QBE Insurance Group Half year report to 30 June 2013

Made possible by QBE

QBE is a major insurer of transportation networks across Asia, and insures MTR, the operator of Hong Kong's mass transit system.

QBE

QBE Insurance Group Limited
ABN 28 008 485 014

QBE sees Asia as the growth engine for global insurance and has a five year strategic plan to support profitable growth in the region. We are building on our strong distribution network across Asia and are leveraging the capabilities of QBE's other divisions.

One example of this collaboration was our provision of workers' compensation and public liability insurance to the 17 kilometre Shatin to Central Link rail extension project for MTR, the operator of Hong Kong's mass transit system. The insurance package was jointly written through QBE's Hong Kong and London offices.

The MTR network carries 5.3 million passengers each weekday and comprises nine railway lines serving Hong Kong.

QBE Insurance Group
Half year report to 30 June 2013

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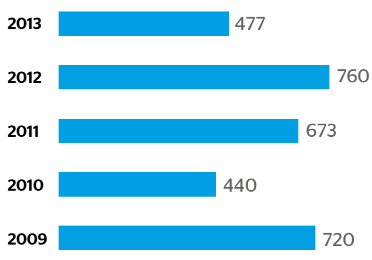
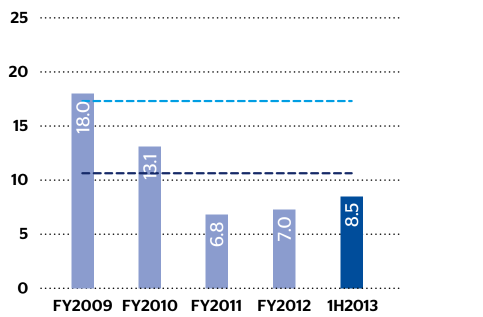
Half year snapshot

Interim net profit after income tax (US$M)



↓ 37%

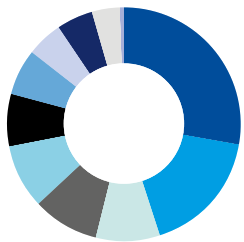
Return on average shareholder's funds (%)



↑ 21% on FY 2012 result

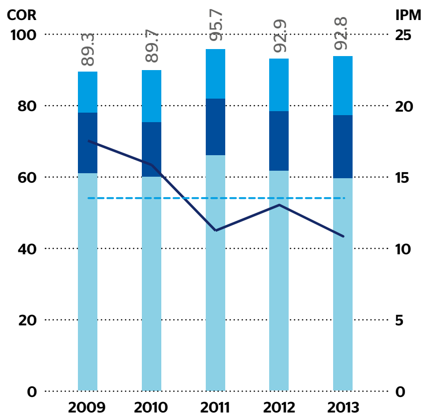
Full year
Half year
5-year simple average
10-year simple average

Gross earned premium by class of business



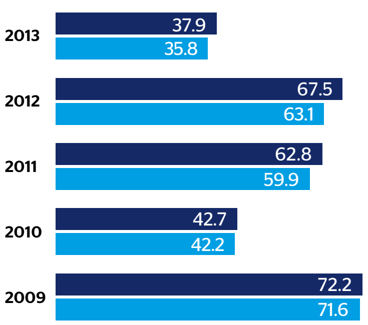
	2013	2012
Property	**27.8%**	24.6%
Motor & motor casualty	**17.2%**	16.0%
Public/product liability	**9.1%**	11.4%
Workers' compensation	**9.0%**	8.1%
Householders	**8.9%**	11.3%
Marine energy & aviation	**7.2%**	7.6%
Professional indemnity	**6.6%**	4.2%
Agriculture & bloodstock	**5.0%**	5.4%
Financial & credit	**4.8%**	5.8%
Accident & health	**4.1%**	5.3%
Other	**0.3%**	0.3%

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



Expense ratio
Commission ratio
Net claims ratio
Insurance profit margin
IPM 5-year simple average

Interim earnings per share (EPS) (US¢)

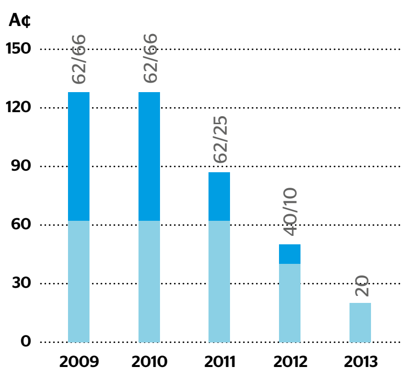


↓ 44%
↓ 43%

Basic EPS[1]
Diluted EPS

1 Basic EPS reflects shares notified to the ASX.

Dividend per share (A¢)



↓ 50% on 1H 2012

Dividend per share (A¢) final
Dividend per share (A¢) interim

The first half 2013 in review

2013 is a year of transition for QBE with focus on three very important areas for our business. Firstly, we remain on track to deliver what we believe will be top quartile global performance in the non-life insurance arena with a 92% combined operating ratio and 11% insurance profit margin for full year 2013; secondly, we are working towards improving the key capital ratios and the overarching strength of our balance sheet; and finally, we are focused on the successful implementation of the first phase of our operational transformation program, including the establishment of a global shared service centre in Manila.

Almost inevitably, the half year can only tell part of the story and we believe that we are on track to deliver on each of these three key objectives, as well as ensuring that we can meet the expectations of all of our stakeholders, including you, our shareholders.

Performance update – half year in review

Net profit after tax was $477 million compared with $760 million for the same period last year. Net profit was in line with our projections based on lower investment yields, although there was an increase in non-cash charges largely due to accelerated amortisation relating to our US lender-placed insurance (LPI) business.

