief executive officer of QBE's Asia Pacific operations in 2007. He is an actuary and has been in the insurance industry for 17 years, having started his career with Mercantile Mutual. Mr Goodwin was deputy general manager of the QBE Mercantile Mutual joint venture when it was purchased by QBE in 2004 and became chief operating officer of Asia Pacific operations in 2006.

TERRY IBBOTSON

PHD, MBA, BCom, AGE 63

Mr Ibbotson was appointed chief executive officer of QBE's Australian operations in 2007. He has 40 years experience in the insurance industry. Mr Ibbotson joined QBE in 1993 and since that time has served in various general management roles, including as chief operating officer of Australian operations.

Frank O'Halloran
CHIEF EXECUTIVE OFFICER

Neil Drabsch
CHIEF FINANCIAL OFFICER

Vince McLenaghan
CHIEF OPERATING OFFICER
ACTING PRESIDENT AND CEO QBE THE AMERICAS

Steven Burns
CEO EUROPEAN OPERATIONS

Michael Goodwin
CEO ASIA PACIFIC OPERATIONS

Terry Ibbotson
CEO AUSTRALIAN OPERATIONS

Operations overview

QBE is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 45 countries.

Australian operations

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

	2008	2007
Gross written premium $M	**2,914**	2,596
Gross earned premium $M	**2,800**	2,518
Net earned premium $M	**2,363**	2,141
Combined operating ratio %	**90.6**	82.9
Staff numbers	**3,815**	3,439

Major events impacting our Australian operations in 2008 were:

- The acquisition of QBE Lenders' Mortgage Insurance (formerly PMI).
- Significant weather-related insurance losses, particularly in Queensland, in the first and last quarters of the year.
- Successful implementation of the OneQBE programme creating cross-selling opportunities and cost efficiencies.
- Voted General Insurer of the Year by the National Insurance Brokers Association.

Asia Pacific operations

General insurance in 15 countries in the Asia Pacific region providing personal, commercial and specialist insurance covers, including professional and general liability, marine, corporate property and trade credit.

	2008	2007
Gross written premium $M	**661**	583
Gross earned premium $M	**626**	570
Net earned premium $M	**451**	416
Combined operating ratio %	**82.9**	82.7
Staff numbers	**1,273**	1,218

Major events impacting our Asia Pacific operations in 2008 were:

- Approval of the detailed application for an insurance joint venture licence in India.
- Typhoons and floods across much of the Asia region.
- Continuing development of broker relationship management and improvement in product and capacity capabilities.
- Extending the capabilities of our applications development centre in the Philippines.

European operations

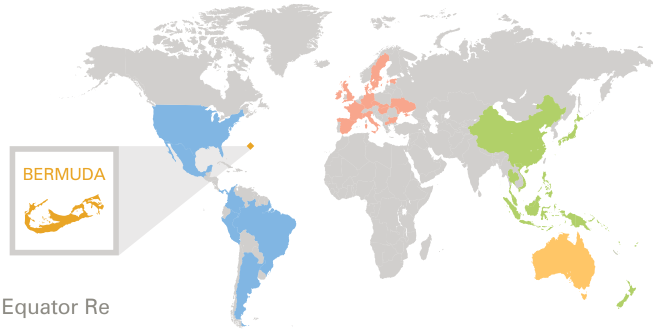
Lloyd's division
The largest manager of capacity and the second largest provider of capital at Lloyd's, writing commercial insurance and reinsurance business in the Lloyd's market.

QBE Insurance Europe
General insurance business in the UK, Ireland and 15 countries in mainland Europe. It also writes reinsurance business in Ireland.

	2008	2007
Gross written premium $M	**5,011**	5,137
Gross earned premium $M	**4,753**	5,158
Net earned premium $M	**3,252**	3,653
Combined operating ratio %	**85.6**	84.8
Staff numbers	**2,829**	2,705

Major events impacting our European operations in 2008 were:

- Growth of core London market business by leveraging scale and market leading position through newly integrated product underwriting structure.
- Growth in UK National and European markets distribution capabilities and geographic penetration in line with strategy.
- Completion of some smaller portfolio acquisitions.
- Progression of business support operating model to achieve synergies and operational efficiencies.



KEY

Australia · Asia Pacific · Europe · the Americas · Equator Re

the Americas

General insurance and reinsurance business in the Americas. Head office is in New York with operations in North, Central and South America and Bermuda.

	2008	2007
Gross written premium $M	**4,462**	3,656
Gross earned premium $M	**4,590**	3,976
Net earned premium $M	**3,108**	2,574
Combined operating ratio %	**93.6**	93.6
Staff numbers	**4,858**	3,202

Major events impacting the Americas in 2008 were:

- The acquisition of North Pointe Holdings, which further expanded our specialty insurance division.
- The acquisition of five US-based underwriting agencies and a structured trade credit portfolio.
- The successful integration of the Praetorian, Winterthur US and Cumbre Seguros businesses.
- Substantial increase in the number of weather-related insurance losses.

Equator Re

The Group's captive reinsurer, Equator Re provides reinsurance protection to the majority of the operating entities owned by the Group.

	2008	2007
Gross written premium $M	**2,231**	1,990
Gross earned premium $M	**1,978**	1,631
Net earned premium $M	**1,913**	1,426
Combined operating ratio %	**83.8**	80.5
Staff numbers	**15**	10

Major events impacting Equator Re in 2008 were:

- Continued premium growth driven mainly by business from acquisitions in Australia and the US.
- Increased frequency of large individual risk and catastrophe claims.
- Commenced implementation of new systems.

Investments

Management of the Group's investment portfolio with over 99% of the Group's investments managed in-house.

	2008	2007
Gross investment income $M	**766**	1,398
Net investment income $M	**1,177**	1,132
Gross investment yield %	**2.9**	6.3
Investments and cash $M	**28,541**	24,606
Staff numbers	**61**	55

Major events impacting our investments in 2008 were:

- The crisis that started in the US in 2007 spread globally leading to economic recession around the world.
- Governments and central banks took unprecedented steps to avoid economic collapse.
- Significant reduction in interest yields and large equity market losses.
- Very significant volatility in energy and commodity prices.
- Very significant weakening of the Australian dollar against the US dollar.

Australian operations

KEY RATIOS – AUSTRALIAN OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER		2008	2007
Gross written premium	$M	**2,914**	2,596
Gross earned premium	$M	**2,800**	2,518
Net earned premium	$M	**2,363**	2,141
Claims ratio	%	**62.8**	55.2
Commission ratio	%	**11.8**	12.0
Expense ratio	%	**16.0**	15.7
Combined operating ratio	%	**90.6**	82.9
Insurance profit to net earned premium	%	**20.9**	25.6

PORTFOLIO MIX – AUSTRALIAN OPERATIONS

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %		2008 %	2007 %
Property	**23.7**	24.9	Professional indemnity	**4.4**	4.8
General liability	**13.8**	15.4	Marine, energy and aviation	**4.1**	4.2
Householders	**13.1**	12.9	Accident and health	**3.4**	3.5
Motor vehicle	**11.4**	10.2	Lenders' mortgage insurance	**2.3**	–
Workers' compensation	**9.7**	9.6	Travel	**2.0**	1.5
Compulsory third party	**6.4**	6.7	Other	**0.6**	1.8
Credit and surety	**5.1**	4.5			

Australian operations were able to produce a healthy 90.6% combined operating ratio compared with 82.9% last year despite a number of severe storms in Victoria, New South Wales and Queensland. These catastrophes had a substantial impact on claims costs for Australian operations during the year. We also experienced an increase in the number of large individual risk claims and a slightly higher attritional claims ratio. The insurance profit margin was impacted by the lower interest rates on investment portfolios and reduced from 25.6% to 20.9%, still an excellent result considering the circumstances and when compared with the majority of our peers.

Gross written premium increased by 12% to $2,914 million and gross earned premium increased by 11% to $2,800 million. Growth was due to a continued high customer retention, the acquisition of PMI Australia (now "QBE LMI") effective from 23 October 2008, increased support from intermediaries, new distribution channels and the acquisition of three underwriting agencies. We achieved overall average premium rate increases on renewal business of 1% which compares favourably with the reduction of 3% in 2007. Net earned premium was up 10% to $2,363 million after incurring slightly higher reinsurance costs.

The claims ratio increased from 55.2% to 62.8% due mainly to catastrophes, in particular the four major storms in North and South Queensland.

The combined commission and expense ratio was 27.8% compared with 27.7% last year. The benefit of the acquisition of underwriting agencies was more than offset by an increase in investment in new strategic systems initiatives to improve bodily injury claims management and the electronic business to business interface with intermediaries and direct clients. We will continue our initiatives to further improve efficiency and effectiveness by eliminating multiple handling and reducing paper flows between ourselves, intermediaries and direct clients to generate additional savings. The net expense ratio was also adversely impacted by a reduced contribution from the Victoria and New South Wales Workers' Compensation Managed Funds operations.

As a result of our ongoing strategy to acquire businesses that enhance our product distribution and diversification, during the year, in addition to acquiring three underwriting agencies, we were successful in our tender for householders and motor insurance for one of the four major banks.

The personal motor and homeowners portfolios were adversely impacted by the extensive storms in Victoria, New South Wales and Queensland during the year. Public liability, professional indemnity and compulsory third party classes of business produced acceptable results despite a slight increase in frequency and higher average value per claim. Due to the global financial crisis, the professional indemnity portfolio was also affected by claims on the run-off of our remaining coverages for financial advisors and stock brokers. The Australian trade credit portfolio produced excellent results; however, our Asian portfolio was impacted by large individual risk claims. The travel insurance portfolio produced a small underwriting loss mainly due to the combination of the Bangkok airport riot, the Mumbai terrorist attack and the impact of the weaker Australian dollar when paying medical claims, particularly in US dollars.

Purchased by Frick in 1919, the year of his death, this painting was his last recorded purchase and is recognised as one of his favourite acquisitions.

JOHANNES VERMEER (1632–1675)
Mistress and Maid, 1666–1667

Our commercial motor business saw significantly improved results from premium rate increases and the cancellation of unprofitable business. Our property, package, aviation and workers' compensation business continue to produce excellent results.

The QBE LMI acquisition includes significant risk margins in insurance liabilities to cover an expected increase in mortgage defaults and a potential decline in housing prices. The risk margins are sufficient to cover a default rate around 15 times higher than that currently being experienced.

Our Australian operations was again voted 'General Insurer of the Year' by the members of the National Insurance Brokers Association. This is the seventh consecutive year that QBE Australian operations has achieved this award which recognises our high levels of service, competitive products and ongoing initiatives to further improve our capability.

The increase in claims costs on some portfolios and the forecast continuation of severe adverse weather conditions has necessitated an increase in premium rates. We expect overall average premium rate increases to be greater than 5% for 2009. This, together with other changes made following our comprehensive portfolio segmentation analysis, is aimed at improving the combined operating ratio and insurance profitability. The acquisition of the underwriting agencies, the new distribution agreement with one of the major banks, a full year of income from QBE LMI and expected overall premium rate increases are likely to mean that premium growth in 2009 will be around 10%. This does not include any acquisitions that we may make during the year.

We continue to work on a number of other strategic initiatives to improve our top and bottom lines going forward. The expected increase in premium rates and actions on some portfolios are targeted to improve the combined operating ratio for 2009 to slightly better than 90%. This is subject to large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans. The expected improvement in combined operating ratio in 2009 will however continue to be offset by lower interest rates on our investment portfolio and therefore restrict our insurance profit margin to slightly less than 20%.

We have a high quality experienced team of insurance professionals and management in Australian operations with a track record of outperforming our peers. We have a strong market share in commercial lines insurance and excellent results over recent years. These key attributes, together with the support from intermediaries, give us confidence about the future performance of our division and the contribution it can make to increasing the wealth of QBE shareholders.

My personal thanks to the entire Australian operations team for their continued hard work, for the contribution they have made to building the business and the 2008 results, and for their help in maintaining QBE Australia's position as the leading insurer in our chosen markets.

Terry Ibbotson
Chief executive officer – Australian operations

Asia Pacific operations

KEY RATIOS – ASIA PACIFIC OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER		2008	2007
Gross written premium	$M	**661**	583
Gross earned premium	$M	**626**	570
Net earned premium	$M	**451**	416
Claims ratio	%	**41.2**	41.3
Commission ratio	%	**20.6**	20.0
Expense ratio	%	**21.1**	21.4
Combined operating ratio	%	**82.9**	82.7
Insurance profit to net earned premium	%	**24.8**	25.0

PORTFOLIO MIX – ASIA PACIFIC OPERATIONS

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %		2008 %	2007 %
Property	**21.8**	23.0	Workers' compensation	**6.5**	5.1
Motor & motor casualty	**14.7**	15.3	Engineering	**4.7**	4.7
Marine	**14.2**	13.7	Financial and credit	**3.7**	1.9
Professional indemnity	**12.5**	13.3	Householders	**2.2**	2.3
Liability	**9.5**	9.9	Travel	**1.9**	2.1
Accident and health	**6.7**	7.0	Other	**1.6**	1.7

GROSS WRITTEN PREMIUM

$661 million

Up **13%** compared with **$583** million last year

COMBINED OPERATING RATIO

82.9%

Compared with **82.7%** last year

Asia Pacific operations produced another outstanding result with a combined operating ratio of 82.9% compared with 82.7% last year. For the second year in a row, all of the 15 countries in which we operate produced an underwriting profit. This is an excellent achievement given the competitive environment and the increase in large individual risk claims. New Zealand, Pacific Islands, Singapore, Malaysia and Hong Kong produced strong underwriting profits.

The insurance profit margin was lower at 24.8% compared with 25.0% last year. The lower margin reflects a continued low attritional claims ratio offset by an increase in large individual risk claims and lower interest yields on investments set aside to meet policyholders' liabilities.

Gross written premium was up 13% to $661 million and gross earned premium was up 10% to $626 million. This growth followed continued high customer retention, solid organic growth and a weaker Australian dollar. Overall average premium rates declined by 2% with signs in a number of markets in the latter part of the year of increased rates going forward. Net earned premium increased by 8% to $451 million. Net earned premium is after the quota share reinsurance with our captive reinsurer, Equator Re.

The claims ratio was 41.2% compared with 41.3% last year. The slight improvement is due to the continued low attritional claims. The combined commission and expense ratio was 41.7% compared with 41.4% last year. A slightly higher commission ratio from the change in the portfolio mix during the year was partly offset by a lower expense ratio following the implementation of new systems last year.

Rousseau was one of the Barbizon school of artists established in the mid 19th century after the French Revolution. Here Rousseau evokes a rustic village, its cobbled road and low thatch huts strangely untouched by time.

PIERRE-ÉTIENNE-THÉODORE ROUSSEAU (1812–1867)
The Village of Becquigny, c. 1857

We are very pleased with the development of our distribution and businesses in Asia Pacific given the current economic climate. An increased focus on large international brokers supported by the strengthening of our technical expertise have been the main drivers of this development. We are also generating new business from the support provided by underwriters in our European operations division.

We have received an insurance licence for our joint venture company in India (Raheja QBE General Insurance Company Limited). We are in the process of filing for approval for the products we intend to write in the Indian market. QBE has a 26% interest in the joint venture with a right to increase this holding to 50% when permitted by the regulators. To meet the increased capital requirements of regulators, we increased our initial capital contribution to $16 million.

We continue to review our strategy for China. We are interested in distributing a number of our core commercial lines products; however, we are yet to identify an appropriate joint venture partner. QBE has had a representative office in Guangdong since 1997 which services and supports incidental mainland China business owned by our Hong Kong clients.

We continue to enhance the new systems that have been successfully implemented in all our major operations. We have increased the number of staff employed by our own highly cost effective applications development centre in the Philippines, which provides low cost services to our Asia Pacific operations. This centre may add further efficiencies and benefits for other divisions in QBE going forward.

Our current initiatives are designed to improve our efficiency and, in particular, improve our interface with and support of intermediaries. Our focus remains on maximising customer retention, increasing the writing of our specialist product lines through major international brokers and building on our current 6,000 strong agency force. We are targeting growth of 9% in gross written premium for 2009. This is subject to the Australian dollar remaining at current levels.

We have not converted any acquisitions during the year due to the high prices being demanded. We will continue to examine new opportunities but will only pay prices that meet our acquisition criteria.

The 2008 result was very pleasing and our underwriting results compare favourably against our peers in the substantial majority of countries in which we operate. This reflects the focus the Asia Pacific team has had on meeting QBE's profit requirements. We anticipate overall average premium rates to be slightly better than 2008 although competition remains strong. The quality of our various businesses are such that we expect the 2009 underwriting profit to be strong but at a slightly higher combined operating ratio than 2008.

The team in Asia Pacific has again shown that they can produce excellent results for QBE shareholders. I sincerely appreciate their hard work and significant contribution during the past year. I also appreciate the support we receive from our joint venture partners and our intermediaries.

Michael Goodwin
Chief executive officer – Asia Pacific operations

European operations

KEY RATIOS – EUROPEAN OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER		QBE UNDERWRITING LIMITED 2008	QBE UNDERWRITING LIMITED 2007	QBE INSURANCE EUROPE 2008	QBE INSURANCE EUROPE 2007	TOTAL EUROPEAN OPERATIONS 2008	TOTAL EUROPEAN OPERATIONS 2007
Gross written premium	$M	**2,486**	2,634	**2,525**	2,503	**5,011**	5,137
Gross earned premium	$M	**2,379**	2,621	**2,374**	2,537	**4,753**	5,158
Net earned premium	$M	**1,371**	1,627	**1,881**	2,026	**3,252**	3,653
Claims ratio	%	**43.3**	40.9	**62.1**	60.6	**54.2**	51.8
Commission ratio	%	**19.4**	19.6	**14.4**	16.1	**16.5**	17.7
Expense ratio	%	**11.5**	15.2	**17.3**	15.4	**14.9**	15.3
Combined operating ratio	%	**74.2**	75.7	**93.8**	92.1	**85.6**	84.8
Insurance profit to net earned premium	%	**38.8**	36.0	**15.4**	18.0	**25.3**	26.0

PORTFOLIO MIX – EUROPEAN OPERATIONS

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %		2008 %	2007 %
Marine, energy & aviation	**21.3**	19.1	Property treaty	**9.8**	10.7
Public/product liability	**18.6**	21.3	Workers' compensation	**7.7**	8.3
Professional indemnity	**14.2**	13.7	Other	**3.6**	2.3
Motor and motor casualty	**11.1**	11.5	Financial and credit	**2.0**	2.3
Property facultative and direct	**10.0**	9.5	Accident and health	**1.7**	1.3

GROSS WRITTEN PREMIUM

$5,011 million

Down **3%** compared with **$5,137** million last year

COMBINED OPERATING RATIO

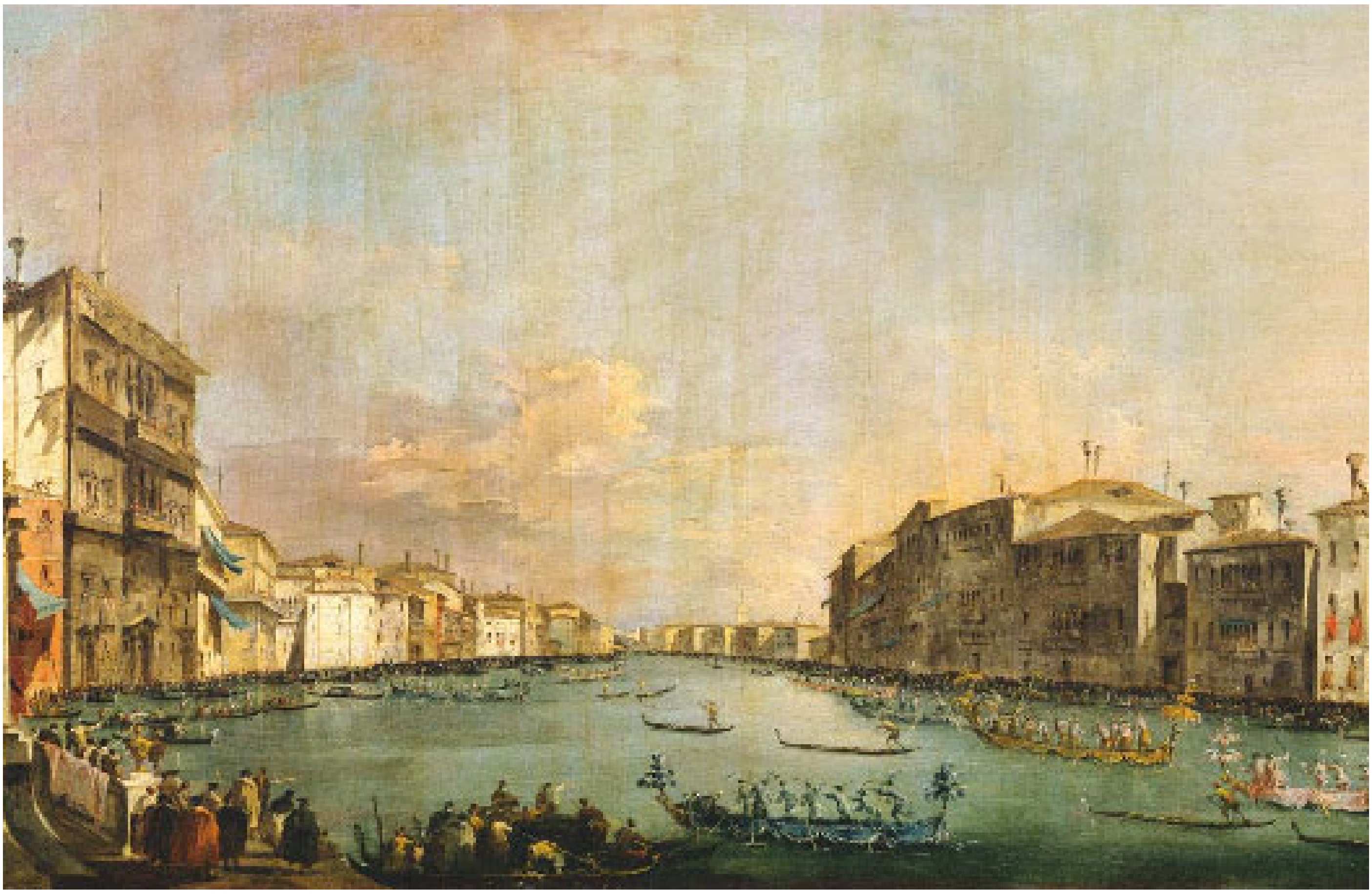
85.6%

Compared with **84.8%** last year

European operations comprises general insurance business written in the United Kingdom, Ireland and 15 countries in mainland Europe. It also includes general insurance and reinsurance business written in the Lloyd's market and reinsurance business written through our Dublin office.

Our European operations had another excellent result. The combined operating ratio was 85.6% compared with 84.8% last year and the insurance profit margin was 25.3% compared with 26.0% last year. The underwriting results have been assisted by continued low attritional claims and savings on prior year claims provisions, offset by an increase in large individual risk and catastrophe claims. The results were achieved despite another year of lower overall average premium rates on renewal business.

The stronger Australian dollar against sterling resulted in gross written premium reducing by 3% to $5,011 million and gross earned premium reducing by 8% to $4,753 million. In sterling, however, growth in gross written premium was 7% to £2.3 billion mainly due to the stronger US dollar against sterling. Notwithstanding the currency impact, the delivery of strong gross written premium in soft market conditions reflects extremely well on our excellent relationships with intermediaries, the excellent business retention levels and a number of new business initiatives. Net earned premium was down 11% to $3,252 million primarily due to increased reinsurance to our captive reinsurer, Equator Re, this year.



Francesco Guardi was an Italian painter of 'veduta' or landscape views and one of the last members of the Venetian School. This painting was a gift to Miss Helen Clay Frick in 1984.

FRANCESCO GUARDI (1712–1793)
Regatta in Venice, c. 1770

The claims ratio was 54.2% compared with 51.8% last year. The increase is due to the higher frequency of large individual risk claims and catastrophes, particularly Hurricane Ike, and the prudent provisions we have made for claims relating to the financial and credit insurance policies exposed to the global financial crisis. These were partly offset by a continued low level of attritional claims and savings on prior year claims, particularly for commercial motor and liability classes of business.

The combined commission and expense ratio was 31.4% compared with 33.0% last year. The reduction is very pleasing and it reflects the overriding commission on the increased business to Equator Re, an increase in the proportion of business sourced through our own distribution channels and higher profit commission from external names on syndicate 386. Expenses in sterling grew at less than the growth in premium income.

Our various restructures over a number of years now mean that our business is run along product lines rather than by entity. Our casualty, commercial motor, reinsurance and marine and energy portfolios have again had exceptional results. Property was affected by a number of large individual risk claims and the aviation account, particularly for airlines, experienced continued premium rate reductions and an increase in large risk claims. British Marine experienced its worst year ever for large losses, although largely mitigated by reinsurance, and the specialty division was affected by the provisions made for potential claims from the global financial crisis. We continue to see releases from prior year claims provisions, including releases of risk margins and savings on central estimates.

As expected, the December and January renewals have seen overall average rate increases of close to 4%. This is a very encouraging start to the year and supports the view of our underwriters for most classes that we are likely to see a more rapid hardening of the market as the year progresses. The cost of the reinsurance protections purchased for 2009 is in line with plan.

QBE UNDERWRITING LIMITED (LLOYD'S DIVISION)

QBE Underwriting Limited was the largest manager of capacity at Lloyd's and QBE was the second largest provider of capital at Lloyd's for 2008. QBE provides 100% of the capacity for syndicates 566, 2000, 1036, 5555 and 1886 and 69% of the capacity for syndicate 386. Our Lloyd's capacity for 2009 remains the same as 2008 at £1.1 billion, although this is likely to increase during the year due to the stronger US dollar. Approximately 53% of the business we write in Lloyd's is sourced in US dollars.

QBE Underwriting Limited results for 2008 were again outstanding with a combined operating ratio of 74.2% compared with 75.7% last year and an insurance profit of 38.8% compared with 36.0%. The continued low combined operating ratio is due to the profitable earnout of prior underwriting years, particularly for syndicates 386, 566, 1036, 980 and run-off syndicates. Overall attritional claims continued to be low due to the actions taken to improve segments of the business. Our aviation syndicate 5555 was again impacted by lower premium rates and by a frequency of attritional airline losses. In the latter part of the year we decided to only renew airline business delivering acceptable premium increases and this has meant the loss of some business.

Gross written premium was down 6% to $2,486 million and gross earned premium was down 9% to $2,379 million. The fall in gross written premium is mainly due to the reduction in overall average premium rates during the year, new business being less than anticipated due to inadequate pricing and the stronger Australian dollar. Customer retention remains very high and is now at levels previously not experienced. Net earned premium reduced by 16% to $1,371 million mainly due to the increased reinsurance to Equator Re.

We continue to monitor the expectations of external names on syndicate 386. We have no intention of offering to buy them out unless they reduce their expectations on price.

The merging of syndicate 386 with our London market company casualty operations under a single team of professionals has been very successful, with customer retention and growth being higher than anticipated.

QBE INSURANCE EUROPE

QBE Insurance Europe ("QIE") writes insurance business in the United Kingdom, Ireland and 15 countries in mainland Europe and reinsurance business in Dublin. It also includes the results of our British Marine operations.

QIE produced a combined operating ratio of 93.8% compared with 92.1% last year and an insurance profit margin of 15.4% compared with 18.0% last year. The higher combined operating ratio reflects an increase in large property claims and prudent provisions for claims on financial and credit insurance policies exposed to the global financial crisis. The insurance profit margin was also affected by the lower interest yields on investments set aside to meet policyholders' liabilities.

Gross written premium was up 1% to $2,525 million and gross earned premium was down 6% to $2,374 million. The growth in gross written premium has mainly come from our new initiatives to build the distribution of our core lines of business outside of the London market in the UK regions outside London and into France, Germany, Italy and Spain. We opened a branch office in Romania during the year and we are pleased with the progress to date. Net earned premium was down 7% to $1,881 million.

SUMMARY

We now have a significant number of operations in mainland Europe, in Bulgaria, the Czech Republic, Denmark, Estonia, France, Germany, Hungary, Italy, Macedonia, Romania, Slovakia, Spain, Sweden and Switzerland. We also have seven regional offices in the United Kingdom in Birmingham, Bristol, Chelmsford, Glasgow, Leeds, Manchester and Stafford. Our mainland European businesses produced gross written premium of around £175 million and our UK regional offices around £230 million.

We are anticipating overall premium rate increases of around 4% for 2009, partly offset by expected lower premiums from lower sales turnover and increased self-insurance by some of our clients. These, together with the acquisition of the Burnetts marine and energy underwriting agency in the US, the Endurance property team and portfolio in the UK and the success of our distribution of our core products outside of the London market, are likely to result in growth in gross written premium of around 15% in sterling terms in 2009. This of course is subject to no material movement in exchange rates, particularly the US dollar.

We have a number of new initiatives to build our distribution throughout Europe. Our collaboration with our Asia Pacific, Australian and the Americas divisions is also generating new opportunities. Our 2009 detailed financial plans show that, with minor exceptions, all classes of business are targeted to meet QBE's minimum requirements for return on allocated capital. We continue to segment our business and look for ways to improve our profitability and our efficiency. Subject to achieving our premium rate expectations and large individual risk and catastrophe claims not exceeding the allowance in our business plans, we are optimistic of delivering another strong result in 2009.

The results that we have achieved in the past few years are due to the excellent team of professional underwriters supported by strong claims management, actuarial, finance and operations support staff. I sincerely thank the team for the enormous support I receive and the contribution they have made to another excellent result.

Steven Burns
Chief executive officer – European operations

the Americas

Our substantial business in the Americas consists of 121 offices and comprises the specialty insurance programmes, regional insurance and reinsurance businesses in the US and our four general insurance operations in Argentina, Brazil, Colombia and Mexico.

GROSS WRITTEN PREMIUM

$4,462 million

Up **22%** compared with **$3,656** million last year

COMBINED OPERATING RATIO

93.6%

Compared with **93.6%** last year

The specialty insurance programme business focuses on niche products mainly written through managing agents who have a proven track record of profitability. It also includes the recently acquired managing agents, namely, ZC Sterling, Community Association Underwriters, Deep South and SIU. Our regional insurance business comprises property and casualty products that focus on small to medium size clients throughout the US and distributes insurance products to independent and captive agents. The reinsurance business covers predominantly small to medium regional insurers with a limited net exposure to major catastrophes or nationwide clients.

QBE's operations in the Americas produced a combined operating ratio of 93.6%, unchanged from last year, and an insurance profit margin of 11.5% compared with 12.8% last year. The combined operating ratio was slightly higher than our target primarily because of the record frequency of weather-related catastrophe claims in the US during the year, in particular tornadoes and Hurricane Ike. The lower insurance profit margin is entirely due to the lower interest yields on investments set aside to meet policyholders' obligations.

Gross written premium increased 22% to $4,462 million and gross earned premium increased 15% to $4,590 million. Growth was entirely due to the acquisitions made in 2007 and the North Pointe acquisition made this year and consolidated from 1 May 2008. Growth was less than we anticipated, primarily due to the cancellation of some existing business that did not meet our profit requirements and new business being considerably less than anticipated due to competition and pricing. The slowdown in the US economy also impacted growth from lower sales turnover and an increase in retention of risk by a number of our clients. Overall, our average premium rates were down by less than 1% including the impact of the change in legislation in Florida which mandated reductions in premium rates on condominiums. Gross written premium in US dollars increased by 22% compared with last year.

KEY RATIOS – THE AMERICAS

FOR THE YEAR ENDED 31 DECEMBER		2008	2007
Gross written premium	$M	**4,462**	3,656
Gross earned premium	$M	**4,590**	3,976
Net earned premium	$M	**3,108**	2,574
Claims ratio	%	**60.2**	59.4
Commission ratio	%	**19.0**	22.8
Expense ratio	%	**14.4**	11.4
Combined operating ratio	%	**93.6**	93.6
Insurance profit to net earned premium	%	**11.5**	12.8

PORTFOLIO MIX – THE AMERICAS

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %
Motor and motor casualty	**30.4**	27.2
Property	**24.4**	27.2
Casualty	**17.5**	19.0
Workers' compensation	**10.9**	11.8
Accident and health	**5.9**	6.6
Householders	**4.7**	4.0
Other	**3.2**	2.0
Bloodstock	**3.0**	2.2

Net earned premium increased by 21% to $3,108 million. This growth is higher than the growth in gross earned premium primarily because of lower reinsurance costs due to the synergies obtained from the consolidation of reinsurance protections as a result of the acquisitions made last year. The substantial difference between gross and net earned premium is primarily due to proportional reinsurance ceded to our captive, Equator Re, and other quality reinsurers for our specialty programme and regional insurance business. The total reinsurance expense was 32% of gross earned premium compared with 35% last year. Approximately 79% of the reinsurance expense is proportional reinsurance.

The net claims ratio was 60.2% compared with 59.4% last year. The increase is due to the higher frequency of weather-related catastrophe claims. The combined commission and expense ratio was 33.4% compared with 34.2% last year, with the change in commission and expense ratios being mainly due to the acquisitions made last year and the consolidation of the acquired underwriting agencies which reduced commission costs and increased expenses.

The specialty insurance programme business produced an increase in gross written premium of 8% to US$1,587 million. The increase from last year is due to the consolidation of the Praetorian acquisition for a full year and the acquisition of North Pointe Insurance Group. We were under our written premium target for the full year by close to US$362 million due to lower premiums from a number of our programme managers, cancellation of business due to inadequate pricing and lower premiums from the lower sales turnover of a number of our clients. One of our large programmes was also impacted by the mandated rate reductions in Florida for condominium insurance.

On a full year basis, gross written premium from our regional insurance business reduced by 6% to US$1,442 million. We were under budget by 9%. The reduction compared with last year is due to business identified for cancellation on renewal because it did not meet our profit requirements, a significant short fall in new business due to inadequate pricing and current market conditions adversely impacting the sales turnover of a number of our clients. Our customer retention remains high for business that we identified as acceptable for renewal.

Our reinsurance operations increased gross written premium by 10% to US$374 million. The increase is partly due to pricing being better than anticipated and customer retention being well above expectation.

The Latin American operations increased gross written premium by 46% to US$322 million. The increase was largely due to the inclusion of Cumbre Seguros in Mexico which we acquired in the fourth quarter of 2007. Colombia increased gross written premium by 29%, Brazil by 23% and Argentina by 24%. All Latin American operations performed well and produced underwriting profits.

Considered by Constable to be one of his key works, this painting was one of an impressive group of artworks purchased by the gallery from the estate of the Morgan family in 1943.

JOHN CONSTABLE (1776–1837)
The White Horse, 1819

We have substantially grown our business in the US over recent years through a number of acquisitions. As previously mentioned, this year we acquired the general insurer North Pointe Insurance Group and four specialist product underwriting agencies, namely, Deep South, SIU, Community Association Underwriters and ZC Sterling. These four underwriting agencies contributed $36 million of pre-tax profit in 2008 and we are targeting a contribution of around $400 million in 2009 as the acquisitions are consolidated for a full year. Gross written premium from the acquired underwriting agencies is expected to be around $1.3 billion in 2009, including around $600 million of new premium income for QBE.

We expect overall average premium rates to increase by close to 3% in 2009; however, we also expect tight economic conditions with expected lower sales turnover for many of our clients. The new premium income from the acquired underwriting agencies and some recent wins on new specialty programmes indicate that the Americas should increase gross written premium by over 10% in US dollars.

We have already realised the synergies from the Praetorian and Winterthur acquisitions made in 2007. We have introduced QBE's approach to underwriting of business, in particular the minimum profit requirements for each of the portfolios. This has meant a loss of slightly more business than we anticipated. The worst year in the US on record for frequency of catastrophes has meant that our target for underwriting profit in 2008 was not achieved. Claims from the frequency of catastrophes were 3% of net earned premium more than we included in our business plans and targets for 2008. The acquisitions made during 2008 will assist our combined operating ratio going forward. Subject to large individual risk claims and catastrophes not exceeding the substantial allowance in our business plans, we expect a combined operating ratio in the high 80s for 2009. However, our insurance profit margin will be impacted by the record low interest rates currently prevailing for US cash and fixed interest securities.

We have four excellent insurance businesses in the Americas. The four additional underwriting agencies acquired are targeted to secure distribution and to give us further spread of specialist products. Our results for 2008 outperformed the large majority of our peers and the market. We also have an excellent team in the US which has worked diligently to integrate the acquisitions and to deliver a quality underwriting result given market conditions and the increased frequency of catastrophes. I sincerely appreciate the enormous support that I have received from our professional team and our partners and thank them for their dedication and contribution to the 2008 result.

Vince McLenaghan
Acting president and chief executive officer
– QBE the Americas

Equator Re

KEY RATIOS – EQUATOR RE

FOR THE YEAR ENDED 31 DECEMBER		2008	2007
Gross written premium	$M	**2,231**	1,990
Gross earned premium	$M	**1,978**	1,631
Net earned premium	$M	**1,913**	1,426
Claims ratio	%	**56.6**	54.6
Commission ratio	%	**21.4**	22.0
Expense ratio	%	**5.8**	3.9
Combined operating ratio	%	**83.8**	80.5
Insurance profit to net earned premium	%	**20.8**	23.1

PORTFOLIO MIX – EQUATOR RE

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2008 %	2007 %		2008 %	2007 %
Property	**21.1**	25.1	Lenders' mortgage insurance	**7.7**	–
Public/product liability	**20.4**	31.1	Professional indemnity	**4.2**	3.0
Marine, energy and aviation	**16.5**	15.4	Other	**2.5**	0.3
Motor and motor casualty	**15.5**	12.7	Accident and health	**2.0**	3.4
Workers' compensation	**8.6**	8.4	Financial and credit	**1.5**	0.6

Des Fogarty
PRESIDENT – EQUATOR RE

Equator Re is QBE's wholly owned captive reinsurer based in Bermuda. It provides reinsurance protections for QBE's subsidiaries around the world to assist in the management of the Group's capital, balance sheet and the net exposure to large individual risk and catastrophe claims. Equator Re provides protection to the Group divisions below the retentions deemed appropriate for the Group and participates on a number of the Group's excess of loss and proportional reinsurance protections with external reinsurers.