The combined operating ratio for 1H 2013 was 92.8%, broadly unchanged from the previous half year. The underwriting result was in line with expectations and seasonal factors. The underwriting profit was $530 million compared with $522 million for the same period last year. The insurance profit margin was 10.8%, down from 13.0% for 1H 2012, with last year benefiting from substantial unrealised gains on fixed interest securities due to credit spread movements.

In 2013, and indeed in most years for QBE, the first and second half results will tend to be different. This is partly due to seasonal factors that affect the volume and reporting of premium and risk exposures e.g. US crop insurance business and weather-related risks affected by the US windstorm season.

The claims ratio was 2.1% lower than this period last year reflecting improved pricing, a period of more normal catastrophe claims activity and higher risk-free rates used to discount outstanding claims provisions, partially offset by adverse prior accident year development and a net strengthening of risk margins.

Allowing for changes in business mix, our attritional claims ratio for the current accident year was stable notwithstanding a temporary spike in LPI claims.

The FY 2013 allowance for large individual risk and catastrophe claims is weighted more significantly to the second half of the year particularly to take account of the US hurricane season. Accordingly, the seasonally adjusted allowance for the first half is 8.5% of net earned premium. Including allowances for incurred but not reported claims, the large individual risk and catastrophe claims ratio for the half year was 8.3% of net earned premiums, at the higher end of our seasonally adjusted allowance due to increased severity of large individual risk claims and a late flurry of medium sized catastrophes in the last six weeks of the 2013 half year, including US tornadoes, Canadian floods and European floods.

Commission and expenses were higher than expected partly due to seasonality and partly reflecting costs associated with our global operational transformation program. A lower net earned premium, mainly due to reduced North American business, also impacted this ratio.

Investment income was above our plan, achieving a net yield of 2.6%. Our total cash and investments portfolio fell 5% to $30.0 billion from $31.5 billion at 31 December 2012, largely reflecting foreign currency translation due to the stronger US dollar. Operating cash flow was down slightly to $650 million mainly due to the timing of tax and crop reinsurance payments. Whilst investment returns are lower than the prior period, the net yield was an excellent result given the steepening of the yield curves and the negative movement in credit spreads during May and June.

What's gone well

Pleasingly, the average pricing of our insurance products increased by around 5% in the first half of 2013, comfortably exceeding the relatively benign underlying rate of claims inflation. In particular, 6.5% rate increases in Australian & New Zealand Operations and 6.9% in our North American Property & Casualty (P&C) business have matched or exceeded our expectations. This bodes well for an improvement in the attritional claims ratio for these divisions in the second half of 2013.

Our strict underwriting discipline and reinsurance arrangements have protected us from undue exposure to catastrophe activity in the first half of 2013, with substantial catastrophe allowances available for the second half.

Higher risk-free rates used to discount net outstanding claims liabilities had a favourable $177 million impact on the underwriting result. Risk margins were strengthened in real terms and stood at $1.32 billion or 8.3% of the net discounted central estimate of outstanding claims liabilities, giving rise to a probability of adequacy of 88.1%, up from 7.8% and 87.5% respectively at 31 December 2012.

Our Australian & New Zealand Operations produced an excellent underwriting performance with a combined operating ratio of 89.9% reflecting a generally positive pricing environment, coupled with extremely disciplined underwriting and cost management. This division is leading the way on the implementation of our operational transformation program.

Asia Pacific Operations reported a stellar combined operating ratio of 84.8%, largely due to improved catastrophe experience and, importantly, underlying organic premium growth of 21%.

In Latin America the team completed the integration of our businesses in Argentina and saw gross written premium up 43% on the prior year. The combined operating ratio was 95.0% including the impact of the highly unusual floods in Argentina. Our Latin American business is on track to deliver a significantly improved second half result.

Our European Operations business delivered a sound 95.7% combined operating ratio in a market place which is still offering very little by way of price increases. Our underwriting discipline remains strong with gross written premium in local currency up 15%, largely reflecting the integration of the Brit UK regional business acquired last year.

Actions taken in our North American Operations over the past 18 months to eliminate underperforming portfolios in the US program business have been rewarded with this segment, excluding the portfolios in run-off and remediation, generating a pleasing underwriting profit.

The total cost of our operational transformation program has been revised downwards but with a slight acceleration of costs to be expensed in 2013. Benefits accruing in our Australian & New Zealand Operations are ahead of plan and a number of activities to support both our North American and European Operations will come on stream in the second half of 2013.

During the period, we achieved our objective of adding further strength and flexibility to the balance sheet through a number of initiatives, including debt restructuring and the disposal of non-core businesses. Our main rating agencies affirmed the financial strength rating of our major subsidiaries.

We are delighted that our two new CEOs, Dave Duclos in North America and David Fried in Asia Pacific, have settled in so quickly. Our transition planning for the role of Group CFO is also well advanced with Steven Burns to succeed Neil Drabsch in early 2014. As a consequence of this, Richard Pryce will take over from Steven Burns as our CEO in Europe in the fourth quarter of 2013.

There have been a number of pleasing achievements over the past six months some of which are encapsulated in the framework of our value creation model that was introduced in our annual report earlier this year.

LEADERSHIP IN CORE BUSINESS	LEVERAGING GLOBAL CAPABILITY	NEW SOURCES OF GROWTH	FINANCIAL STRENGTH AND STABILITY	WORLD CLASS LEADERSHIP
Launch of our global reinsurance business QBE Re	Global shared services centre successfully launched in Manila	Strong growth in emerging markets – Asia Pacific +35% and Latin America +43%	1H capital initiatives have strengthened the balance sheet and improved key capital ratios	High quality changes to Group Executive
A market leader in setting and adhering to rate increases for various commercial products in Australia and North America	Profitable growth with each of our key major trading partners	Broadening of our bancassurance offerings in Australia, Asia and Latin America	Sale of non-core businesses	QBE leadership academy launched globally
New mobile technology for our North American crop insurance agents and claims adjusters to improve quality of service	Group-wide reinsurance programs restructured with key elements being renegotiated for 2014	Inter-divisional collaboration to drive growth in speciality lines (marine & aviation)	Borrowings reduced and hybrids converted to shares. On track for a debt equity ratio below 40% by year end	ONEQBE vision, values and strategy rolled out to the majority of our 17,000 staff

Challenges to be addressed

Gross written premium for our North American Operations is forecast to be down $600 million from our initial FY 2013 forecast due to management action on underperforming business, general market conditions and the significantly lower premium from the LPI portfolio, which is part of our Financial Partner Services (FPS) business.

LPI premium is well below our previously expected target, largely due to a material reduction in mortgage loans being serviced on behalf of Bank of America, one of our main banking clients. The sale by Bank of America of significant proportions of its loan portfolio caused the immediate cancellation of some policies, requiring us to refund an element of the unearned premium rather than an orderly and more gradual run-off of affected policies. This had an immediate impact on premium volumes which, combined with changes in the loan book profile due to consolidation of the mortgage industry and reduced placement rates as the US housing market improves, has made the forecasting of premium income for FPS business extremely difficult. Overall for the full year 2013, we expect FPS gross written premium to be $1.0 billion, down $200 million compared with our initial premium forecast for this business.

The LPI result was also impacted by a spike in attritional claims due to an acceleration in claims notifications as Bank of America prepared portfolios for sale, increasing the Group's attritional claims ratio by 0.9%. At the half year, strain caused by the lower volume of lender-placed business added 0.7% to the Group's combined commission and expense ratio. FPS business was also adversely impacted by regulatory fines and associated legal costs.

We have some exciting plans for the redevelopment of this business including what is effectively a relaunch of the range of product and service offerings through the second half of 2013, but for the time being its profitability and premium income are under strain.

The result for the half year includes prior accident year undiscounted central estimate claims development of $178 million, mainly reflecting additional claims cost from portfolios in European Operations, Latin American Operations and North American Operations. Variability around the central estimate is by definition expected and the reason why the Group carries significant risk margins. The net discounted prior accident year movement for incurred claims was a benefit of $73 million.

The main adverse contribution to our European Operations was a required strengthening of the Italian medical malpractice claims provision. This adjustment arose as a result of delays by the Italian government in the adoption of the updated Milan tables, the beneficial impact of which had been assumed in our actuarial valuation at 31 December 2012. The Latin American prior year claims development largely resulted from valuation assumptions and legislative changes to the interest rate applied to settle Argentine workers' compensation claims. We regard both of these instances as one-off, unique adjustments.

The program portfolios in run-off and remediation contributed to a further prior year strengthening of the undiscounted central estimate in North American Operations of $91 million (before quota share to Equator Re). The additional strengthening of provisions positions us better to pursue a more final solution to limit further adverse development from this largely closed book.

Whilst we believe we are making good progress in addressing the problem areas in our North American Operations, the underperformance of this division has understandably caused concern to many of our stakeholders and, in the short term, has detracted from the progress being achieved generally across the Group.

Our North American Operation's combined operating ratio of 94.5% for the 2013 half year will most likely increase slightly in the second half as a consequence of the reduced FY 2013 premium forecast. We are confident, however, that appropriate corrective actions have been taken, strong rate increases are being achieved and strong leadership is now embedded throughout the key areas of the division.

Outlook for 2013

We have reviewed our FY 2013 forecast and remain confident with the majority of the targets previously communicated to the market. Gross written premium and net earned premium will be down slightly on our guidance due to the reduction in North America; however, we continue to target a combined operating ratio of 92% and an insurance profit margin of 11% of net earned premium supported by a combination of improved pricing and strong performance elsewhere in the Group.

* 2013 full year target

Gross written premium

US$17.5–18.0billion

Net earned premium

US$15.0–15.5billion

Combined operating ratio

92%

Insurance profit margin

11% of net earned premium

Summary

I am encouraged by how QBE staff have embraced the opportunities and the challenges of implementing our refreshed vision and strategy. The last six months were, and indeed the next six months will continue to be, a period of consolidation and transition across virtually the entire organisation as we quickly look to improve our results and the underlying strength of our balance sheet, and implement operational excellence throughout the organisation. All of our staff have maintained the highest professional standards and remain highly focused in an environment of change. I am extremely grateful to them for their hard work and commitment.

Despite the underperformance of our North American Operations in the 1H 2013, we are confident we will remain on track to deliver against our FY 2013 targets underpinned by strong performance from each of our other divisions, but particularly from our Australian & New Zealand Operations and Asia Pacific Operations. The additional value we are creating through the global operational transformation program and other Group-wide projects will serve to further improve performance in 2014 and beyond.

In closing, and on behalf of the Board, I would like to express our gratitude to Irene Lee who has served tirelessly as a non-executive director for 12 years and retires on 21 August 2013. At the same time we are delighted to welcome Margaret Leung (most recently retired as the CEO of Hang Seng Bank) to replace Irene as our representative non-executive director for Asia, and a second North American director in Marty Becker (most recently CEO of Alterra), both of whom will bring added skills and insights to our business and the Group Board.

John Neal
Group Chief Executive Officer

Operating and financial performance overview

The financial result for the first half was pleasing, with the seasonally adjusted underwriting profit and insurance profit on track, supported by a solid investment result.

During the first half of 2013, we achieved our objective of strengthening the balance sheet through the retention of profits, conversion of debt securities and our dividend reinvestment program. We also reduced borrowings in order to maintain flexibility for future funding. Strategies and initiatives have been designed to further strengthen our capital and financial flexibility in the second half.