GROSS WRITTEN PREMIUM

$2,231 million

Up **12%** compared with **$1,990** million last year

The exposures written by Equator Re are included in the Group's maximum event retention, which is the estimated net claim from its largest single realistic disaster scenario. All business written is subject to independent pricing by the Equator Re team and third party benchmarking where appropriate.

Equator Re had another excellent year and produced a combined operating ratio of 83.8% compared with 80.5% last year and an insurance margin of 20.8% compared with 23.1% last year. The higher combined operating ratio is primarily due to Equator Re's share of the Group's increased individual large risk and catastrophe claims.

Gross written premium was up 12% to $2,231 million and gross earned premium was up 21% to $1,978 million. The increase is due to additional proportional reinsurance business written by Equator Re, in particular, following the acquisitions made in the US in 2007. Net earned premium increased by 34% to $1,913 million. All internal gross premium income written and earned by Equator Re is eliminated on consolidation.

This signature piece by Turner was purchased in 1909 during a major acquisition phase in the Frick Collection. Distinctive shades of yellow create a luminous sky reflected in the River Thames which subtly frames the house in the foreground.

JOSEPH MALLORD WILLIAM TURNER (1775–1851)
Mortlake Terrace: Early Summer Morning, 1826

The claims ratio increased from 54.6% to 56.6%. The increase is due entirely to the increase in large individual risk and catastrophe claims in 2008, particularly Hurricane Ike, and the prudent claims provisions in respect of those financial institutions, trade receivables, asset protection and surety insurance policies exposed to the global financial crisis. Equator Re benefited from recoveries from its reinsurance protections which have partly offset the impact of the large individual risk and catastrophe claims.

The combined commission and expense ratio increased from 25.9% to 27.2%. This increase is due to the increase in proportional reinsurance business written and profit commissions paid to Group companies. The expense ratio includes Equator Re's share of expenses ceded by Group companies on proportional reinsurance contracts.

For 2009, we expect gross written premium to increase by around 20%, primarily due to the weaker Australian dollar, particularly against the US dollar, and additional protections to be provided by Equator Re to Group companies. Equator Re's maximum event retention will remain substantially unchanged from that of 2008.

Subject to large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans, we expect Equator Re to produce a combined operating ratio of less than 90% for 2009.

Equator Re had shareholders' funds at year end of $1.0 billion and an S&P insurer financial strength rating of A+.

Equator Re is a significant part of QBE's strategy for the management of capital, maximum event retention and large individual risk and catastrophe claims throughout the Group. Our strategy of eliminating unnecessary external reinsurance by providing reinsurance protections to individual Group companies and carefully managing our third party exposure has been successful. We will continue to review our Group retentions and our reinsurance purchasing to maximise the value of Equator Re for the benefit of shareholders.

Equator Re has a dedicated team of professionals to manage the large number of reinsurance contracts that are written to protect Group companies. I appreciate the significant contribution and the hard work of our small team.

Des Fogarty
President – Equator Re

Investments

INVESTMENT INCOME

FOR THE YEAR ENDED 31 DECEMBER	2008 $M	2007 $M
Equity income	**(490)**	166
Income on fixed interest securities, short-term money and cash	**1,256**	1,211
Investment property income	**7**	5
Gain on sale of controlled entities	**–**	2
Other income	**(7)**	14
Gross investment income	**766**	1,398
Foreign exchange gains	**409**	15
Borrowing costs	**(240)**	(218)
Gain on repurchase of debt securities	**303**	–
Other expenses	**(38)**	(54)
Net cost of ABCs	**(23)**	(9)
Net investment income	**1,177**	1,132

TOTAL INVESTMENTS AND CASH

AS AT	31 DECEMBER 2008		31 DECEMBER 2007	
	$M	%	$M	%
Cash	**2,736**	**9.6**	988	4.0
Short-term money	**16,885**	**59.2**	16,317	66.3
Fixed interest securities and other	**7,219**	**25.2**	5,552	22.6
Equities	**1,589**	**5.6**	1,656	6.7
Investment properties	**112**	**0.4**	93	0.4
Total investments and cash	**28,541**	**100.0**	24,606	100.0

Mark ten Hove

GROUP GENERAL MANAGER – INVESTMENTS

CURRENCY MIX

MARKET VALUE OF EQUITIES	2008 %	2007 %
Australian dollar	**36**	51
US dollar	**36**	18
Sterling	**17**	24
Other	**11**	7

MARKET VALUE OF TOTAL INVESTMENTS AND CASH	2008 %	2007 %
US dollar	**43**	39
Australian dollar	**28**	26
Sterling	**20**	24
Other	**9**	11

2008 has been an extremely challenging year for the Group investments team. Our absolute return and low risk strategy has worked well for QBE shareholders in the past 12 months. We were not immune from the fall in equity markets. Our focus on investing in quality cash and fixed interest securities has meant that we have not had a single case of permanent diminution in value. During this period of uncertainty, our short duration strategy for fixed interest investments has been extremely beneficial in maintaining flexibility to assist in avoiding exposures to companies in difficulty as a result of the financial downturn. This strategy has enabled us to either sell or not renew a number of investments that were facing potential downgrades, a position that would have been much more difficult if we were longer in duration.

Central bank cash rates reduced from an average 5.1% at the beginning of the year to 1.9% at the end of the year and global equity markets fell by 38% for the year. This has resulted in a significant reduction in gross investment income from $1,398 million to $766 million and a lower overall gross investment yield of 2.9% compared with 6.3% last year. Gross investment income excludes foreign exchange gains and the profit on the repurchase of heavily discounted QBE perpetual debt. It includes net realised and unrealised losses on equities of $554 million before income tax compared with gains of $100 million before income tax last year. The gross yield on cash and fixed interest securities reduced from 5.9% to 5.1%.

We outperformed external benchmarks on equities mainly due to the hedges we had in place for most of the first half of the year and our underweight position relative to our benchmark. We underperformed on cash and fixed interest securities due to our short duration strategy and focus on quality.

Net investment income which includes borrowing costs, investment expenses, foreign exchange gains and the profit on the repurchase of the perpetual debt increased from $1,132 million to $1,177 million. Foreign exchange gains were $409 million before tax compared with $15 million last year and the profit on the repurchase of QBE perpetual debt was $303 million before tax.

Frick collected some of the greatest Old Masters in the world, but also had an unfailing eye for more contemporary artworks. This painting, acquired after Frick's death, complements his earlier acquisitions of major Impressionist paintings.

CLAUDE-OSCAR MONET (1840–1926)
Vétheuil in Winter, 1878–1879

At 31 December 2008, our total equity portfolio was 5.6% of total investments and cash. Since year end, our net exposure to equities has been reduced to below 4% through hedges purchased on 16 January 2009. Our equity weighting is substantially below our benchmark of 10% and it will remain so until we are satisfied that there is clear evidence that markets will improve.

Our cash and fixed interest portfolios continue to be invested in high quality securities with an average duration of 0.5 years at year end. We will continue with our short duration strategy and our low risk approach. The current environment is not conducive to trying to maximise yield, thereby exposing shareholders to unnecessary risk and possible capital losses.

Funds from acquisitions in 2008, operational cash flows and the weaker Australian dollar have resulted in a 16% increase in investments and cash from $24.6 billion at 31 December 2007 to $28.5 billion at 31 December 2008. The weaker Australian dollar increased the value of our overseas investments and cash portfolios in Australian dollars by $2.2 billion during the year.

We continue to maintain a policy of matching liabilities with assets of the same currency as far as practicable. This provides additional income from hedging of overseas shareholders' funds back into Australian dollars due to the interest rate differentials. As mentioned in the chairman's report, we are currently reviewing the policy of matching "tradeable" overseas shareholders' funds back into Australian dollars.

Based on our cash flow estimates for 2009 and assuming the Australian dollar remains at current levels, we anticipate investments and cash to be around $30 billion by the end of 2009. Interest rates are currently at exceptionally low levels, particularly in the US, UK and Australia where we have the majority of our investments. The substantially lower interest rates, together with our focus on a low risk absolute return strategy, will mean that investment income yields on our cash and fixed interest portfolios are likely to again fall in 2009. We are extremely pleased that to date we have been able to avoid impairments on cash and fixed interest investments from the global financial crisis. We continue to monitor all the various portfolios on a daily basis and make adjustments to ensure that we minimise capital losses.

2008 has been the most difficult year that our investment team has experienced. Our task has not been made easy because of the need to maintain investments in many countries around the world, to meet local regulatory solvency requirements and to match liabilities in those countries. The QBE investment team has done an outstanding job in these difficult circumstances. I would like to take this opportunity to thank them for their hard work and discipline during the past year.

Mark ten Hove
Group general manager – Investments

Board of directors

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Group's activities.

LEN BLEASEL AM

FAIM, FAICD, AGE 66

Mr Bleasel was appointed an independent non-executive director of QBE in January 2001. He is chairman of the remuneration committee and a member of the audit committee. Mr Bleasel is the chairman of ABN AMRO Australia Holdings Pty Limited and APA Group. He is also the chairman of the Zoological Parks Board of NSW and is on the advisory boards of various charities.

DUNCAN BOYLE

BA, FCII, FAICD, AGE 57

Mr Boyle was appointed an independent non-executive director of QBE in September 2006. He is a member of the audit and remuneration committees. Mr Boyle is a director of Clayton Utz and Stockland Trust Group and has 36 years experience in the insurance industry in Australia, New Zealand and the UK.

JOHN CLONEY

FANZIIF, FAIM, FAICD, AGE 68
CHAIRMAN

Mr Cloney joined QBE as managing director in 1981. He retired in January 1998, at which time he became a non-executive director. He was appointed deputy chairman in April 1998 and chairman in October 1998. He is the chairman of the chairman's and funding committees, and a member of the investment and remuneration committees. Mr Cloney is a director of ABN AMRO Australia Holdings Pty Limited, Boral Limited and Maple-Brown Abbott Limited. He is a trustee of the Sydney Cricket & Sports Ground Trust.

ISABEL HUDSON

MA, FCII, AGE 49

Ms Hudson is based in the UK and was appointed an independent non-executive director of QBE in November 2005. She is a member of the audit and remuneration committees. Ms Hudson is chairman of the business development board of Scope, a UK charity, and has 28 years experience in the insurance industry in the UK and mainland Europe.

BELINDA HUTCHINSON AM

BEc, FCA, AGE 55

Ms Hutchinson was appointed an independent non-executive director of QBE in September 1997. She is the chairman of the investment committee and a member of the audit, chairman's and funding committees. She is a director of St Vincent's & Mater Health Sydney Limited and a member of the Salvation Army Sydney and Territorial advisory board.

CHARLES IRBY

FCA (ENGLAND & WALES), AGE 63

Mr Irby is based in the UK and was appointed an independent non-executive director of QBE in June 2001. He is a member of the investment committee and the European operations' audit committee. He is a director of Great Portland Estates plc and North Atlantic Smaller Companies Investment Trust plc. Mr Irby is also a trustee and governor of King Edward VII's Hospital Sister Agnes.

IRENE LEE

BA, BARRISTER-AT-LAW, AGE 55

Ms Lee was appointed an independent non-executive director of QBE in May 2002. She is the chairman of the audit committee and a member of the funding and investment committees. Ms Lee is the executive chairman of Keybridge Capital Limited and is a director of ING Bank (Australia) Limited. She is a member of the Takeovers Panel, the advisory council of JP Morgan Australia and the executive council of the UTS Faculty of Business.

FRANK O'HALLORAN

FCA, AGE 62
CHIEF EXECUTIVE OFFICER

Mr O'Halloran was appointed chief executive officer in January 1998 and is a member of the chairman's, funding and investment committees. He joined QBE in 1976 as Group financial controller. He was appointed chief financial officer in 1982, joined the board as director of finance from 1987 to 1994 and was director of operations from 1994 to 1997. He has had extensive experience in professional accountancy for 14 years and insurance management for over 32 years.

Details of directorships of listed companies held by members of the board in the last three years are included on page 52 in the directors' report.

Len Bleasel AM Duncan Boyle John Cloney

Isabel Hudson Belinda Hutchinson AM

Charles Irby Irene Lee Frank O'Halloran

Corporate governance statement

Duncan Ramsay
GENERAL COUNSEL AND COMPANY SECRETARY

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

The statement incorporates the disclosures required by the revised recommendations of the ASX Corporate Governance Council ("ASX CGC") issued in August 2007.

BOARD OF DIRECTORS

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Group's activities. Details of individual directors are included on pages 40 to 41 and can also be found on the QBE website at www.qbe.com. The board comprises eight directors being the chairman, the chief executive officer and six independent non-executive directors using the "independence" definition of the ASX CGC. Applying this definition, the board has determined that a non-executive director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 1% of the Group's revenue or expenses.

The roles of chairman and chief executive officer are not exercised by the same individual.

The relationships identified by the ASX CGC as affecting a director's independent status no longer refer to the period for which a director has served on a board. Nevertheless, as a general guide, the board has agreed that a non-executive director's term should be approximately 10 years. The board considers that a mandatory limit on tenure would deprive the Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. Ms Hutchinson AM has been a non-executive director since September 1997 and chairman of the investment committee since 2002. She was re-elected as a director at the 2006 AGM and will retire by rotation and offer herself for re-election at the 2009 AGM. QBE's other directors believe that Ms Hutchinson continues to exercise independent judgment and, through her QBE experience, provides an important contribution.

The chairman has over 50 years involvement in the insurance industry, including 17 years as chief executive officer of QBE until he retired in January 1998. He became chairman in October 1998. The chairman's former executive capacity with QBE has been fully disclosed to shareholders, who re-elected him as a director by an overwhelming majority at the 2006 AGM. He will also retire by rotation and offer himself for re-election at the 2009 AGM. QBE's other directors consider that the chairman exercises independent judgment. The chairman is not an "independent" director as recommended by the ASX CGC because there was less than a three year period between him acting as chief executive officer and being appointed chairman. The board believes it is in shareholders' and policyholders' interests to retain his wealth of experience and have resolved that he should continue in that role. The board also believes that the chairman's experience gained from directorships in other businesses provides an advantage to QBE.

The chairman oversees the performance of the board, its committees and each director. The board review procedure involves an annual assessment of the entire board and each director, comprising a combination of written questions and answers together with an interview with each director. The chairman reports the overall result to the board and it is discussed by all directors. This review procedure is a precursor to other directors determining whether to support, via the notice of meeting, a non-executive director for re-election at an AGM. The last board review was completed in accordance with the process above in December 2008 ahead of nominating the chairman, Ms Hudson, Ms Hutchinson and Ms Lee for re-election at the 2009 AGM. The committee review procedure comprises the relevant committee considering a memorandum from the Group chairman generally dealing with its performance and contribution to QBE. The audit, investment and remuneration committees as the main committees of the board each conducted such a review in accordance with the process above during 2008 and concluded that each committee was operating soundly and that no changes were required.

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

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

Under QBE's constitution, management of the Group is vested in the board. In accordance with its board charter, the board:

- oversees corporate governance;
- selects and supervises the chief executive officer;
- provides direction to management;
- approves the strategies and major policies of the Group;
- monitors the achievement of strategies and policies;
- monitors performance against plan;
- considers regulatory compliance; and
- reviews human resources (including succession planning), information technology and other resources.

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

Strategic issues and management's detailed budgets and three year business plans are reviewed at least annually by the board. The board receives updated forecasts during the year. Visits by non-executive directors to the Group's offices in key locations are encouraged. To help the board to maintain its understanding of the business and to effectively assess management, directors have regular presentations by the divisional chief executive officers and other senior managers of the various divisions on topics including budgets, three year business plans and operating performance. They have contact with senior employees at numerous times and in various forums during the year. The board meets regularly in Australia and at least once a year overseas. Each meeting normally considers reports from the chief executive officer and chief financial officer together with other relevant reports. The board regularly meets in the absence of management. The chairman and chief executive officer in particular, and board members in general, have substantial contact outside board and committee meetings.

COMMITTEES

The board is supported by several committees which meet regularly to consider the audit process, investments, remuneration and other matters. The main committees of the board are the audit committee, the investment committee and the remuneration committee. These committees operate under a written charter approved by the board. Any non-executive director may attend a committee meeting. The committees have direct and unlimited access to QBE's senior managers during their meetings and may consult external advisers when necessary at QBE's cost, including requiring their attendance at committee meetings. Committee membership is reviewed regularly.

In addition, the board has established a chairman's committee comprising the chairman, Ms BJ Hutchinson AM and the chief executive officer, and a funding committee comprising the chairman, Ms BJ Hutchinson AM, Ms IYL Lee and the chief executive officer. These committees meet as required, including to deal with matters referred by the board from time to time.

The board regularly discusses its composition and is involved in the selection of new members. All directors are members of the nomination committee. This means the board is able to draw upon the views of all directors at one time to ensure the most appropriate candidates are chosen to enhance QBE's culture and strategy. External consultants may be engaged where necessary to search for prospective board members. The board has adopted non-executive director nomination guidelines. As a relatively small board of eight directors (including the chief executive officer), the directors believe that this is an efficient mechanism for dealing with this matter.

Details of directors' attendance at board and committee meetings are outlined in the table of meeting attendance set out in the directors' report on page 52. A report on each committee's last meeting is provided to the next board meeting. The company secretary acts as secretary to all committees.

Audit committee

The membership of the audit committee may only comprise non-executive directors. The audit committee normally meets four times a year. The chairman must be a non-executive director who is not the chairman of the board. The current members are Ms IYL Lee (chairman), Mr LF Bleasel AM, Mr DM Boyle, Ms IF Hudson and Ms BJ Hutchinson AM.

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

- the quality of financial reporting to the Australian Securities and Investments Commission ("ASIC"), ASX and shareholders;
- the consolidated entity's accounting policies, practices and disclosures; and
- the scope and outcome of external and internal audits.

The audit committee's responsibilities include the financial statements (including items such as the outstanding claims provision, reinsurance recoveries and income tax), external and internal audit, risk management, internal controls, compliance other than regulatory compliance and significant changes in accounting policies.

The chairman of the board and other non-executive directors normally attend audit committee meetings which consider the 30 June and 31 December financial reports. Meetings of the audit committee usually include, by invitation, the chief executive officer, the chief financial officer, the chief operating officer, the chief actuarial officer, the chief risk officer, the Group internal audit manager and the external auditor. On occasion, other relevant senior managers also attend.

The audit committee has direct and unlimited access to the external auditor. The external auditor, the Group internal audit manager, the chief risk officer and the chief actuarial officer have direct and unlimited access to the audit committee.

The chief executive officer and chief financial officer provide the board with certificates in relation to risk management and internal control as recommended by the ASX CGC and on the financial reports as required by the *Corporations Act 2001*.

External auditor independence

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

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

The board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 30% of all fees paid to the external auditor in any one financial year. External tax services are generally provided by an accounting firm other than the external auditor.

The external auditor has been QBE's auditor for many years. As a diverse international group, QBE requires the services of one of a limited number of international accounting firms to act as auditor. It is the practice of QBE to review from time to time the role of the external auditor. The *Corporations Act 2001*, Australian professional auditing standards and the external auditor's own policy deal with rotation and require rotation of the lead engagement partner after five years. In accordance with such policy, the lead engagement partner of the external auditor rotated in 2004 and will rotate again in 2009.

Investment committee

The membership of the investment committee comprises four non-executive directors and one executive director. The investment committee normally meets three times a year. The chairman must be a non-executive director who is not the chairman of the board. The current members are Ms BJ Hutchinson AM (chairman), Mr EJ Cloney, Mr CLA Irby, Ms IYL Lee and Mr FM O'Halloran. Meetings of the investment committee usually include, by invitation, the Group general manager – investments, the chief financial officer and the chief operating officer. On occasion, other relevant senior managers also attend.

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

- investment objectives and strategy;
- investment risk management;
- currency, equity and fixed interest exposure limits;
- credit exposure limits with financial counterparties; and
- Group treasury.

The investment committee's responsibilities include review of economic and investment conditions as they relate to QBE, approval of management's recommended investment strategy and review of investment performance, including the performance of QBE's defined benefit superannuation funds.

Remuneration committee

The membership of the remuneration committee may only comprise non-executive directors. The remuneration committee normally meets four times a year. The chairman must be a non-executive director who is not the chairman of the board. The current members are Mr LF Bleasel AM (chairman), Mr DM Boyle, Mr EJ Cloney and Ms IF Hudson. Meetings of the remuneration committee usually include, by invitation, the chief executive officer, the chief operating officer and the Group general manager, human resources.

The role of the remuneration committee is to oversee QBE's general remuneration practices. The remuneration committee's responsibilities include:

- recommendation of the total remuneration cost ("TRC") of the chief executive officer and approval of the TRC of the Group operations executive and Group head office management ("Group executive");
- review and approval of short-term and deferred incentives such as equity based plans;
- review of superannuation;
- review of performance measurement criteria, succession plans and other major human resource practices;
- monitoring of personal development plans ("PDP") for the Group executive and other senior positions; and
- recommendations on non-executive director remuneration.

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

A PDP involves a meeting between the relevant member of the Group executive, the chief executive officer and the Group general manager, human resources to:

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

PDPs occur periodically in accordance with the process above, and several took place in 2008. In addition, the board continually monitors the performance of the Group executive through regular contact and reporting.

QBE has operations and staff in 45 countries with differing laws and customs. QBE's remuneration policy therefore reflects the fact that QBE is a global organisation, whilst also taking into account local remuneration levels and practices.

Details of remuneration

Details of remuneration of employees and non-executive directors, such as employee entitlements under the Employee Share and Option Plan and the Deferred Compensation Plan together with superannuation for non-executive directors, are included in the remuneration report on pages 54 to 66 and in notes 27 and 28 to the financial statements.

RISK MANAGEMENT

QBE's core business is the underwriting of risk. The Group's successful performance over many years clearly establishes its substantial risk management credentials.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of proven employees skilled in such products allows QBE to lead underwrite in many of the markets in which we operate. Geographic diversification is achieved by operating in 45 countries.

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

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

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

The Group has established internal controls to manage material business risks in the key areas of exposure relevant to QBE. The broad risk categories are insurance risk, acquisition risk, operational risk and funds management and treasury risk. Internal controls and systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and foreign exchange exposures are within predetermined guidelines. The board approves annually a comprehensive risk management strategy ("RMS") and reinsurance management strategy ("REMS"), both of which are lodged with the Australian Prudential Regulation Authority ("APRA"). The RMS deals with all areas of significant business risk to the Group. The REMS covers topics such as the Group's risk tolerance and the Group's strategy in respect of the selection, approval and monitoring of all reinsurance arrangements. The Group security committee assesses reinsurer counterparty security. This management committee normally meets four times a year and holds special meetings as required.

While the RMS and REMS are approved by the board, QBE believes that managing risk is the responsibility of the Group head office and the business units, and that all staff need to understand and actively manage risk. The business units are supported by compliance teams and by Group senior management. Further information on risk management is provided on pages 16 to 18 of the annual report and in notes 4 and 5 to the financial statements.

Management has reported to either the audit committee or the board on the effectiveness of QBE's management of its material business risks.

Internal audit

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

Delegated authorities

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

Actuarial review

It is a longstanding practice of the directors to ensure that the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims provision is reviewed by experienced internal actuarial staff. The chief actuarial officer is based in head office and there are over 150 actuarial staff who are involved in forming an independent view, separate from management, of the central estimate and the probability of adequacy of the outstanding claims provision and premium liabilities, premium rates and related matters. Approximately 90% of QBE's outstanding claims provision is also reviewed by external actuaries annually. External actuaries are generally from organisations which are not associated with the external auditor.

Insurance and other regulation

General insurance and, to a lesser extent, reinsurance are heavily regulated industries. In addition to the Group's accounting, legal, tax and other professional teams, each division has compliance personnel and there is a Group risk and compliance manager based in head office. In Australia, regulators include ASIC, the Australian Competition and Consumer Commission, APRA, the Australian Privacy Commissioner and relevant state authorities for compulsory third party motor insurance and workers' compensation insurance. These regulatory bodies enforce laws which deal with a range of issues, including capital requirements and consumer protection. Similar local laws and regulations apply to the Group's operations outside Australia.

COMMUNICATION AND GUIDELINES

Continuous disclosure

ASX Listing Rule 3.1 requires QBE to inform the ASX immediately once QBE is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of QBE's shares. Procedures are in place to ensure that items which potentially require announcement to the ASX are promptly notified to Group head office for assessment and released as required. The chief executive officer is responsible for authorising the release of market announcements. All market announcements are posted promptly to the Group's website.

QBE takes the spirit of its continuous disclosure obligations very seriously and issues frequent market announcements during the year to satisfy those obligations. A list of the material announcements made since 1 January 2008 is included on page 155.

Communication with shareholders

The *Corporations Act 2001* no longer requires QBE to distribute an annual report to all shareholders except to those who elect to receive it. QBE also produces a half year report with a results summary which is sent to all shareholders except those who elect not to receive it. Both reports are available on the QBE website. The website also contains historical and other details on the Group. Shareholders can discuss their shareholding with either the shareholder services department or the share registrar, both located in Sydney.

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

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

The chief executive officer, chief financial officer, chief operating officer, chief actuarial officer, chief risk officer, general counsel and company secretary, investor relations manager, divisional chief executives and divisional finance officers generally deal with analysts, investors, media, rating agencies and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the Group's website. The 30 June and 31 December presentations are also generally webcast.

Share trading guidelines

QBE has guidelines for directors and senior Group executives relating to the purchase and sale of securities of QBE. These are in addition to the insider trading provisions of the *Corporations Act 2001*. In particular, the guidelines state that directors and senior Group executives should:

- never actively trade the company's securities;
- not hedge unvested entitlements; and
- notify any intended transaction to nominated people within the Group, including notification of any hedging of vested entitlements.

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

Other Group guidelines

The Group has adopted a code of conduct for Australian operations, Group head office and Group investment division which forms the basis for the manner in which these employees perform their work involving both legal obligations and the reasonable expectation of stakeholders. The code of conduct requires that business be carried out in an open and honest manner with our customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with confidentiality, conflicts of interest and related matters. The non-executive directors have adopted a code of conduct for themselves which is substantially the same as the code above.

Other divisions have developed codes of conduct based on the Group code above, with some differences to allow for the requirements of the particular countries in which the division operates.

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

QBE in Australia follows the general insurance code of practice, a self-regulated code developed by the Insurance Council of Australia relating to the provision of products and services to customers of the general insurance industry of Australia. A revised code of practice commenced in July 2006.

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

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

Details of indemnification and insurance arrangements are included in the directors' report on page 51.

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

- board charter;
- audit, investment and remuneration committee charters;
- non-executive director nomination guidelines;
- code of conduct for non-executive directors;
- code of conduct for Australian operations, Group head office and Group investment division;
- guidelines for dealing in securities of QBE Insurance Group Limited or other companies by directors and senior Group executives;
- continuous disclosure guidelines; and
- shareholder communication guidelines.

Environmental issues

QBE is a corporation involved in an industry that seeks to play a role, in conjunction with governments, individuals and organisations, in managing and reducing environmental risk. In an initiative to collaborate with the United Nations Environment Programme, QBE, together with a number of other major international insurers, is a signatory to a statement of environmental commitment by the insurance industry. QBE is also a signatory to the Carbon Disclosure Project (CDP). The CDP is an independent, not-for-profit organisation which acts as an intermediary between shareholders and corporations on all climate change related issues, providing climate change data from the world's largest corporations to the global market place.

QBE's response to the latest CDP questionnaire, CDP6, was published in October 2008 and is available on our website in the investor information section.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2008

Your directors present their report on the consolidated entity consisting of QBE Insurance Group and the entities it controlled at the end of or during the year ended 31 December 2008.

DIRECTORS

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

EJ Cloney (chairman)
LF Bleasel AM
DM Boyle
IF Hudson
BJ Hutchinson AM
CLA Irby
IYL Lee
FM O'Halloran

At the 2009 annual general meeting ("AGM"), Mr Cloney, Ms Hudson, Ms Hutchinson AM and Ms Lee will retire by rotation and offer themselves for re-election.

Details of the directors and their qualifications are provided on pages 40 and 41.

CONSOLIDATED RESULTS

	2008 $M	2007 $M
Revenue		
Premium revenue	**12,853**	12,361
Other revenue	**2,866**	2,153
Net fair value gains on financial assets	**–**	354
Net fair value gains on investment properties	**–**	2
Realised gains on sale of controlled entities	**–**	2
Investment income – ABC financial assets pledged for funds at Lloyd's	**222**	94
	15,941	14,966
Expenses		
Outward reinsurance premium expense	**1,766**	2,151
Gross claims incurred	**7,743**	6,651
Other expenses	**3,494**	3,294
Net fair value losses on financial assets	**33**	–
Expenses – ABC securities for funds at Lloyd's	**245**	103
Finance costs	**240**	218
Profit before income tax	**2,420**	2,549
Income tax expense	**554**	615
Profit after income tax	**1,866**	1,934
Net profit attributable to minority interest	**7**	9
Net profit after income tax attributable to members of the company	**1,859**	1,925

PROFIT

2008 has been one of the most difficult years for the insurance industry in a long time. The result was impacted by a major fall in equity markets, substantially lower interest rates, a large increase in the frequency of catastrophe claims and an increase in property, professional liability and credit-related large individual risk claims. Given the difficult insurance and investment conditions, we produced a solid financial result with a net profit after income tax of $1,859 million, down 3% from $1,925 million last year. The result was affected by a number of significant items including substantial unrealised losses on our equity portfolios, large foreign exchange gains, a large profit on the restructure of our debt, an increase in large individual risk claims and the effect of lower interest rates on investment income.

DIVIDENDS

The directors are pleased to announce a final dividend of 65.0 cents per share for the year ended 31 December 2008. The substantial growth in our overseas profits has meant that the franking of the final dividend will be at 20%. The total dividend for 2008 is 126.0 cents, up 3% compared with 122.0 cents for the year ended 31 December 2007. The final dividend payout is $645 million, up 12% from $576 million last year. The total dividend payout is $1,187 million or 64% of net profit after income tax, up from $1,068 million last year. The Dividend Reinvestment Plan has been reinstated. The franking account balance at 31 December 2008 on a tax paid basis was a surplus of $223 million.

ACTIVITIES

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

SHAREHOLDERS' FUNDS

Shareholders' funds increased by 32% during the year to $11,159 million at 31 December 2008. The number of shares advised to the Australian Securities Exchange increased from 886 million to 987 million mainly due to the issue of 98 million shares following subscriptions received under our institutional share purchase offer in December 2008. A further six million shares were issued on 20 January following subscriptions received under our Share Purchase Plan.

REVIEW OF OPERATIONS

Gross earned premium was $12,853 million, up 4% from last year. Premium growth was mainly due to the US acquisitions made in 2007 and the acquisition of new distribution channels. We continued to achieve a high retention of customers; however, new business was less than target due to inadequate prices. Overall average premium rates declined although they were slightly better than expected at the beginning of 2008. The Group's cost of reinsurance reduced from 17% of gross earned premium to 14% due to generally lower reinsurance costs, synergies from the new acquisitions and the increased participation of our captive reinsurer, Equator Re.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 88.5% compared with 85.9% last year. The net claims ratio was 57.6% compared with 54.3% last year. Our attritional claims ratio was in line with expectations and with last year, and was assisted by savings on central estimates booked to prior accident years. The ratio of large individual risk and catastrophe claims to net earned premium was considerably up at 10.2% compared with 6.6% last year. QBE experienced an increased frequency of claims from small to medium size weather-related catastrophes and large individual risk losses. The combined commission and expense ratio reduced from 31.6% to 30.9% reflecting the benefit of the underwriting agency acquisitions. The commission ratio reduced from 18.5% to 17.2% due to the elimination of commissions paid to agents acquired over the last two years. The expense ratio was 13.7%, up from 13.1% last year, mainly due to the expenses of the acquired agencies.

Australian operations

Australian operations' combined operating ratio was 90.6%, up from 82.9% last year. The result was impacted by an increased frequency of large individual risk and catastrophe claims combined with a slightly higher attritional claims ratio. Net earned premium of $2,363 million was up 10% from last year. Small overall premium rate reductions were more than offset by continued high customer retention, the acquisition of QBE LMI, increased support from our intermediaries and the acquisition of three underwriting agencies. The claims ratio increased from 55.2% to 62.8%. The combined commission and expense ratio was 27.8% compared with 27.7% last year. The commission ratio reduced to 11.8% from 12.0% reflecting the benefits of acquiring the underwriting agencies. The expense ratio increased from 15.7% to 16.0% due to increased expenditure on strategic initiatives to improve bodily injury claims management and the interface with intermediaries, and the reduced performance fees from the Victoria and New South Wales workers' compensation managed funds.

Asia Pacific operations

Asia Pacific operations' combined operating ratio was 82.9% compared with 82.7% last year. The result reflects a continued low attritional claims ratio offset by an increase in large individual risk claims. Premium growth was supported by high customer retention, strong organic growth and the weaker Australian dollar. Net earned premium was up 8% to $451 million. The claims ratio decreased slightly to 41.2% compared with 41.3% last year. The combined commission and expense ratio increased from 41.4% to 41.7%. A slightly higher commission ratio from the growth during the year was partly offset by reduced expenses following the implementation of new systems last year.

European operations

European operations' combined operating ratio was 85.6% compared with 84.8% last year, reflecting a continued low level of attritional claims and the profitable earn out of prior underwriting years, offset by an increase in large individual risk and catastrophe claims. Net earned premium reduced by 11% to $3,252 million compared with $3,653 million last year mainly due to the strengthening of the Australian dollar against sterling and increased reinsurance to Equator Re. The claims ratio increased from 51.8% to 54.2%. The combined commission and expense ratio was 31.4% compared with 33.0% last year. The improvement reflected the overriding commission on the increased business to Equator Re, an increase in business sourced through our own distribution channels and higher profit commissions from external names on syndicate 386.

the Americas

This division reported net earned premium growth of 21% to $3,108 million, up from $2,574 million last year. The growth included the impact of the acquisitions made in 2007, the North Pointe acquisition made in 2008 and the increased proportional reinsurance to Equator Re. Premium growth was less than expected due to the need to cancel some business which did not meet our profit requirements and new business being less than expected due to inadequate pricing. The combined operating ratio was 93.6%, unchanged from last year. The net claims ratio increased from 59.4% to 60.2% due to the increased frequency of catastrophe claims. The combined commission and expense ratio was 33.4% compared with 34.2% last year. The reduction was mainly due to the acquisitions made last year and the consolidation of the acquired underwriting agencies which reduced commissions and increased expenses.

Equator Re

Equator Re is QBE's wholly owned captive reinsurer based in Bermuda. This division reported net earned premium growth of 34% to $1,913 million due to additional proportional reinsurance business mainly from the acquisitions made in the US during 2007. The combined operating ratio was 83.8% compared with 80.5% last year. The net claims ratio increased from 54.6% to 56.6% due to the increase in large individual risk and catastrophe claims, particularly Hurricane Ike, and prudent provisions raised against finance and credit-related policies exposed to the global financial crisis. The combined commission and expense ratio increased from 25.9% to 27.2%. This was entirely due to the increased proportional reinsurance business written and profit commissions paid to Group companies.

Investment income

Net investment income increased 4% to $1,177 million from $1,132 million last year. Investment income was impacted by net fair value losses on equities of $554 million compared with fair value gains of $100 million last year and lower interest rates. The result included foreign exchange gains of $409 million and a profit of $303 million on the repurchase of debt. The gross investment yield before borrowing costs, exchange gains and losses, investment expenses and the gain on repurchase of debt was 2.9% compared with 6.3% last year.

Income tax

Income tax expense for the period reduced from 24% of profit before tax last year to 23% primarily due to increased profits earned in lower tax countries.

Outstanding claims provision

The provision for outstanding claims for the majority of Group entities is determined after consultation with internal and external actuaries. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. As in previous years, the directors consider that substantial risk margins are required in addition to actuarial central estimates to cover uncertainties such as latency claims, changes in interest rates and superimposed inflation. The APRA prudential standards for our Australian licensed insurers provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%. The directors and management have set an internal target range of 85% to 94% using normalised risk-free discount rates. The directors have satisfied themselves that the Group's outstanding claims provision is within the internal target range.

GROUP INDEMNITIES

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

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

The indemnity extends to legal costs other than where:

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

Article 115 was revised at the 2006 AGM.

DIRECTORS' AND OFFICERS' INSURANCE

The consolidated entity pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the consolidated entity together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the consolidated entity's employees against liabilities past, present or future. The officers of the consolidated entity covered by the insurance contract include the directors listed on page 48, the secretary, DA Ramsay, and deputy secretary, P Smiles.

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

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

SIGNIFICANT CHANGES

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

EVENTS SUBSEQUENT TO THE BALANCE DATE

No matter or circumstance has arisen since 31 December 2008 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years;
- the results of those operations in future financial years; or
- the consolidated entity's state of affairs in future financial years.

LIKELY DEVELOPMENTS

Information on likely developments in the consolidated entity's operations in future financial years and the expected results of those operations has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

MEETINGS OF DIRECTORS

	FULL MEETINGS OF DIRECTORS[1]	MEETINGS OF COMMITTEES				
		AUDIT	CHAIRMAN'S	FUNDING	INVESTMENT	REMUNERATION
Number of meetings held	13	4	2	–	5	4
Number attended						
LF Bleasel AM	12	4	–	–	–	4
DM Boyle	13	4	–	–	–	4
EJ Cloney	13	–	2	–	5	4
IF Hudson	13	4	–	–	–	4
BJ Hutchinson AM	13	4	2	–	5	–
CLA Irby	12	–	–	–	5	–
IYL Lee	12	4	–	–	5	–
FM O'Halloran[2]	13	–	2	–	5	–

(1) Included a five day review meeting in London, New York, Sun Prairie and Seattle. In addition, directors attended meetings for each of the Australian regulated insurance companies.
(2) Mr O'Halloran attends audit and remuneration committee meetings by invitation, not being a member of these committees.