Overview of the half year result

Net profit after tax was $477 million generating a return on average shareholder's funds of 8.5%. The result for 1H 2012 was a net profit of $760 million, benefiting from significant unrealised gains on fixed interest investments.

The underwriting result for the half year was in line with our expectations after allowance for seasonal impacts such as catastrophe exposure and the volume and earning of premium income which affects our commission and expense ratio. Underwriting profit for 1H 2013 was $530 million with a combined operating ratio of 92.8%, compared with $522 million and 92.9% for the same period last year.

Investment income was above plan achieving a net yield of 2.6%, although significantly lower than the 2012 half year due to the prior period benefiting from a strong favourable movement in credit spreads. As a consequence, the 1H 2013 insurance profit margin was 10.8%, which was within our expectations although lower than the 13.0% achieved in 1H 2012.

The underlying 1H 2013 insurance margin, allowing for seasonality as well as unusual and non-recurring items, was 12.1%.

Summary income statement

FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M
Gross written premium	**9,446**	9,223
Gross earned premium	**8,413**	8,404
Net earned premium	**7,333**	7,359
Net claims incurred	**(4,359)**	(4,528)
Net commission	**(1,302)**	(1,235)
Underwriting and other expenses	**(1,142)**	(1,074)
Underwriting result	**530**	522
Investment income on policyholders' funds	**260**	436
Insurance profit	**790**	958
Investment income on shareholders' funds	**134**	247
Share of net profit of associates	**–**	3
Financing and other costs	**(168)**	(166)
Amortisation/impairment of intangible assets	**(171)**	(128)
Profit before income tax	**585**	914
Taxation	**(102)**	(148)
Profit after tax	**483**	766
Non-controlling interests	**(6)**	(6)
Net profit after tax	**477**	760

Determination of cash profit

FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M
Net profit after tax	477	760
Add back: Amortisation/impairment of intangible assets	171	128
Tax on amortisation/impairment of intangible assets	(58)	(44)
Cash profit	590	844

Significant items in profit before tax

FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M
Realised and unrealised (losses) gains on interest-bearing securities	(24)	259
Cost of current accident year large individual risk and catastrophe claims	(609)	(592)
Amortisation/impairment of intangible assets	(171)	(128)
Prior accident year central estimate claims development	(178)	(117)
Foreign exchange gains (losses)	35	(3)

Premium income

Gross written premium was up 2% to $9,446 million compared with $9,223 million for the same period last year. Growth was achieved from acquisitions completed in 2012 including LBA in Argentina adding $190 million, Hang Seng Insurance in Hong Kong contributing $37 million and Brit UK regional business in Europe which added $193 million, compared with the same period last year. Growth from premium rate increases in our Australian & New Zealand Operations was offset by foreign currency translation impacts of a weakening Australian dollar relative to the US dollar. Overall premium growth was dampened due to lower premium volumes from our North American Operations, in particular a drop in LPI business and delayed crop premium at the half year due to late planting.

Reinsurance expense

The reinsurance expense ratio was 12.8% of gross earned premium, up slightly compared with 12.4% for the same period last year. Details of the 2013 reinsurance program were provided in the 2012 results announcement, which indicated that protection has been increased to cover our captive, Equator Re, against a higher frequency and severity of claims and premium growth in markets other than the US. The reinsurance expense ratio is forecast to reduce for FY 2013; however, this is dependent on the ultimate US crop result where an increase in underwriting profit attracts a higher reinsurance charge from the relevant US government agency.

Key underwriting ratios

FOR THE HALF YEAR ENDED 30 JUNE	2013 %	2012 %
Claims ratio	59.4	61.5
Commission ratio	17.8	16.8
Expense ratio	15.6	14.6
Combined operating ratio	92.8	92.9
Insurance profit margin	10.8	13.0

Divisional performance

Contributions by region

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 %	2012 %	2013 US$M	2012 US$M
North American Operations	2,703	3,228	1,286	1,609	94.5	94.3	89	129
Latin American Operations	733	512	622	422	95.0	92.7	66	59
European Operations	3,103	2,748	1,731	1,557	95.7	95.0	105	175
Australian & New Zealand Operations	2,507	2,470	2,077	2,027	89.9	91.4	359	374
Asia Pacific Operations	400	265	244	182	84.8	91.2	40	19
Equator Re	1,889	2,093	1,373	1,562	92.2	91.5	131	202
Elimination – Equator Re	(1,889)	(2,093)	–	–	–	–	–	–
Group	9,446	9,223	7,333	7,359	92.8	92.9	790	958
Direct and facultative	8,521	8,115	6,875	6,709	93.5	93.4	678	823
Inward reinsurance	925	1,108	458	650	81.7	87.7	112	135
Group	9,446	9,223	7,333	7,359	92.8	92.9	790	958

Incurred claims

Analysis of net claims ratio

FOR THE HALF YEAR ENDED 30 JUNE	2013 %	2012 %
Attritional claims	49.4	48.5
Large individual risk and catastrophe claims	8.3	8.0
Claims settlement costs	2.2	2.0
Claims discount	(2.5)	(2.1)
Net incurred central estimate claims ratio – current accident year	57.4	56.4
Changes in prior accident year central estimate	2.4	1.6
Other including claims settlement costs, discount and risk margins	(0.4)	3.5
Net incurred claims ratio – current financial year	59.4	61.5

Reconciliation of undiscounted central estimate to discounted net incurred claims

	HALF YEAR ENDED 30 JUNE 2013			HALF YEAR ENDED 30 JUNE 2012		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Undiscounted central estimate movement	4,231	178	4,409	4,153	117	4,270
Movement in risk margins	228	(165)	63	361	(380)	(19)
Movement in net claims provision	4,459	13	4,472	4,514	(263)	4,251
Movement in discount [1]	(186)	(84)	(270)	(151)	284	133
Claims settlement costs and other movements	159	(2)	157	144	–	144
Net incurred claims – discounted	4,432	(73)	4,359	4,507	21	4,528

1 $44 million of discount movement is included in undiscounted central estimate movement due to long tail classes such as dust disease in Australia and workers' compensation in Argentina, where there is a close correlation between the significant movements in inflation and discount.