During the February 2008 board meeting, the board also met as the nomination committee. Further meetings occurred during the year, including meetings of the chairman and chief executive officer, meetings of the directors with management or regulators and meetings of non-executive directors. From time to time, directors attend meetings of committees of which they are not currently members.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY THE MEMBERS OF THE BOARD

From 1 January 2006 to 31 December 2008 the directors also served as directors of the following listed companies:

	POSITION	DATE APPOINTED	DATE CEASED
LF Bleasel AM			
APA Group	Chairman	30 October 2007	–
DM Boyle			
Stockland Trust Group	Director	7 August 2007	–
EJ Cloney			
Boral Limited	Director	3 March 1998	–
Patrick Corporation Limited	Director	1 May 2003	11 May 2006
BJ Hutchinson AM			
Coles Group Ltd	Director	23 September 2005	23 November 2007
Telstra Corporation Limited	Director	16 November 2001	7 November 2007
CLA Irby			
Aberdeen Asset Management plc	Chairman	1 August 1999	22 January 2009
Great Portland Estates plc	Director	1 April 2004	–
North Atlantic Smaller Companies Investment Trust plc	Director	10 December 2002	–
IYL Lee			
Mariner Financial Limited	Director	5 September 1985	30 October 2006
Keybridge Capital Limited (formerly Mariner Bridge Investments Limited)	Executive chairman	26 October 2006	–
Allco Finance Group Limited (formerly Record Investments Limited)	Director	16 January 2001	9 June 2006
Ten Network Holdings Limited	Director	13 October 2000	25 October 2007

Ms Hudson has no directorships relevant to this disclosure.

QUALIFICATIONS AND EXPERIENCE OF COMPANY SECRETARIES

DA Ramsay B Comm, LLB, LLM, FANZIIF, FCIS
Mr Ramsay is general counsel and company secretary of QBE Insurance Group Limited. His legal career commenced in March 1986 with Freehills, where he worked in the general commercial and litigation areas. In June 1993, he joined QBE as general counsel. Since May 2001, he has acted as general counsel and company secretary for the consolidated entity. He is also a director or secretary of a number of QBE controlled entities and acts as chairman of the policy committee and a trustee respectively of QBE sponsored superannuation plans in Australia and New Zealand.

P Smiles LLB, MBA, ACIS
Mr Smiles is the deputy company secretary of QBE Insurance Group Limited and company secretary of various QBE Australian subsidiaries. He has 17 years insurance experience, which includes 11 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Mr Smiles worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he also acts as a corporate lawyer advising QBE Group head office departments and Asia Pacific offices.

DIRECTORS' INTERESTS AND BENEFITS

(A) Ordinary share capital

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

DIRECTOR	2008 NUMBER	2007 NUMBER
LF Bleasel AM	**52,604**	43,996
DM Boyle	**5,247**	5,003
EJ Cloney	**635,621**	635,377
IF Hudson	**8,732**	1,058
BJ Hutchinson AM	**52,132**	33,950
CLA Irby	**15,000**	15,000
IYL Lee	**26,749**	21,505
FM O'Halloran	**1,067,991**	1,056,826

(B) Options and conditional rights

At the date of this report, Mr O'Halloran had 338,740 (2007 264,483) options over ordinary shares of the company and 105,152 (2007 112,075) conditional rights to ordinary shares of the company under the Deferred Compensation Plan ("DCP"). Details of the DCP are provided in note 27 to the financial statements.

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

(C) Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in note 28 to the financial statements.

(D) Related entity interests

Details of directors' and executives' interests with related entities are provided in note 28 to the financial statements.

REMUNERATION REPORT – AUDITED

The following information is included in the remuneration report:

(A) Remuneration framework
(B) Remuneration and reward structure
(C) Employment agreements
(D) Remuneration details
(E) Share based compensation
(F) At risk remuneration
(G) Key management personnel – investment in QBE
(H) Relationship between remuneration and company performance

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report outlines the policy of the board in relation to the remuneration of the directors and executives of the consolidated entity. In addition, this report details the remuneration of key management personnel of the consolidated entity who are defined as the directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, either directly or indirectly.

For the consolidated entity, key management personnel consist of the executive and non-executive directors who are listed on page 48 and other key management personnel who are listed in the table below. These key management personnel (as defined in AASB 124: Related Party Disclosures) include the five highest remunerated executives of the consolidated entity.

NAME	POSITION
SP Burns	Chief executive officer, European operations
NG Drabsch	Chief financial officer, QBE Insurance Group Limited
MJ Goodwin(1)	Chief executive officer, Asia Pacific operations
MD ten Hove	Group general manager – investments, QBE Insurance Group Limited
TW Ibbotson(1)	Chief executive officer, Australian operations
TM Kenny(2)	President and chief executive officer, the Americas
V McLenaghan(3)	Chief operating officer, QBE Insurance Group Limited

(1) Mr Goodwin and Mr Ibbotson were appointed as key management personnel on 8 October 2007.
(2) Mr Kenny ceased employment on 12 September 2008.
(3) Mr McLenaghan is also currently acting president and chief executive officer of QBE the Americas.

(A) Remuneration framework

The remuneration committee of the board oversees remuneration practices. The committee assesses the appropriateness of remuneration policies and practices in order to fairly and responsibly reward executives, ensuring rewards are commensurate with performance and that remuneration levels are market competitive in the various markets in which the consolidated entity operates.

(i) Non-executive directors

Non-executive director remuneration reflects the consolidated entity's desire to attract, motivate and retain high quality directors and to ensure their active participation in the consolidated entity's affairs for the purposes of corporate governance, regulatory compliance and other matters. The consolidated entity aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multi-national financial institutions. The board reviews surveys published by independent remuneration consultants and other public information to ensure that fees paid are appropriate.

(ii) Executives

Remuneration and reward philosophy

Remuneration practices vary in each of the markets within which the consolidated entity operates, and therefore the diversity of individual roles and the complexity of each operating environment is considered. The remuneration committee recognises that the consolidated entity operates in a competitive environment, where the key to achieving sustained performance is to generally retain quality employees and align executive reward with increasing shareholder wealth.

The guiding principles applied in managing remuneration and reward for executives combine:

- linking individual performance to the achievement of financial targets and business strategies;
- the achievement of short-term and long-term financial profit targets that deliver sustained growth in value for shareholders (e.g. return on equity, insurance profit, return on capacity for our Lloyd's business and investment performance); and
- using market data to set fixed annual remuneration levels.

The remuneration committee seeks the advice of independent remuneration consultants to ensure that remuneration and reward levels are appropriate and are in line with market conditions in the various markets in which the consolidated entity operates. The remuneration committee endeavours to have remuneration structures in place that encourage the achievement of a return for shareholders in terms of both dividends and growth in share price.

The remuneration committee reviews and approves the Short Term Incentive ("STI") scheme, the Deferred Compensation Plan ("DCP") and the Group Executive Restricted Share Plan ("GERSP") terms, details of which are set out below. It also approves the total quantum of short-term incentive, deferred compensation and restricted shares for Group executives based on the applicable audited results (other than the chief executive officer, whose quantum is approved by the board). The success of the schemes is demonstrated by the low turnover of senior employees and the wealth that has been created for shareholders, as demonstrated in the table on page 66.

Guidelines exist stating that directors and senior Group executives should notify any intended share transaction to nominated people within the Group, including hedging of vested entitlements. The guidelines prohibit the hedging of unvested entitlements.

Short Term Incentive scheme

The STI scheme is a short-term incentive arrangement in the form of an annual cash award, designed to reward both executives and the majority of employees. The STI aims to recognise the contributions and achievements of individuals when annual financial return on equity and investment income targets relating to the previous financial year's performance of the business unit, the division or the consolidated entity as appropriate are achieved or exceeded. The STI amounts included in the table on page 61 are contracted payments based on 2008 audited results.

Deferred Compensation Plan

Key management personnel (excluding non-executive directors), other executives and key senior employees are eligible to participate in the DCP. An executive is entitled to participate in the DCP only when the STI is earned. The DCP aims to attract and retain key executives and to increase shareholder value by motivating executives. For DCP awards made up to March 2009 in relation to financial performance for 2008 and prior years, it provides executives with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment by the executive and options to subscribe for shares at market value at the grant date.

For any DCP awards made in March 2010 in respect of 2009 financial year performance, executives will only receive conditional rights to fully paid shares as a result of approved changes to the DCP. The issue of options and interest free personal recourse loans will cease. Further details are provided in note 27 to the financial statements.

Group Executive Restricted Share Plan

Key management personnel (excluding executive and non-executive directors) and other Group executives are also eligible to participate in the GERSP which came into effect from 1 January 2008. The first award will be made in March 2009. The GERSP aims to retain and reward key executives and to increase shareholder value by motivating executives to exceed return on equity targets. It provides divisional executives with the opportunity to acquire additional equity in the form of restricted shares without payment by the executive if the consolidated entity exceeds the maximum target return on equity for STI and the division for which the relevant executive is responsible also exceeds a specified return on equity target for STI. For head office executives, awards will only be based on exceeding the consolidated entity's return on equity target. Further details are provided in note 27 to the financial statements.

Executive minimum shareholding requirement

With effect from 31 March 2008, a policy was introduced whereby key management personnel (excluding non-executive directors) and other Group executives are required to accumulate and maintain a minimum vested QBE shareholding equivalent to one years total remuneration cost ("TRC") by 31 December 2010. The executive minimum shareholding requirement encourages executives to actively build their shareholdings and ensures they have significant exposure to QBE share value and, by doing so, ensures their long-term interests are aligned with the best interests of shareholders.

(B) Remuneration and reward structure

(i) Non-executive directors

Non-executive director remuneration packages contain the following key elements:

COMPONENT	DESCRIPTION
Fees	Annual gross cash remuneration. The aggregate amount approved by shareholders at the 2007 AGM was $2,700,000 per annum. The amount paid to individual non-executive directors may vary according to specific responsibilities, including involvement on the committees of the board. Non-executive directors may sacrifice future fees into the QBE non-executive directors' share plan.
Other benefits	Non-executive directors do not receive any performance based remuneration such as cash bonuses or equity incentives. Under the company's constitution, non-executive directors are entitled to be paid all travel and related expenses properly incurred in connection with the business of the company.
Superannuation	Annual cost of superannuation contributions. The consolidated entity pays superannuation of 9% or an equivalent to non-executive directors.
Other retirement benefits	Non-executive directors previously received a retirement allowance based on their period of service. The allowance was limited to the aggregate of the director's fees in the last three years of service, subject to a minimum of 10 years service. Where service was less than 10 years, a pro-rata amount was paid. With effect from 31 December 2003, the board terminated the retirement allowance to non-executive directors. Directors' fees were increased by 30% as compensation. Accrued retirement benefits at 31 December 2003 are preserved until retirement and are subject to an annual increase equal to the average five year Australian government bond rate. Shareholders approved an increase in non-executive directors' remuneration and the company's constitution was amended at the 2004 AGM to recognise this change.

(ii) Executives

Executive remuneration packages contain the following key elements:

STRUCTURE	COMPONENT	DESCRIPTION
Total remuneration cost	Base salary	Annual gross cash salary.
	Other benefits	Benefits such as the value of motor vehicles, long service leave, health insurance, life assurance and personal accident insurance, and the applicable taxes thereon.
	Superannuation	Annual cost of employer superannuation contributions.
At risk remuneration	Short-term incentives	Annual cash award delivered under the STI terms, substantially based on the achievement of specific financial targets. STI commences when the minimum profit target requirements are met for the previous financial year.
	Deferred compensation	Deferred Compensation Plan Annual award delivered under the DCP terms, granting conditional rights to fully paid shares and options to subscribe for shares at market value at the grant date. The issue of options will cease as described below. The award is granted only when STI is earned. The DCP award amount is restricted to the lesser of 66.67% of the STI award in that year or 100% of base salary or TRC as at 31 December in the financial year prior to the year in which the STI award is paid. For DCP awards made up to March 2009 in relation to financial performance for 2008 and prior financial years, the DCP award amount is used to acquire conditional rights to fully paid shares and options respectively as follows: • conditional rights to shares to the value of 60% of the DCP award; and • options over ordinary shares to the value of 40% of the DCP award, with the resulting number multiplied by three. Conditional rights and options relating to the achievement of profit targets in the previous financial year are granted in March of the following year. Interest free personal recourse loans are available on terms permitted by the Plan to persons in the employment of the company who hold options under the DCP, to fund the exercise of the options. Conditional rights and options issued in 2004 and prior financial years are exercisable after three years. Options issued in 2005 and later financial years are exercisable after five years, with the exception of options for senior employees in the Group investment division which continue to be exercisable after three years. The issue of options and interest free personal recourse loans under the DCP will cease after the vesting of all 2008 financial year incentives as a result of approved changes to the Plan. For DCP awards made in March 2010 in respect of financial performance for 2009 and later financial years, executives will only receive conditional rights to fully paid shares. The DCP award will be based on an amount which is the lesser of 66.67% of the STI award in that year or 100% of base salary or TRC as at 31 December in the financial year prior to the year in which the STI award is paid. The DCP award amount will be used as the basis of calculating the number of conditional rights to fully paid shares as follows: • conditional rights to the value of 60% of the DCP award amount, converted to shares after three years; and • conditional rights to the value of 60% of the DCP award amount, converted to shares after five years, with the exception of senior employees in the Group investment division, whose conditional rights continue to be converted to shares after three years. Group Executive Restricted Share Plan Annual award delivered under the GERSP terms, granting restricted shares. The award is granted only when return on equity targets are exceeded. The value of the restricted shares allocated varies for each executive ranging from 3% to 50% of TRC. The restricted shares convert to fully paid shares after three years.

(iii) Incentive structure – FM O'Halloran

Consistent with other executives, Mr O'Halloran is entitled to an annual cash incentive award under the STI scheme, calculated as a percentage of TRC, if specified targets are achieved. Mr O'Halloran's incentives are based on the achievement of a target return on opening shareholders' funds adjusted for dividends and increases in share capital ("return on equity") for the 2008 financial year, determined using the consolidated entity's management basis of accounting which spreads realised and unrealised gains on equities and properties evenly over a period of seven years ("seven year spread basis"). In addition, 2008 foreign exchange gains of $380 million and a gain of $303 million on the repurchase of debt securities have been spread over a seven year period.

The table below outlines Mr O'Halloran's incentives based on actual and target returns on equity:

	GROUP RETURN ON EQUITY %	STI AWARD AS A % OF TRC
Minimum target	14	15
Maximum target	21	134
Achieved	22.6	134

Mr O'Halloran, on a basis consistent with other executives, is also entitled to receive conditional rights to fully paid shares and options to subscribe for shares under the DCP in relation to 2008 performance. These will be exercisable in three and five years respectively or on Mr O'Halloran's retirement, whichever is earlier.

Based on the achievement of an actual return on equity of 22.6%, Mr O'Halloran will receive the following awards:

- a short-term incentive payment of $2,807,000;
- conditional rights to fully paid shares under the terms of the DCP at no cost to him with a value of $1,123,000. This equates to an award of 48,710 shares; and
- 97,420 options to subscribe for QBE shares under the terms of the DCP at an indicative exercise price of $23.05 per share.

The actual share price used to determine the actual number of shares that will be issued to Mr O'Halloran in relation to his award of conditional rights and options will be the weighted average price of the company's ordinary shares traded on the ASX during the five trading days from 27 February 2009, being the date on which the consolidated entity's annual result is announced to the ASX. For indicative purposes, a share price of $23.05 has been used above, being the weighted average price of the company's ordinary shares traded on the ASX during the five day period to 13 February 2009.

In previous years, approval of Mr O'Halloran's DCP entitlement was included in a resolution for consideration at the AGM. Consistent with the approach of many other listed companies, the remuneration committee considers that this is no longer appropriate. However, any shares issued to Mr O'Halloran on vesting of the 2008 DCP entitlement may require approval of shareholders at that time.

(iv) Incentive structure – other key management personnel

The table below summarises the financial targets for each executive defined as other key management personnel of the consolidated entity. These targets are generally consistent with the targets applicable to the chief executive officer. The results used for determining incentive payments and the maximum STI that can be earned for the 2008 financial year are generally expressed as a percentage of base salary or TRC as appropriate.

	FINANCIAL TARGET	MAXIMUM STI AS A % OF REMUNERATION	RESULT BASIS
Key management personnel			
SP Burns	European operations' return on equity	133.34% x TRC	Financial year result
NG Drabsch	QBE Group return on equity	117% x TRC	Financial year result (seven year spread basis)
MJ Goodwin(1)	Asia Pacific operations' return on equity	125% x overseas net salary	Financial year result
MD ten Hove	Investment income as a % of budget income and individual performance measures	125% x TRC	Financial year result
TW Ibbotson(2)	Australian operations' return on equity	125% x TRC	Financial year result
TM Kenny(3)	the Americas insurance profit	133% x TRC	Financial year result
V McLenaghan	QBE Group return on equity	133% x TRC	Financial year result (seven year spread basis)

(1) Mr Goodwin is based in Singapore and was appointed to the role of chief executive officer for Asia Pacific operations on 8 October 2007. His STI is calculated using his assignment net salary (excluding any positive cost of living adjustment).

(2) Mr Ibbotson was appointed to the role of chief executive officer of Australian operations on 8 October 2007. His STI is calculated using his plan salary.

(3) Mr Kenny ceased employment on 12 September 2008.

(C) Employment agreements

Mr O'Halloran (executive director) and other key management personnel are employed by various controlled entities within the consolidated entity on a permanent full time basis with an open ended contract. Upon termination of employment, the executive director and other key management personnel receive their statutory entitlements of accrued annual and long service leave (where applicable), together with any superannuation benefits. Written notice is usually required in the event of termination of employment. In the case of a voluntary termination prior to retirement age, executives forfeit all conditional rights to ordinary shares not yet vested and unexercised options under the DCP.

In the event that the contract of employment is terminated through redundancy, retirement through ill health or age (subject to a minimum of 10 years service) or death and no disciplinary procedure or notice is pending, the executive is entitled to the outstanding STI and DCP awards for previous years plus a pro-rata share of the STI and conditional rights for the current financial year.

For certain executives (including some key management personnel), the controlled entities have entered into employment agreements that provide for payment of benefits in the event that the agreement is terminated by either the controlled entity or the executive. The agreements generally provide for the following:

- a notice period up to one year;
- where the controlled entity terminates the agreement, a payment comprised of TRC or base salary as appropriate plus STI for the relevant period; and
- in certain circumstances, where the controlled entity or the executive terminates the agreement due to material diminution in role, a payment of up to one year's TRC or base salary as appropriate plus STI for the relevant period.

The following specific arrangements exist in addition to the general provisions described above:

Subject to the achievement of financial hurdles, Mr Burns will receive a contractually agreed bonus payment on 31 December 2010 of one year's TRC. In addition, 100,000 future performance options are being granted at $20.44 in tranches of 20,000 over a five year period from March 2007 and vesting within three months of 31 December 2010.

In addition to his annual award under the DCP, Mr Burns will be eligible to receive an additional award of restricted shares to the value of $1,205,000 in March 2009 as a result of the European operations' result exceeding the maximum target return on equity for the 2008 financial year. The restricted shares will vest in three years after the grant date.

In addition to their annual award under the DCP, all key management personnel (except for Mr O'Halloran and Mr Burns) will be eligible to receive an additional award of restricted shares under the GERSP for values ranging from $46,000 to $168,000 in March 2009 as a result of the relevant divisional and consolidated entity results exceeding the maximum target return on equity for the 2008 financial year. The restricted shares will vest three years after the grant date.

In addition to his annual awards under the DCP and GERSP, Mr McLenaghan was granted 20,000 conditional rights on 1 January 2009 which will vest in March 2012. They are in recognition of his additional responsibilities as acting president and chief executive officer in the Americas.

(D) Remuneration details

The following tables provide details of the remuneration of key management personnel of the consolidated entity.

(i) Non-executive directors

		SHORT-TERM EMPLOYEE BENEFITS	POST EMPLOYMENT BENEFITS		TOTAL
	YEAR	DIRECTORS' FEES[1] $'000	SUPER-ANNUATION[2] $'000	RETIREMENT BENEFITS[3] $'000	$'000
LF Bleasel AM	**2008**	**241**	**22**	**7**	**270**
	2007	221	20	7	248
DM Boyle	**2008**	**233**	**21**	**–**	**254**
	2007	214	19	–	233
EJ Cloney	**2008**	**589**	**53**	**30**	**672**
	2007	544	49	30	623
The Hon NF Greiner AC[4]	**2008**	**–**	**–**	**–**	**–**
	2007	56	5	6	67
IF Hudson	**2008**	**296**	**–**	**–**	**296**
	2007	233	–	–	233
BJ Hutchinson AM	**2008**	**241**	**22**	**15**	**278**
	2007	221	20	16	257
CLA Irby	**2008**	**296**	**–**	**6**	**302**
	2007	242	–	6	248
IYL Lee	**2008**	**253**	**23**	**4**	**280**
	2007	235	21	5	261
Total	**2008**	**2,149**	**141**	**62**	**2,352**
	2007	1,966	134	70	2,170

(1) Includes fees paid for services on board committees.
(2) Mr Irby and Ms Hudson are UK residents. In lieu of superannuation, they receive an equivalent amount being 9% of fees which is included in directors' fees in the table above.
(3) Retirement benefits reflect the adjustment to the amounts preserved at 31 December 2003, being an annual increase equal to the five year Australian government bond rate.
(4) The Hon NF Greiner AC retired on 4 April 2007.

The non-executive directors have agreed that their total fees payable will be increased by 3% in 2009.

(ii) Executive director and other key management personnel

2008 remuneration for key management personnel (excluding the non-executive directors) is set out in the table on page 61. Short-term and long-term employee benefits and share based payments are individually identified and were determined based on performance criteria established in 2007, mainly the achievement of a minimum return on equity. Details of performance targets are provided on page 58.

Approximately 67% of remuneration for executive key management personnel is at risk and is directly related to the achievement of return on equity targets. Details are included on page 65.

QBE's results in 2008 were superior to the great majority of companies in the global insurance sector as evidenced by the return on average shareholders' funds of 20.9% (2007 26.1%) and the return on equity of 22.6% (2007 28.4%) on a seven year spread basis of accounting.

		SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS[1]		TERMINATION BENEFITS	TOTAL
	YEAR	BASE SALARY $'000	OTHER[2] $000	STI[3] $000	SUPER-ANNUATION $'000	LONG SERVICE LEAVE $'000	CONDITIONAL RIGHTS $'000	OPTIONS $'000	$'000	$'000
Executive Director										
FM O'Halloran	**2008**	**1,762**	**634**	**2,807**	**260**	**140**	**883**	**305**	**–**	**6,791**
	2007	1,566	508	2,506	231	174	787	256	–	6,028
Other key management personnel										
SP Burns[4]	**2008**	**1,363**	**447**	**2,411**	**–**	**–**	**1,251**	**486**	**–**	**5,958**
	2007	1,315	436	2,332	–	–	963	423	–	5,469
NG Drabsch	**2008**	**785**	**334**	**1,123**	**116**	**27**	**423**	**151**	**–**	**2,959**
	2007	741	293	1,065	109	24	418	129	–	2,779
MJ Goodwin[5]	**2008**	**512**	**309**	**626**	**59**	**12**	**52**	**19**	**–**	**1,589**
	2007	421	165	288	51	25	45	14	–	1,009
MD ten Hove	**2008**	**851**	**347**	**356**	**99**	**–**	**413**	**152**	**–**	**2,218**
	2007	750	248	1,125	150	–	383	161	–	2,817
TW Ibbotson[6]	**2008**	**632**	**116**	**894**	**97**	**16**	**212**	**74**	**–**	**2,041**
	2007	552	150	581	97	54	192	61	–	1,687
TM Kenny[7,8,9]	**2008**	**855**	**69**	**890**	**22**	**–**	**402**	**213**	**2,902**	**5,353**
	2007	1,105	98	1,760	32	–	537	268	–	3,800
V McLenaghan	**2008**	**900**	**178**	**1,397**	**128**	**30**	**416**	**137**	**–**	**3,186**
	2007	779	190	1,297	119	28	347	104	–	2,864
Total	**2008**	**7,660**	**2,434**	**10,504**	**781**	**225**	**4,052**	**1,537**	**2,902**	**30,095**
	2007	7,229	2,088	10,954	789	305	3,672	1,416	–	26,453

(1) The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is earned evenly over the period between grant and vesting which is three years for conditional rights and three or five years for options. Details of grants of conditional rights and options are provided in note 28 to the financial statements.

(2) "Other" includes the deemed value of the provision of motor vehicles, health insurance, life assurance and personal accident insurance and the applicable taxes thereon. It also includes interest on share loans, also disclosed in note 28(E) to the financial statements. Directors' and officers' liability insurance has not been included in other remuneration since it is not possible to determine an appropriate allocation basis.

(3) STI is the accrued entitlement for the financial year.

(4) Mr Burns is located in London. His remuneration has been converted to Australian dollars using the cumulative average rate of exchange for the year.

(5) Mr Goodwin was appointed as chief executive officer of Asia Pacific operations on 8 October 2007. Before this appointment, he was the chief operating officer for the same division. In 2007, Mr Goodwin's total remuneration is shown, whether as key management personnel or otherwise. Amounts received in his position as key management personnel amounted to $302,000, comprising: base salary of $115,000; other short-term employee benefits of $37,000; superannuation of $14,000; and STI of $136,000.

(6) Mr Ibbotson was appointed as chief executive officer of Australian operations on 8 October 2007. Before this appointment, he was the chief operating officer for the same division. In 2007, Mr Ibbotson's total remuneration is shown, whether as key management personnel or otherwise. Amounts received in his position as key management personnel amounted to $374,000, comprising: base salary of $139,000; other short-term employee benefits of $24,000; superannuation of $24,000; and STI of $187,000.

(7) Mr Kenny ceased employment on 12 September 2008. He was located in New York and his remuneration has been converted to Australian dollars using the cumulative average rate of exchange for the year. Mr Kenny has no entitlement to an award under the terms of the DCP for 2008 financial year performance.

(8) Included in termination benefits is the cost attributable to the accelerated recognition of conditional rights and options where the terms of Mr Kenny's departure permitted exercise of these instruments before the original exercise date. These instruments will vest and become exercisable on 31 March 2009. Also included in termination benefits is an amount of $1,223,000 which Mr Kenny is entitled to receive on 31 March 2009.

(9) In the event that Mr Kenny does not receive comparable benefits from a new employer, he will be entitled to reimbursement from the consolidated entity of health care premiums up to a maximum of US$25,000 per annum for a period of three years. In addition, the consolidated entity has agreed to reimburse Mr Kenny up to US$23,000 per annum for a five year period to 2013 for life insurance premiums if equivalent benefits are not made available by a new employer. These amounts are not included in the table above.

The directors have approved increases to TRC up to a maximum 3% for the executive director and other key management personnel in 2009.

(E) Share based compensation

(i) Options

DCP options

DCP options affecting remuneration of key management personnel in the previous, this or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE(1)
13 March 2003	13 March 2006	13 March 2007	$8.04	$1.45
10 April 2003	9 April 2006	10 April 2007	$8.04	$1.74
3 March 2004	2 March 2007	3 March 2008	$8.04	$3.61
3 March 2004	2 March 2007	3 March 2008	$11.08	$2.12
2 April 2004	1 April 2007	2 April 2008	$11.08	$2.23
3 March 2005	3 March 2008	3 March 2009	$14.85	$3.04
3 March 2005	3 March 2010	3 March 2011	$8.04	$6.90
3 March 2005	3 March 2010	3 March 2011	$11.08	$5.17
3 March 2005	3 March 2010	3 March 2011	$14.85	$3.60
8 April 2005	8 April 2010	8 April 2011	$14.85	$3.60
2 March 2006	2 March 2009	2 March 2010	$20.44	$3.85
2 March 2006	1 March 2011	2 March 2012	$20.44	$4.58
7 April 2006	6 April 2011	7 April 2012	$20.44	$5.63
2 March 2007	1 March 2010	2 March 2011	$32.68	$5.05
2 March 2007	1 March 2012	2 March 2013	$32.68	$6.28
4 April 2007	3 April 2012	4 April 2013	$32.68	$6.28
4 March 2008	3 March 2011	3 March 2012	$24.22	$3.98
4 March 2008	4 March 2013	4 March 2014	$24.22	$4.63
4 April 2008	3 April 2013	4 April 2014	$27.00	$5.16

(1) The fair value at grant date of DCP options is calculated using a binomial model. The fair value of each option is earned evenly over the three or five year period between grant and vesting.

Details of DCP options over the ordinary shares in the company provided as remuneration to the key management personnel are set out below. When exercisable, each option is convertible into one ordinary share of the company.

NAME	NUMBER OF OPTIONS GRANTED IN THE YEAR 2008	2007	NUMBER OF OPTIONS VESTED AND EXERCISED IN THE YEAR 2008(1)	2007(2)
Executive director				
FM O'Halloran	**74,257**	51,125	**–**	114,694
Other key management personnel				
SP Burns	**76,700**	61,031	**–**	148,038
NG Drabsch	**35,169**	24,776	**–**	68,399
MJ Goodwin	**7,934**	2,968	**–**	13,978
MD ten Hove	**37,161**	23,654	**66,707**	–
TW Ibbotson	**19,187**	12,088	**–**	23,715
TM Kenny(3)	**51,941**	31,910	**–**	87,218
V McLenaghan	**42,835**	26,052	**–**	49,810

(1) In 2008, Mr ten Hove exercised 66,707 options at a cost per option of $14.85. No other options were exercised.

(2) In 2007, Mr Burns exercised 79,085 options at a cost per option of $8.04. All other options were exercised at a cost per option of $11.08.

(3) Mr Kenny ceased employment on 12 September 2008. All DCP options granted up to 12 September 2008 and unvested at the balance sheet date will vest and become exercisable on 31 March 2009.

Future performance options

Future performance options affecting remuneration of key management personnel in the previous, this or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER RIGHT AT GRANT DATE[1]
10 December 2001	31 March 2007	1 April 2007	$7.27	$1.62
12 May 2005	20% in December each year	30 December 2009	$14.81	$2.32
2 March 2007	Within three months of 31 December 2010	1 April 2011	$20.44	$12.55
4 March 2008	Within three months of 31 December 2010	1 April 2011	$20.44	$3.36

(1) The fair value at grant date of options is calculated using a binomial model. The fair value of each option is earned evenly over the period between grant and vesting.

The specific terms and conditions of each grant of future performance options that affect remuneration of the key management personnel in the previous, this or future reporting periods are as follows:

GRANT DATE	PERFORMANCE CRITERIA	NAME	NUMBER OF OPTIONS GRANTED
10 December 2001	Lloyd's division to achieve an average 5% return on capacity for five years from and including the 2002 underwriting year	SP Burns	80,000[1]
	QBE the Americas to achieve an average insurance profit of 5% for underwriting years 2002 to 2006	TM Kenny[4]	100,000[1]
12 May 2005	QBE the Americas to achieve an average insurance profit of 7% of net earned premium for the five underwriting years commencing 1 January 2001	TM Kenny[4]	100,000[2,3]
2 March 2007	European operations to achieve an average insurance profit of 8% for underwriting years 2006 to 2010	SP Burns	20,000
	QBE the Americas to achieve an average insurance profit of 8% for underwriting years 2006 to 2010	TM Kenny[4]	20,000
4 March 2008	European operations to achieve an average insurance profit of 8% for underwriting years 2006 to 2010	SP Burns	20,000
	QBE the Americas to achieve an average insurance profit of 8% for underwriting years 2006 to 2010	TM Kenny[4]	20,000

(1) These options vested and were exercised in 2007 at $7.27 each.

(2) 20,000 of these options vested in 2007 and remain unexercised at the date of this report.

(3) Mr Kenny exercised 20,000 options in 2007 at $14.81.

(4) Mr Kenny ceased employment on 12 September 2008. All unvested future performance options granted up to 12 September 2008 will vest and become exercisable on 31 March 2009.

(ii) Conditional rights

Details of conditional rights affecting remuneration of key management personnel in the previous, this or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	VALUE PER RIGHT AT GRANT DATE[1]
3 March 2004	2 March 2007	$11.65 to $13.24
2 April 2004	2 April 2007	$12.49
3 March 2005	3 March 2008	$15.30 to $17.81
8 April 2005	7 April 2008	$16.94
2 March 2006	2 March 2009	$23.09
7 April 2006	6 April 2009	$24.23
2 March 2007	1 March 2010	$32.68
4 April 2007	2 April 2010	$32.68
4 March 2008	3 March 2011	$24.22
4 April 2008	4 April 2011	$27.00

(1) The fair value at grant date of conditional rights is calculated using a binomial model. The fair value of each conditional right is earned evenly over the three year period between grant and vesting.

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

	NUMBER OF RIGHTS GRANTED IN THE YEAR		NUMBER OF RIGHTS VESTED IN THE YEAR	
	2008	2007	2008	2007
Executive director				
FM O’Halloran	**37,128**	25,563	**50,142**	48,156
Other key management personnel				
SP Burns	**80,963**[2]	30,516	**68,469**	62,291
NG Drabsch	**17,585**	12,388	**28,199**	28,782
MJ Goodwin	**3,967**	1,484	**4,201**	5,882
MD ten Hove	**18,581**	11,827	**27,930**	–
TW Ibbotson	**9,594**	6,044	**11,627**	9,978
TM Kenny[1]	**25,970**	15,955	**31,718**	36,700
V McLenaghan	**21,417**	13,026	**20,302**	20,960

(1) Mr Kenny ceased employment on 12 September 2008. All conditional rights granted up to 12 September 2008 and unvested at the balance sheet date will vest and become exercisable on 31 March 2009.

(2) Includes 42,613 restricted shares which have the same terms and conditions as conditional rights to ordinary shares in the company.

(F) At risk remuneration

Total maximum potential reward mix

Consistent with market practice, the mix of total remuneration and reward is dependent on the level of seniority of the executive. Total maximum potential reward mix for the current and prior reporting periods is as follows:

	2008(1)			2007(2)		
TOTAL REWARD MIX	TRC/BASE %	STI %	DCP %	TRC/BASE %	STI %	DCP %
Executive director						
FM O'Halloran	**32**	**44**	**24**	32	43	25
Other key management personnel						
SP Burns	**26**	**35**	**39**	26	35	39
NG Drabsch	**35**	**42**	**23**	35	41	24
MJ Goodwin	**34**	**42**	**24**	47	34	19
MD ten Hove	**34**	**43**	**23**	34	43	23
TW Ibbotson	**34**	**43**	**23**	39	39	22
TM Kenny	**33**	**43**	**24**	32	43	25
V McLenaghan	**33**	**43**	**24**	32	43	25

(1) All of the above persons achieved their maximum entitlement under the STI and DCP awards in 2008 except as follows:
- Mr ten Hove's actual reward mix was TRC/Base 63%; STI 24%; and DCP 13%.
- Mr Kenny ceased employment on 12 September 2008. His actual reward mix was TRC/Base 60%; STI 40%; and DCP nil.

(2) All of the above persons achieved their maximum entitlement under the STI and DCP awards in 2007.

(G) Key management personnel – investment in QBE

2008	ORDINARY SHARES NUMBER	OPTIONS NUMBER	CONDITIONAL RIGHTS NUMBER	TOTAL POTENTIAL SHARES IN QBE AT 31 JAN 2009 NUMBER	VALUE OF POTENTIAL SHARES AT 31 JAN 2009(1) $'000	COST TO ACQUIRE SHARES $'000	NET INVESTMENT IN QBE AT 31 JAN 2009 $'000
Executive director							
FM O'Halloran	**1,067,991**	**338,740**	**105,152**	**1,511,883**	**36,285**	**(12,872)**	**23,413**
Other key management personnel							
SP Burns	**76,142**	**451,768**	**166,006**	**693,916**	**16,654**	**(8,750)**	**7,904**
NG Drabsch	**223,796**	**177,755**	**53,612**	**455,163**	**10,924**	**(6,203)**	**4,721**
MJ Goodwin	**11,280**	**23,011**	**6,701**	**40,992**	**984**	**(516)**	**468**
MD ten Hove	**275,633**	**107,614**	**52,494**	**435,741**	**10,458**	**(6,468)**	**3,990**
TW Ibbotson	**20,183**	**83,973**	**27,363**	**131,519**	**3,156**	**(1,782)**	**1,374**
V McLenaghan	**185,657**	**156,515**	**53,549**	**395,721**	**9,497**	**(4,587)**	**4,910**
	1,860,682	**1,339,376**	**464,877**	**3,664,935**	**87,958**	**(41,178)**	**46,780**

(1) The share price at 31 January 2009 was $24.00.

Amounts in the above table include relevant interests but do not include interests attributable to personally related parties.

Mr Kenny ceased employment on 12 September 2008 and is therefore not included in the above table.

(H) Relationship between remuneration and company performance

Remuneration and reward structures encourage the achievement of a return for shareholders in terms of both dividends and growth in share price. A significant component of executive remuneration is "at risk", ensuring a direct link between the consolidated entity's performance and the reward for executives. Details of "at risk" remuneration are included earlier in this report. Overall levels of executive reward take into account the performance of the Group over a number of years, with greater emphasis given to the current year. The use of financial profit targets ensures that executives focus on delivering superior returns to shareholders.

Over the period from 2004 to 2008:

- the consolidated entity's net profit after income tax increased by an average of 21% per annum;
- dividends per share increased by an average of 24% per annum; and
- the share price increased from $15.35 to $25.81, an average of 14% per annum.

During the same period, average executive remuneration including at risk remuneration grew by approximately 16% per annum.

The consolidated entity's strong results in the last five years across a number of key performance indicators are summarised below:

	2004	2005	2006	2007	2008
Earnings					
Net profit after income tax ($M)	857	1,091	1,483	1,925	**1,859**
Basic earnings per share (cents)	123.4	144.3	186.4	225.7	**208.8**
Return on equity					
Return on average shareholders' funds (%)	24.5	23.9	26.1	26.1	**20.9**
Return on equity (seven year spread basis) (%)	22.8	26.3	29.3	28.4	**22.6**
Returns to shareholders					
Dividends paid (cents per share)	54.0	71.0	95.0	122.0	**126.0**
Share price at 31 December ($ per share)	15.35	19.60	28.85	33.34	**25.81**

AUDITOR

PricewaterhouseCoopers, Chartered Accountants, continues in office in accordance with section 327B of the *Corporations Act 2001*.

NON-AUDIT SERVICES

During the year PricewaterhouseCoopers has performed certain other services in addition to its statutory duties.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as provided in note 30 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants.

A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 68.

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

ROUNDING OF AMOUNTS

The company is of a kind referred to in the ASIC class order 98/0100 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 27th day of February 2009 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

AUDITOR'S INDEPENDENCE DECLARATION FOR THE YEAR ENDED 31 DECEMBER 2008

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

RD Deutsch
Partner
PricewaterhouseCoopers

Sydney
27 February 2009

Liability limited by a scheme approved under Professional Standards Legislation

Annual financial report

31 DECEMBER 2008

This financial report includes separate financial statements for QBE Insurance Group Limited ("the company") as an individual entity and the consolidated entity consisting of QBE Insurance Group Limited and its controlled entities. The financial report is presented in Australian dollars.

QBE Insurance Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is located at:

Level 2, 82 Pitt Street
Sydney NSW 2000 Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the operations overview on pages 24 to 39 and in the directors' report, neither of which is part of this financial report.

The financial report was authorised for issue by the directors on 27 February 2009.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All material press releases, financial reports and other information are available at our QBE investor centre on our website: www.qbe.com.

Income statements

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
REVENUE					
Premium revenue		**–**	–	**12,853**	12,361
Other revenue		**1,481**	2,941	**2,866**	2,153
Net fair value gains on financial assets		**24**	2	**–**	354
Net fair value gains on investment properties		**–**	–	**–**	2
Realised gains on sale of controlled entities		**1**	–	**–**	2
Investment income – ABC financial assets pledged for funds at Lloyd's		**96**	19	**222**	94
	6	**1,602**	2,962	**15,941**	14,966
EXPENSES					
Outward reinsurance premium expense		**–**	–	**1,766**	2,151
Gross claims incurred		**–**	–	**7,743**	6,651
Other expenses	7(C)	**31**	16	**3,494**	3,294
Net fair value losses on financial assets		**–**	–	**33**	–
Impairment of investment in controlled entities		**2,410**	–	**–**	–
Expenses – ABC securities for funds at Lloyd's		**111**	47	**245**	103
Finance costs		**98**	99	**240**	218
(Loss) profit before income tax	7	**(1,048)**	2,800	**2,420**	2,549
Income tax expense	8	**22**	2	**554**	615
(Loss) profit after income tax		**(1,070)**	2,798	**1,866**	1,934
Net profit attributable to minority interest		**–**	–	**7**	9
Net (loss) profit after income tax attributable to members of the company		**(1,070)**	2,798	**1,859**	1,925

	NOTE	CONSOLIDATED 2008 CENTS	CONSOLIDATED 2007 CENTS
Basic earnings per share	36	**208.8**	225.7
Diluted earnings per share	36	**205.5**	217.0

The above income statements should be read in conjunction with the accompanying notes.

Balance sheets

AS AT 31 DECEMBER 2008

	NOTE	THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
ASSETS					
Financial assets at fair value through profit or loss					
Cash and cash equivalents	10	**641**	11	**2,736**	988
Investments	11	**770**	46	**25,693**	23,525
ABC financial assets pledged for funds at Lloyd's	34	**–**	–	**250**	900
Derivative financial instruments	12	**4**	58	**867**	266
Swaps relating to ABC securities	34	**–**	–	**67**	–
Trade and other receivables	13	**3,092**	1,566	**5,041**	4,616
Reinsurance and other recoveries on outstanding claims	22	**–**	–	**5,043**	4,360
Current tax assets		**–**	11	**78**	52
Other assets		**6**	4	**83**	41
Deferred insurance costs	14	**–**	–	**1,987**	1,683
Defined benefit plan surplus	29	**–**	–	**2**	3
Property, plant and equipment	15	**–**	–	**505**	435
Deferred tax assets	16	**27**	–	**333**	158
Investment properties	17	**–**	–	**112**	93
Shares in controlled entities	18	**11,340**	12,113	**–**	–
Intangible assets	19	**–**	–	**5,586**	2,493
Total assets		**15,880**	13,809	**48,383**	39,613
LIABILITIES					
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	12	**209**	43	**1,119**	231
Swaps relating to ABC securities	34	**1**	3	**–**	30
Trade and other payables	20	**2,682**	1,889	**1,994**	1,934
Current tax liabilities		**275**	–	**324**	86
Unearned premium	21	**–**	–	**7,126**	5,698
ABC securities for funds at Lloyd's	34	**–**	–	**312**	867
Outstanding claims	22	**–**	–	**21,204**	18,231
Provisions	23	**–**	–	**714**	67
Defined benefit plan deficit	29	**–**	–	**148**	53
Deferred tax liabilities	16	**–**	64	**531**	415
Borrowings	24	**1,907**	976	**3,666**	3,458
Total liabilities		**5,074**	2,975	**37,138**	31,070
Net assets		**10,806**	10,834	**11,245**	8,543
EQUITY					
Share capital	25(A)	**6,714**	4,737	**6,714**	4,737
Share capital, fully paid yet to be issued	25(B)	**115**	–	**115**	–
Treasury shares held in trust	25(C)	**–**	–	**(1)**	(16)
Equity component of hybrid securities	25(D)	**114**	114	**114**	114
Reserves	26(A)	**52**	39	**(178)**	(75)
Retained profits	26(B)	**3,811**	5,944	**4,395**	3,719
Shareholders' funds		**10,806**	10,834	**11,159**	8,479
Minority interest	18(D)	**–**	–	**86**	64
Total equity		**10,806**	10,834	**11,245**	8,543

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

Statements of recognised income and expense

FOR THE YEAR ENDED 31 DECEMBER 2008

		THE COMPANY		CONSOLIDATED	
	NOTE	2008 $M	2007 $M	2008 $M	2007 $M
Amounts recognised in equity, net of tax					
Net movement in foreign currency translation reserve	26(A)	**–**	–	**(118)**	(128)
Actuarial losses on defined benefit superannuation plans	26(B)	**–**	–	**(82)**	(8)
Cash flow hedges	26(A)	**6**	4	**15**	(10)
(Losses) gains on revaluation of owner occupied properties	26(A)	**–**	–	**(7)**	5
Employee share options	26(A)	**7**	(9)	**7**	11
Net income (expense) recognised directly in equity		**13**	(5)	**(185)**	(130)
Amounts recognised in income statement					
(Loss) profit after income tax		**(1,070)**	2,798	**1,866**	1,934
Total recognised income and expense for the year		**(1,057)**	2,793	**1,681**	1,804
Attributable to:					
Equity holders		**(1,057)**	2,793	**1,674**	1,795
Minority interest		**–**	–	**7**	9
		(1,057)	2,793	**1,681**	1,804

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
OPERATING ACTIVITIES					
Premium received		**–**	–	**13,098**	12,667
Reinsurance and other recoveries received		**–**	–	**1,396**	1,665
Outward reinsurance paid		**–**	–	**(1,691)**	(2,108)
Claims paid		**–**	–	**(7,651)**	(7,053)
Insurance costs paid		**–**	–	**(2,700)**	(2,199)
Other underwriting costs		**–**	–	**(928)**	(836)
Interest received		**57**	88	**1,133**	933
Dividends received		**–**	–	**66**	64
Other operating income		**249**	–	**14**	12
Other operating payments		**–**	(240)	**(58)**	(49)
Interest paid		**(116)**	(110)	**(161)**	(194)
Income taxes paid		**(64)**	(68)	**(267)**	(528)
Net cash flows from operating activities	38	**126**	(330)	**2,251**	2,374
INVESTING ACTIVITIES					
Proceeds on sale of equity investments		**–**	–	**1,015**	1,428
Proceeds on sale of investment property		**–**	–	**2**	1
Proceeds on sale of property, plant and equipment		**–**	–	**7**	5
Payments for purchase of equity investments		**–**	–	**(1,408)**	(1,382)
(Payments for) proceeds from foreign exchange transactions		**–**	–	**(493)**	160
(Payments for) proceeds from purchase of other financial assets		**(4)**	18	**1,734**	(1,277)
Payments for purchase of controlled entities and businesses acquired(1)		**–**	–	**(2,371)**	(2,052)
Proceeds on disposal of controlled entities		**1**	–	**–**	2
Payments for purchase of investment property		**–**	–	**–**	(6)
Payments for purchase of property, plant and equipment		**–**	–	**(71)**	(80)
Net cash flows from investing activities		**(3)**	18	**(1,585)**	(3,201)
FINANCING ACTIVITIES					
(Payments to) proceeds from controlled entities		**(825)**	54	**–**	–
Proceeds from issue of shares		**2,115**	772	**2,115**	772
Proceeds from over-subscribed portion of share issue(2)		**112**	–	**112**	–
Payments for purchase of treasury shares		**–**	–	**(10)**	(37)
Share issue expenses		**(32)**	(4)	**(32)**	(4)
Proceeds from settlement of staff share loans		**–**	–	**11**	43
Proceeds from borrowings		**400**	300	**400**	1,534
Repayment of borrowings		**(200)**	–	**(222)**	(695)
Repayment of ABC securities		**–**	–	**(656)**	–
Dividends paid		**(1,063)**	(805)	**(1,068)**	(809)
Net cash flows from financing activities		**507**	317	**650**	804
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**630**	5	**1,316**	(23)
Cash and cash equivalents at the beginning of the financial year		**11**	13	**988**	1,019
Effect of exchange rate changes		**–**	(7)	**432**	(8)
Cash and cash equivalents at the end of the financial year	10	**641**	11	**2,736**	988

(1) Net of cash acquired.

(2) This amount was repaid on 20 January 2009.

The above cash flow statements should be read in conjunction with the accompanying notes.

Contents

OF THE NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The financial report includes separate financial statements for QBE Insurance Group Limited ("the company") as an individual entity and the consolidated entity consisting of QBE Insurance Group Limited and its controlled entities.

(A) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), AASB Interpretations and the *Corporations Act 2001*.

Compliance with AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ("IFRS"). The company financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132: Financial Instruments: Disclosure and Presentation.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of:

- financial assets and liabilities (including derivative instruments) at fair value through profit or loss;
- certain classes of property, plant and equipment; and
- investment property.

(B) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company as at 31 December 2008 and the results of all controlled entities for the financial year then ended. The company and its controlled entities together are referred to in this financial report as the "consolidated entity". The effects of all transactions between entities in the consolidated entity are eliminated in full. Minority interest in the results and equity of controlled entities is shown separately in the consolidated income statement and balance sheet.

Where control of an entity commences during a financial year, its results are included in the consolidated income statement from the date on which the control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

The purchase method of accounting is used to account for the acquisition of controlled entities by the consolidated entity. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the controlled entity acquired, the difference is recognised directly in the income statement.

(C) Premium revenue

Premium comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account based upon the pattern of booking of renewals and new business.

(D) Unearned premium

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten using either the daily pro-rata method or the 24ths method.

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

(E) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance sheet date.

(F) Claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported ("IBNR"); claims incurred but not enough reported ("IBNER"); and estimated claims handling costs. Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(G) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

(H) Acquisition costs

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised on a straight line basis over the financial years expected to benefit from the expenditure.

(I) Investment income

Interest income is recognised on an accruals basis. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets.

Investment income on ABC financial assets pledged for funds at Lloyd's and expenses relating to ABC securities for funds at Lloyd's, both of which are separately identified, include fair value gains and losses on the ABC swaps.

(J) Taxation

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the near future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company and all of its Australian wholly-owned controlled entities ("Australian entities") have implemented the tax consolidation legislation. The company is the head entity in a tax-consolidated group comprising the company and the Australian entities. All entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity continues to be a stand-alone tax payer in its own right. In addition to its own current and deferred tax amounts, the company also recognises any current tax or deferred tax arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group. Details of the tax funding agreement are included in note 8 to the financial statements.

(K) Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

(i) Financial assets

The company and consolidated entity have identified the following classes of financial asset: cash and cash equivalents; investments; ABC financial assets pledged for funds at Lloyd's; derivative financial instruments; swaps relating to ABC securities; and receivables.

(ii) Financial liabilities

The company and consolidated entity have identified the following classes of financial liability: derivative financial instruments; swaps relating to ABC securities; trade and other payables; ABC securities for funds at Lloyd's; and borrowings.

(iii) Financial instruments designated as fair value through profit or loss

The policy of management is to designate a group of financial assets or financial liabilities as fair value through profit or loss when that group is both managed and its performance evaluated on a fair value basis for both internal and external reporting in accordance with the consolidated entity's documented investment strategy.

(L) Policyholders' and shareholders' funds

Policyholders' funds are those financial assets which are held to fund the insurance provisions of the consolidated entity. The remaining financial assets and investment properties (refer note 1(T)) represent shareholders' funds. Insurance profit is derived by adding investment income on policyholders' funds to the underwriting result.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(M) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis.

(N) Investments

All investments are designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. Fair value for each type of investment is determined as follows:

Listed investments – by reference to the closing bid price of the instrument at the balance sheet date.

Unlisted investments – the fair value of investments not traded on an active market is determined using valuation techniques including reference to:

- the fair value of recent arm's length transactions involving the same instrument or instruments that are substantially the same;
- discounted cash flow analysis; and
- option pricing models.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the consolidated entity commits to buy or sell the asset.

Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

(O) Derivative financial instruments

The consolidated entity is subject to currency, interest rate, price, credit and liquidity risks. Derivative financial instruments ("derivatives") are used to manage these risks. The consolidated entity does not enter into, issue or hold derivatives for speculative trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss. Derivatives which are part of a hedging relationship are accounted for as set out in note 1(P).

The fair value of derivatives traded in active markets is based on quoted market prices at the balance sheet date. The fair value of derivatives not traded in active markets is determined using valuation techniques including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

(P) Hedging transactions

Derivatives held for risk management purposes which meet the criteria specified in AASB 139: Financial Instruments: Recognition and Measurement ("AASB 139") are accounted for by the consolidated entity using fair value hedge accounting, cash flow hedge accounting or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

When a financial instrument is designated as a hedge, the consolidated entity formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used for hedging are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires or is sold, terminated or exercised; or
- the hedged item matures, is sold or repaid.

(i) Fair value hedge accounting

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

(ii) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity and transferred to the income statement in the period when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised in the income statement immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item affects the income statement. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(iii) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation.

(Q) Receivables

Receivables are measured at fair value through profit or loss. A provision for impairment is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original term of the receivable. Any increase or decrease in the provision for impairment is recognised in the income statement within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in the income statement.

(R) Borrowings

Borrowings are initially measured at fair value and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the financial liability using the effective interest method.

On issue of hybrid securities, the fair value of the liability component, being the obligation to make future payments of principal and interest to investors, is calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the fair value of the conversion option, is included in equity with no recognition of any change in the value of the option in subsequent periods. The liability is included in borrowings and carried on an amortised cost basis with interest on the securities recognised as financing costs using the effective interest method until the liability is extinguished on conversion or maturity of the securities.

(S) Asset Backed Capital (“ABC”) transactions

(i) ABC financial assets pledged for funds at Lloyd’s

ABC financial assets pledged for funds at Lloyd’s are managed and performance is evaluated on a fair value basis for both internal and external reporting in accordance with the consolidated entity’s documented investment strategy. ABC financial assets are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

(ii) ABC securities for funds at Lloyd’s

ABC securities are initially measured at fair value and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the financial liability using the effective interest method.

(iii) Swaps relating to ABC securities

Swaps relating to ABC securities are initially recognised at fair value on the date the agreements are entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the swap is designated as a hedging instrument and the nature of the item being hedged. Swaps which are not part of a hedging relationship are valued at fair value through profit or loss. Swaps which are part of a hedging relationship are accounted for as set out in note 1(P).

(T) Investment properties

Investment properties are valued by reference to external market valuations at fair value through profit or loss.

(U) Property, plant and equipment

Owner occupied properties are measured at fair value by reference to external market valuations. When a revaluation increases the carrying value of a property, the increase is credited to the revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. When an asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. To the extent that the decrease reverses an increase previously recognised in equity, the decrease is first recognised in equity.

All other plant and equipment is stated at historical cost less accumulated depreciation.

Leasehold improvements, office equipment, fixtures and fittings and motor vehicles are depreciated using the straight line method over the estimated useful life to the consolidated entity of each class of asset. Estimated useful lives are between three and 10 years for all classes.

An asset’s carrying amount is written down to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Refer note 1(W).

(V) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity’s share of the net identifiable assets acquired. Goodwill acquired in a business combination is tested for impairment and is not subject to amortisation.

(ii) Intangible assets

Intangible assets are measured at cost. Those with a finite useful life are amortised using the straight line method over the estimated useful life. Estimated useful lives are between four and 21 years. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more often if there is an indication of impairment.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(W) Impairment of assets

Assets, including goodwill and intangibles, that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows.

(X) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated entity's financial statements are presented in Australian dollars, being the functional and presentation currency of the company.

(ii) Translation of foreign currency transactions and balances

Foreign currency transactions are translated into functional currencies at the rates of exchange at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in the income statement.

(iii) Translation of overseas controlled entities

The results and balance sheets of all overseas controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing balance sheet date rates of exchange;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas controlled entities, and of financial liabilities and other instruments designated as hedges of such investments, are taken to shareholders' equity. When an overseas controlled entity is sold, these exchange differences are recognised in the income statement as part of the gain or loss on sale.

(iv) Hedging transactions

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(P).

(Y) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

The equity component of hybrid securities is calculated and disclosed as set out in note 1(R).

(Z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, adjusted for the cost of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration. It also adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

(AA) Dividends

Provision is made for dividends which are declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance sheet date.

(AB) Employee benefits

(i) Superannuation

The consolidated entity participates in a number of superannuation plans and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities.

Defined contribution plans
Contributions to defined contribution plans are expensed as incurred.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Defined benefit plans
The liability recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, adjusted for any unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related superannuation liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in the statement of recognised income and expense. Past service costs are recognised immediately in the income statement, unless the changes to the superannuation plan are conditional on the employees remaining in service for a specified period of time (the vesting period) in which case the past service costs are amortised on a straight line basis over the vesting period.

(ii) Share based payments
The consolidated entity operates an equity settled, share based compensation plan. No expense is recognised for options and conditional rights granted before 7 November 2002 and/or vested before 1 January 2005. For all other options and conditional rights, the fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is expensed evenly over the period between grant and vesting dates. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance sheet date, the consolidated entity revises its estimates of the number of options that are expected to become exercisable. The consolidated entity recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

(iii) Profit sharing and bonus plans
The consolidated entity recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the company's shareholders.

(iv) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The consolidated entity recognises termination benefits when it has demonstrably committed to either:

- terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or
- providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(v) Long service leave
The provision for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Benefits due more than 12 months after the balance sheet date are discounted to present value.

(AC) Treasury shares held in trust
The assets, liabilities and results of share based remuneration trusts are included in the balance sheet and results of the consolidated entity. These trusts may hold shares in the company to satisfy the company's obligations under the Employee Share and Option Plan ("the Plan"). Any shares in the company held by a trust are measured at cost (including any attributable acquisition costs). No gain or loss is recognised in the income statement on the sale, cancellation or reissue of these shares. On consolidation, these shares are presented on the balance sheet as treasury shares held in trust and represent a reduction in equity.

(AD) Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(AE) Rounding of amounts
The company is of a kind referred to in the ASIC class order 98/0100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the financial statements. Amounts have been rounded off in the financial statements to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

2 AUSTRALIAN ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

TITLE		OPERATIVE DATE
2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 &12]	1 January 2009
2007-8	Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
2007-9	Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31 [AASB 3, AASB 5, AASB 8, AASB 101, AASB 114, AASB 116, AASB 127 & AASB 137]	1 January 2009
2007-10	Further Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2]	1 January 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation [AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2]	1 January 2009
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	1 January 2009
2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 & 1038]	1 January 2009
2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]	1 January 2010
2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136]	1 January 2009
2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139]	1 January 2010
2008-9	Amendments to AASB 1049 for Consistency with AASB 101	1 January 2009
Interpretation 17	Distributions of Non-cash Assets to Owners	1 January 2010
2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]	1 January 2010
AASB 3	Revision to Australian Accounting Standard – Business Combinations [AASB 3]	1 January 2010

The Australian accounting standards, interpretations and amendments detailed in the table above are not mandatory for the company or the consolidated entity until the operative dates stated; however, early adoption is permitted.

The consolidated entity and the company will apply the amendments detailed above for the reporting periods beginning on the operative dates set out above. The application of these standards is not expected to have a material impact on either the consolidated entity's or the company's financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The consolidated entity is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 45 countries. The class of business mix and an analysis of the consolidated entity's gross written and net earned premium from insurance and reinsurance business is shown on page 13. The head office function is located in Australia and exists to support the activities of divisional operations as follows:

- Australian operations, which writes general insurance throughout Australia providing all major lines of insurance for commercial and personal risks;
- Asia Pacific operations, which comprises general insurance operations in 15 countries;
- European operations, which comprises general insurance business written in the UK and throughout mainland Europe; both general insurance and reinsurance business written through Lloyd's of London; and reinsurance business written in Ireland; and
- QBE the Americas, which comprises general insurance and reinsurance operations in the US and a number of Latin American countries.

In view of this geographic and product diversity, the consolidated entity has developed a strong, centralised risk management and policy framework designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the claims provision and investment management. In addition, assessment of the risk margin undertaken at a divisional level is subject to detailed head office review and the consolidated entity's probability of adequacy is determined by the Group's chief actuarial officer.

Given the centralised approach to many of its activities and the product and geographic diversification, sensitivity analyses in respect of critical accounting estimates and judgments are presented at the consolidated entity level in order to provide a level of analysis which is meaningful, relevant, reliable and comparable year on year. It is considered that disclosure at business segment or product level would not provide a meaningful overview given the complex interrelationships between the variables underpinning the consolidated entity's operations.

The consolidated entity makes estimates and judgments in respect of the reported amounts of certain assets and liabilities. These estimates and judgments are determined by qualified and experienced employees with reference to historical data and reasoned expectations of future events, and are continually updated. The key areas in which critical estimates and judgments are applied are described as follows.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

(A) Ultimate liability arising from claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date. This provision consists of estimates of both the expected ultimate cost of claims notified to the consolidated entity as well as the expected ultimate cost of claims incurred but not reported to the consolidated entity ("IBNR"). The estimated cost of claims includes direct expenses that are expected to be incurred in settling those claims.

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

(i) Insurance risk assumptions

The consolidated entity's process for establishing the outstanding claims provision involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes quarterly internal claims review meetings attended by senior divisional and Group management and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 4.

The determination of the amounts that the consolidated entity will ultimately pay for claims arising under insurance and reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions on the consolidated entity's income statement and balance sheet are summarised in note 3(A)(vii).

(ii) Central estimates

The outstanding claims provision comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of adequacy. The outstanding claims provision is discounted at risk-free rates of return to reflect the time value of money.

A central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. As the consolidated entity requires a higher probability that estimates will be adequate over time, a risk margin is added to the central estimate of outstanding claims.

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross outstanding claims provision.

(iii) Risk margin

The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business and the diversification benefits achieved by writing a number of classes of business in a number of geographic locations.

The measurement of variability by class of business uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. The use of a range of outcomes allows a determination of the risk margin required to provide an estimate at a given probability of adequacy, e.g. nine times in 10 (a 90% probability of adequacy). These techniques use standard statistical distributions, and the measure of variability is referred to as the standard deviation or the coefficient of variation.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, high correlation exists in classes of business affected by court cases involving bodily injury claims such as motor third party liability (CTP), workers' compensation and public liability.

Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by the consolidated entity are normally derived from industry analysis, the consolidated entity's historical experience and the judgment of experienced and qualified actuaries.

The risk margin for the consolidated entity is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. Applying correlations between divisions results in a further diversification benefit to the consolidated entity with a consequent impact on the consolidated entity's risk margin.

The potential impact of changes in the coefficient of variation assumptions on the consolidated entity's income statement and balance sheet is summarised in note 3(A)(vii).

(iv) Assets arising from contracts with reinsurers

Assets arising from contracts with the consolidated entity's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance sheet date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty and credit risk. Counterparty and credit risk in relation to reinsurance assets are considered in note 4.

(v) Expected present value of future cash flows for future claims

The expected present value of future cash flows for future claims and risk margin used in the liability adequacy test (refer note 21(D)) are determined using the same methods described above.

(vi) Financial assumptions used to determine the outstanding claims provisions

The outstanding claims provision is discounted to net present value using a risk-free rate of return. Details of risk-free rates used to discount the outstanding claims provision are summarised below.

	2008 %		2007 %	
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR	SUBSEQUENT YEARS
Australia	**2.80 – 3.30**	**2.75 – 4.15**	6.85 – 7.20	6.25 – 7.00
Asia Pacific	**0.27 – 11.22**	**0.27 – 11.22**	2.40 – 7.87	2.40 – 7.87
European operations	**1.50 – 2.40**	**1.50 – 2.40**	3.40 – 4.60	3.40 – 4.60
the Americas	**1.50**	**1.50**	3.40	3.40
Equator Re	**1.50 – 3.60**	**1.50 – 3.60**	3.40 – 6.66	3.40 – 6.66

The potential impact of a change in discount rates on the consolidated entity's income statement and balance sheet is summarised in note 3(A)(vii).

The expected maturity of the consolidated entity's discounted net outstanding claims provision is analysed below.

		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2008	**$M**	**5,527**	**3,480**	**2,239**	**1,567**	**1,029**	**2,319**	**16,161**
At 31 December 2007	$M	4,640	2,828	1,983	1,339	905	2,176	13,871

The weighted average term to settlement of the consolidated entity's net outstanding claims provision at the balance sheet date is 2.7 years (2007 2.8 years).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

(vii) Impact of changes in key variables on the outstanding claims provision

The impact of changes in key outstanding claims variables is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit and equity assuming that there is no change to:

- Any of the other variables – This is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation. As can be seen from the table below, the impact of a change in discount rates is largely offset by the impact of a change in the rate of inflation. The impact on financial assets of a change in interest rates is shown in note 5(A)(ii).
- The probability of adequacy – It is likely that if, for example, the central estimate was to increase by 5%, at least part of the increase would result in a decrease in the probability of adequacy, which is currently estimated to be 86.1%. Likewise, if the coefficient of variation were to increase by 1%, it is likely that the probability of adequacy would reduce from its current level and that the change would therefore impact the amount of risk margins held rather than net profit after income tax or equity.

		FINANCIAL IMPACT(1)			
	MOVEMENT IN VARIABLE %	PROFIT (LOSS) 2008 $M	EQUITY 2008 $M	PROFIT (LOSS) 2007 $M	EQUITY 2007 $M
Central estimate	+5	**(524)**	**(524)**	(430)	(430)
	–5	**524**	**524**	430	430
Inflation rate	+1	**(283)**	**(283)**	(248)	(248)
	–1	**268**	**268**	236	236
Discount rate	+1	**265**	**265**	251	251
	–1	**(284)**	**(284)**	(270)	(270)
Coefficient of variation	+1	**(115)**	**(115)**	(148)	(148)
	–1	**113**	**113**	137	137
Weighted average term to settlement	+10	**68**	**68**	123	123
	–10	**(68)**	**(68)**	(125)	(125)

(1) Determined at the consolidated entity level net of reinsurance and taxation at the prima facie rate of 30%.

AASB 1023: General Insurance Contracts requires that the outstanding claims provision shall be discounted for the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations. The standard also states that government bond rates may be an appropriate starting point in determining a risk-free rate.

The consolidated entity has adopted government bond rates appropriate to the mean term and currency of the outstanding claims provision. This has resulted in a probability of adequacy of 86.1%. If the consolidated entity had applied swap rates appropriate to the mean term and currency of the outstanding claims provision, the probability of adequacy would have been 89.4%.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

(B) Retirement benefit obligations

The present value of the obligations arising from the consolidated entity's defined benefit superannuation plans is determined by external actuaries based on discount rate, inflation rate, mortality rate, salary growth and investment return assumptions.

The discount rate applied to the various plans is the interest rate on high quality corporate bonds where there is a sufficiently deep market or the appropriate government bond rate.

Mortality assumptions are affected by experience which indicates increasing longevity, particularly for certain age groups of the population. The consolidated entity has considered the consensus of professional opinions from a number of external actuaries in respect of the appropriateness of the mortality tables selected for use in the valuation of the superannuation obligations for each of the consolidated entity's plans.

The potential impact of a change in the most sensitive assumptions on the consolidated entity's income statement and balance sheet is summarised below.

		FINANCIAL IMPACT[1]			
	MOVEMENT IN VARIABLE %	PROFIT (LOSS) 2008 $M	EQUITY 2008 $M	PROFIT (LOSS) 2007 $M	EQUITY 2007 $M
Discount rate	+1	**–**	**115**	–	24
	–1	**–**	**(142)**	–	(83)
Inflation rate	+1	**–**	**(81)**	–	(46)
	–1	**–**	**68**	–	8

(1) Determined at the consolidated entity level net of taxation at the prima facie rate relevant to the superannuation plan.

(C) Intangible assets

Goodwill and intangible assets with an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment review is based on the net present value of estimated future cash flows of the relevant cash generating unit which is determined by reference to, amongst other factors, the estimated combined operating ratio in the business plan.

If the discount rate applied in these calculations was increased by 1% over the rates applied at 31 December 2008, the consolidated entity would have no requirement to reflect an impairment.

4 RISK MANAGEMENT

An overview of the consolidated entity's risk management framework is provided in the risk management statement on pages 16 to 18 and in the risk management section of the corporate governance statement on pages 45 to 46.

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

The consolidated entity's risk management objectives are to:

- adequately price risk;
- avoid unwelcome surprises by reducing uncertainty and volatility;
- achieve competitive advantage through better understanding the risk environment in which the consolidated entity operates;
- optimise risk and more effectively allocate capital and resources by assessing the balance of risk and reward;
- comply with laws and internal procedures; and
- improve resilience to external events.

4 RISK MANAGEMENT CONTINUED

A fundamental part of the consolidated entity's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The Group has established internal controls to manage risk in the key areas of exposure relevant to its business. The broad risk categories discussed below are:

- insurance risk;
- reinsurance counterparty risk;
- acquisition risk;
- operational risk; and
- capital and regulatory risk.

Financial risks are considered in note 5. Within each of these categories, risks are evaluated before consideration of the impact of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within risk tolerance.

(A) Insurance risk

The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

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

The consolidated entity has established the following protocols to manage its insurance risk across the underwriting, claims and actuarial disciplines.

(i) Underwriting risks

Selection and pricing of risks

Underwriting authority is delegated to experienced underwriters for the forthcoming year following a detailed retrospective and prospective analysis of each class of business as part of the consolidated entity's annual business planning process. Delegated authorities reflect the level of risk which the consolidated entity is prepared to take. The authorities include reference to some combination of:

- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures per zone;
- probable maximum loss and realistic disaster scenarios ("RDSs");
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business and types of product that may be written.

Limits in respect of each of the above are set at a portfolio, divisional and consolidated entity level and are included within business plans for individual classes of business. They are adjusted at a local level to reflect a risk factor in respect of each controlled entity depending on previous underwriting results, the economic environment and other potential drivers of volatility.

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

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

4 RISK MANAGEMENT CONTINUED

Concentration risk

The consolidated entity's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across 45 countries and hundreds of classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows the consolidated entity to lead underwrite in many of the markets in which it operates.

The table below demonstrates the diversity of the consolidated entity's operations.

GROSS EARNED PREMIUM	2008 $M	2007 $M
Property	**3,515**	3,446
Motor and motor casualty	**2,518**	2,222
Liability	**2,154**	2,318
Marine, energy and aviation	**1,285**	1,221
Workers' compensation	**1,186**	1,196
Professional indemnity	**885**	900
Accident and health	**490**	460
Other	**321**	170
Financial and credit	**276**	243
Bloodstock	**223**	185
	12,853	12,361

The consolidated entity has potential exposure to catastrophe losses that may impact more than one operating division. Each year, the consolidated entity sets its tolerance to concentration risk. RDSs, using industry standard and QBE determined probable maximum losses and various catastrophe models, are calculated for each portfolio as part of the business planning process. These RDSs are aggregated across all portfolios and divisions to determine the consolidated entity's maximum event retention ("MER") which is the estimated maximum net loss from a major natural catastrophe with an approximate return period of 250 years. The MER must be less than the consolidated entity's concentration risk tolerance, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

In 2008, the net cost to the consolidated entity of weather-related catastrophic events above $2.5 million was $424 million before income tax (2007 $317 million before income tax).

(ii) Claims management and claims provisioning risks

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

- experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims;
- processes exist to ensure that all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced internal actuaries in conjunction with the local product managers and underwriters for each class of business in each business unit;
- the aggregate outstanding claims provision for each controlled entity is assessed in a series of quarterly internal claims review meetings, which are attended by senior divisional management and one or both of the Group chief risk officer and Group chief actuarial officer in order to ensure consistency of provisioning practices across all divisions; and
- approximately 90% of the consolidated entity's outstanding claims provision is reviewed by external actuaries at least annually.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons set out in note 3.

(B) Reinsurance counterparty risk

The consolidated entity reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital. The consolidated entity's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the consolidated entity's reinsurance management strategy and Group security committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical losses and potential future losses based on RDSs and the consolidated entity's MER; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

4 RISK MANAGEMENT CONTINUED

Strict controls are maintained over reinsurance counterparty exposures. Reinsurance is placed with counterparties that have a strong credit rating and concentration of risk is managed by adherence to counterparty limits. Counterparty limits are reviewed by management on a regular basis. Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the consolidated entity requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis set out below.

The following table provides information about the quality of the consolidated entity's credit risk exposure in respect of reinsurance and other recoveries on outstanding claims at the balance sheet date. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

		CREDIT RATING						
		AAA $M	AA $M	A $M	BBB $M	SPECULATIVE GRADE $M	NOT RATED $M	TOTAL $M
Reinsurance and other recoveries on outstanding claims	**2008**	**231**	**2,739**	**1,756**	**35**	**113**	**169**	**5,043**
	2007	146	2,527	1,378	55	89	165	4,360
Reinsurance and other recoveries on paid claims	**2008**	**15**	**164**	**130**	**6**	**16**	**44**	**375**
	2007	15	177	145	8	38	23	406

The following table provides further information regarding the ageing of reinsurance and other recoveries on paid claims at the balance sheet date.

			PAST DUE BUT NOT IMPAIRED				
		NEITHER PAST DUE NOR IMPAIRED $M	0 TO 3 MTHS $M	3 TO 6 MTHS $M	6 MTHS TO 1 YEAR $M	GREATER THAN 1 YEAR $M	TOTAL $M
Reinsurance and other recoveries on paid claims	**2008**	**72**	**164**	**52**	**24**	**63**	**375**
	2007	122	210	1	33	40	406

(C) Acquisition risk

The consolidated entity's strategy of growth by acquisition exposes it to additional risks. Acquisition risks are principally managed by the consolidated entity's controls over the selection of potential acquisitions, due diligence, negotiation of warranties and indemnities and subsequent integration processes. The consolidated entity has experienced due diligence teams in each of the divisions and has documented minimum requirements for carrying out due diligence.

(D) Operational risk

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that does not relate to insurance, acquisition, capital and regulatory or financial risks. The consolidated entity manages operational risk within the same robust control framework as its other risks. One of the cornerstones of the consolidated entity's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices. The consolidated entity operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

(E) Capital and regulatory risk

Australian and overseas controlled entities are subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in Australia and overseas continues to evolve in response to economic, political and industry developments. The consolidated entity works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements. Refer to note 25(H).

5 FINANCIAL RISK

The operating activities of the consolidated entity expose it to financial risks such as market risk, credit risk and liquidity risk. The consolidated entity's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The key objective of the consolidated entity's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the consolidated entity's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

(A) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations in market prices).

(i) Currency risk

The consolidated entity is exposed to currency risk in respect of its net foreign currency exposures. This risk is managed as follows:

- each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, thus ensuring that any exposures to other currencies are minimised;
- where possible, forward foreign exchange contracts are used to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 1(O); and
- the consolidated entity manages the currency risk arising from the translation of net investments in foreign operations to Australian dollars using either foreign currency borrowings designated as hedging instruments or forward foreign exchange contracts designated as hedging instruments.

Those arrangements which meet the hedging criteria set out in AASB 139 are accounted for in accordance with the accounting policy set out in note 1(P). The effectiveness of the currency management processes and the related use of derivatives is actively monitored by the Group chief financial officer.

The risk management process covering forward foreign exchange contracts and hedges involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange contracts and hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis.

All instruments that are designated as hedges are tested for effectiveness on both a prospective and a retrospective basis. These tests are performed at least quarterly.

The consolidated entity's policy is to actively manage, where possible, both its operational foreign currency exposures at a controlled entity level and its exposures arising on the translation of net investments in foreign operations at a consolidated entity level. Residual foreign currency exposures at the controlled entity level are managed to be within an absolute local currency unit limit. Residual foreign currency exposures arising at a consolidated entity level on translation of net investments in foreign operations are managed so that they do not exceed 5% of shareholders' funds.

The analysis below demonstrates the impact on profit after income tax and equity of a movement in foreign currency exchange rates against the Australian dollar on our major operational currency exposures using the residual controlled entity foreign currency exposures at the balance sheet date.