The net claims ratio for the period was a pleasing 59.4% of net earned premium, down from 61.5% for the same period last year. Despite a temporary spike in LPI claims, the attritional claims ratio for 1H 2013 at 49.4% of net earned premium was stable compared with the same period last year, based on our current business mix.

The cost of large individual risk and catastrophe claims was 8.3% of net earned premium in the first half. This ratio was close to our 8.5% seasonally adjusted large individual risk and catastrophe allowance.

The weighted average risk-free rate used to discount outstanding claims increased to 2.67% compared with 2.16% at 31 December 2012. The impact on the underwriting result was a positive $177 million in the period.

Large individual risk and catastrophe claims

FOR THE HALF YEAR ENDED 30 JUNE 2013	COST US$M	% OF NEP
Cyclone Oswald	72	1.0
Hatfield Colliery/Network Rail (landslide)	43	0.6
Rio Tinto (landslide)	43	0.6
Argentinian floods	34	0.5
UK Coal (fire in mine)	34	0.5
European floods	32	0.4
Essential Energy power station (Oaky River Dam collapse)	24	0.3
Alpine (bond default on insolvency)	19	0.3
Alberta floods	13	0.2
Other catastrophes	51	0.6
Other large individual risk claims	76	1.0
Total large individual risk and catastrophe claims	441	6.0
Bulk IBNR	168	2.3
Total including IBNR	609	8.3

Whilst the claims ratio was within our expected range, there were a number of moving parts across the Group. Prior year claims development of $178 million impacted a number of our portfolios principally in Europe, Argentina and North America. We allow for such variability in the undiscounted net central estimate of outstanding claims by maintaining an appropriate level of risk margins. Net prior accident year claims development after release of prior accident year risk margins was $13 million for the half year. Significant risk margins are retained against future claims volatility, with risk margins as a percentage of the discounted central estimate at 30 June 2013 increased to 8.3%, up from 7.8% at the end of 2012.

Commission and expenses

The combined commission and expense ratio of 33.4% was above our FY 2013 target of 31.5%; however it is noted that the seasonally adjusted target was around 33.0% at the half year. The higher than expected ratio at the half year reflects lower premium volumes in the first half as well as the impact of expenses related to the global operational transformation program. Whilst overall costs are in line with projections, we have accelerated some of the business transformation work streams, particularly those relating to procurement initiatives. Commission costs increased due to a change in the mix of business, particularly in Europe, and we also incurred additional one-off commission costs as we continue to develop new sources of distribution. At this stage, we estimate that the FY 2013 commission and expense ratio could be 32.5%, up on our previously advised target.

The development and rollout of the global operational transformational program is ahead of schedule with net annual run rate benefits of at least $250 million expected to be in place by the end of 2015.

Amortisation

As a result of the reduced premium forecasts for our North American LPI business, we accelerated the amortisation charge for intangible assets associated with bank distribution assets, adding a further $75 million compared with the prior period charge. Amortisation of intangible assets before tax was $171 million, up from $128 million for the same period last year.

Income tax expense

Income tax expense as a percentage of profit before tax was 17.4%, slightly higher than the prior period of 16.2%. Tax expense benefited from the reduction in company tax rates in the UK, profits in lower tax paying countries and a small release from prior year provisions following the settlement of tax disputes.

Due to higher profits in Australia, the franking account is able to support a 100% franking rate for the interim dividend.

Cash flow

Cash flow from operations remained strong, with a net $650 million operating cash inflow generated in the first half, down from $842 million for the same period last year. The lower cash flow was due to:

- a $162 million payment to the US Federal Crop Insurance Commission (FCIC) compared with a net receipt in 2H 2012; and
- tax payments of $250 million in 1H 2013 compared with a net tax receipt of $185 million in 1H 2012.

Foreign exchange

As a significant proportion of our underwriting activity is denominated in US dollars, the Group's financial statements are presented in this currency. The results and balance sheets of all our foreign operations that have a functional currency different from the Group's presentation currency are translated to US dollars as follows:

- assets and liabilities are translated at the closing balance date rates of exchange; and
- income and expenses are translated at cumulative average rates of exchange for the period.

During the first half of 2013 we experienced considerable volatility in currency markets, particularly in relation to the value of the US dollar. At 30 June 2013, the US dollar was up nearly 12% against the Australian dollar, up 6% against Sterling and 1% against the Euro.

The principal exchange rate impacts affecting the Group are included in the table below.

Impact of exchange rate movements

	2013 ACTUAL US$M	2013 AT 2012 EXCHANGE RATES [1] US$M	EXCHANGE RATE IMPACT US$M	%
Gross written premium	9,446	9,603	(157)	(2)
Gross earned premium	8,413	8,560	(147)	(2)
Net earned premium	7,333	7,476	(143)	(2)
Net profit after income tax	477	491	(14)	(3)
Total investments and cash	29,955	31,765	(1,810)	(6)
Total assets	49,105	51,889	(2,784)	(6)
Gross outstanding claims provision	20,770	21,983	(1,213)	(6)
Total liabilities	37,895	39,936	(2,041)	(5)
Net assets	11,210	11,953	(743)	(7)

1 Income statement items are restated to 30 June 2012 cumulative average rates of exchange and balance sheet items to 31 December 2012 closing rates of exchange.