			FINANCIAL IMPACT[1]				FINANCIAL IMPACT[1]	
	RESIDUAL EXPOSURE AT 31 DEC 2008 $M	MOVEMENT IN VARIABLE AGAINST A$ %	PROFIT (LOSS) 2008 $M	EQUITY 2008 $M	RESIDUAL EXPOSURE AT 31 DEC 2007 $M	MOVEMENT IN VARIABLE AGAINST A$ %	PROFIT (LOSS) 2007 $M	EQUITY 2007 $M
US dollar	**65**	**+10**	**5**	**5**	89	+5	3	3
		–10	**(5)**	**(5)**		–5	(3)	(3)
Sterling	**48**	**+10**	**3**	**3**	11	+5	–	–
		–10	**(3)**	**(3)**		–5	–	–
Euro	**168**	**+10**	**12**	**12**	92	+5	3	3
		–10	**(12)**	**(12)**		–5	(3)	(3)

(1) Determined at the consolidated entity level net of taxation at the prima facie rate of 30%.

Applying the same sensitivity analysis to the company's residual foreign currency exposures at the balance sheet date, the financial impact of a 10% strengthening of sterling against the Australian dollar would increase profit after income tax and equity by $3 million (2007 $nil) and a 10% weakening of sterling against the Australian dollar would reduce profit after income tax and equity by $3 million (2007 $nil).

5 FINANCIAL RISK CONTINUED

The analysis below demonstrates the impact on profit after income tax and equity of a movement in foreign currency exchange rates on our major currency exposures arising on the translation of net investments in foreign operations to Australian dollars using the consolidated entity's actual residual exposure at the balance sheet date.

			FINANCIAL IMPACT[1]				FINANCIAL IMPACT[1]	
	RESIDUAL EXPOSURE AT 31 DEC 2008 $M	MOVEMENT IN VARIABLE AGAINST A$ %	PROFIT (LOSS) 2008 $M	EQUITY 2008 $M	RESIDUAL EXPOSURE AT 31 DEC 2007 $M	MOVEMENT IN VARIABLE AGAINST A$ %	PROFIT (LOSS) 2007 $M	EQUITY 2007 $M
US dollar	**60**	**+10**	**–**	**6**	(61)	+5	–	(3)
		–10	**–**	**(6)**		–5	–	3
Sterling	**38**	**+10**	**–**	**4**	91	+5	–	5
		–10	**–**	**(4)**		–5	–	(5)

(1) Determined at the consolidated entity level.

(ii) Interest rate risk

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

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

Interest-bearing borrowings are valued at amortised cost and therefore do not expose the consolidated entity to fair value interest rate risk. In addition, the majority of these interest-bearing borrowings are at fixed interest rates and so do not expose the entity to cash flow interest rate risk; however, Eurobonds and ABC securities for funds at Lloyd's issued at variable interest rates are subject to cash flow interest rate risk. The consolidated entity manages this interest rate risk and other financial risk associated with the Eurobonds and ABC securities for funds at Lloyd's by using derivative financial instruments. For further details refer to notes 12(A)(iii) and 34 respectively.

The contractual maturity profile of the consolidated entity's interest-bearing financial assets and hence its exposure to interest rate risk, and the effective weighted average interest rate for interest-bearing financial assets (excluding ABC financial assets pledged for funds at Lloyd's) is analysed below. The table includes investments at the maturity date of the security; however, many of the longer-dated securities have call dates of relatively short duration. The maturity of ABC financial assets pledged for funds at Lloyd's is shown in note 34(D).

			FIXED INTEREST RATE MATURING IN					
		FLOATING INTEREST RATE[1]	1 YEAR OR LESS[2]	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS[3]	TOTAL
At 31 December 2008									
Interest-bearing financial assets	**$M**	**5,820**	**18,011**	**1,087**	**899**	**618**	**56**	**349**	**26,840**
Weighted average interest rate	**%**	**4.7**	**2.5**	**3.7**	**5.3**	**2.5**	**5.5**	**6.9**	**3.2**
At 31 December 2007									
Interest-bearing financial assets	$M	2,837	18,068	840	481	46	93	492	22,857
Weighted average interest rate	%	5.0	5.2	6.5	6.5	6.7	5.1	6.7	5.3

(1) Includes $641 million (2007 $11 million) of cash and cash equivalents and $nil (2007 $1 million) of short-term money relating to the company.
(2) Includes $52 million (2007 $45 million) of short-term money relating to the company.
(3) Interest-bearing investments in the company of $718 million (2007 $nil) have a maturity of greater than five years. These were eliminated on consolidation.

5 FINANCIAL RISK CONTINUED

The consolidated entity's sensitivity to movements in interest rates in relation to the value of interest-bearing financial assets is shown in the table below.

	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT(1) PROFIT (LOSS) 2008 $M	FINANCIAL IMPACT(1) EQUITY 2008 $M	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT(1) PROFIT (LOSS) 2007 $M	FINANCIAL IMPACT(1) EQUITY 2007 $M
Interest rate movement – interest-bearing financial assets	**+1.5**	**(141)**	**(141)**	+1	(48)	(48)
	–1.5	**141**	**141**	–1	48	48

(1) Determined at the consolidated entity level net of taxation at the prima facie rate of 30%.

The effect of interest rate movements on the consolidated entity's provision for outstanding claims is included in note 3(A)(vii).

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The consolidated entity is exposed to price risk on its investment in equities and uses derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those explained in note 5(A)(i) in respect of forward foreign exchange contracts. Exposure is also managed by diversification across worldwide markets and currencies.

At 31 December 2008, 5.3% (2007 6.6%) of the consolidated entity's investments and cash was held in listed equities. The majority of the consolidated entity's equities were publicly traded in the major financial markets.

The potential impact of movements in the market value of listed equities on the consolidated entity's income statement and balance sheet is shown in the sensitivity analysis in the table below. The calculation assumes that exposures are unhedged although in practice the consolidated entity may purchase derivatives to manage this exposure. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis.

	EXPOSURE AT 31 DEC 2008 $M	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT(1) PROFIT (LOSS) 2008 $M	FINANCIAL IMPACT(1) EQUITY 2008 $M	EXPOSURE AT 31 DEC 2007 $M	MOVEMENT IN VARIABLE %	FINANCIAL IMPACT(1) PROFIT (LOSS) 2007 $M	FINANCIAL IMPACT(1) EQUITY 2007 $M
ASX 200	**566**	**+20**	**77**	**77**	831	+5	27	27
		–20	**(77)**	**(77)**		–5	(27)	(27)
FTSE 100	**265**	**+20**	**34**	**34**	399	+5	13	13
		–20	**(34)**	**(34)**		–5	(13)	(13)
EURO STOXX	**110**	**+20**	**15**	**15**	119	+5	4	4
		–20	**(15)**	**(15)**		–5	(4)	(4)
S & P 500	**543**	**+20**	**70**	**70**	260	+5	9	9
		–20	**(70)**	**(70)**		–5	(9)	(9)

(1) Determined at the consolidated entity level net of taxation at the prima facie rate of 30%.

(B) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate the consolidated entity's exposure to credit risk:

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

5 FINANCIAL RISK CONTINUED

The following tables provide information regarding the aggregate credit risk exposure of the consolidated entity and the company at the balance sheet date in respect of the major classes of financial assets. The analysis classifies the assets according to Moody's counterparty credit ratings. Aaa is the highest possible rating. Rated assets falling outside the range of Aaa to Baa are classified as speculative grade.

As at 31 December 2008

	CREDIT RATING						
CONSOLIDATED	Aaa $M	Aa $M	A $M	Baa $M	SPECULATIVE GRADE $M	NOT RATED $M	TOTAL $M
Cash and cash equivalents	**334**	**1,837**	**404**	**9**	**102**	**50**	**2,736**
Interest-bearing investments	**5,753**	**17,182**	**916**	**101**	**132**	**20**	**24,104**
ABC financial assets pledged for funds at Lloyd's	**–**	**191**	**59**	**–**	**–**	**–**	**250**
Derivative financial instruments	**33**	**704**	**130**	**–**	**–**	**–**	**867**

As at 31 December 2008

	CREDIT RATING						
COMPANY	Aaa $M	Aa $M	A $M	Baa $M	SPECULATIVE GRADE $M	NOT RATED $M	TOTAL $M
Cash and cash equivalents	**–**	**641**	**–**	**–**	**–**	**–**	**641**
Interest-bearing investments	**–**	**52**	**–**	**718**	**–**	**–**	**770**
Derivative financial instruments	**2**	**2**	**–**	**–**	**–**	**–**	**4**
Amounts due from controlled entities	**–**	**6**	**138**	**–**	**–**	**2,919**	**3,063**

As at 31 December 2007

	CREDIT RATING						
CONSOLIDATED	Aaa $M	Aa $M	A $M	Baa $M	SPECULATIVE GRADE $M	NOT RATED $M	TOTAL $M
Cash and cash equivalents	350	465	119	2	39	13	988
Interest-bearing investments	7,916	13,210	546	26	126	45	21,869
ABC financial assets pledged for funds at Lloyd's	363	452	85	–	–	–	900
Derivative financial instruments	26	214	26	–	–	–	266

As at 31 December 2007

	CREDIT RATING						
COMPANY	Aaa $M	Aa $M	A $M	Baa $M	SPECULATIVE GRADE $M	NOT RATED $M	TOTAL $M
Cash and cash equivalents	–	11	–	–	–	–	11
Interest-bearing investments	–	33	13	–	–	–	46
Derivative financial instruments	7	51	–	–	–	–	58
Amounts due from controlled entities	–	–	180	–	–	1,371	1,551

5 FINANCIAL RISK CONTINUED

Details of credit risk in respect of reinsurance recoveries on outstanding claims are set out in note 4(B).

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values. Further details are provided in note 12.

The following tables provide information regarding the ageing of the consolidated entity's and the company's financial assets that are past due but not impaired at the balance sheet date.

As at 31 December 2008

CONSOLIDATED	NEITHER PAST DUE NOR IMPAIRED(1) $M	PAST DUE BUT NOT IMPAIRED 0 TO 3 MTHS $M	3 TO 6 MTHS $M	6 MTHS TO 1 YEAR $M	GREATER THAN 1 YEAR $M	TOTAL $M
Premium receivable	**1,705**	**416**	**100**	**27**	**21**	**2,269**
Other debtors	**558**	**14**	**1**	**8**	**24**	**605**
Treasury receivables	**79**	**–**	**–**	**–**	**–**	**79**
Investment receivables	**275**	**2**	**2**	**5**	**–**	**284**

(1) Includes $9 million of treasury receivables and $20 million of investment receivables relating to the company.

As at 31 December 2007

CONSOLIDATED	NEITHER PAST DUE NOR IMPAIRED(1) $M	PAST DUE BUT NOT IMPAIRED 0 TO 3 MTHS $M	3 TO 6 MTHS $M	6 MTHS TO 1 YEAR $M	GREATER THAN 1 YEAR $M	TOTAL $M
Premium receivable	1,304	392	88	13	37	1,834
Other debtors	404	54	5	12	11	486
Treasury receivables	92	–	–	–	–	92
Investment receivables	339	–	–	–	–	339

(1) Includes $10 million of treasury receivables and $5 million of investment receivables relating to the company.

The company has amounts due from controlled entities of $3,063 million (2007 $1,551 million) which are neither past due nor impaired.

Details of the ageing of reinsurance and other recoveries on paid claims are set out in note 4(B).

(C) Liquidity risk

In addition to treasury cash held for working capital requirements, and in accordance with the consolidated entity's liquidity policy, a minimum percentage of consolidated investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. The consolidated entity has a strong liquidity position. At 31 December 2008, the average duration of cash and fixed interest securities was 0.5 years (2007 0.3 years).

The consolidated entity limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

5 FINANCIAL RISK CONTINUED

The tables below summarise the contractual maturity profile of certain financial liabilities of the consolidated entity and the company based on the remaining undiscounted contractual obligations. The maturity profile of borrowings is included in note 24.

As at 31 December 2008

CONSOLIDATED	1 YEAR OR LESS[1] $M	1 TO 3 YEARS $M	3 TO 5 YEARS $M	OVER 5 YEARS $M	NO TERM $M	TOTAL $M
Trade payables	**856**	**54**	**2**	**1**	**9**	**922**
Treasury payables	**26**	**–**	**–**	**–**	**–**	**26**
Investment payables	**42**	**–**	**–**	**–**	**–**	**42**

(1) Includes $9 million of treasury payables relating to the company.

As at 31 December 2007

CONSOLIDATED	1 YEAR OR LESS[1] $M	1 TO 3 YEARS $M	3 TO 5 YEARS $M	OVER 5 YEARS $M	NO TERM $M	TOTAL $M
Trade payables	1,107	64	19	16	–	1,206
Treasury payables	64	–	–	–	–	64
Investment payables	37	–	–	–	–	37

(1) Includes $15 million of treasury payables relating to the company.

The company has amounts due to controlled entities of $2,528 million (2007 $1,862 million) which are repayable in one year or less.

The consolidated entity and the company have no significant concentration of liquidity risk.

The maturity profile of the consolidated entity's net outstanding claims provision is analysed in note 3(A)(vi). For the maturity profile of derivative financial instruments refer to note 12. For the maturity profile of ABC securities for funds at Lloyd's and the swaps relating to the ABC securities refer to note 34.

6 REVENUE

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Premium revenue				
Direct and facultative	**–**	–	**11,117**	11,010
Inward reinsurance	**–**	–	**1,736**	1,351
	–	–	**12,853**	12,361
Other revenue				
Reinsurance and other recoveries	**–**	–	**1,355**	1,098
Interest and dividend income	**1,481**	2,941	**1,102**	1,040
Foreign exchange gains	**–**	–	**409**	15
	1,481	2,941	**2,866**	2,153
Net fair value gains on financial assets	**24**	2	**–**	354
Net fair value gains on investment properties	**–**	–	**–**	2
Realised gains on sale of controlled entities	**1**	–	**–**	2
Investment income – ABC financial assets pledged for funds at Lloyd's	**96**	19	**222**	94
Revenue	**1,602**	2,962	**15,941**	14,966

7 PROFIT BEFORE INCOME TAX

(A) Profit before income tax (consolidated)

	NOTE	2008 $M	2007 $M
Gross written premium		**13,142**	12,406
Unearned premium movement		**(289)**	(45)
Gross earned premium		**12,853**	12,361
Outward reinsurance premium		**(1,692)**	(1,987)
Deferred reinsurance premium movement		**(74)**	(164)
Outward reinsurance premium expense		**(1,766)**	(2,151)
Net earned premium		**11,087**	10,210
Gross claims incurred		**(7,743)**	(6,651)
Reinsurance and other recoveries		**1,355**	1,098
Net claims incurred	9	**(6,388)**	(5,553)
Net commission		**(1,909)**	(1,885)
Other acquisition costs		**(607)**	(600)
Underwriting and other expenses		**(908)**	(734)
		(9,812)	(8,772)
Underwriting profit		**1,275**	1,438
Investment income on policyholders' funds		**908**	824
Insurance profit		**2,183**	2,262
Investment income on shareholders' funds		**269**	308
Amortisation of intangibles and impairment of goodwill/intangibles		**(32)**	(21)
Profit before income tax		**2,420**	2,549

7 PROFIT BEFORE INCOME TAX CONTINUED

(B) Net investment and other income

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Dividends from controlled entities	**1,427**	2,826	**–**	–
Dividends from non-related entities	**–**	–	**64**	66
Interest received or receivable from controlled entities	**42**	80	**–**	–
Interest received or receivable from non-related entities	**12**	3	**1,038**	957
Other investment income	**–**	32	**–**	17
Investment and dividend income	**1,481**	2,941	**1,102**	1,040
Investment income – ABC financial assets pledged for funds at Lloyd's	**96**	19	**222**	94
Net realised gains – equities and investment properties	**–**	–	**39**	106
Net realised gains – fixed interest and other	**2**	2	**205**	172
Net unrealised losses – equities and investment properties	**–**	–	**(593)**	(4)
Net unrealised gains – fixed interest and other	**22**	–	**13**	82
Realised gains on sale of controlled entities	**1**	–	**–**	2
Gain on repurchase of debt securities(1)	**–**	–	**303**	–
Foreign exchange gains(2)	**–**	–	**409**	15
Investment and other income	**1,602**	2,962	**1,700**	1,507
Expenses – ABC securities for funds at Lloyd's	**(111)**	(47)	**(245)**	(103)
Finance costs paid or payable to controlled entities	**(36)**	(50)	**–**	–
Finance costs paid or payable to non-related entities	**(62)**	(49)	**(240)**	(218)
Investment expenses	**(1)**	(1)	**(38)**	(54)
Impairment of investment in controlled entities(3)	**(2,410)**	–	**–**	–
Foreign exchange losses	**(30)**	(15)	**–**	–
Net investment and other income	**(1,048)**	2,800	**1,177**	1,132
Investment income on policyholders' funds			**908**	824
Investment income on shareholders' funds			**269**	308
Net investment and other income			**1,177**	1,132

(1) Refer note 24(E).

(2) Includes realised foreign exchange gains of $380 million arising from forward foreign exchange contracts entered into to protect the consolidated entity's cash position against foreign currency volatility on the acquisition of QBE Lenders' Mortgage Insurance (Holdings) Pty Limited. This entity was acquired in October 2008 and the purchase price was payable in US dollars.

(3) This amount arises due to recent Group restructuring.

(C) Other expenses

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Commission	**–**	–	**1,909**	1,885
Other acquisition costs	**–**	–	**607**	600
Underwriting and other expenses	**–**	–	**908**	734
Investment expenses	**1**	1	**38**	54
Amortisation and impairment of goodwill/intangibles	**–**	–	**32**	21
Foreign exchange losses	**30**	15	**–**	–
Other expenses	**31**	16	**3,494**	3,294

7 PROFIT BEFORE INCOME TAX CONTINUED

(D) Specific items

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Defined contribution superannuation plan expense	**–**	–	**39**	35
Payments on operating leases	**–**	–	**101**	65
Depreciation of property, plant and equipment	**–**	–	**63**	61

8 INCOME TAX

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

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
(Loss) profit before income tax	**(1,048)**	2,800	**2,420**	2,549
Prima facie tax (receivable) payable at 30%	**(314)**	840	**726**	765
Tax effect of permanent differences:				
Untaxed dividends	**(429)**	(848)	**(14)**	(15)
Differences in tax rates	**1**	1	**(126)**	(122)
Impairment of investment in controlled entities	**720**	–	**–**	–
Other, including non-allowable expenses and non-taxable income	**8**	(6)	**(51)**	(38)
Prima facie tax adjusted for permanent differences	**(14)**	(13)	**535**	590
Deferred tax asset no longer recognised	**20**	–	**20**	1
Underprovision (overprovision) in prior years	**16**	15	**(1)**	24
Income tax expense	**22**	2	**554**	615
Analysed as follows:				
Current tax	**86**	(84)	**502**	373
Deferred tax	**(80)**	71	**53**	218
Underprovision (overprovision) in prior years	**16**	15	**(1)**	24
	22	2	**554**	615
Deferred tax (credit) expense comprises(1):				
Deferred tax assets credited to income statement	**(3)**	(3)	**(45)**	(187)
Deferred tax liabilities (credited) charged to income statement	**(77)**	74	**98**	405
	(80)	71	**53**	218

(1) Consolidated deferred tax expense includes $1 million (2007 $14 million) credited to the income statement as a result of changes in income tax rates.

(B) Tax consolidation legislation

The accounting policy in relation to this legislation is set out in note 1(J).

On adoption of the tax consolidation legislation, the directors of the company and its Australian entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity.

Details of franking credits available to shareholders are shown in note 25(F).

9 CLAIMS INCURRED (CONSOLIDATED)

(A) Claims analysis

	2008 $M	2007 $M
Gross claims incurred and related expenses		
Direct and facultative	**7,276**	6,001
Inward reinsurance	**467**	650
	7,743	6,651
Reinsurance and other recoveries		
Direct and facultative	**1,226**	1,086
Inward reinsurance	**129**	12
	1,355	1,098
Net claims incurred	**6,388**	5,553

(B) Claims development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years.

	2008			2007		
	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M
Gross claims incurred and related expenses						
Undiscounted	**9,284**	**(2,517)**	**6,767**	8,927	(2,180)	6,747
Discount	**(474)**	**1,450**	**976**	(1,052)	956	(96)
	8,810	**(1,067)**	**7,743**	7,875	(1,224)	6,651
Reinsurance and other recoveries						
Undiscounted	**1,859**	**(733)**	**1,126**	2,345	(1,249)	1,096
Discount	**(102)**	**331**	**229**	(336)	338	2
	1,757	**(402)**	**1,355**	2,009	(911)	1,098
Net claims incurred						
Undiscounted	**7,425**	**(1,784)**	**5,641**	6,582	(931)	5,651
Discount	**(372)**	**1,119**	**747**	(716)	618	(98)
	7,053	**(665)**	**6,388**	5,866	(313)	5,553

The development of net undiscounted outstanding claims for the eight most recent accident years is shown in note 22(D).

10 CASH AND CASH EQUIVALENTS

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Cash at bank and on hand	**233**	6	**816**	330
Overnight money	**408**	5	**726**	183
Cash management trusts	**–**	–	**297**	179
Term deposits	**–**	–	**896**	293
Commercial paper	**–**	–	**1**	3
	641	11	**2,736**	988

Included in cash and cash equivalents are amounts totalling $193 million (2007 $151 million) which are held in Lloyd's syndicate trust funds. Under Lloyd's bye-laws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until distributed as profit.

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

11 INVESTMENTS

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Interest-bearing				
Short-term money	**52**	46	**16,885**	16,317
Government bonds	**–**	–	**1,992**	3,569
Corporate bonds	**718**	–	**1,823**	715
Floating rate notes	**–**	–	**3,245**	1,096
Fixed interest trusts	**–**	–	**159**	170
Mortgages	**–**	–	**–**	2
	770	46	**24,104**	21,869
Equities				
Listed	**–**	–	**1,523**	1,615
Unlisted	**–**	–	**66**	33
Exchange traded equity derivatives	**–**	–	**–**	8
	–	–	**1,589**	1,656
Total investments	**770**	46	**25,693**	23,525
Amounts maturing within 12 months	**52**	46	**18,071**	19,268
Amounts maturing in greater than 12 months	**718**	–	**7,622**	4,257
Total investments	**770**	46	**25,693**	23,525

(A) Unlisted equities

The fair value movement in unlisted equities was a gain of $34 million (2007 $6 million).

(B) Exchange traded equity derivatives

Contractual amounts for forward contracts at the balance sheet date were $nil (2007 $8 million receivable). The credit risk arising from equity derivatives is $nil (2007 $8 million). There were no amounts outstanding for purchased or written options (2007 $nil).

(C) 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 consolidated entity's corporate members at Lloyd's of London as described in note 31. Details of the fixed and floating charges over ABC financial assets pledged for funds at Lloyd's are provided in note 34.

(D) Valuation of investments

The consolidated entity's accounting policy in relation to the valuation of investments is provided in note 1(N). Where possible, floating rate notes are valued with reference to prices quoted in active markets. In the current market environment, prices are not available for all instruments. For positions where observable transaction data is not available, the consolidated entity estimates the fair value of these instruments with reference to non-binding broker quotes. For valuations undertaken with reference to a model with observable inputs, the key inputs are standard market yield curves such as LIBOR.

A summary of the valuation bases applied by the consolidated entity at the balance sheet date is set out below.

	QUOTED PRICE $M	CONSENSUS PRICE USING BROKER QUOTES $M	VALUATION MODEL WITH OBSERVABLE INPUTS $M	2008 TOTAL $M
Short-term money	**–**	**–**	**16,885**	**16,885**
Government bonds	**–**	**1,992**	**–**	**1,992**
Corporate bonds	**–**	**1,823**	**–**	**1,823**
Floating rate notes	**–**	**3,245**	**–**	**3,245**
Fixed interest trusts	**159**	**–**	**–**	**159**
Equities	**1,589**	**–**	**–**	**1,589**
Total investments	**1,748**	**7,060**	**16,885**	**25,693**

Corporate bonds with a value of $718 million in the company have been valued based on consensus pricing using broker quotes. Short-term money in the company of $52 million has been valued by use of a valuation model with observable inputs.

(E) Restrictions on use

Included in short-term money are amounts totalling $3,651 million (2007 $3,380 million) which are held in Lloyd's syndicate trust funds. Under Lloyd's bye-laws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until distributed as profit.

12 DERIVATIVE FINANCIAL INSTRUMENTS

(A) Fair value

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Assets maturing within 12 months				
Forward foreign exchange contracts	**4**	58	**762**	239
Assets maturing in greater than 12 months				
Forward foreign exchange contracts	**–**	–	**3**	1
Eurobond swaps	**–**	–	**102**	26
	4	58	**867**	266
Liabilities maturing within 12 months				
Forward foreign exchange contracts	**(209)**	(43)	**(1,119)**	(231)
	(205)	15	**(252)**	35

Swaps relating to ABC securities are included in note 34 and equity derivatives are included in note 11(B).

All derivative positions entered into by the consolidated entity are for economic hedging purposes but do not, in all cases, meet the criteria for hedge accounting.

(i) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. In the consolidated entity, $867 million (2007 $266 million) is receivable from forward foreign exchange contracts and Eurobond swaps at the balance sheet date.

(ii) Forward foreign exchange contracts

Forward foreign exchange contracts are entered into by the consolidated entity for the purpose of managing residual foreign currency exposures. The consolidated entity's policy for managing such exposures is explained in note 5(A). In the consolidated entity, undiscounted contractual amounts to purchase $27,483 million (2007 $20,334 million) were outstanding at the balance sheet date. The maturity profile of these contracts is set out in the table below.

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Less than one year	**1,823**	5,357	**27,471**	20,322
More than one year but less than five years	**–**	–	**12**	12
	1,823	5,357	**27,483**	20,334

(iii) Eurobond swaps

A controlled entity is exposed to cash flow interest rate and currency risk in respect of its three Eurobond financing arrangements. Accordingly, the consolidated entity has entered into swap agreements which result in the consolidated entity's Eurobond borrowings being fixed at sterling amounts until 2010, at which point the consolidated entity will be liable for the original Australian dollar and Euro amounts in the underlying financing arrangements. The facility can be extended for a further 10 years to 2020. Under the swap agreements, the variable interest rates of between 1.8% and 2.0% above the wholesale interbank rate are swapped to fixed rates of between 8.4% and 8.6% payable quarterly until 2010. The timing of the payments under the swap agreements matches the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The underlying borrowings are measured at amortised cost in original currency and translated to Australian dollars at the closing rate of exchange. The swaps are measured at fair value. The swaps are designated as cash flow hedges and have satisfied the relevant hedge effectiveness tests throughout the year and at the balance sheet date. The gain or loss on the cash flow hedges is recognised directly in equity. Any ineffectiveness in the cash flow hedges is recognised directly in the income statement. Each financial year end, until the close out of the swap agreements in 2010, an amount is transferred from equity to the income statement to offset:

- the differential between the fixed and variable interest payments; and
- the movement in the spot rate on the borrowings.

During the year, a gain of $82 million (2007 $14 million) was recognised in equity relating to the movements in the fair value of the swaps. During the year, a gain of $70 million (2007 $33 million) was transferred from equity and included in the income statement.

12 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

(B) Hedging arrangements

The following derivatives have been designated as hedges and meet the relevant requirements of AASB 139:

			FAIR VALUE	
TYPE OF HEDGE	DESCRIPTION OF INSTRUMENT	NATURE OF RISKS	2008 $M	2007 $M
Fair value	Interest rate swaps – ABC securities (due 2008)	Changes in fair value of financial liability due to interest rate risk	**–**	(5)
Cash flow	Cross currency interest rate swaps – Eurobonds	Variability of functional currency cash flows due to interest rate and currency risk	**102**	26
Cash flow	Cross currency interest rate swaps – ABC securities (due 2009)	Variability of functional currency cash flows due to interest rate and currency risk	**67**	(25)
Net investments in foreign operations	Forward foreign exchange contracts	Currency risk	**258**	(47)

At the balance sheet date, no borrowings were designated as hedges of net investments in foreign operations (2007 nil).

13 TRADE AND OTHER RECEIVABLES

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Trade debtors				
Premium receivable	**–**	–	**2,269**	1,834
Reinsurance and other recoveries	**–**	–	**375**	406
Unclosed premium	**–**	–	**1,429**	1,459
	–	–	**4,073**	3,699
Other debtors	**–**	–	**605**	486
Treasury receivables	**9**	10	**79**	92
Investment receivables	**20**	5	**284**	339
Amounts due from controlled entities	**3,063**	1,551	**–**	–
Trade and other receivables	**3,092**	1,566	**5,041**	4,616
Receivable within 12 months	**3,060**	1,547	**4,972**	4,610
Receivable in greater than 12 months	**32**	19	**69**	6
Trade and other receivables	**3,092**	1,566	**5,041**	4,616

(A) Provision for impairment (consolidated)

Premium receivable is shown net of a provision for impairment of $86 million (2007 $59 million).

Reinsurance and other recoveries are shown net of a provision for impairment of $74 million (2007 $87 million).

(B) Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(C) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the consolidated entity as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of balances in the table above, where relevant, is included in note 5. Note 5 also provides more information on the risk management policy of the consolidated entity.

14 DEFERRED INSURANCE COSTS (CONSOLIDATED)

	2008 $M	2007 $M
Deferred reinsurance premium	**550**	497
Deferred net commission	**1,066**	915
Deferred acquisition costs	**371**	271
Deferred insurance costs[(1)]	**1,987**	1,683

(1) The majority of deferred insurance costs will be expensed within 12 months of the balance sheet date.

	DEFERRED NET COMMISSION $M	DEFERRED ACQUISITION COSTS $M
Deferred costs at 1 January 2007	688	223
Acquisitions	149	45
Costs deferred in financial year	735	166
Amortisation of costs deferred in previous financial years	(611)	(149)
Foreign exchange	(46)	(14)
Deferred costs at 31 December 2007	**915**	**271**
Acquisitions	**10**	**54**
Costs deferred in financial year	**925**	**248**
Amortisation of costs deferred in previous financial years	**(822)**	**(209)**
Foreign exchange	**38**	**7**
Deferred costs at 31 December 2008	**1,066**	**371**

15 PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

2008	FREEHOLD BUILDINGS $M	LEASEHOLD IMPROVEMENTS $M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS $M	MOTOR VEHICLES $M	TOTAL $M
Cost or valuation					
At 1 January	**245**	**113**	**270**	**13**	**641**
Acquisitions	**4**	**3**	**21**	**1**	**29**
Additions	**6**	**21**	**49**	**3**	**79**
Revaluations	**(8)**	**–**	**–**	**–**	**(8)**
Disposals	**(5)**	**(27)**	**(47)**	**(4)**	**(83)**
Foreign exchange	**42**	**2**	**17**	**1**	**62**
At 31 December	**284**	**112**	**310**	**14**	**720**
Accumulated depreciation and impairment losses					
At 1 January	**–**	**46**	**154**	**6**	**206**
Disposals	**–**	**(25)**	**(36)**	**(3)**	**(64)**
Depreciation charge for the year	**–**	**9**	**52**	**2**	**63**
Foreign exchange	**–**	**1**	**8**	**1**	**10**
At 31 December	**–**	**31**	**178**	**6**	**215**
Carrying amount					
At 31 December 2008	**284**	**81**	**132**	**8**	**505**

2007	FREEHOLD BUILDINGS $M	LEASEHOLD IMPROVEMENTS $M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS $M	MOTOR VEHICLES $M	TOTAL $M
Cost or valuation					
At 1 January	102	112	195	14	423
Acquisitions	148	1	28	–	177
Additions	–	8	68	3	79
Revaluations	11	–	–	–	11
Disposals	(9)	(1)	(7)	(4)	(21)
Foreign exchange	(7)	(7)	(14)	–	(28)
At 31 December	245	113	270	13	641
Accumulated depreciation and impairment losses					
At 1 January	–	36	120	7	163
Disposals	–	(1)	(5)	(3)	(9)
Depreciation charge for the year	–	13	46	2	61
Foreign exchange	–	(2)	(7)	–	(9)
At 31 December	–	46	154	6	206
Carrying amount					
At 31 December 2007	245	67	116	7	435

Principal owner occupied properties are valued annually by the directors effective 31 December based on independent valuations.

All owner occupied properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows.

In accordance with the consolidated entity's accounting policy, freehold buildings are measured at fair value. The cost of freehold buildings at 31 December 2008 was $271 million (2007 $224 million).

16 DEFERRED INCOME TAX

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Deferred tax assets	**27**	–	**333**	158
Deferred tax liabilities	**–**	(64)	**(531)**	(415)
	27	(64)	**(198)**	(257)

(A) Deferred tax assets – maturing in greater than 12 months

(i) The balance comprises temporary differences attributable to:

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Amounts recognised in the income statement				
Financial assets – fair value movements	**–**	–	**150**	–
Provision for impairment	**–**	–	**16**	16
Employee benefits	**–**	–	**68**	55
Defined benefit plans	**–**	–	**9**	15
Insurance provisions	**–**	–	**443**	250
Deferred tax losses recognised	**24**	19	**221**	172
Other	**3**	5	**161**	186
	27	24	**1,068**	694
Amounts recognised directly in equity				
Cash flow hedges	**–**	–	**5**	8
Capitalised expenses	**14**	3	**11**	3
Defined benefit plans	**–**	–	**58**	23
Employee share options	**–**	–	**1**	12
	14	3	**75**	46
	41	27	**1,143**	740
Set-off deferred tax liabilities	**(14)**	(27)	**(810)**	(582)
	27	–	**333**	158

(ii) Movements:

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Balance at 1 January	**27**	23	**740**	204
Credited to the income statement	**3**	3	**45**	187
Credited (charged) to equity	**11**	1	**44**	(2)
Acquisitions	**–**	–	**183**	376
Foreign exchange	**–**	–	**131**	(25)
Balance at 31 December	**41**	27	**1,143**	740

(B) Tax losses

The consolidated entity has not brought to account $24 million (2007 $1 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. This benefit will only be brought to account when the directors believe it is probable that it will be realised. This benefit of tax losses will only be obtained if:

- the consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

16 DEFERRED INCOME TAX CONTINUED

(C) Deferred tax liabilities – maturing in greater than 12 months

(i) The balance comprises temporary differences attributable to:

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Amounts recognised in the income statement				
Intangibles	**–**	–	**(229)**	–
Insurance provisions	**–**	–	**(621)**	(599)
Foreign currency monetary items	**(6)**	(90)	**(21)**	(100)
Financial assets – fair value movements	**(7)**	–	**(163)**	(93)
Other provisions	**–**	–	**(104)**	(82)
Other items	**(1)**	(1)	**(180)**	(115)
	(14)	(91)	**(1,318)**	(989)
Amounts recognised directly in equity				
Owner occupied property	**–**	–	**(19)**	(8)
Other	**–**	–	**(4)**	–
	(14)	(91)	**(1,341)**	(997)
Set-off deferred tax assets	**14**	27	**810**	582
	–	(64)	**(531)**	(415)

(ii) Movements:

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Balance at 1 January	**(91)**	(17)	**(997)**	(491)
Credited (charged) to the income statement	**77**	(74)	**(98)**	(405)
Credited (charged) to equity	**–**	–	**–**	(3)
Acquisitions	**–**	–	**(194)**	(128)
Foreign exchange	**–**	–	**(52)**	30
Balance at 31 December	**(14)**	(91)	**(1,341)**	(997)

17 INVESTMENT PROPERTIES (CONSOLIDATED)

	2008 $M	2007 $M
At 1 January	**93**	38
Acquisitions	**–**	63
Additions	**–**	6
Disposals	**(3)**	(13)
Fair value gains	**1**	2
Foreign exchange	**21**	(3)
At 31 December	**112**	93

Investment properties are valued annually by the directors based on independent valuations.

All investment properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows. Investment properties are not expected to be realised within 12 months.

Rental income from investment properties was $9 million (2007 $4 million).