The impact of exchange rate movements on the result for the half year was not material, other than a $35 million operational foreign exchange gain. At balance date, however, the net movement in the foreign currency translation reserve and share capital and reserves had a $928 million negative impact on equity.

Capital summary

During the period we implemented a number of initiatives to ensure that our capital levels for regulatory and ratings agencies were within our benchmark range. Major initiatives included:

- a lower dividend policy;
- the retention of the dividend reinvestment programs at a discount; and
- the tender for senior convertible securities (SCSs) resulting in the issue of $292 million of ordinary shares.

Our aim and expectation is that capital levels will continue to grow to provide flexibility for our future growth.

Capital summary

AS AT	30 JUNE 2013 US$M	31 DEC 2012 US$M
Net assets	11,210	11,417
Intangible assets	(5,614)	(6,068)
Net tangible assets	5,596	5,349
Borrowings	4,762	4,932
Total capitalisation	10,358	10,281

Regulatory capital

AS AT	30 JUNE 2013 US$M	31 DEC 2012 US$M
APRA Prescribed Capital Amount (PCA)	5,664	5,663
QBE's regulatory capital base	9,123	8,888
PCA multiple	1.6	1.6

Key financial strength ratios

AS AT	BENCHMARK	30 JUNE 2013	31 DEC 2012
Debt to equity	<45%	42.7%	43.4%
Financial leverage	25% to 35%	29.2%	30.0%
APRA – PCA multiple	1.5x to 1.8x	1.6x	1.6x
Probability of adequacy of outstanding claims	>85%	88.1%	87.5%

Borrowings

Total borrowings at 30 June 2013 were $4,762 million, down from $4,932 million at 31 December 2012.

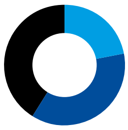
During the half year we raised $600 million through the issue of five year senior notes, principally to fund the expected settlement of senior convertible securities. These securities, with a carrying value of $864 million at 31 December 2012, were reduced to $215 million at 30 June 2013 through a combination of redemption for cash and the issue of $292 million of QBE shares.

1 Business review
2 Directors' report
3 Financial report
4 Other information

The weighted average annual cost of borrowings outstanding at the balance date was 6.5%, up from 6.2% at 31 December 2012. Details of the borrowings maturity and profile are set out in the following tables.

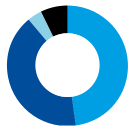
Borrowings maturity [1]

AS AT	30 JUNE 2013 %	31 DEC 2012 %
Less than one year	**22**	24
One to five years	**37**	35
More than five years	**41**	41



Borrowings profile

AS AT	30 JUNE 2013 %	31 DEC 2012 %
Subordinated debt	**48**	47
Senior debt	**41**	29
Hybrid securities	**4**	18
Capital securities	**7**	6



1 Based on first call date.

Insurance liabilities

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

AS AT	30 JUNE 2013 US$M	31 DEC 2012 US$M	31 DEC 2011 US$M	31 DEC 2010 US$M	31 DEC 2009 US$M
Net outstanding claims	**17,309**	18,412	16,984	15,017	12,864
Unearned premium net of deferred insurance costs [1]	**6,086**	6,023	5,929	4,785	4,374
	23,395	24,435	22,913	19,802	17,238
Central estimate – outstanding claims	**15,989**	17,079	15,783	13,747	11,847
Central estimate – unearned premium	**5,060**	5,024	5,062	3,901	3,487
Risk margin – outstanding claims	**1,320**	1,333	1,201	1,270	1,017
Risk margin – unearned premium [1]	**1,026**	999	867	884	887
	23,395	24,435	22,913	19,802	17,238
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,414**	1,374	1,152	1,353	1,198
	%	%	%	%	%
Probability of adequacy – outstanding claims	**88.1**	87.5	86.3	89.8	88.1
Probability of adequacy – total insurance liabilities	**94.5**	93.9	92.6	95.5	95.5
Weighted average discount rate	**2.7**	2.2	2.1	3.2	3.2
Weighted average term to settlement	**3.0**	2.9	2.9	3.0	2.8

1 Includes deferred reinsurance expense for future business not yet written of $249 million (31 December 2012 $70 million).

Intangible assets

The carrying value of intangible assets (goodwill and identifiable intangibles) at the balance date was $5,614 million compared with $6,068 million at 31 December 2012.

The most significant movements in the period resulted from the impact of currency translation and amortisation and impairment of identifiable intangibles.

The table below summarises the major movements in our intangible asset balances.

Reconciliation of movement in intangible assets

	30 JUNE 2013			31 DECEMBER 2012		
	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M
Opening balance	**1,240**	**4,828**	**6,068**	1,399	4,666	6,065
Acquisitions	**5**	**(3)**	**2**	204	156	360
Disposals	**–**	**–**	**–**	(6)	–	(6)
Additions	**5**	**–**	**5**	–	25	25
Amortisation/impairment	**(171)**	**–**	**(171)**	(354)	(53)	(407)
Foreign exchange	**(23)**	**(267)**	**(290)**	(3)	34	31
Closing balance	**1,056**	**4,558**	**5,614**	1,240	4,828	6,068

We expect the balance of identifiable intangibles with a finite useful life to be amortised over an approximate eight year period consistent with expected cash flows from these assets.

Investment performance and strategy

Excluding foreign exchange gains and losses, net investment income for the half year to 30 June 2013 was broadly in line with expectations at $359 million but down 48% compared with $686 million for the same period last year, reflecting the very substantial narrowing of global credit spreads that occurred during the first quarter of 2012.

QBE's investment portfolio has been conservatively positioned in the recent period of market volatility and the impact of weaker fixed income, credit and equity markets has been limited.

The gross annualised yield on cash and fixed interest securities was 2.1%, down from 4.7% in the previous half year.