18 INVESTMENTS IN CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2008 %	2007 %
(A) Parent entity			
QBE Insurance Group Limited	Australia		
(B) Controlled entities(1)			
AIS Green Slip Group Pty Limited	Australia	**100.00**	100.00
Anex Jenni & Partner AG	Switzerland	**100.00**	100.00
Atlasz Real Estate and Management Company Limited	Hungary	**100.00**	100.00
Atlasz Utasbiztositasi Egyes Ugynoki Kft	Hungary	**100.00**	100.00
Austral Mercantile Collections Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
BCO Management Services Inc	US	**100.00**	–
BCO Surplus Lines Inc	US	**100.00**	–
Blue Ridge Indemnity Company	US	**100.00**	100.00
Blue Ridge Insurance Company	US	**100.00**	100.00
British Marine Holdings SA	Luxembourg	**100.00**	100.00
British Marine Holdings II SA	Luxembourg	**100.00**	100.00
British Marine Luxembourg SA	Luxembourg	**100.00**	100.00
British Marine Managers Limited	UK	**100.00**	100.00
BRO Enterprises LLC	US	**100.00**	–
Burnett & Company Inc	US	**100.00**	–
Burnett Holdings Inc	US	**100.00**	–
Burnett Insurance Agency of Texas Inc	US	**100.00**	–
Capital City Holding Company Inc	US	**100.00**	–
Capital City Insurance Company Inc	US	**100.00**	–
CHU Underwriting Agencies (UK) Limited	UK	**100.00**	–
CHU Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Community Association Underwriters of America Inc	US	**100.00**	–
Concord Accident and Health Underwriting Agencies Pty Ltd (in liquidation)	Australia	**100.00**	100.00
Concord Accident and Health Underwriting Agencies (SA) Pty Limited (in liquidation)	Australia	**100.00**	100.00
Concord Sports Insurance Agencies Pty Limited (in liquidation)	Australia	**100.00**	100.00
Concord Underwriting Agencies (NSW) Pty Limited (in liquidation)	Australia	**100.00**	100.00
Concord Underwriting Agencies (SA) Pty Limited (in liquidation)	Australia	**100.00**	100.00
Concord Underwriting Agencies Pty Limited (in liquidation)	Australia	**100.00**	100.00
Corporate Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Davis Garvin Agency Inc	US	**100.00**	–
Deep South of California Inc	US	**100.00**	–
Deep South of Connecticut LLC	US	**100.00**	–
Deep South of Oklahoma Inc	US	**100.00**	–
Deep South Surplus Inc	US	**100.00**	–
Deep South Surplus of Arkansas Inc	US	**100.00**	–
Deep South Surplus of Colorado Inc	US	**100.00**	–
Deep South Surplus of Florida Inc	US	**100.00**	–
Deep South Surplus of Georgia Inc	US	**100.00**	–
Deep South Surplus of New Mexico Inc	US	**100.00**	–
Deep South Surplus of Ohio Inc	US	**100.00**	–
Deep South Surplus of Tennessee Inc	US	**100.00**	–
Deep South Surplus of Texas Management LLC	US	**100.00**	–
Deep South Surplus of Texas LP(3)	US	**–**	–
Energy Insurance Services Limited (in liquidation)	UK	**100.00**	100.00

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2008 %	EQUITY HOLDING 2007 %
Ensign Dedicated No.1 Limited	UK	**100.00**	100.00
Ensign Holdings Limited	UK	**100.00**	100.00
Equator Investments Pty Limited (in liquidation)	Australia	**100.00**	100.00
Equator Re (Australia) Limited	Bermuda	**100.00**	100.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
FAI Insurances (Fiji) Limited	Fiji	**100.00**	100.00
General Casualty Company of Wisconsin	US	**100.00**	100.00
General Casualty Insurance Company	US	**100.00**	100.00
Greenhill Baia Underwriting GmbH	Germany	**100.00**	100.00
Greenhill International Insurance Holdings Limited	UK	**100.00**	100.00
Greenhill Sturge Underwriting Limited	UK	**100.00**	100.00
Greenhill Underwriting Espana Limited	UK	**100.00**	100.00
Hoosier Insurance Company	US	**100.00**	100.00
HP Jenni & Partner AG	Switzerland	**100.00**	100.00
Hyfield Company Limited(2)	Thailand	**49.00**	49.00
Icon (Schemes) Limited (in liquidation)	UK	**100.00**	100.00
Invivo Medical Pty Limited	Australia	**50.00**	50.00
Iron Trades Management Services Limited	UK	**100.00**	100.00
Limit Corporate Members Limited	UK	**100.00**	100.00
Limit Holdings Limited	UK	**100.00**	100.00
Limit No 1 Limited	UK	**100.00**	100.00
Limit No 2 Limited	UK	**100.00**	100.00
Limit No 3 Limited	UK	**100.00**	100.00
Limit No 4 Limited	UK	**100.00**	100.00
Limit No 5 Limited	UK	**100.00**	100.00
Limit No 6 Limited	UK	**100.00**	100.00
Limit No 7 Limited	UK	**100.00**	100.00
Limit No 10 Limited	UK	**100.00**	100.00
Limit Properties Limited	UK	**100.00**	100.00
Mantis Reef II Limited(3)	Cayman Is	**–**	–
Mantis Reef II Pledge Limited(3)	Cayman Is	**–**	–
Mantis Reef Limited(3)	Cayman Is	**–**	–
Mantis Reef Pledge Limited(3)	Cayman Is	**–**	–
MBP Holdings Limited	UK	**100.00**	100.00
Midfield Insurance Company	US	**100.00**	–
Minster Court Asset Management (UK) Limited	UK	**100.00**	100.00
Minster Court Asset Management Pty Limited	Australia	**100.00**	100.00
MMIA Pty Limited	Australia	**100.00**	100.00
MMNSW Pty Limited (in liquidation)	Australia	**100.00**	100.00
MMWC Pty Limited	Australia	**100.00**	100.00
National Credit Insurance (Brokers) NZ Limited	NZ	**100.00**	100.00
National Credit Insurance (Brokers) Pty Limited	Australia	**100.00**	100.00
National Farmers Union Property and Casualty Company	US	**100.00**	100.00
North Pointe Casualty Insurance Company	US	**100.00**	–
North Pointe Financial Services, Inc	US	**100.00**	–
North Pointe Holdings Corporation	US	**100.00**	–
North Pointe Insurance Company	US	**100.00**	–
NP Capital Trust 1(3)	US	**–**	–

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2008 %	EQUITY HOLDING 2007 %
Permanent LMI Pty Limited	Australia	**50.10**	–
Pitt Nominees Pty Limited	Australia	**100.00**	100.00
Praetorian Financial Group Inc	US	**100.00**	100.00
Praetorian Insurance Company	US	**100.00**	100.00
Praetorian Speciality Insurance Company	US	**100.00**	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	**60.00**	60.00
QBE (PNG) Limited	PNG	**100.00**	100.00
QBE (Singapore) Pte Ltd	Singapore	**100.00**	100.00
QBE (Stafford) Limited	UK	**100.00**	100.00
QBE Aseguradora de Riesgos del Trabajo SA	Argentina	**100.00**	83.00
QBE Atlasz Biztosito zrt	Hungary	**100.00**	100.00
QBE Brasil Seguros SA	Brazil	**100.00**	100.00
QBE Capital Funding LP(3)	Jersey	**–**	–
QBE Capital Funding LP II(3)	Jersey	**–**	–
QBE Corporate Capital Holdings plc (in liquidation)	UK	**100.00**	100.00
QBE Corporate Holdings Ltd (in liquidation)	UK	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE de Mexico Compania de Seguros SA de CV	Mexico	**100.00**	100.00
QBE Employee Share Trust(3)	Australia	**–**	–
QBE Equities Pty Limited	Australia	**100.00**	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Funding Limited	Jersey	**100.00**	100.00
QBE Funding II Limited	Jersey	**100.00**	100.00
QBE Funding III Limited	Jersey	**100.00**	100.00
QBE Funding IV Limited	Jersey	**100.00**	100.00
QBE Funding Trust(3)	US	**–**	–
QBE Funding Trust II(3)	US	**–**	–
QBE Funding Trust III(3)	US	**–**	–
QBE Funding Trust IV(3)	US	**–**	–
QBE Holdings (AAP) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (Americas) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (EO) Limited	UK	**100.00**	–
QBE Holdings (Europe) Limited	UK	**100.00**	100.00
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Holdings Inc	US	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance (Europe) Limited	UK	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00
QBE Insurance (International) Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**51.00**	51.00
QBE Insurance (Philippines) Inc	Philippines	**59.00**	59.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Thailand) Co Limited(2)	Thailand		
Thai resident entities		**23.67**	23.67
Non-Thai resident entities		**24.87**	24.87
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE Insurance (Vietnam) Company Limited	Vietnam	**100.00**	100.00

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2008 %	2007 %
QBE Insurance Company (UK) Limited	UK	**100.00**	100.00
QBE Insurance Corporation	US	**100.00**	100.00
QBE International Holdings (UK) plc	UK	**100.00**	100.00
QBE International Holdings Limited	Hong Kong	**100.00**	100.00
QBE Investments (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	US	**100.00**	100.00
QBE Investments (UK) Limited	NZ	**100.00**	100.00
QBE Investments Pty Ltd	Australia	**100.00**	100.00
QBE Irish Share Incentive Plan(3)	Ireland	**–**	–
QBE IT Services Pty Limited	Australia	**100.00**	100.00
QBE (Jersey) GP Limited	Jersey	**100.00**	100.00
QBE (Jersey) GP II Limited	Jersey	**100.00**	100.00
QBE Kindlustuse Eesti AS	Estonia	**100.00**	100.00
QBE Latin America Insurance Holdings SL	Spain	**100.00**	100.00
QBE Lenders' Mortgage Insurance (Holdings) Pty Limited	Australia	**100.00**	–
QBE Lenders' Mortgage Insurance Limited	Australia	**100.00**	–
QBE Makedonija(4)	Macedonia	**65.23**	65.23
QBE Management (Ireland) Limited	Ireland	**100.00**	100.00
QBE Management Company (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Management Inc	US	**100.00**	100.00
QBE Management Services (Philippines) Pty Limited	Australia	**100.00**	100.00
QBE Management Services (UK) Limited	UK	**100.00**	100.00
QBE Management Services Pty Limited	Australia	**100.00**	100.00
QBE Marine and Energy Services Pte Limited	Singapore	**100.00**	–
QBE Marine Underwriting Agency Pte Limited	Singapore	**70.00**	70.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	**100.00**	–
QBE Nominees Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE Nordic Aviation Insurance A/S	Denmark	**100.00**	100.00
QBE Poistovna AS	Slovakia	**100.00**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Regional Companies (NA) Inc	US	**100.00**	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Reinsurance (Europe) Limited	Ireland	**100.00**	100.00
QBE Reinsurance (UK) Limited	UK	**100.00**	100.00
QBE Reinsurance Administration Pty Ltd (in liquidation)	Australia	**100.00**	100.00
QBE Reinsurance Corporation	US	**100.00**	100.00
QBE Seguros SA	Colombia	**97.55**	97.55
QBE Services Inc	Canada	**100.00**	–
QBE Speciality Insurance Company	US	**100.00**	100.00
QBE UK Finance I Limited	UK	**100.00**	100.00
QBE UK Finance II Limited	UK	**100.00**	100.00
QBE UK Share Incentive Plan(3)	UK	**–**	–
QBE Ukraine(2)	Ukraine	**50.00**	50.00
QBE Underwriting Limited	UK	**100.00**	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	**100.00**	100.00
QBE Underwriting Services (UK) Limited	UK	**100.00**	100.00
QBE Underwriting Services Limited	UK	**100.00**	100.00
QBE US Agencies Inc	US	**100.00**	–

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2008 %	EQUITY HOLDING 2007 %
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (SA) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (VIC) Limited	Australia	**100.00**	100.00
QBEMM Pty Limited	Australia	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Redland Insurance Company	US	**100.00**	100.00
Regent Insurance Company	US	**100.00**	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
Sinkaonamahasarn Company Limited(2)	Thailand	**49.00**	49.00
SIU LLC	US	**100.00**	–
Southern Fire & Casualty Company	US	**100.00**	100.00
Southern Guaranty Insurance Company	US	**100.00**	100.00
Southern Pilot Insurance Company	US	**100.00**	100.00
Southern National Risk Management Inc	US	**100.00**	–
SRL Underwriting Limited	UK	**100.00**	100.00
Stahl Intermediaries Inc	US	**100.00**	–
Standfast Corporate Underwriters Limited	UK	**100.00**	100.00
Star Trust(3)	Cayman Is	**–**	–
Strakh-Consult	Ukraine	**100.00**	100.00
Sukhothai Re Consultants Limited	Thailand	**100.00**	100.00
The MiniBus & Coach Club Limited	UK	**100.00**	100.00
Torch Dedicated Corporate Member Limited	UK	**100.00**	100.00
Travelon Pty Limited	Australia	**100.00**	100.00
Underwriting Agencies of Australia (Holdings) Pty Limited	Australia	**90.00**	–
Underwriting Agencies of Australia Pty Limited	Australia	**90.00**	–
Unigard Indemnity Company	US	**100.00**	100.00
Unigard Insurance Company	US	**100.00**	100.00
United Security Insurance Company	US	**100.00**	100.00
Universal Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Visionex 2000 Limited	UK	**100.00**	100.00
Westwood Insurance Agency	US	**100.00**	–
ZC Sterling Corporation	US	**100.00**	–
ZC Sterling Insurance Agency Inc	US	**100.00**	–

(1) All controlled entities have a 31 December year end.

(2) The following special conditions exist with respect to the consolidated entity's equity holdings:
- For accounting purposes, the consolidated entity has management control of QBE Insurance (Thailand) Co Limited and QBE Ukraine.
- The issued share capital of Hyfield Company Limited and Sinkaonamahasarn Company Limited owned by the consolidated entity is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.

(3) Deep South Surplus of Texas LP, Mantis Reef Limited, Mantis Reef II Limited, Mantis Reef Pledge Limited, Mantis Reef II Pledge Limited, NP Capital Trust 1, QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Share Incentive Plan, Star Trust, the QBE Funding Trusts, QBE Capital Funding LP and QBE Capital Funding LP II have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the consolidated entity.

(4) The shareholding in QBE Makedonija equates to 73.50% (2007 73.50%) of the voting rights.

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

(C) Change of name

CONTROLLED ENTITY	FORMER NAME
QBE de Mexico Compania de Seguros SA de CV	Cumbre de Seguros de Mexico SA de CV
QBE Holdings (Americas) Pty Limited	QBE Australia Pty Limited
QBE Holdings (Europe) Limited	Limit plc
QBE Lenders' Mortgage Insurance (Holdings) Pty Limited	PMI Mortgage Insurance Australia (Holdings) Pty Limited
QBE Lenders' Mortgage Insurance Limited	PMI Mortgage Insurance Limited
QBE Mortgage Insurance (Asia) Limited	PMI Mortgage Insurance Asia Limited
Underwriting Agencies of Australia (Holdings) Pty Limited	Sanderson Insurance Brokers Pty Limited

(D) Minority interest in controlled entities (consolidated)

	2008 $M	2007 $M
Ordinary share capital	**52**	52
Reserves	**1**	(11)
Retained profits	**33**	23
	86	64

(E) Equity

All equity in controlled entities is held in the form of shares or through contractual arrangements.

(F) Acquisitions

The following entities were acquired during the financial year:

- On 1 January 2008, a wholly-owned entity acquired the Deep South group of companies ("Deep South"), an underwriting agency in the US. The purchase price was $214 million including the maximum potential cost of contingent incentive arrangements for the next three years. Net tangible assets of $4 million were acquired.
- On 30 April 2008, a wholly-owned entity acquired North Pointe Holdings Corporation ("North Pointe"), a NASDAQ listed property and casualty insurer in the US. The purchase price was $152 million for net tangible assets of $43 million.
- On 1 July 2008, a wholly-owned entity acquired SIU LLC, an underwriting agency in the US. The purchase price was $21 million for net tangible liabilities of $2 million.
- On 1 July 2008, a wholly-owned entity acquired 90% of Sanderson Insurance Brokers Pty Limited. The purchase price was $93 million for net tangible assets of $37 million.
- On 23 October 2008, a wholly-owned entity acquired PMI Mortgage Insurance Limited ("PMI"), a mortgage insurer for lenders writing business in Australia and New Zealand. The purchase price was $1,121 million. Estimated net tangible assets of $578 million were acquired.
- On 1 November 2008, a wholly-owned entity acquired Community Association Underwriters of America Inc, an underwriting agency in the US. The purchase price was $236 million including the estimated cost of contingent consideration payable over four years. Estimated net tangible assets of $15 million were acquired.
- On 1 December 2008, a wholly-owned entity acquired ZC Sterling Corporation ("ZCS"), a US-based underwriting agency. The purchase price was $1,437 million including estimated contingent consideration payable over two years from the date of acquisition. Estimated net tangible liabilities of $216 million were acquired.
- On 17 December 2008, a wholly-owned entity acquired PMI Mortgage Insurance Asia Limited, a mortgage insurer for lenders writing business in Hong Kong. The purchase price was $73 million for net tangible assets of $73 million.
- On 31 December 2008, a wholly-owned entity acquired Burnett Holdings Inc, a US-based underwriting agency. The purchase price was $26 million including estimated contingent consideration. Net tangible assets of $7 million were acquired.

18 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

The fair value of assets and liabilities arising from these acquisitions are as follows:

	ZCS $M	PMI $M	NORTH POINTE $M	DEEP SOUTH $M	OTHER $M	TOTAL 2008 $M	TOTAL 2007 $M
Financial assets at fair value through profit or loss							
Cash and cash equivalents	**306**	**27**	**47**	**38**	**56**	**474**	397
Investments	**–**	**1,529**	**235**	**–**	**111**	**1,875**	4,436
Trade and other receivables	**76**	**90**	**45**	**42**	**97**	**350**	917
Reinsurance and other recoveries on outstanding claims	**–**	**–**	**59**	**–**	**–**	**59**	1,669
Current tax assets	**–**	**22**	**10**	**–**	**–**	**32**	2
Other assets	**18**	**–**	**–**	**–**	**2**	**20**	33
Deferred insurance costs	**–**	**54**	**19**	**–**	**4**	**77**	689
Defined benefit plan surplus	**–**	**–**	**–**	**–**	**–**	**–**	2
Property, plant and equipment	**16**	**3**	**5**	**3**	**2**	**29**	179
Deferred tax assets	**–**	**166**(1)	**15**(2)	**–**	**2**	**183**	332
Investment properties	**–**	**–**	**–**	**–**	**–**	**–**	64
Intangible assets	**314**	**32**	**17**	**50**	**42**	**455**	283
Total assets	**730**	**1,923**	**452**	**133**	**316**	**3,554**	9,003
Trade and other payables	**305**	**94**	**40**	**77**	**69**	**585**	895
Current tax liabilities	**–**	**–**	**–**	**–**	**12**	**12**	5
Unearned premium	**–**	**693**	**67**	**–**	**31**	**791**	1,620
Outstanding claims	**–**	**518**(1)	**242**(2)	**–**	**13**	**773**	3,932
Provisions	**81**	**1**	**–**	**–**	**1**	**83**	26
Defined benefit plan deficit	**–**	**–**	**–**	**–**	**–**	**–**	38
Deferred tax liabilities	**170**	**–**	**–**	**2**	**22**	**194**	67
Borrowings	**145**	**–**	**43**	**–**	**–**	**188**	825
Total liabilities	**701**	**1,306**	**392**	**79**	**148**	**2,626**	7,408
Net assets acquired	**29**	**617**	**60**	**54**	**168**	**928**	1,595

(1) Includes a fair value adjustment of $279 million to gross outstanding claims and a related deferred tax adjustment of $84 million.

(2) Includes a fair value adjustment of $47 million to gross outstanding claims and a related deferred tax adjustment of $16 million.

Due to the timing of, and the complexities involved in, the acquisitions of ZCS and PMI, and the determination of the fair value of assets acquired is provisional only at this time.

(G) Goodwill acquired

	ZCS $M	PMI $M	NORTH POINTE $M	DEEP SOUTH $M	OTHER $M	TOTAL 2008 $M	TOTAL 2007 $M
Purchase consideration							
Cash	**878**	**1,100**	**151**	**160**	**368**	**2,657**	2,445
Contingent consideration	**490**	**–**	**–**	**54**	**80**	**624**	–
Direct costs relating to the acquisition	**–**	**21**	**1**	**–**	**1**	**23**	4
Total purchase consideration	**1,368**	**1,121**	**152**	**214**	**449**	**3,304**	2,449
Fair value of net assets acquired	**29**	**617**	**60**	**54**	**168**	**928**	1,595
Minority interest in net assets acquired	**–**	**(7)**	**–**	**–**	**(4)**	**(11)**	–
Goodwill acquired	**1,339**	**511**	**92**	**160**	**285**	**2,387**	854

The above information is presented at the exchange rates prevailing at the date of the acquisitions.

The goodwill is attributable to the future profitability of the acquisitions and the synergies expected to arise within the consolidated entity.

The acquired businesses contributed premium revenue of $183 million and net profit after income tax of $66 million to the consolidated entity for the period from acquisition to 31 December 2008.

If the acquisitions had occurred on 1 January 2008, consolidated gross earned premium and consolidated net profit after income tax for the year ended 31 December 2008 would have been $12,889 million and $1,746 million respectively.

(H) Joint venture

On 19 July 2007, the consolidated entity entered into a joint venture agreement with Rajan Raheja Group to form Raheja QBE General Insurance Company. The consolidated entity has a 26% ownership interest in the joint venture. No business was written by this operation in 2007 or 2008.

19 INTANGIBLE ASSETS (CONSOLIDATED)

2008	IDENTIFIABLE INTANGIBLES LLOYD'S SYNDICATE CAPACITY $M	RENEWAL RIGHTS/ DISTRIBUTION CHANNELS $M	BRAND NAMES $M	INSURANCE LICENCES $M	SOFTWARE $M	OTHER $M	GOODWILL $M	TOTAL $M
Cost								
At 1 January	**127**	**233**	**24**	**48**	**23**	**13**	**2,056**	**2,524**
Acquisitions	**–**	**405**	**6**	**7**	**32**	**5**	**2,387**	**2,842**
Additions/reclassifications	**–**	**25**	**–**	**–**	**–**	**–**	**(3)**	**22**
Foreign exchange	**(12)**	**47**	**6**	**14**	**5**	**–**	**208**	**268**
At 31 December	**115**	**710**	**36**	**69**	**60**	**18**	**4,648**	**5,656**
Amortisation								
At 1 January	**–**	**(20)**	**–**	**–**	**(3)**	**(8)**	**–**	**(31)**
Amortisation for the year	**–**	**(25)**	**–**	**–**	**(6)**	**(1)**	**–**	**(32)**
Foreign exchange	**–**	**(5)**	**–**	**–**	**(2)**	**–**	**–**	**(7)**
At 31 December	**–**	**(50)**	**–**	**–**	**(11)**	**(9)**	**–**	**(70)**
Carrying amount								
At 31 December 2008	**115**	**660**	**36**	**69**	**49**	**9**	**4,648**	**5,586**

2007	IDENTIFIABLE INTANGIBLES LLOYD'S SYNDICATE CAPACITY $M	RENEWAL RIGHTS/ DISTRIBUTION CHANNELS $M	BRAND NAMES $M	INSURANCE LICENCES $M	SOFTWARE $M	OTHER $M	GOODWILL $M	TOTAL $M
Cost								
At 1 January	141	62	–	–	–	11	1,273	1,487
Acquisitions	–	179	25	50	24	3	837	1,118
Additions/reclassifications	–	4	–	–	–	–	5	9
Foreign exchange	(14)	(12)	(1)	(2)	(1)	(1)	(59)	(90)
At 31 December	127	233	24	48	23	13	2,056	2,524
Amortisation								
At 1 January	–	(8)	–	–	–	(4)	–	(12)
Amortisation for the year	–	(14)	–	–	(3)	(4)	–	(21)
Foreign exchange	–	2	–	–	–	–	–	2
At 31 December	–	(20)	–	–	(3)	(8)	–	(31)
Carrying amount								
At 31 December 2007	127	213	24	48	20	5	2,056	2,493

(A) Identifiable intangibles

Lloyd's syndicate capacity, insurance licences and brand names are considered to have an indefinite useful life and no amortisation is charged. All remaining intangible assets are amortised over their finite useful lives and the amortisation charge is included in amortisation and impairment of goodwill/intangibles in the income statement. The most significant classes of intangible assets are as follows:

(i) Lloyd's syndicate capacity

The Lloyd's syndicate capacity relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. The consolidated entity has demonstrated a long-term commitment to developing its operations at Lloyd's. Since acquiring QBE Underwriting Limited, the consolidated entity has increased its share of ownership for all syndicates from 55% in 2000 to 91% for the 2008 underwriting year. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons Lloyd's syndicate capacity is deemed to have an indefinite useful life.

(ii) Renewal rights/distribution channels

This is the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution network. Renewal rights and distribution channels are amortised over lives of between five and 21 years depending on the classes of business to which the rights relate.

19 INTANGIBLE ASSETS (CONSOLIDATED) CONTINUED

(iii) Brand names
This asset reflects the revenue generating ability of acquired brands. It is considered to have an indefinite useful life due to its long-term nature.

(iv) Insurance licences
This asset gives the consolidated entity the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. It is considered to have an indefinite useful life due to its long-term nature.

(v) Software
This is the fair value of key operating systems acquired in business combinations which will benefit the future operations of the acquired entity. Capitalised software is amortised over periods ranging from four to 15 years, reflecting the period during which the consolidated entity is expected to benefit from the use of the software.

(B) Goodwill
Goodwill is allocated to cash generating units being the lowest level at which there are separately identifiable cash flows relating to the goodwill. As the consolidated entity continues to acquire operations and reorganise the way that operations are managed, reporting structures may change giving rise to a reassessment of cash generating units.

The goodwill relating to certain acquisitions outside Australia is denominated in currencies other than the Australian dollar and so is subject to foreign exchange movements.

Goodwill is allocated to cash generating units as follows:

	2008 $M	2007 $M
Australian operations	**747**	695
QBE Insurance Europe	**284**	268
Lloyd's division	**238**	232
North American operations	**2,821**	793
QBE LMI	**511**	–
Other	**47**	68
	4,648	2,056

(C) Impairment testing of intangible assets
The consolidated entity's accounting policy in respect of impairment testing of intangible assets is included in note 1(W). The recoverable amount of each cash generating unit is determined by reference to a value in use calculation based on the following key assumptions and estimates:

- discounted cash flow projections for a five year period are included in the calculation. This information is extracted from the latest three year business plan which has been presented to and approved by the board;
- projections for years four and five are based on the final year of the three year business plan assuming growth of 2.5% per annum;
- discount rates are pre-tax and reflect a beta and equity risk premium appropriate to the consolidated entity; and
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five and an appropriate discount rate and terminal growth rate.

The discount rates used to value cash generating units at 31 December 2008 were in a range of 10.1% to 13.2%.

20 TRADE AND OTHER PAYABLES

	THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
Trade payables	**–**	–	**922**	1,206
Amounts due to controlled entities	**2,528**	1,862	**–**	–
Other payables and accrued expenses	**145**	12	**1,004**	627
Treasury payables	**9**	15	**26**	64
Investment payables	**–**	–	**42**	37
Trade and other payables	**2,682**	1,889	**1,994**	1,934
Payable within 12 months	**2,682**	1,889	**1,915**	1,832
Payable in greater than 12 months	**–**	–	**79**	102
Trade and other payables	**2,682**	1,889	**1,994**	1,934

21 UNEARNED PREMIUM (CONSOLIDATED)

(A) Unearned premium

	2008 $M	2007 $M
At 1 January	**5,698**	4,642
Acquisitions/disposals	**791**	1,586
Deferral of premium on contracts written in the period	**6,333**	5,364
Earning of premium written in previous periods	**(6,000)**	(5,555)
Foreign exchange	**304**	(339)
At 31 December(1)	**7,126**	5,698

(1) The majority of unearned premium will be earned within 12 months of the balance sheet date.

(B) Net premium liabilities

	NOTE	2008 $M	2007 $M
Unearned premium		**7,126**	5,698
Deferred insurance costs	14	**(1,987)**	(1,683)
Net premium liabilities		**5,139**	4,015

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

	2008 $M	2007 $M
Undiscounted central estimate	**4,482**	3,626
Risk margin	**200**	162
	4,682	3,788
Discount to present value	**(308)**	(475)
Expected present value of future cash flows for future claims including risk margin	**4,374**	3,313

21 UNEARNED PREMIUM (CONSOLIDATED) CONTINUED

(D) Liability adequacy test

The probability of adequacy applied in the liability adequacy test differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the consolidated entity.

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The consolidated entity has adopted a risk margin for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 31 December 2008 and 2007.

(E) Risk margin

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

The risk margin in expected future cash flows for future claims as a percentage of the central estimate is 4.9% (2007 5.1%). This is the risk margin required to give a probability of adequacy of 75% for total insurance liabilities.

22 OUTSTANDING CLAIMS (CONSOLIDATED)

(A) Net outstanding claims

	2008 $M	2007 $M
Gross outstanding claims	**22,059**	20,116
Claims settlement costs	**531**	477
	22,590	20,593
Discount to present value	**(1,386)**	(2,362)
Gross outstanding claims provision	**21,204**	18,231
Less than 12 months	**7,240**	5,908
Greater than 12 months	**13,964**	12,323
Gross outstanding claims provision	**21,204**	18,231
Reinsurance and other recoveries on outstanding claims(1)	**5,394**	4,941
Discount to present value	**(351)**	(581)
Reinsurance and other recoveries on outstanding claims	**5,043**	4,360
Less than 12 months	**1,713**	1,268
Greater than 12 months	**3,330**	3,092
Reinsurance and other recoveries on outstanding claims	**5,043**	4,360
Net outstanding claims	**16,161**	13,871
Central estimate	**14,962**	12,280
Risk margin	**1,199**	1,591
Net outstanding claims	**16,161**	13,871

(1) Reinsurance and other recoveries on outstanding claims are shown net of a provision for impairment of $64 million (2007 $109 million).

22 OUTSTANDING CLAIMS (CONSOLIDATED) CONTINUED

(B) Risk margin

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

The probability of adequacy at 31 December 2008 is 86.1% (2007 94.0%) which is well above APRA's 75% benchmark. The risk margin included in net outstanding claims is 8.0% (2007 13.0%) of the central estimate.

(C) Reconciliation of movement in discounted outstanding claims provision

	2008			2007		
	GROSS $M	REINSURANCE $M	NET $M	GROSS $M	REINSURANCE $M	NET $M
At 1 January	**18,231**	**(4,360)**	**13,871**	15,269	(3,624)	11,645
Increase in net claims incurred in current accident year	**8,810**	**(1,757)**	**7,053**	7,875	(2,009)	5,866
Movement in prior year claims provision	**(1,067)**	**402**	**(665)**	(1,224)	911	(313)
Incurred claims recognised in the income statement	**7,743**	**(1,355)**	**6,388**	6,651	(1,098)	5,553
Acquisitions/disposals	**773**	**(59)**	**714**	3,832	(1,322)	2,510
Claim payments	**(7,651)**	**1,396**	**(6,255)**	(7,053)	1,665	(5,388)
Foreign exchange	**2,108**	**(665)**	**1,443**	(468)	19	(449)
At 31 December	**21,204**	**(5,043)**	**16,161**	18,231	(4,360)	13,871

(D) Claims development

(i) Net undiscounted outstanding claims for the eight most recent accident years

	2001 $M	2002 $M	2003 $M	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	TOTAL $M
Estimate of net ultimate claims cost:									
At end of accident year	3,367	3,156	3,321	4,558	4,945	4,695	9,160	**8,232**	
One year later	3,310	3,001	3,083	4,165	4,721	4,364	8,641	**–**	
Two years later	3,422	2,937	2,853	3,872	4,355	4,116	–	**–**	
Three years later	3,529	2,901	2,718	3,703	4,227	–	–	**–**	
Four years later	3,570	2,833	2,540	3,493	–	–	–	**–**	
Five years later	3,483	2,757	2,477	–	–	–	–	**–**	
Six years later	3,453	2,774	–	–	–	–	–	**–**	
Seven years later	3,447	–	–	–	–	–	–	**–**	
Current estimate of net cumulative claims cost	3,447	2,774	2,477	3,493	4,227	4,116	8,641	**8,232**	
Cumulative net payments	(3,141)	(2,359)	(2,121)	(2,753)	(2,946)	(2,441)	(4,203)	**(2,324)**	
Net undiscounted outstanding claims for the eight most recent accident years	306	415	356	740	1,281	1,675	4,438	**5,908**	15,119

The consolidated entity writes business in currencies other than the Australian dollar in its overseas operations. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been translated to the functional currencies of our overseas operations at constant rates of exchange. All estimates of net ultimate claims cost and cumulative claims payments for the eight most recent accident years reported in functional currencies other than Australian dollars have been translated to Australian dollars using the closing rate of exchange at 31 December 2008.

22 OUTSTANDING CLAIMS (CONSOLIDATED) CONTINUED

(ii) Reconciliation of net undiscounted outstanding claims for the eight most recent accident years to net outstanding claims

	TOTAL $M
Net undiscounted outstanding claims for the eight most recent accident years	15,119
Outstanding claims – accident years 2000 and prior	781
Foreign exchange	686
Discount on outstanding claims	(1,035)
Claims settlements costs	531
Other	79
Net outstanding claims at 31 December 2008	**16,161**

(iii) Commentary

The claims development table is presented net of reinsurance. With operations in 45 countries, hundreds of products, various reinsurance arrangements and with the consolidated entity's risk tolerance managed on a consolidated net basis, it is not considered meaningful or practicable to provide this information other than on a consolidated net accident year basis.

Outstanding claims in respect of acquisitions are included in the estimate of net ultimate claims cost in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the increased share of the outstanding claims provision is allocated to the original accident year. As a result, the outstanding claims provisions of QBE LMI and North Pointe, both of which were acquired in the current financial year, are included within 2008 accident year development.

23 PROVISIONS (CONSOLIDATED)

	2008 $M	2007 $M
Long service leave	**28**	22
Amounts payable under acquisition agreements	**602**	1
Other provisions	**84**	44
Total provisions	**714**	67
Payable within 12 months	**42**	6
Payable in greater than 12 months	**672**	61
Total provisions	**714**	67

24 BORROWINGS

(A) Analysis of borrowings

Repayable as follows:		THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
Bank loans	**Principal amount**				
26 July 2008	A$200 million	**–**	200	**–**	200
14 September 2008	A$100 million	**–**	100	**–**	100
13 March 2009	A$100 million	**100**	–	**100**	–
24 March 2009	A$200 million	**200**	–	**200**	–
1 April 2009	US$21 million	**–**	–	**28**	24
22 April 2009	A$200 million	**200**	–	**200**	–
30 April 2009	US$50 million	**–**	–	**70**	–
17 June 2009	US$2.0 million	**–**	–	**3**	–
30 June 2011	US$2.5 million	**–**	–	**3**	–
31 December 2035	US$80 million	**–**	–	**111**	89
15 March 2036	US$20.6 million	**–**	–	**28**	–
		500	300	**743**	413
Senior debt					
28 September 2009	£175 million	**363**	395	**363**	395
14 March 2014	US$211 million	**298**	–	**298**	–
14 March 2014	£191 million	**394**	–	**394**	–
		1,055	395	**1,055**	395
Eurobonds					
2 August 2020	A$150 million/£58 million	**–**	–	**150**	149
2 August 2020	A$20 million/£8 million	**–**	–	**20**	20
2 August 2020	€115 million/£70 million	**–**	–	**229**	191
		–	–	**399**	360
Hybrid securities(1)					
21 September 2024	US$165 million	**–**	–	**156**	122
16 May 2027	£258 million	**–**	–	**579**	592
		–	–	**735**	714
Subordinated debt					
1 July 2023	US$250 million	**352**	281	**352**	281
Capital securities					
No fixed date	US$249 million (2007 US$550 million)	**–**	–	**350**	622
No fixed date	£18 million (2007 £300 million)	**–**	–	**32**	673
		–	–	**382**	1,295
Total borrowings		**1,907**	976	**3,666**	3,458
Payable within 12 months		**863**	300	**964**	300
Payable in greater than 12 months		**1,044**	676	**2,702**	3,158
Total borrowings		**1,907**	976	**3,666**	3,458

(1) Hybrid securities are shown net of the equity conversion option. The US dollar principal amounts shown are the outstanding amounts payable at the end of the 20 year term.

(B) Finance costs

$5 million (2007 $15 million) of finance costs have been capitalised in the year.

24 BORROWINGS CONTINUED

(C) Security and facility arrangements

In the normal course of business, bank loans are made to controlled entities and secured by guarantees or letters of comfort given by the company.

The Eurobonds were issued by a controlled entity and secured by guarantees given by the company and another controlled entity. The US$250 million subordinated debt was issued by the company. The claims of bondholders pursuant to both of these borrowings will be subordinated in right of payment to the claims of all senior creditors, including policyholders, of the relevant controlled entity.

The hybrid securities are guaranteed by the company and a controlled entity. The claims of investors under these guarantees in general will rank equally with all existing and future unsecured and unsubordinated indebtedness of the company and the controlled entity.

The performance of the obligations of the controlled entity under the capital securities is guaranteed by the company to the extent that the controlled entity has funds. The guarantee is an unsecured and subordinated obligation of the company. The guarantee ranks senior to the claims of the holders of ordinary shares of the company, equally with equally ranked securities and instruments of the company and junior to the claims of creditors of the company.

(D) Hybrid securities

(i) Hybrid securities due 2027

In 2007, a controlled entity issued £258 million of 20 year hybrid securities. Investors can request repurchase at the end of years three, five, seven, 10 or 15 from the date of issue. The company can redeem the securities at any time after three years from the date of issue. Investors have the option to convert the security if:

- the company calls for their redemption;
- the market value of the security is less than the market value of the underlying shares in the company for five consecutive trading days; or
- on certain corporate transactions occuring (e.g. change in control).

In the event of conversion, up to 11 million shares will be issued.

(ii) Hybrid securities due 2024

In 2004, a controlled entity issued US$375 million of 20 year hybrid securities. Investors can request repurchase at the end of years one, three, five, seven, 10 or 15 from the date of issue. The company can redeem the securities at any time after three years from the date of issue. Investors have the option to convert the security if:

- the company calls for their redemption;
- the market value of the security is less than the market value of the underlying shares in the company for five consecutive trading days; or
- on certain corporate transactions occuring (e.g. change in control).

In 2008, no shares were issued as a result of the conversion of the hybrid securities due 2024. In 2007, 22 million shares were issued as a result of the conversion of 70% of the hybrid securities. In the event of conversion of the remaining securities, approximately nine million shares will be issued.

(E) Capital securities

In 2007, a controlled entity issued US$550 million of 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.

Both issues of capital securities are subordinated. Distributions are deferrable and not cumulative. If a distribution or principal amount is not paid by the controlled entity, and the company does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE preference shares. For so long as the distributions or principal amounts are outstanding, no payments (including distributions or principal amounts) are to be made on the company's shares or other instruments ranking junior to the securities. Payment of distributions or principal amounts on equal ranking securities may be paid proportionally.

In 2008, US$301 million and £282 million of capital securities were repurchased by the consolidated entity at a discount giving rise to a profit of $303 million on consolidation. These securities continue to be held by the consolidated entity. The capital securities were repurchased using the senior notes due 2014.

(F) Senior notes due 2014

In 2008, the company issued US$211 million and £191 million of senior notes maturing on 14 March 2014. The notes are unsecured and unsubordinated obligations of the consolidated entity and will rank equally amongst themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the consolidated entity. Interest of 9.75% per annum is payable half-yearly on the US dollar notes and interest of 10.00% per annum is payable half-yearly on the sterling notes.

24 BORROWINGS CONTINUED

(G) Fair value of borrowings

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Bank loans	**500**	300	**743**	413
Senior debt due 2009	**365**	396	**365**	396
Senior notes due 2014	**697**	–	**697**	–
Eurobonds	**–**	–	**318**	362
Hybrid securities	**–**	–	**788**	881
Subordinated debt	**319**	298	**319**	298
Capital securities	**–**	–	**294**	1,270
	1,881	994	**3,524**	3,620

There has been no active trading of borrowings during 2008. The fair value has been estimated using valuation techniques based on market available data for similar debt instruments.

Hybrid securities due 2024 have been valued with reference to the underlying market value of shares in the consolidated entity. The ability to convert the hybrid securities is restricted by the terms and conditions included in note 24(D).

25 CONTRIBUTED EQUITY

(A) Share capital (company and consolidated)

	2008 $M	2007 $M
Issued ordinary shares, fully paid	**6,714**	4,737

	NUMBER OF SHARES 000	$M
Issued and fully paid at 1 January 2008	**880,788**	**4,737**
Shares issued under the Employee Share and Option Plan	**541**	**5**
Employee options exercised	**435**	**6**
Share placement	**97,561**	**2,000**
Shares issued under Bonus Share Plan	**2,467**	**–**
Shares issued under Deferred Compensation Plan on vesting of conditional rights	**3**	**–**
Share issue expenses	**–**	**(34)**
Issued and fully paid at 31 December 2008	**981,795**	**6,714**
Shares notified to the Australian Securities Exchange	**986,609**	**6,754**
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	**(4,814)**	**(40)**
Issued and fully paid at 31 December 2008	**981,795**	**6,714**

25 CONTRIBUTED EQUITY CONTINUED

	NUMBER OF SHARES 000	$M
Issued and fully paid at 1 January 2007	812,458	3,461
Shares issued under the Employee Share and Option Plan	866	9
Employee options exercised	3,530	36
Vendor options exercised	752	23
Shares issued under Dividend Reinvestment Plan	2,458	76
Shares issued under Bonus Share Plan	1,882	–
Shares issued to holders of hybrid securities	34,505	364
Share placements	24,324	772
Shares issued under Deferred Compensation Plan on vesting of conditional rights	13	–
Share issue expenses	–	(4)
Issued and fully paid at 31 December 2007	880,788	4,737
Shares notified to the Australian Securities Exchange	886,143	4,781
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(5,355)	(44)
Issued and fully paid at 31 December 2007	880,788	4,737

Ordinary shares in the company have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. Ordinary shareholders rank after all creditors and are entitled to any residual proceeds.

(B) Share capital, fully paid yet to be issued

5,592,597 ordinary shares in the company were paid for at the balance sheet date ($115 million). These shares were issued on 20 January 2009.

(C) Treasury shares held in trust (consolidated)

	2008 $M	2007 $M
At 1 January	**16**	16
Acquisitions of shares	**10**	37
Shares vested and/or released to participants	**(25)**	(37)
At 31 December	**1**	16

Shares in the company may be bought on-market to satisfy future obligations of the company under the various employee share based remuneration plans. Any such shares are held in trust. On consolidation, these shares are recognised as treasury shares held in trust. The balance of the treasury shares held in trust at the balance sheet date represents the cumulative cost of acquiring shares in the company that have not yet been distributed to employees as share based remuneration.

(D) Equity component of hybrid securities

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
At 1 January	**114**	108	**114**	108
Movement during the period	**–**	6	**–**	6
At 31 December	**114**	114	**114**	114

(E) Dividend Reinvestment and Bonus Share Plans

The company operates a Dividend Reinvestment Plan ("DRP") and a Bonus Share Plan ("BSP"). The BSP was previously known as the Dividend Election Plan.

The last date of receipt of election notices applicable to the BSP was 26 February 2009. The last date of receipt of election notices applicable to the DRP will be 11 March 2009.

25 CONTRIBUTED EQUITY CONTINUED

(F) Dividend (company and consolidated)

	2008 $M	2007 $M
Previous year final dividend paid on ordinary shares		
Franked at 50% – 32.5 cents (2007 33.0 cents, 60% franked)	**288**	271
Unfranked – 32.5 cents (2007 22.0 cents)	**288**	181
	576	452
Interim dividend paid on ordinary shares		
Franked at 20% – 12.2 cents (2007 34.2 cents, 60% franked)	**108**	295
Unfranked – 48.8 cents (2007 22.8 cents)	**434**	197
	542	492
Dividend reinvestment under Bonus Share Plan	**(55)**	(63)
Total dividend paid	**1,063**	881

The interim dividend of $542 million was paid on 17 September 2008. On 27 February 2009, the directors declared a 20% franked final dividend of 65.0 cents per share (2007 65.0 cents per share, 50% franked). The final dividend payout is $645 million (2007 $576 million).

The franking account balance on a tax paid basis as at the balance sheet date was a surplus of $223 million (2007 $100 million).

Following the introduction of the conduit foreign income ("CFI") rules effective for the consolidated entity from 1 January 2006, shareholders not resident in Australia will receive CFI unfranked dividends for the unfranked portion of the final 2008 dividend exempt from Australian tax and not subject to Australian withholding tax.

(G) Options issued to third parties

No third party held options over shares in the company at any time during the current year.

Details of the movements in respect of such options during the prior year were as follows:

2007

GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2007	EXERCISED(1) IN THE YEAR	BALANCE AT 31 DEC 2007	EXPIRY DATE
1 December 2004	$0.00	1,500,000	1,500,000	–	30 November 2007

(1) The exercise of 1,500,000 options resulted in the issue of 752,000 shares.

(H) Capital risk management

The consolidated entity manages its capital requirements by assessing capital levels on a regular basis. Its objectives are to maintain an optimal capital structure to reduce the cost of capital whilst providing security for policyholders and continuing to provide returns to shareholders. Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the consolidated entity's activities. In order to maintain or adjust the capital structure, the consolidated entity has the option to adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The wholly-owned entities which are insurance companies are subject to, and are in compliance with, externally imposed capital requirements set and monitored by regulatory bodies. These requirements are in place to ensure sufficient solvency margins for the protection of policyholders. In addition, the consolidated entity aims to maintain a strong credit rating and robust capital ratios in order to support its business objectives and maximise shareholder wealth.

The capital requirements of each business unit are assessed using capital modelling techniques with capital allocated to business units to reflect, amongst other factors, past results and the inherent volatility of the business written in that business unit.

26 OTHER RESERVES

(A) Reserves

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Owner occupied property revaluation reserve[1]				
At 1 January	**–**	–	**22**	17
Valuation increase	**–**	–	**–**	13
Valuation decrease	**–**	–	**(10)**	(2)
Disposals	**–**	–	**–**	(2)
Deferred tax	**–**	–	**3**	(4)
At 31 December	**–**	–	**15**	22
Cash flow hedges reserve[2]				
At 1 January	**6**	2	**(15)**	(5)
Fair value gain	**96**	7	**178**	21
Transfer of gain to income statement	**(90)**	(3)	**(160)**	(36)
Taxation	**–**	–	**(3)**	5
At 31 December	**12**	6	**–**	(15)
Foreign currency translation reserve[3]				
At 1 January	**–**	–	**(187)**	(59)
Gains (losses) on translation	**–**	–	**436**	(487)
(Losses) gains on forward foreign exchange contracts	**–**	–	**(554)**	359
At 31 December	**–**	–	**(305)**	(187)
Options reserve[4]				
At 1 January	**33**	42	**94**	83
Options and conditional rights expense	**33**	27	**33**	27
Transfers from reserve on vesting of options and conditional rights	**(26)**	(36)	**(26)**	(36)
Taxation	**–**	–	**–**	20
At 31 December	**40**	33	**101**	94
General reserve[5]				
At 1 January	**–**	–	**5**	5
Movement in the year	**–**	–	**–**	–
At 31 December	**–**	–	**5**	5
Realised capital profits reserve[6]				
At 1 January	**–**	–	**6**	6
Movement in the year	**–**	–	**–**	–
At 31 December	**–**	–	**6**	6
Total reserves at 31 December	**52**	39	**(178)**	(75)

(1) Used to recognise fair value movements in the carrying value of owner occupied property. Refer note 1(U).
(2) Used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. Refer note 1(P)(ii).
(3) Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments are taken to the foreign currency translation reserve. Refer note 1(X). In the event of the disposal of a relevant net investment, the movement in the reserve is recognised in the income statement.
(4) Used to recognise the fair value of instruments issued as share based payments.
(5) Established prior to 1989 for general purposes.
(6) Realised capital profits arising prior to the introduction of capital gains tax in Australia.

26 OTHER RESERVES CONTINUED

(B) Retained profits

	NOTE	THE COMPANY 2008 $M	THE COMPANY 2007 $M	CONSOLIDATED 2008 $M	CONSOLIDATED 2007 $M
Retained profits at 1 January		**5,944**	4,027	**3,719**	2,683
Deferred tax adjustment		**–**	–	**(38)**	–
Net (loss) profit after income tax attributable to members of the company		**(1,070)**	2,798	**1,859**	1,925
Actuarial losses on defined benefit plans, net of tax	29(C)	**–**	–	**(82)**	(8)
Total available for appropriation		**4,874**	6,825	**5,458**	4,600
Dividends paid		**(1,063)**	(881)	**(1,063)**	(881)
Retained profits at 31 December		**3,811**	5,944	**4,395**	3,719

27 SHARE BASED PAYMENTS

(A) Employee Share and Option Plan

The company, at its 1981 AGM, approved the issue of shares from time to time under an Employee Share and Option Plan ("the Plan"), up to 5% of the issued ordinary shares in the capital of the company. Any full-time or part-time employee of the consolidated entity or equally owned joint venture who is offered shares or options pursuant to the offer document of the Plan is eligible to participate in the Plan.

Under the Plan, ordinary shares of the company are offered at the weighted average market price during the five trading days up to the date of the offer. Likewise, the exercise price for options offered under the Plan is the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, interest-free loans are granted to employees to subscribe for shares issued under the Plan. Prior to 20 June 2005, the terms of the loans were either personal recourse or non-recourse. With effect from 20 June 2005, only personal recourse loans are granted to employees to subscribe for shares under the Plan. The loans are repayable in certain circumstances as set out in the Plan such as termination of employment or breach of condition.

Currently there are three schemes operating within the Plan:

(i) Deferred Compensation Plan

Senior management are invited to participate in the Deferred Compensation Plan ("DCP"). Under the DCP, the directors can issue conditional rights to shares and grant options to senior management who have already achieved predetermined performance criteria. The terms of the DCP may vary to take into account the requirements and market conditions of the locations of senior management, but the general terms of the DCP conditional rights and options are set out below.

- The conditional rights entitle relevant employees to receive shares on the third anniversary of the grant of the rights. Further shares are issued in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights are issued without payment being made by senior management (i.e. at a nil exercise price).
- The options are subject to the terms and conditions of the Plan. Options issued in 2004 and prior can be exercised after three years, whilst any options issued in 2005 and thereafter will generally be exercisable after five years. They must be exercised within a 12 month period after vesting. Interest-free personal recourse loans are granted on the terms permitted by the Plan as described above to persons who hold options to fund the exercise of options. As a result of approved changes to the DCP, options and loans will not be issued with effect from 1 January 2010.

The shares issued pursuant to the conditional rights and options will only be issued if the individual has remained in the company's service throughout the vesting period (unless leaving due to redundancy, retirement through ill health or age, or death) and is not subject to disciplinary proceedings or notice on that date.

Shareholder approval of the DCP was given at the 2006 AGM for the purpose of ASX Listing Rule 7.2, sections 200B and 200E of the *Corporations Act 2001* and for all other purposes.

27 SHARE BASED PAYMENTS CONTINUED

(ii) Share Incentive Plan

Generally, all full-time or part-time employees of the consolidated entity with a minimum of one year's service are invited to participate in the Share Incentive Plan ("the SIP"). Under the SIP, the directors can provide shares up to $1,000 to employees without payment being made by employees. The allocation of shares is based on the period of service. The shares are purchased on-market and held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier. Further details are provided in note 27(E).

(iii) Group Executive Restricted Share Plan

Group head office management and the Group operations executive are eligible to participate in the Group Executive Restricted Share Plan ("GERSP") which came into effect from 1 January 2008. Under the GERSP, eligible executives have the opportunity to acquire additional equity in the form of restricted shares if the consolidated entity exceeds a target return on equity and the division for which the relevant executive is responsible also exceeds a specified return on equity target. For head office executives, entitlement will only be based on the consolidated entity's return on equity target.

The restricted shares entitle relevant executives to receive fully paid QBE shares on the third anniversary of the grant of the restricted shares. Further shares are issued in relation to the restricted shares to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the restricted shares. The shares issued pursuant to the restricted shares are issued without payment being made by the executive (i.e. at a nil exercise price).

The shares issued pursuant to the restricted shares will only be issued if the individual has remained in the company's service throughout the vesting period (unless leaving due to redundancy, retirement through ill health or age, or death) and is not subject to disciplinary proceedings or notice on that date.

(B) Employee options

During the year, the company granted to 866 (2007 776) qualifying employees options over ordinary shares with a total market value of $54 million (2007 $62 million), being the quoted market price at the date the options were granted. The weighted average fair value of options granted during the year ended 31 December 2008 was $4.61 (2007 $6.38).

The market value of the options outstanding at the balance sheet date was $238 million (2007 $240 million), calculated by reference to the quoted market value of the underlying shares at that date.

27 SHARE BASED PAYMENTS CONTINUED

Details of the number of employee options granted, exercised and forfeited or cancelled during the year, including those issued under the DCP, were as follows:

2008 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2008	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2008
13 March 2003	**$8.04**	**16,152**	**–**	**(15,752)**	**(400)**	**–**
3 March 2004	**$11.08**	**80,509**	**–**	**(45,759)**	**–**	**34,750**
3 March 2005	**$8.04**	**173,739**	**–**	**(38,156)**	**–**	**135,583**
3 March 2005	**$11.08**	**186,500**	**–**	**(36,190)**	**–**	**150,310**
3 March 2005	**$14.85**	**2,311,154**	**–**	**(201,824)**	**(5,600)**	**2,103,730**
8 April 2005	**$14.85**	**118,587**	**–**	**–**	**–**	**118,587**
12 May 2005	**$14.81**	**60,000**	**–**	**–**	**–**	**60,000**
2 March 2006	**$20.44**	**2,235,673**	**–**	**(97,187)**	**(10,629)**	**2,127,857**
7 April 2006	**$20.44**	**94,771**	**–**	**–**	**–**	**94,771**
2 March 2007	**$20.44**	**40,000**	**–**	**–**	**–**	**40,000**
2 March 2007	**$32.68**	**1,822,551**	**5,508**	**–**	**(88,487)**	**1,739,572**
4 April 2007	**$32.68**	**51,125**	**–**	**–**	**–**	**51,125**
4 March 2008	**$20.44**	**–**	**40,000**	**–**	**–**	**40,000**
4 March 2008	**$24.22**	**–**	**2,529,180**	**–**	**(60,834)**	**2,468,346**
4 April 2008	**$27.00**	**–**	**74,257**	**–**	**–**	**74,257**
		7,190,761	**2,648,945**	**(434,868)**	**(165,950)**	**9,238,888**
Weighted average exercise price		**$21.02**	**$24.26**	**$14.54**	**$28.13**	**$22.12**

The weighted average share price at the date of exercise of options during the year was $24.31 (2007 $31.36). The weighted average remaining contractual life of total options outstanding at 31 December 2008 was 3.5 years (2007 3.9 years).

Employee options outstanding at 31 December 2008 were as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE	DCP/STI	OTHER	TOTAL OPTIONS
2009	**60,000**	**–**	**–**	**60,000**
2010	**–**	**170,401**	**–**	**170,401**
2011	**80,000**	**2,612,096**	**–**	**2,692,096**
2012	**–**	**2,401,662**	**–**	**2,401,662**
2013	**–**	**1,860,805**	**–**	**1,860,805**
2014	**–**	**2,019,174**	**–**	**2,019,174**
2024	**–**	**–**	**34,750**	**34,750**
	140,000	**9,064,138**	**34,750**	**9,238,888**
Vested and exercisable at 31 December 2008	**20,000**	**–**	**34,750**	**54,750**

The future performance options have been issued subject to the achievement of specific performance criteria. Examples of such criteria are provided in the directors' report.

Other options were issued to US and Irish employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

27 SHARE BASED PAYMENTS CONTINUED

Details of the number of options granted, exercised and forfeited or cancelled during the prior year, including those issued under the DCP, were as follows:

2007 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2007	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2007
10 December 2001	$7.27	730,000	–	(730,000)	–	–
13 March 2003	$8.04	50,025	–	(31,090)	(2,783)	16,152
3 March 2004	$8.04	164,447	–	(164,447)	–	–
3 March 2004	$11.08	2,524,022	–	(2,419,828)	(23,685)	80,509
2 April 2004	$11.08	114,694	–	(114,694)	–	–
3 March 2005	$8.04	173,739	–	–	–	173,739
3 March 2005	$11.08	186,500	–	–	–	186,500
3 March 2005	$14.85	2,475,154	–	(32,666)	(131,334)	2,311,154
8 April 2005	$14.85	118,587	–	–	–	118,587
12 May 2005	$14.81	80,000	–	(20,000)	–	60,000
2 March 2006	$20.44	2,359,833	–	(17,156)	(107,004)	2,235,673
7 April 2006	$20.44	94,771	–	–	–	94,771
2 March 2007	$20.44	–	40,000	–	–	40,000
2 March 2007	$32.68	–	1,875,844	–	(53,293)	1,822,551
4 April 2007	$32.68	–	51,125	–	–	51,125
		9,071,772	1,966,969	(3,529,881)	(318,099)	7,190,761
Weighted average exercise price		$14.29	$32.43	$10.23	$19.38	$21.02

Employee options outstanding at 31 December 2007 were as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE	DCP/STI	OTHER	TOTAL OPTIONS
2008	–	59,661	–	59,661
2009	60,000	111,148	–	171,148
2010	–	177,630	–	177,630
2011	40,000	2,789,703	–	2,829,703
2012	–	2,456,822	–	2,456,822
2013	–	1,458,797	–	1,458,797
2024	–	–	37,000	37,000
	100,000	7,053,761	37,000	7,190,761
Vested and exercisable at 31 December 2007	20,000	59,661	37,000	116,661

27 SHARE BASED PAYMENTS CONTINUED

(C) Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP granted, vested and transferred to employees during the year were as follows:

2008 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2008	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEE IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2008
3 March 2005	2 March 2008	**$15.30**	**72,750**	**–**	**–**	**(72,750)**	**–**	**–**
3 March 2005	2 March 2008	**$15.86**	**78,095**	**–**	**–**	**(78,095)**	**–**	**–**
3 March 2005	2 March 2008	**$16.94**	**276,347**	**–**	**–**	**(276,347)**	**–**	**–**
3 March 2005	2 March 2008	**$17.51**	**548,274**	**–**	**–**	**(548,274)**	**–**	**–**
3 March 2005	2 March 2008	**$17.81**	**100,284**	**–**	**–**	**(100,284)**	**–**	**–**
8 April 2005	7 April 2008	**$16.94**	**48,656**	**–**	**1,486**	**(50,142)**	**–**	**–**
2 March 2006	1 March 2009	**$23.09**	**832,896**	**–**	**45,782**	**(56,153)**	**(675)**	**821,850**
7 April 2006	6 April 2009	**$24.23**	**37,425**	**–**	**2,147**	**–**	**–**	**39,572**
2 March 2007	1 March 2010	**$32.68**	**751,154**	**2,850**	**41,293**	**(42,636)**	**(17,811)**	**734,850**
4 April 2007	3 April 2010	**$32.68**	**25,994**	**–**	**1,491**	**–**	**–**	**27,485**
4 March 2008	3 March 2011	**$24.22**	**–**	**1,185,127**	**67,369**	**(9,397)**	**(27,016)**	**1,216,083**
4 April 2008	4 April 2011	**$27.00**	**–**	**37,128**	**967**	**–**	**–**	**38,095**
			2,771,875	**1,225,105**	**160,535**	**(1,234,078)**	**(45,502)**	**2,877,935**

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2008 was $21.86 (2007 $31.36). The weighted average fair value of conditional rights granted during the year ended 31 December 2008 was $24.32 (2007 $32.68).

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP granted, vested and transferred to employees during the prior year were as follows:

2007 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2007	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEE IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2007
3 March 2004	2 March 2007	$11.65	69,195	–	–	(69,195)	–	–
3 March 2004	2 March 2007	$12.49	265,272	–	–	(265,272)	–	–
3 March 2004	2 March 2007	$12.96	611,916	–	–	(610,897)	(1,019)	–
3 March 2004	2 March 2007	$13.24	103,964	–	–	(95,789)	(8,175)	–
2 April 2004	1 April 2007	$12.49	47,314	–	842	(48,156)	–	–
3 March 2005	2 March 2008	$15.30	70,292	–	2,458	–	–	72,750
3 March 2005	2 March 2008	$15.86	75,456	–	2,639	–	–	78,095
3 March 2005	2 March 2008	$16.94	271,634	–	9,585	(3,110)	(1,762)	276,347
3 March 2005	2 March 2008	$17.51	574,439	–	19,172	(9,220)	(36,117)	548,274
3 March 2005	2 March 2008	$17.81	108,745	–	3,451	–	(11,912)	100,284
8 April 2005	7 April 2008	$16.94	47,013	–	1,643	–	–	48,656
2 March 2006	1 March 2009	$23.09	844,160	–	28,868	(5,492)	(34,640)	832,896
7 April 2006	6 April 2009	$24.23	36,161	–	1,264	–	–	37,425
2 March 2007	1 March 2010	$32.68	–	749,210	26,020	(3,350)	(20,726)	751,154
4 April 2007	3 April 2010	$32.68	–	25,563	431	–	–	25,994
			3,125,561	774,773	96,373	(1,110,481)	(114,351)	2,771,875

27 SHARE BASED PAYMENTS CONTINUED

(D) Fair value of options and conditional rights

The fair value of both options and conditional rights is determined using a binomial model. The fair value is earned evenly over the period between grant and vesting. For those options and conditional rights granted during the year to 31 December 2008, the following significant assumptions were used:

		OPTIONS		CONDITIONAL RIGHTS	
		2008	2007	2008	2007
Share price on grant date	$	**20.50 – 25.19**	31.33 – 32.62	**20.50 – 25.19**	31.33 – 32.62
Fair value of instrument at grant date	$	**3.36 – 5.16**	5.05 – 12.55	**24.22 – 27.00**	32.68
Risk-free interest rate	%	**6.2 – 6.5**	5.8 – 5.9	**6.2 – 6.5**	5.8 – 5.9
Expected share price volatility	%	**25.0**	20.0	**25.0**	20.0
Expected dividend yield	%	**5.0**	3.5	**5.0**	3.5
Expected life of instrument	years	**3.0 – 5.0**	3.0 – 5.0	**3.0**	3.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

(E) Share Incentive Plan

The SIP was introduced during 2005 and is a global reward scheme available to eligible permanent employees who have met minimum service conditions at the annual grant date. Under the terms of the SIP, eligible employees may be offered up to $1,000 of fully paid ordinary shares in the company annually for no cash consideration. The market value of shares issued under the terms of the SIP is expensed in the period in which the shares are granted. The total number of shares issued to participating employees in the year was 193,275 (2007 150,474). The weighted average market price on the issue date was $23.76 (2007 $32.00).

(F) Share based payment expenses

Total expenses arising from share based payment transactions during the year included in underwriting expenses were as follows:

	CONSOLIDATED	
	2008 $M	2007 $M
Options provided under the DCP	**10**	8
Conditional rights provided under the DCP	**23**	19
Shares provided under the SIP	**5**	5
	38	32

28 KEY MANAGEMENT PERSONNEL (COMPANY AND CONSOLIDATED)

Key management personnel are those persons defined as having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, either directly or indirectly, including any director (executive or non-executive).

(A) Directors

The following directors held office during the financial year:

Non-executive directors

EJ Cloney (chairman)
LF Bleasel AM
DM Boyle
IF Hudson
BJ Hutchinson AM
CLA Irby
IYL Lee

Executive director

FM O'Halloran

(B) Other key management personnel

All of the persons in the table below were key management personnel for some period during the year ended 31 December 2008.

NAME	POSITION	EMPLOYER	EMPLOYMENT DATES
SP Burns	Chief executive officer, European operations	QBE Management Services (UK) Limited	1 January 1987
NG Drabsch	Chief financial officer, QBE Insurance Group Limited	QBE Management Services Pty Limited	20 September 1991
MJ Goodwin	Chief executive officer, Asia Pacific operations	QBE Management Services Pty Limited	19 February 1992
MD ten Hove	Group general manager, investments QBE Insurance Group Limited	QBE Management Services Pty Limited	1 March 1999
TW Ibbotson	Chief executive officer, Australian operations	QBE Management Services Pty Limited	12 July 1993
TM Kenny	President and chief executive officer, the Americas	QBE Reinsurance Corporation	28 November 1994 to 12 September 2008
V McLenaghan(1)	Chief operating officer, QBE Insurance Group Limited	QBE Management Services Pty Limited	14 August 1995

(1) Mr McLenaghan is also currently acting president and chief executive officer of QBE the Americas.

(C) Key management personnel – compensation

	THE COMPANY		CONSOLIDATED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Short-term employee benefits	**–**	–	**22,747**	22,237
Post employment benefits	**–**	–	**984**	993
Other long-term employment benefits	**–**	–	**225**	305
Share based payments	**–**	–	**5,589**	5,088
Termination benefits	**–**	–	**2,902**	–
	–	–	**32,447**	28,623

The company has taken advantage of the relief provided by ASIC class order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. Refer to the remuneration report on pages 54 to 66 of the directors' report.

28 KEY MANAGEMENT PERSONNEL CONTINUED

(D) Key management personnel – equity instruments

(i) Options and conditional rights provided as remuneration

For additional details of equity instruments (conditional rights and options) provided to key management personnel as remuneration and shares issued on the exercise of such instruments, together with the associated terms and conditions, refer to the remuneration report on pages 54 to 66. No such equity instruments were provided to non-executive directors.

(ii) DCP option holdings

Details of the movements in the number of DCP options over ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2008 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2008	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2008(1)	EXERCISE COST AT 31 DEC 2008 $'000
Executive director						
FM O'Halloran	**264,483**	**74,257**	**–**	**–**	**338,740**	**7,374**
Other key management personnel						
SP Burns	**335,068**	**76,700**	**–**	**–**	**411,768**	**7,910**
NG Drabsch	**142,586**	**35,169**	**–**	**–**	**177,755**	**3,693**
MJ Goodwin	**15,077**	**7,934**	**–**	**–**	**23,011**	**481**
MD ten Hove	**137,160**	**37,161**	**(66,707)**	**–**	**107,614**	**2,630**
TW Ibbotson	**64,786**	**19,187**	**–**	**–**	**83,973**	**1,782**
TM Kenny(2)	**176,646**	**51,941**	**–**	**–**	**228,587**	**4,836**
V McLenaghan	**113,680**	**42,835**	**–**	**–**	**156,515**	**3,409**

(1) None of these options were vested or exercisable at 31 December 2008.

(2) Mr Kenny ceased employment on 12 September 2008. All DCP options granted up to 12 September 2008 and unvested at the balance sheet date will vest and become exercisable on 31 March 2009.

2007 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2007	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2007(1)	EXERCISE COST AT 31 DEC 2007 $'000
Executive director						
FM O'Halloran	328,052	51,125	(114,694)	–	264,483	5,369
Other key management personnel						
SP Burns	422,075	61,031	(148,038)	–	335,068	6,053
NG Drabsch	186,209	24,776	(68,399)	–	142,586	2,841
MJ Goodwin	26,087	2,968	(13,978)	–	15,077	288
MD ten Hove	113,506	23,654	–	–	137,160	2,720
TW Ibbotson	76,413	12,088	(23,715)	–	64,786	1,317
TM Kenny	231,954	31,910	(87,218)	–	176,646	3,578
V McLenaghan	137,438	26,052	(49,810)	–	113,680	2,371

(1) None of these options were vested or exercisable at 31 December 2007.

(iii) Future performance option holdings

Details of the movements in the number of future performance options over ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2008 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2008	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2008	EXERCISE COST AT 31 DEC 2008 $'000
Key management personnel						
SP Burns	**20,000**	**20,000**	**–**	**–**	**40,000**	**818**
TM Kenny(1)	**80,000**	**20,000**	**–**	**–**	**100,000(2)**	**1,706**

(1) Mr Kenny ceased employment on 12 September 2008. All options granted up to 12 September 2008 and unvested at the balance sheet date will vest and become exercisable on 31 March 2009.

(2) 20,000 of these options were vested and exercisable at 31 December 2008.

28 KEY MANAGEMENT PERSONNEL CONTINUED

2007 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2007	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2007	EXERCISE COST AT 31 DEC 2007 $'000
Key management personnel						
SP Burns	80,000	20,000	(80,000)	–	20,000	409
TM Kenny	180,000	20,000	(120,000)	–	80,000(1)	1,297

(1) 20,000 of these options were vested and exercisable at 31 December 2007.

(iv) Conditional rights holdings

Details of the movements in the number of conditional rights to ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2008 NUMBER OF RIGHTS	BALANCE AT 1 JAN 2008	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2008(1)
Executive director						
FM O'Halloran	**112,075**	**37,128**	**6,091**	**(50,142)**	**–**	**105,152**
Other key management personnel						
SP Burns	**144,507**	**80,963(3)**	**9,005**	**(68,469)**	**–**	**166,006(3)**
NG Drabsch	**61,317**	**17,585**	**2,909**	**(28,199)**	**–**	**53,612**
MJ Goodwin	**6,572**	**3,967**	**363**	**(4,201)**	**–**	**6,701**
MD ten Hove	**58,995**	**18,581**	**2,848**	**(27,930)**	**–**	**52,494**
TW Ibbotson	**27,912**	**9,594**	**1,484**	**(11,627)**	**–**	**27,363**
TM Kenny(2)	**75,980**	**25,970**	**4,029**	**(31,718)**	**–**	**74,261**
V McLenaghan	**49,528**	**21,417**	**2,906**	**(20,302)**	**–**	**53,549**

(1) None of these conditional rights were vested or exercisable at 31 December 2008.
(2) Mr Kenny ceased employment on 12 September 2008. All conditional rights granted up to 12 September 2008 and unvested at the balance sheet date will vest and become exercisable on 31 March 2009.
(3) Includes 42,613 restricted shares which have the same terms and conditions as conditional rights to ordinary shares in the company.

2007 NUMBER OF RIGHTS	BALANCE AT 1 JAN 2007	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2007(1)
Executive director						
FM O'Halloran	130,488	25,563	4,180	(48,156)	–	112,075
Other key management personnel						
SP Burns	171,402	30,516	4,880	(62,291)	–	144,507
NG Drabsch	75,641	12,388	2,070	(28,782)	–	61,317
MJ Goodwin	10,749	1,484	221	(5,882)	–	6,572
MD ten Hove	45,175	11,827	1,993	–	–	58,995
TW Ibbotson	30,902	6,044	944	(9,978)	–	27,912
TM Kenny	94,158	15,955	2,567	(36,700)	–	75,980
V McLenaghan	55,790	13,026	1,672	(20,960)	–	49,528

(1) None of these conditional rights were vested or exercisable at 31 December 2007.

(v) Shareholdings

The movements during the year in the number of ordinary shares in the company held by the key management personnel, including their personally related parties, are provided in the table on page 134. Prior to 20 June 2005, non-recourse loans were provided by the consolidated entity to the executive director and other key management personnel on the exercise of their options for the purchase of shares in the company. Under AIFRS, non-recourse loans and the related shares are derecognised and are instead treated as options.

28 KEY MANAGEMENT PERSONNEL CONTINUED

2008 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2008	CONDITIONAL RIGHTS VESTED	OPTIONS EXERCISED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2008	INTEREST IN SHARES AT 31 DEC 2008 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors							
LF Bleasel AM	**43,996**	**–**	**–**	**8,120**	**–**	**52,116**	**–**
DM Boyle	**5,003**	**–**	**–**	**–**	**–**	**5,003**	**–**
EJ Cloney	**635,377**	**–**	**–**	**–**	**–**	**635,377**	**–**
IF Hudson	**1,058**	**–**	**–**	**7,642**	**32**	**8,732**	**–**
BJ Hutchinson AM	**33,950**	**–**	**–**	**17,938**	**–**	**51,888**	**–**
CLA Irby	**15,000**	**–**	**–**	**–**	**–**	**15,000**	**–**
IYL Lee	**21,505**	**–**	**–**	**5,000**	**–**	**26,505**	**–**
Executive director							
FM O'Halloran	**1,104,569**	**50,142**	**–**	**(98,750)**	**60,779**	**1,116,740**	**875,359**
Other key management personnel							
SP Burns	**3,511**	**68,469**	**–**	**–**	**4,162**	**76,142**	**3,308**
NG Drabsch	**316,076**	**28,199**	**–**	**(135,732)**	**19,013**	**227,556**	**154,649**
MJ Goodwin	**6,236**	**4,201**	**–**	**–**	**599**	**11,036**	**5,699**
MD Ten Hove	**194,416**	**27,930**	**66,707**	**(30,000)**	**16,580**	**275,633**	**173,716**
TW Ibbotson	**8,556**	**11,627**	**–**	**–**	**–**	**20,183**	**–**
TM Kenny(1)	**5,701**	**31,718**	**–**	**(23,749)**	**1,528**	**15,198**(2)	**–**
V McLenaghan	**165,111**	**20,302**	**–**	**–**	**–**	**185,413**	**109,809**

(1) Mr Kenny ceased employment on 12 September 2008.
(2) Interest in shares at 12 September 2008.

The movements in the number of ordinary shares in the company held by the key management personnel, including their personally related parties, in the prior year are provided in the table below.

2007 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2007	CONDITIONAL RIGHTS VESTED	OPTIONS EXERCISED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2007	INTEREST IN SHARES AT 31 DEC 2007 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors							
LF Bleasel AM	43,703	–	–	–	293	43,996	–
DM Boyle	–	–	–	4,920	83	5,003	–
EJ Cloney	685,377	–	–	(50,000)	–	635,377	–
The Hon NF Greiner AC(1)	65,715	–	–	–	947	66,662(2)	–
IF Hudson	–	–	–	1,041	17	1,058	–
BJ Hutchinson AM	33,950	–	–	–	–	33,950	–
CLA Irby	15,000	–	–	–	–	15,000	–
IYL Lee	21,129	–	–	–	376	21,505	–
Executive director							
FM O'Halloran	1,186,595	48,156	114,694	(282,965)	38,089	1,104,569	827,872
Other key management personnel							
SP Burns	3,367	62,291	228,038	(290,329)	144	3,511	3,129
NG Drabsch	323,531	28,782	68,399	(117,181)	12,545	316,076	247,959
MJ Goodwin	5,923	5,882	13,978	(19,860)	313	6,236	5,389
MD Ten Hove	286,452	–	–	(100,000)	7,964	194,416	192,665
TW Ibbotson	86,205	9,978	23,715	(113,054)	1,712	8,556	–
TM Kenny	3,635	36,700	207,218	(243,918)	2,066	5,701	–
V McLenaghan	171,411	20,960	49,810	(77,070)	–	165,111	109,809

(1) The Hon NF Greiner AC retired on 4 April 2007.
(2) Interest in shares at 4 April 2007.

28 KEY MANAGEMENT PERSONNEL CONTINUED

(E) Key management personnel – share loans

Details regarding the share loans made by the consolidated entity to the key management personnel are set out below.

(i) Non-recourse share loans

2008	BALANCE AT 1 JAN 2008 $'000	LOANS MADE IN THE YEAR $'000	REPAYMENTS $'000	BALANCE AT 31 DEC 2008 $'000	INTEREST NOT CHARGED $'000	HIGHEST BALANCE IN PERIOD $'000
Executive director						
FM O'Halloran	**4,227**	**–**	**–**	**4,227**	**371**	**4,227**
Other key management personnel						
SP Burns	**22**	**–**	**–**	**22**	**2**	**22**
NG Drabsch	**2,295**	**–**	**(287)**	**2,008**	**195**	**2,295**
MJ Goodwin	**35**	**–**	**–**	**35**	**3**	**35**
MD ten Hove	**2,930**	**–**	**(82)**	**2,848**	**256**	**2,930**
V McLenaghan	**1,090**	**–**	**(69)**	**1,021**	**92**	**1,090**
	10,599	**–**	**(438)**	**10,161**	**919**	

Prior to 20 June 2005, non-recourse loans were provided by the consolidated entity to the executive director and other key management personnel for the purchase of shares in the company. Under AIFRS, non-recourse loans and the related shares are derecognised and are instead treated as options.

(ii) Personal recourse share loans

2008	BALANCE AT 1 JAN 2008 $'000	LOANS MADE IN THE YEAR $'000	REPAYMENTS $'000	BALANCE AT 31 DEC 2008 $'000	INTEREST NOT CHARGED $'000	HIGHEST BALANCE IN PERIOD $'000
Executive director						
FM O'Halloran	**1,271**	**–**	**–**	**1,271**	**112**	**1,271**
Other key management personnel						
NG Drabsch	**502**	**–**	**–**	**502**	**44**	**502**
MD ten Hove	**–**	**991**	**–**	**991**	**74**	**991**
V McLenaghan	**173**	**–**	**(16)**	**157**	**14**	**173**
	1,946	**991**	**(16)**	**2,921**	**244**	

2007	BALANCE AT 1 JAN 2007 $'000	LOANS MADE IN THE YEAR $'000	REPAYMENTS $'000	BALANCE AT 31 DEC 2007 $'000	INTEREST NOT CHARGED $'000	HIGHEST BALANCE IN PERIOD $'000
Executive director						
FM O'Halloran	891	1,271	(891)	1,271	95	2,162
Other key management personnel						
SP Burns	–	1,400	(1,400)	–	1	1,400
NG Drabsch	502	758	(758)	502	47	1,260
TW Ibbotson	9	263	(272)	–	10	272
V McLenaghan	200	552	(579)	173	22	752
	1,602	4,244	(3,900)	1,946	175	

(F) Other transactions with key management personnel and their personally related parties

FM O'Halloran – retirement benefits

Mr O'Halloran joined QBE in June 1976. 11 of his years with the consolidated entity have been in the position of chief executive officer, with four years as director of operations, seven years as director of finance, five years as chief financial officer and the remainder as Group financial controller. On 1 January 1998, a controlled entity entered into a retirement benefit arrangement with Mr O'Halloran, which is in addition to his entitlement under the QBE Australia defined benefit plan. As Mr O'Halloran was employed by the consolidated entity in May 2004, on his retirement he will receive a lump sum payment of 150% of his total remuneration cost being his annual base salary plus STI for the year prior to the date of his retirement. As a condition of this arrangement, Mr O'Halloran has entered into a non-compete agreement for three years from the date of his retirement.