Our focus on shorter dated investment grade credit has insulated the portfolio against the widening of credit spreads and the steepening of yield curves in recent months. The Group's exposure to corporate bonds is around 47% of total investments and cash.

The overall running yield of the portfolio is 1.95%, up slightly from 1.90% at the end of 2012.

Equity exposure was 0.5% of the portfolio as at 30 June 2013, following a reduction in our equity holdings during March and April 2013. In line with our conservative investment approach, our equity strategy is characterised by a bias towards low beta, high dividend stocks which favour capital stability and recurring income. Significant gains were locked in after the strong first quarter in global equity markets. Since 30 June 2013, we have increased our equity exposure back towards our 2.5% benchmark, taking advantage of the second quarter market correction.

Modest allocations to infrastructure debt and property trusts were made during the reporting period. These asset classes currently comprise less than 1% of the investment portfolio. We expect ongoing investment market volatility during the second half of this year as markets adjust to the process of monetary policy normalisation in the US. Subject to market conditions, we will assess opportunities to achieve further portfolio diversification in infrastructure debt and property trusts to enhance yield whilst ensuring that we adhere to our strict risk criteria.

Net investment income after expenses and including foreign exchange gains and losses was $394 million compared with $683 million for the same period last year, giving rise to an overall net investment yield (excluding foreign exchange gains) of 2.3%, well down from 4.8% in the previous half year.

Investments

Total net investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL INVESTMENT INCOME	
FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
Equity income	**28**	–	**25**	50	**53**	50
Income on fixed interest securities, short-term money and cash	**211**	450	**111**	208	**322**	658
Foreign exchange gain (loss)	**35**	(3)	**–**	–	**35**	(3)
Realised gains on sale of related entities	**–**	–	**6**	–	**6**	–
Other income	**3**	1	**1**	1	**4**	2
Gross investment income	**277**	448	**143**	259	**420**	707
Investment expenses	**(17)**	(12)	**(9)**	(12)	**(26)**	(24)
Net investment income	**260**	436	**134**	247	**394**	683

Gross and net yield

	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
Gross [1]	**2.7**	4.7	**2.8**	5.5	**2.7**	5.0
Net [2]	**2.5**	4.6	**2.6**	5.3	**2.6**	4.8
Gross excluding foreign exchange gain (loss)	**2.3**	4.7	**2.8**	5.5	**2.5**	5.0
Net excluding foreign exchange gain (loss)	**2.2**	4.6	**2.6**	5.3	**2.3**	4.8

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

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

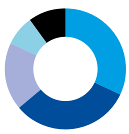
With the exception of the Group's strategic equity holdings (such as the investment in Austbrokers), investment income on all asset classes is allocated on a pro-rata basis to assets backing policyholders' and shareholders' funds. This is consistent with our current investment strategy of managing the Group's substantial investment assets as a single, diversified pool of funds so as to appropriately manage risk and returns.

Total investments and cash

	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
AS AT	30 JUNE 2013 US$M	31 DEC 2012 US$M	30 JUNE 2013 US$M	31 DEC 2012 US$M	30 JUNE 2013 US$M	31 DEC 2012 US$M
Cash	**1,291**	1,369	**647**	656	**1,938**	2,025
Short-term money	**5,122**	5,520	**2,567**	2,646	**7,689**	8,166
Fixed interest securities and other	**13,368**	14,319	**6,701**	6,863	**20,069**	21,182
Equities	**38**	33	**98**	90	**136**	123
Property trusts	**75**	–	**37**	–	**112**	–
Investment properties	**7**	20	**4**	9	**11**	29
Total investments and cash	**19,901**	21,261	**10,054**	10,264	**29,955**	31,525

Currency mix – market value of total investments and cash

AS AT	30 JUNE 2013 %	31 DEC 2012 %
Australian dollar	**32**	33
US dollar	**32**	33
Sterling	**18**	16
Euro	**8**	8
Other	**10**	10



Our insurance businesses operate in multiple currencies requiring us to match insurance liabilities with investment assets of the same currency. Due to the nature of our business, small mismatches may occur and foreign exchange gains or losses on these operational transactions are recorded in investment income in accordance with our accounting policy and the requirements of Australian accounting standards.

Due to foreign exchange volatility, we generated foreign exchange gains of $35 million by locking in profits at times when rates were favourable compared with our budgeted rates.

Dividend policy

Cash profit (i.e. net profit before amortisation and tax thereon) was $590 million compared with $844 million for the same period last year. The Board has stated that the dividend policy is to pay out up to 50% of the annual cash profit. With a greater exposure to catastrophe risks in the second half, the Board takes a conservative view and has elected to retain more profit and capital at the half year, with an approximate payout ratio of 40% in 1H and 60% in 2H. A dividend of 20 cents per share, franked at 100%, representing a payout of 37% of cash profit (assuming US$0.9 = A$1) has been declared and will be paid on 23 September 2013.

Closing remarks

In a period of transition, we are satisfied with the financial results and the outcome of our initiatives to achieve an increase in capital levels. We continue to carefully review our businesses to ensure they meet our strategic objectives and have sold a number of non-core businesses during the period, generating proceeds of approximately $100 million, the majority of which will be settled in the second half. Our projections for FY 2013 and our strategy for 2014 and beyond are expected to further strengthen our financial position and provide opportunities for future growth.

Neil Drabsch
Group Chief Financial Officer

North American Operations business review

> The results for the first half of 2013 reflect a period of transition for our North American Operations with a change in management, an economy emerging from a disruptive period of low growth and QBE embarking on a major operational transformation program."

David Duclos Chief Executive Officer • North American Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
2,703	1,286	71	89
↓ 16% from 2012	↓ 20% from 2012	↓ 23% from 2012	↓ 31% from 2012
		Combined operating ratio 94.5% (2012 94.3%)	Insurance profit margin 6.9% (2012 8.0%)

Competitive landscape

North American Operations' insurance portfolio consists of four specialised business segments.