29 DEFINED BENEFIT PLANS

	2008 $M	2007 $M
Retirement benefit surplus	**2**	3
Retirement benefit deficit	**(134)**	(29)
Post-employment health care benefit deficit	**(14)**	(24)
Defined benefit deficit	**(148)**	(53)

Entities in the consolidated entity participate in a number of superannuation plans which have been established and are sponsored by those entities. A number of these plans provide defined benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation.

Contributions are made to the plans by both employees and controlled entities, typically as a percentage of salary and within the rules of the plans, and are based on funding schedules prepared by independent actuaries. The contribution rate in respect of defined benefit plans is agreed between the relevant controlled entity and the plans' trustees and actuaries. The consolidated entity has no immediate legal obligation to settle the liability.

The consolidated entity also sponsors defined benefit health care plans that provide post-employment medical benefits and life assurance to eligible retired employees. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Russell Employee Benefits, AON Consulting, Watson Wyatt Worldwide, Prudential Financial and Mercers. All valuations have been updated for information available at 31 December 2008.

(A) Defined benefit surpluses (deficits)

The amounts recognised in the balance sheet for defined benefit plans are as follows:

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATIONS		SURPLUS NOT RECOGNISED		NET RECOGNISED SURPLUS (DEFICIT)	
		2008 $M	2007 $M	2008 $M	2007 $M	2008 $M	2007 $M	2008 $M	2007 $M
Defined benefit retirement plans[(1)]									
New Zealand superannuation plan	31 Dec 08	**8**	8	**(7)**	(7)	**–**	–	**1**	1
Iron Trades insurance staff trust	31 Dec 08	**289**	336	**(263)**	(318)	**(34)**	(18)	**(8)**	–
European staff retirement benefit plan	31 Dec 08	**11**	15	**(14)**	(12)	**–**	(3)	**(3)**	–
Janson Green final salary superannuation scheme	31 Dec 08	**189**	213	**(186)**	(196)	**(18)**	(17)	**(15)**	–
QBE Australia defined benefit plan	31 Dec 08	**68**	69	**(90)**	(75)	**–**	–	**(22)**	(6)
QBE Regional pension plan	31 Dec 08	**225**	228	**(293)**	(245)	**–**	–	**(68)**	(17)
National Farmers Union property and casualty company uniform pension plan	31 Dec 08	**25**	27	**(36)**	(28)	**–**	–	**(11)**	(1)
Other plans		**14**	14	**(20)**	(17)	**–**	–	**(6)**	(3)
		829	910	**(909)**	(898)	**(52)**	(38)	**(132)**	(26)
Defined benefit post-employment health care plans[(2)]									
QBE Regional retiree health care plan	31 Dec 08	**–**	–	**(1)**	(15)	**–**	–	**(1)**	(15)
QBE Regional pension restoration plan	31 Dec 08	**–**	–	**(13)**	(9)	**–**	–	**(13)**	(9)
		–	–	**(14)**	(24)	**–**	–	**(14)**	(24)
		829	910	**(923)**	(922)	**(52)**	(38)	**(146)**	(50)

(1) Defined benefit retirement plan obligations are funded.

(2) Defined benefit post-employment health care plan obligations are unfunded.

29 DEFINED BENEFIT PLANS CONTINUED

(B) Reconciliation

	2008 $M	2007 $M
Fair value of plan assets at 1 January	**910**	727
Expected return on plan assets	**58**	50
Actuarial losses on plan assets	**(130)**	(17)
Employer contributions	**13**	5
Contributions by plan participants	**1**	1
Benefits and expenses paid	**(36)**	(35)
Curtailments and settlements	**–**	(3)
Acquisitions	**–**	249
Foreign exchange	**13**	(67)
Fair value of plan assets at 31 December	**829**	910
Defined benefit obligation at 1 January	**(922)**	(725)
Current service cost	**(15)**	(10)
Interest cost	**(52)**	(45)
Actuarial gains	**27**	38
Benefits and expenses paid	**36**	35
Past service cost	**24**	–
Contributions by plan participants	**(1)**	(1)
Curtailments and settlements	**14**	3
Acquisitions	**–**	(284)
Foreign exchange	**(34)**	67
Defined benefit obligation at 31 December	**(923)**	(922)
Net deficit at 31 December	**(94)**	(12)
Surplus derecognised at 1 January	**(38)**	(8)
Surplus derecognised in the year	**(15)**	(32)
Foreign exchange	**1**	2
Surplus derecognised at 31 December	**(52)**	(38)
Net deficit recognised in the balance sheet at 31 December	**(146)**	(50)

	2008 $M	2007 $M
Net (deficit) surplus at 1 January	**(12)**	2
Amounts recognised in the income statement		
Current service cost	**(15)**	(10)
Interest cost	**(52)**	(45)
Past service cost	**24**	–
Expected return on plan assets	**58**	50
Curtailments and settlements	**14**	–
	29	(5)
Actuarial gains included in the statement of recognised income and expense	**(103)**	21
Employer contributions	**13**	5
Acquisitions	**–**	(35)
Foreign exchange	**(21)**	–
Net deficit at 31 December	**(94)**	(12)

The credit recognised in the income statement in the year of $29 million (2007 $5 million charge) has been included in underwriting expenses. The actual return on plan assets was a loss of $72 million (2007 $33 million gain).

29 DEFINED BENEFIT PLANS CONTINUED

(C) Amounts included in the statement of recognised income and expense

Cumulative actuarial gains and losses included in the statement of recognised income and expense are as follows:

	2008 $M	2007 $M
Actuarial losses at 1 January	**75**	66
Movement in the year	**118**	9
Actuarial losses at 31 December	**193**	75
Deferred taxation on actuarial losses at 1 January	**(19)**	(18)
Movement in the year	**(36)**	(1)
Deferred taxation on actuarial losses at 31 December	**(55)**	(19)
Net actuarial losses at 31 December	**138**	56

(D) Principal actuarial assumptions

	2008 %	2007 %
Discount rate	**3.3 – 13.0**	4.6 – 9.0
Expected return on plan assets	**4.9 – 8.3**	5.4 – 8.0
Future salary increases	**3.1 – 8.0**	3.5 – 5.0
Future pension increases	**1.8 – 3.1**	2.5 – 5.0

The expected return on plan assets is based on historical and future expectations of returns for each of the major asset classes as well as the expected and actual allocation of plan assets to these major classes.

(E) Analysis of plan assets

	2008 $M	2007 $M
Equities	**234**	292
Bonds	**555**	567
Property	**1**	1
Other	**39**	50
	829	910

(F) Historical summary

	2008 $M	2007 $M	2006 $M	2005 $M	2004 $M
Experience gains (losses) arising on plan liabilities	**32**	2	9	(6)	(42)
Experience (losses) gains arising on plan assets	**(130)**	(17)	(9)	39	7

	2008 $M	2007 $M	2006 $M	2005 $M	2004 $M
Present value of plan obligations	**(923)**	(922)	(725)	(726)	(698)
Fair value of plan assets	**829**	910	727	560	498
Net (deficit) surplus	**(94)**	(12)	2	(166)	(200)

(G) Funding

Employer contributions to the defined benefit retirement plans are based on recommendations by the plans' actuaries. The objective of the consolidated entity's funding schedules is to ensure that benefit entitlements are fully funded at the time they become payable. Total employer contributions expected to be paid to the various plans in 2009 amount to $25 million.

30 REMUNERATION OF AUDITORS

	2008 $'000	2007 $'000
PricewaterhouseCoopers – Australian firm[(1)]		
Audit or review of financial reports of the parent entity	**1,604**	1,659
Audit of financial reports of controlled entities	**3,032**	2,417
Audit of statutory returns	**815**	643
Other audit assurance services	**280**	600
Taxation services	**117**	118
Actuarial services	**74**	102
Advisory services (including business continuity management assistance)	**97**	45
	6,019	5,584
Related practices of PricewaterhouseCoopers – Australian firm[(1)]		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports of controlled entities	**11,506**	8,934
Audit of statutory returns	**985**	898
Other audit assurance services	**306**	296
Taxation services	**941**	828
Advisory services (including due diligence services)	**157**	327
Systems services	**–**	12
Legal services	**–**	2
	13,895	11,297
	19,914	16,881
Audit and assurance services	**18,528**	15,447
Other services	**1,386**	1,434
	19,914	16,881
Other auditors		
Audit of financial reports of controlled entities	**154**	3,340

(1) From 1 January 2003, the consolidated entity may engage PricewaterhouseCoopers for non-audit services, subject to the general principle that fees for non-audit services should not exceed 30% of the total of all fees in any one year. Consistent with prior periods, PricewaterhouseCoopers cannot provide the excluded services of preparing accounting records or financial reports, asset or liability valuations, acting in a management capacity, acting as a custodian of assets or acting as share registrar.

31 CONTINGENT LIABILITIES

The company and the consolidated entity had the following contingent liabilities:

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Guarantees of interest-bearing liabilities in controlled entities	**620**	548	**–**	–
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	**948**	283	**948**	283
Letters of credit issued in support of insurance provisions of controlled entities	**848**	204	**–**	–
Guarantees to investors in hybrid securities	**772**	710	**–**	–
Guarantees to investors in ABC securities for funds at Lloyd's (due 2008)	**–**	627	**–**	–
Guarantees to investors in ABC securities for funds at Lloyd's (due 2009)	**313**	251	**–**	–
Guarantees to investors in capital securities	**391**	1,306	**–**	–

A controlled entity has entered into a number of deeds of covenant in respect of its controlled entities to meet part of their obligations to Lloyd's of London. The total guarantee given under these deeds of covenant amounts to $126 million (2007 $93 million). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets in favour of Lloyd's of London. Refer note 11(C).

Controlled entities have entered into acquisition agreements. The costs of certain of these acquisitions have a contingent consideration component. The consolidated entity has made provision for the amount of contingent consideration that it expects to settle based on the achievement of specified performance criteria in future years. Details are provided in notes 18(G) and 23. Further amounts totalling $584 million may be payable in the future subject to the achievement of performance criteria but are not considered probable at the balance sheet date.

Details of the guarantees to investors in Eurobonds, hybrid securities and capital securities and security arrangements in respect of borrowings are provided in note 24.

Details of contingent liabilities in respect of ABC securities for funds at Lloyd's are included in note 34.

32 CAPITAL EXPENDITURE COMMITMENTS (CONSOLIDATED)

	2008 $M	2007 $M
Capital expenditure commitments contracted but not provided for in the financial statements (not later than one year)	**7**	6

33 OPERATING LEASE COMMITMENTS (CONSOLIDATED)

	2008 $M	2007 $M
Payable:		
Not later than one year	**85**	71
Later than one year but not later than five years	**213**	198
Later than five years	**391**	398
Total future minimum lease payments under non-cancellable operating leases	**689**	667

34 ABC SECURITIES

			THE COMPANY		CONSOLIDATED	
			2008 $M	2007 $M	2008 $M	2007 $M
ABC financial assets pledged for funds at Lloyd's						
Due 2008	Interest-bearing short-term money	US$550 million	**–**	–	**–**	627
Due 2009	Interest-bearing short-term money	£120 million	**–**	–	**250**	273
			–	–	**250**	900
ABC securities for funds at Lloyd's						
Due 2008		US$550 million	**–**	–	**–**	618
Due 2009		US$220 million	**–**	–	**312**	249
			–	–	**312**	867
Swap (liability) asset relating to ABC securities			**(1)**	(3)	**67**	(30)

(A) ABC securities (due 2009)

In October 2004, the company entered into an arrangement with Mantis Reef II Limited ("MR(II)L") to issue US$220 million of ABC (Asset Backed Capital) securities to support funds at Lloyd's ("FAL") pursuant to Lloyd's collateral requirements. This arrangement substantially replaced bank letters of credit and assisted in meeting new FAL requirements. MR(II)L is a special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The consolidated entity has no ownership interest in MR(II)L. As it exists for the benefit of the consolidated entity it is included in the consolidated results.

Proceeds from the sale of the ABC securities to investors have been swapped to sterling and then used to purchase shares in a wholly-owned controlled entity of MR(II)L, Mantis Reef II Pledge Limited ("MR(II)PL"). MR(II)PL is another special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The proceeds from the sale of shares in MR(II)PL have been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, have been granted to Lloyd's in support of FAL requirements of some of the company's controlled entities. Details of the eligible investments included in the asset portfolio are shown in the table above as ABC financial assets pledged for funds at Lloyd's.

Under its arrangement with MR(II)L and MR(II)PL, the company makes fixed payments to MR(II)L and in return receives the benefit of the earnings from the investment portfolio. As part of its agreement with MR(II)L and MR(II)PL the company can, if the need arises, call on MR(II)PL to provide up to £120 million by the sale or transfer of its investment portfolio to meet certain controlled entities' cash call requirements from Lloyd's, and at that time the company would assume a loan obligation including servicing of interest payments and repayment of the principal. To achieve this, the company would issue debt securities to MR(II)L with similar terms to the ABC securities.

The consolidated entity is exposed to cash flow interest rate and currency risk in respect of the ABC securities. In order to manage this risk and to service its fixed interest rate obligations, it has entered into a cross currency interest rate swap agreement under which it is obliged to pay variable rate interest on a sterling asset portfolio and receive a fixed amount of US dollar interest.

ABC securities (due 2009) are measured at amortised cost in original currency and translated to Australian dollars at the closing rate of exchange. Under the swap agreement, the consolidated entity pays a margin of 1.7% above the wholesale interbank rate monthly on £120 million and receives a fixed rate of 3.2% on US$220 million every six months to match the interest payment to investors. The swap agreement currently comprises three swaps which are measured at fair value. Two of the swaps are designated as cash flow hedges and have satisfied the effectiveness tests throughout the period from inception and at the balance sheet date. The movement in the fair value of the cash flow hedges is taken to equity. Any ineffectiveness in the cash flow hedges is recognised directly in the income statement. An amount is transferred from equity and taken to the income statement to offset:

- the differential between the fixed and variable interest payments; and
- the foreign exchange gain or loss on translation of the financial liabilities.

During the year, a gain of $96 million (2007 $7 million) was recognised in equity relating to the fair value movements on the cash flow hedges. During the year, a gain of $90 million (2007 $3 million) was transferred from equity to the income statement.

34 ABC SECURITIES CONTINUED

(B) ABC securities (due 2008)

In October 2003, the company entered into an arrangement with Mantis Reef Limited ("MRL") to issue US$550 million of ABC securities to support FAL pursuant to Lloyd's collateral requirements. This arrangement substantially replaced bank letters of credit. MRL is a special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The ABC securities were redeemed on 14 November 2008 in accordance with the terms of the ABC custody arrangement. The related swaps matured on the same date.

The swap agreement comprised two swaps which were measured at fair value. The swaps were designated as fair value hedges and satisfied the relevant hedge effectiveness tests throughout the period. The fair value movement on the swaps was recognised in the income statement. Any change in the value of the financial liabilities as a result of the hedged risk adjusted the carrying amount of the hedged item and impacted the income statement.

During the year, a gain of $4 million (2007 $15 million) was recognised in the income statement relating to the fair value movements on the fair value hedges. During the year, a loss of $6 million (2007 $12 million) was recognised in the income statement as a change in the value of the related financial liability.

(C) Fair value of ABC securities

		2008 $M	2007 $M
Due 2008	US$550 million	–	627
Due 2009	US$220 million	**310**	250
		310	877

(D) Risk exposure

The credit risk arising from swaps relating to ABC securities is $67 million (2007 $nil).

The maturity profile and the effective weighted average interest rate of ABC financial assets pledged for funds at Lloyd's and ABC securities for funds at Lloyd's are provided below.

As at 31 December 2008

		FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS
ABC financial assets pledged for funds at Lloyd's	$M	**250**
Weighted average interest rate	%	**2.2**
ABC securities for funds at Lloyd's	$M	**312**
Weighted average interest rate	%	**4.8**

As at 31 December 2007

		FIXED INTEREST RATE MATURING IN		
		1 YEAR OR LESS	1 TO 2 YEARS	TOTAL
ABC financial assets pledged for funds at Lloyd's	$M	900	–	900
Weighted average interest rate	%	3.2	–	3.2
ABC securities for funds at Lloyd's	$M	(618)	(249)	(867)
Weighted average interest rate	%	4.8	4.8	4.8

For an analysis of the sensitivity of the consolidated entity's financial instruments to market risks refer to note 5(A).

The swaps relating to ABC securities have been structured to mature on the same dates as the underlying securities.

35 RELATED PARTIES (COMPANY AND CONSOLIDATED)

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

	REFERENCE
Dividends from controlled entities	Note 7(B)
Amounts due from controlled entities	Note 13
Investments in controlled entities	Note 18
Amounts due to controlled entities	Note 20
Tax sharing agreement	Note 8(B)
Remuneration of key management personnel	Directors' report and note 28
Retirement allowances of key management personnel	Directors' report
Shares and options held by key management personnel	Note 28
Related party transactions with key management personnel	Note 28(F)
Defined benefit plans	Note 29
Guarantees in respect of related parties	Note 31

In the ordinary course of business, various controlled entities receive dividends and purchase and sell investments in public entities in which directors of the company are directors and shareholders.

36 EARNINGS PER SHARE (CONSOLIDATED)

	2008 CENTS	2007 CENTS
Basic earnings per share	**208.8**	225.7
Diluted earnings per share	**205.5**	217.0

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

	2008 $M	2007 $M
Net profit after income tax attributable to members of the company, used in calculating basic earnings per share	**1,859**	1,925
Finance costs of hybrid securities	**3**	7
Earnings used in calculating diluted earnings per share	**1,862**	1,932

36 EARNINGS PER SHARE (CONSOLIDATED) CONTINUED

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

	2008 MILLION	2007 MILLION
Weighted average number of ordinary shares on issue	**895**	859
Weighted average number of non-recourse loan shares issued under the Plan	**(5)**	(5)
Weighted average number of treasury shares held in trust	**–**	(1)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share(1)	**890**	853
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**5**	5
Options issued under the Plan	**2**	3
Hybrid securities(2)	**9**	28
Unvested conditional rights supported by treasury shares held in trust	**–**	1
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**906**	890

(1) Weighted average number of ordinary shares reflects shares adjusted to derecognise shares issued under the Plan. Basic earnings per share calculated with reference to issued share capital notified to the ASX would have been 207.7 cents (2007 224.1 cents). Refer to note 25(A).

(2) If all hybrid securities had been included in the calculation of diluted earnings per share at 31 December 2008, diluted earnings per share would have been 205.9 cents (2007 217.3 cents).

37 SEGMENT INFORMATION

(A) Business segments

The consolidated entity is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 45 countries. The business is managed on a divisional basis as follows:

- Australian operations primarily underwrites general insurance risks throughout Australia providing all major lines of insurance cover for personal and commercial risks.
- Asia Pacific operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- European operations comprises QBE Insurance Europe and QBE Underwriting Limited (Lloyd's division). QBE Insurance Europe writes insurance business in the UK, Ireland and mainland Europe, and reinsurance business in Ireland. QBE Underwriting Limited underwrites reinsurance and commercial insurance in the Lloyd's market.
- the Americas writes insurance and reinsurance business in the US, Central and South America and Bermuda.
- Equator Re is based in Bermuda providing reinsurance protection to related entities and participating on reinsurances placed with external reinsurers.

37 SEGMENT INFORMATION CONTINUED

The table below sets out key financial information relating to the divisions as reported to senior management. Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

2008	AUSTRALIA $M	ASIA PACIFIC $M	EUROPEAN OPERATIONS $M	THE AMERICAS $M	EQUATOR RE $M	ELIMINATION $M	TOTAL $M
Total assets	10,930	1,660	19,970	16,299	4,936	(5,412)	48,383
Purchases of fixed assets	22	3	25	29	1	–	80
Depreciation expense	10	3	32	18	–	–	63
Purchases of intangible assets	600	–	–	2,264	–	–	2,864
Total liabilities	8,108	1,051	17,230	12,270	3,891	(5,412)	37,138
Gross written premium	2,914	661	5,011	4,462	2,231	(2,137)	13,142
Gross earned premium	2,800	626	4,753	4,590	1,978	(1,894)	12,853
Outward reinsurance premium expense	(437)	(175)	(1,501)	(1,482)	(65)	1,894	(1,766)
Net earned premium	2,363	451	3,252	3,108	1,913	–	11,087
Net claims incurred	(1,485)	(186)	(1,762)	(1,872)	(1,083)	–	(6,388)
Net commission	(280)	(93)	(537)	(589)	(410)	–	(1,909)
Underwriting and other expenses	(377)	(95)	(483)	(449)	(111)	–	(1,515)
Underwriting result	221	77	470	198	309	–	1,275
Investment income on policyholders' funds	273	35	352	160	88	–	908
Insurance profit	494	112	822	358	397	–	2,183
Investment income on shareholders' funds	319	(16)	(42)	37	(29)	–	269
Amortisation and impairment of goodwill/intangibles	–	–	(4)	(28)	–	–	(32)
Profit before income tax	813	96	776	367	368	–	2,420
Income tax expense	(253)	(15)	(201)	(85)	–	–	(554)
Profit after income tax	560	81	575	282	368	–	1,866
Net profit attributable to minority interest	–	(5)	(1)	(1)	–	–	(7)
Net profit after income tax attributable to members of the company	560	76	574	281	368	–	1,859

37 SEGMENT INFORMATION CONTINUED

2007	AUSTRALIA $M	ASIA PACIFIC $M	EUROPEAN OPERATIONS $M	THE AMERICAS $M	EQUATOR RE $M	ELIMINATION $M	TOTAL $M
Total assets	7,167	1,458	19,029	11,529	3,078	(2,648)	39,613
Purchases of fixed assets	10	4	38	27	–	–	79
Depreciation expense	15	2	33	11	–	–	61
Purchases of intangible assets	9	–	11	1,107	–	–	1,127
Total liabilities	5,335	888	15,964	9,252	2,279	(2,648)	31,070
Gross written premium	2,596	583	5,137	3,656	1,990	(1,556)	12,406
Gross earned premium	2,518	570	5,158	3,976	1,631	(1,492)	12,361
Outward reinsurance premium expense	(377)	(154)	(1,505)	(1,402)	(205)	1,492	(2,151)
Net earned premium	2,141	416	3,653	2,574	1,426	–	10,210
Net claims incurred	(1,181)	(172)	(1,892)	(1,529)	(779)	–	(5,553)
Net commission	(256)	(83)	(645)	(587)	(314)	–	(1,885)
Underwriting and other expenses	(337)	(89)	(560)	(293)	(55)	–	(1,334)
Underwriting result	367	72	556	165	278	–	1,438
Investment income on policyholders' funds	181	32	395	165	51	–	824
Insurance profit	548	104	951	330	329	–	2,262
Investment income on shareholders' funds	66	20	139	59	24	–	308
Amortisation and impairment of goodwill/intangibles	–	–	(8)	(13)	–	–	(21)
Profit before income tax	614	124	1,082	376	353	–	2,549
Income tax expense	(169)	(28)	(276)	(127)	(15)	–	(615)
Profit after income tax	445	96	806	249	338	–	1,934
Net profit attributable to minority interest	–	(7)	–	(2)	–	–	(9)
Net profit after income tax attributable to members of the company	445	89	806	247	338	–	1,925

(B) Geographical analysis

		AUSTRALIA $M	ASIA PACIFIC $M	EUROPE $M	THE AMERICAS $M	OTHER $M	TOTAL $M
Premium revenue	**2008**	**3,043**	**819**	**3,123**	**5,328**	**540**	**12,853**
	2007	2,747	846	3,428	5,141	199	12,361

Premium revenue is allocated to a geographical region based on the location of the risk or, when this information is not available, based on the location where the risk was underwritten.

Total assets and purchases of fixed assets and intangibles are not disclosed under geographical analysis as they are materially the same as the business segment analysis.

38 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET PROFIT AFTER INCOME TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY

	THE COMPANY		CONSOLIDATED	
	2008 $M	2007 $M	2008 $M	2007 $M
Cash flows from operating activities	**126**	(330)	**2,251**	2,374
Depreciation of property, plant and equipment	**–**	–	**(63)**	(61)
Amortisation and impairment of goodwill/intangibles	**–**	–	**(32)**	(21)
Amortisation of premium/discount on fixed interest securities	**–**	–	**11**	18
Profit on sale of controlled entities	**1**	–	**–**	2
Loss on sale of plant and equipment	**–**	–	**(11)**	(6)
Net foreign exchange (losses) gains	**(58)**	202	**104**	178
Other (losses) gains on financial assets	**(2,391)**	(3)	**(54)**	354
Increase in net outstanding claims	**–**	–	**(342)**	(926)
Increase in unearned premium	**–**	–	**(363)**	(208)
Increase in deferred insurance costs	**–**	–	**84**	53
Increase in net amounts receivable from controlled entities	**1,433**	2,856	**–**	–
Increase in trade debtors	**–**	–	**598**	190
(Decrease) increase in other operating assets	**(266)**	(31)	**(111)**	119
Increase in trade payables	**–**	–	**(209)**	(2)
Decrease (increase) in tax liabilities	**41**	66	**(120)**	(106)
Decrease (increase) in other payables and provisions	**44**	38	**123**	(24)
Minority interest	**–**	–	**(7)**	(9)
Net (loss) profit after income tax attributable to members of the company	**(1,070)**	2,798	**1,859**	1,925

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 70 to 147 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 company's and consolidated entity's financial position as at 31 December 2008 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2008.

Signed in SYDNEY this 27th day of February 2009 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of QBE Insurance Group Limited ("the company"), which comprises the balance sheet as at 31 December 2008, the income statement, the statement of recognised income and expense and the cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both QBE Insurance Group Limited and the QBE Insurance Group ("the consolidated entity"). The consolidated entity comprises the company and the entities it controlled at the year end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of QBE Insurance Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the remuneration report included in pages 54 to 66 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QBE Insurance Group for the year ended 31 December 2008 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of QBE Insurance Group Limited for the year ended 31 December 2008 included on the QBE Insurance Group Limited's web site. The company's directors are responsible for the integrity of the QBE Insurance Group Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

RD Deutsch
Partner

Sydney
27 February 2009

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange ("ASX") and trades under the code "QBE".

Annual General Meeting ("AGM")

11:00am Wednesday, 8 April 2009
The Westin Hotel, 1 Martin Place, Sydney NSW Australia

Online proxy voting is available through the Link investor service centre website.

Voting rights of ordinary shares

The constitution provides for votes to be cast:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

Shareholder information and enquiries

Most enquiries and correspondence regarding shareholdings can be directed to QBE's share registrar:

Link Market Services Limited ("Link")
Locked Bag A14, Sydney South NSW 1235 Australia

Level 12, 680 George Street, Sydney NSW 2000 Australia

Telephone: +61 2 8280 7158 Facsimile: +61 2 9287 0303
Internet: www.linkmarketservices.com.au (Link investor service centre website)
Email: registrars@linkmarketservices.com.au

For security purposes, please quote your Securityholder Reference Number ("SRN") or Holder Identification Number ("HIN").

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Link cannot assist you with these changes. Please quote your HIN.

Relevant interests register

Orient Capital Pty Limited of Level 12, 680 George Street, Sydney NSW 2000, Australia maintains QBE's register of information about relevant interests. The register contains any responses from custodians on and after 1 January 2005 to searches relating to the beneficial ownership of QBE's shares. Shareholders and other parties can telephone Orient Capital on +61 2 8280 6000 or facsimile on +61 2 8280 6001 if they wish to inspect this register.

Shareholding details online

View your shareholdings and update your details online at the Link investor service centre website. You will be asked to provide either your SRN or HIN, your surname and postcode.

You may receive dividend statements, notices of meetings, annual reports and major company announcements electronically by registering your email address at the Link investor service centre website.

Annual report mailing list

Recent amendments to the Corporations Act have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, the annual report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the annual report, please notify Link in writing or select the annual report option under "communication options" on the Link investor service centre website.

The half yearly results summary to 30 June 2009 will be mailed with the interim dividend. The next annual report for the year ending 31 December 2009 will be distributed in March 2010. QBE does not produce a concise financial report.

Shareholder information

Tax File Number ("TFN"), Australian Business Number ("ABN") or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting the Link investor service centre website. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Link of their resident status as limited exemptions to tax deductions may apply. TFN forms are available from Link or can be downloaded from either the QBE or Link websites.

Conduit foreign income ("CFI")

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Dividends

QBE encourages shareholders to have cash dividends credited directly to a bank, building society or credit union account in Australia or New Zealand to eliminate delays in funds clearance and to significantly reduce the risk of loss or theft. A dividend advice confirming the deposit details is either mailed to you or is available online on the payment date.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan ("DRP") and Bonus Share Plan ("BSP") when the plans are active. The DRP enables you to apply to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, you must have a minimum shareholding of 100 shares.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Unpresented cheques/unclaimed money

Under the Unclaimed Moneys Act, unclaimed dividends must be given to the NSW state treasury. It is very important that shareholders bank outstanding dividend cheques promptly and advise Link immediately of changes of address or bank account details.

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Link's website.

Registered office

QBE Insurance Group Limited
Level 2, 82 Pitt Street, Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444   Facsimile: +61 2 9235 3166
Internet: www.qbe.com

QBE website

QBE's website provides investors with information about QBE including annual reports, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a brief history of QBE's dividends, access to standard forms (change of address, direct credit advice and more) and online access to your shareholding details via the share registry.

RECENT QBE DIVIDENDS

DATE PAID	TYPE	RECORD DATE	CENTS PER SHARE	FRANKING %
31 March 2000	interim	10 March 2000	14.0	10
29 September 2000	final	11 September 2000	15.0	35
12 April 2001	final	26 March 2001	16.0	30
28 September 2001	interim	7 September 2001	16.5	25
12 April 2002	final	25 March 2002	13.5	15
3 October 2002	interim	13 September 2002	16.5	12
11 April 2003	final	19 March 2003	18.5	12
25 September 2003	interim	1 September 2003	20.0	15
25 March 2004	final	9 March 2004	22.0	30
20 September 2004	interim	30 August 2004	24.0	50
23 March 2005	final	7 March 2005	30.0	50
16 September 2005	interim	29 August 2005	33.0	50
29 March 2006	final	10 March 2006	38.0	50
14 September 2006	interim	1 September 2006	40.0	60
2 April 2007	final	14 March 2007	55.0	60
21 September 2007	interim	10 September 2007	57.0	60
26 March 2008	final	6 March 2008	65.0	50
17 September 2008	interim	1 September 2008	61.0	20

Shareholder information

TOP TWENTY SHAREHOLDERS AS AT 31 JANUARY 2009

NAME	NUMBER OF SHARES	% OF TOTAL(1)
HSBC Custody Nominees	261,258,890	26.33
JP Morgan Nominees Australia	209,172,787	21.08
National Nominees Limited	141,756,198	14.29
Citicorp Nominees Pty Limited	69,478,299	7.00
ANZ Nominees Limited	32,738,616	3.30
Cogent Nominees Pty Limited	18,211,217	1.84
RBC Dexia Investor Services c/- Australian Nominees Pty Limited	11,546,983	1.16
Bond Street Custodians Limited	8,864,810	0.89
AMP Life Limited	8,263,999	0.83
Queensland Investment Corporation c/- National Nominees Ltd	6,593,804	0.66
UBS Nominees Pty Ltd	5,541,330	0.56
Neweconomy Com Au Nominees Pty Limited	5,286,781	0.53
Invia Custodian Pty Limited	4,790,709	0.48
UBS Wealth Management c/- Australia Nominees Pty Ltd	4,312,797	0.43
Perpetual Trustee Company Ltd	4,135,964	0.42
Australian Foundation Investment Company Limited	3,579,687	0.36
Argo Investments Limited	2,940,472	0.30
BT Portfolio Services Limited	2,342,860	0.24
BNP Paribas	2,239,351	0.23
QBE Management Services Pty Ltd	2,208,049	0.22
Total	805,263,603	81.15

(1) Percentage of total at date of notice.

QBE SUBSTANTIAL SHAREHOLDERS AS AT 31 JANUARY 2009

NAME	NUMBER OF SHARES	% OF TOTAL[1]	DATE OF NOTICE
The Capital Group of Companies Inc	69,414,659	7.04	4 December 2008

(1) Percentage of total at date of notice.

DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS AS AT 31 JANUARY 2009

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 – 1,000	63,159	61.44	28,646,888	2.89
1,001 – 5,000	34,117	33.19	70,691,078	7.13
5,001 – 10,000	3,478	3.38	23,861,472	2.40
10,001 – 100,000	1,873	1.82	41,706,211	4.20
100,001 or more	178	0.17	827,348,731	83.38
Total	102,805	100.00	992,254,380	100.00

SHAREHOLDINGS OF LESS THAN A MARKETABLE PARCEL AS AT 31 JANUARY 2009

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 18 or fewer shares	896	0.87	11,214	0.00

Financial calendar and ASX announcements

FINANCIAL CALENDAR

2009	
27 February	Profit and dividend announcement for the year ended 31 December 2008 Annual report available on website
4 March	Shares begin trading ex-dividend
6 March	Notice of Meeting and proxy form mailed to shareholders. Annual report mailed as requested
11 March	Record date for determining shareholders' entitlement to 2008 final dividend
31 March	2008 final dividend paid
8 April	Annual General Meeting
30 June	Half year end
20 August*	Profit and dividend announcement for the six months ending 30 June 2009
26 August*	Shares begin trading ex-dividend
1 September*	Record date for determining shareholders' entitlement to 2009 interim dividend
22 September*	2009 interim dividend paid
31 December	Year end

* Dates shown are provisional and may be subject to change.

MATERIAL ANNOUNCEMENTS TO THE ASX

2009	
Advised change in directors' interests in shares of the company	27 and 29 January
Provided progress updates on share purchase plan	9, 16 and 20 January

2008	
Announced completion of PMI Asia acquisition	17 December
Provided details of capital securities exchange offer	10, 17 and 29 December
Announced renaming of Dividend Election Plan to Bonus Share Plan	9 December
Confirmed settlement of institutional share placement	4 December
Announced terms of share purchase plan	3 and 9 December and 28 November
Announced acquisitions, updated revenue forecast and capital management initiatives	26 November
Request for trading halt pending capital raising	26 November
Announced completion of PMI Australia acquisition	23 October
Responded to enquiries on investment and reinsurance exposures	17 September
Announced DEP pricing details	5 September
Announced record insurance profit for half year	21 August
Announced agreement to acquire PMI Australia and PMI Asia	14 August
Announced withdrawal of IAG merger proposal	21 May
Announced increased merger proposal with IAG	19 May
Announced further acquisitions	6 May
Announced further extension of merger proposal with IAG	6 May
Announced the completion of the North Pointe acquisition	1 May
Announced extension of merger proposal with IAG	22 April
Announced proposed merger not acceptable to IAG	15 April
2008 AGM	4 April
Announced DEP pricing details	13 March
Announcement of record profit 2007	26 February
Responded to enquiries relating to the consolidated entity's equity and fixed interest portfolios	23 January
Announced the acquisition of North Pointe Holdings Corporation	4 January

Glossary of insurance terms

Attritional claims ratio	Total net claims with a cost of less than $2.5 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.
Casualty insurance	Insurance that is primarily concerned with the losses caused by injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A form of excess of loss reinsurance that, subject to specified limits, indemnifies the insured for the amount of loss in excess of a specified retention with respect to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin for the possible fluctuation of the liability.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commission ratio	Net commission expense as a percentage of net earned premium.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium	The total premium on insurance earned by an insurer or reinsurer during a specified period on premiums underwritten in the current and previous underwriting years.
Gross written premium	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting profit (loss) and investment income on policyholders' funds.
Insurance solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Inward reinsurance	The reinsurance or assumption of risks written by another insurer.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a cost of $2.5 million or more as a percentage of net earned premium.
Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally settled and quantifiable by the insurer.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium	Net written premium adjusted by the net change in unearned premium for a year.
Net investment income	Gross investment income net of finance costs, foreign exchange gains and losses and investment expenses.
Net written premium	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the consolidated entity.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Short-tail	Classes of insurance business involving coverage for risks where notice of a claim is received and claims are outstanding for one year or less before they are finally quantifiable and settled by the insurer.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Written premium	Premiums written, whether or not earned, during a given period.

Henry Clay Frick was an avid collector with a discerning eye and a talent for negotiation, both in business and in the pursuit of art. Frick's business success provided an opportunity for the acquisition of a unique collection of artworks. By the early 1900s, Frick had used his wealth to accumulate hundreds of paintings spanning the pre-Renaissance to the post-Impressionist eras, with artworks by masters such as Turner, Monet, Degas, Whistler and many more. The Frick Collection testifies to how great art collections can still inspire people today. It features masterpieces of Western painting, sculpture and decorative art displayed in a serene and intimate setting in a New York City mansion built by Frick, which itself is a magnificent example of architecture and design.

Our thanks to the trustees and staff of the Frick Collection for enabling us to feature selected paintings from the collection.

Designed and produced by Armstrong Miller+McLaren – www.amm.com.au

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