The US property & casualty (US P&C) segment includes multi-line commercial and personal lines business produced through managing general agents, independent agents and brokers. Our Financial Partner Services (FPS) segment includes lender-placed insurance (LPI) and residential property insurance and generates business through its partnerships with banks, mortgage servicers, home builders, realtors and other intermediaries. The crop segment includes multi-peril crop insurance and is largely produced via independent agents. Our assumed reinsurance segment is now managed as part of our global reinsurance business and produces business primarily through reinsurance brokers.

The pricing environment was favourable in the first half and supported premium rate increases averaging 6.9% across our US P&C portfolio. A reduction in significant weather claims benefited our property underwriting; however, our LPI business was impacted by regulatory pressure on premium rates and consolidation in the mortgage industry. Prospects for multi-peril crop insurance are better for the 2013 underwriting year due to an increased level of moisture following winter and spring precipitation in the mid-western United States.

Underwriting performance

Net underwriting profit was $71 million compared with a profit of $92 million in the first half of 2012, resulting in a combined operating ratio of 94.5% compared with 94.3% in the previous period. The underwriting result was broadly on track on an underlying basis; however, portfolios in remediation and run-off and the increased expense ratio on lower net earned premium added approximately 4.4% to the combined operating ratio for the period. The adverse claims development was offset by a release of risk margins established to cover such uncertainty. In particular, a higher than expected decline in loans tracked coupled with well publicised regulatory actions and an increase in Bank of America claims notifications drove a material weakening in the premium volume and margins in our FPS business. FPS incurred a small underwriting loss for the half year compared with the normally stronger margins associated with lender-placed business. Our claims strengthening and remediation efforts in 2012 led to an improvement in the US P&C segment combined operating ratio.

The insurance profit margin was 6.9% compared with 8.0% in the prior period. The contribution to the insurance profit margin from investment returns on policyholders' funds was down as expected, due to reduced yields on fixed income securities.

Premium income

Gross written premium was down 16% to $2,703 million compared with $3,228 million in the prior period, primarily due to the reduction in FPS and crop premium, with the latter due to late planting and acreage reporting delays. Premium rates for the US P&C business were on average up 6.9% on renewed business.

FPS premium income was down 31% due to increased portfolio sales and loan modifications by Bank of America, client losses (largely through mortgage industry consolidation) including Wells Fargo, Aurora, Homeward and part of GMAC, reduced placement rates due to an improving US housing market and previously announced premium rate reductions.

The reduction in LPI premium income was far more rapid and severe than previously anticipated, reflecting the wholesale disposal of mortgage loan portfolios by our main distributor, Bank of America. Whilst we have known for some time about likely portfolio disposals, estimating the implications for premium volumes has been extremely challenging, exacerbated by a lack of transparency around timing and the loan quality of the portfolios being sold, the latter having a significant bearing on estimating lost premium production.

Even more challenging, some portfolio disposals are being undertaken with immediate effect resulting in the need to refund an element of the unearned premium reserve to the new LPI service provider (rather than retaining the run-off of in-force policies).

Management is focused on developing new sources of LPI revenue; however, at this stage, our full year premium projections reflect a cautious stance in light of the aforementioned complexities.

Despite higher commodity prices, crop premium income fell 32% due to moisture driven delays in crop planting and premium reporting; however, this timing difference is expected to reverse in the second half of 2013 with FY 2013 crop premium income expected to be up on 2012.

Partially offsetting the reduction in FPS and crop income, our major brokers portfolio within the US P&C segment recorded strong organic growth.

The reinsurance expense ratio was 49.3% of gross earned premium compared with 47.3% in the first half of 2012, with the increase in the ratio reflecting the reduction in FPS gross written premium.

Net earned premium decreased 20% to $1,286 million, consistent with the reduction in gross written premium and the higher reinsurance expense ratio.

Claims expense

The net claims ratio improved to 57.5% from 63.6% in 2012.

The benefits of favourable weather patterns across all property businesses and an improvement in US P&C segment premium rates were partly offset by higher attritional claims experience in our LPI portfolio. A heightened focus on property management by Bank of America as part of the rationalisation and repositioning of its mortgage servicing business led to a material acceleration in claims notifications during the first half. Claims notification levels are now trending back towards historical levels.

Crop claims activity reflected normal seasonal trends as seen through June compared with the drought conditions beginning to emerge at the same point in 2012.

As noted above, the program business in run-off and remediation was subject to further review during the period under the new management team. Further strengthening of provisions resulted in a net $64 million increase to the prior accident year claims central estimate. As noted previously, the adverse claims development was offset by a release of risk margins retained to cover such uncertainty.

Commission and expenses

The commission ratio improved marginally to 6.6% from 7.3% in the prior period, mainly due to business mix changes which resulted in a slightly higher exchange commission ratio on premium ceded to Equator Re.

The expense ratio was 30.4%, up from 23.4% in the same period last year, largely due to the reduced premium volume, particularly in FPS, exacerbated by LPI fines and associated legal costs and operational transformation program expenses.

Management is intensely focused on addressing the higher expense ratio.

Other developments

We successfully completed the transition of our LPI systems from Bank of America relating to business acquired as part of the Balboa transaction.

Assumed reinsurance finalised its transition to a global platform as part of QBE Re and is now positioned to leverage our underwriting expertise and business relationships around the world in order to respond to this fast moving market.

Our global operational transformation initiative continues to make progress across multiple disciplines and will improve cost efficiency in North American Operations as the new management team is focused on operational excellence. We are seeking new business opportunities consistent with return objectives in each of our portfolios and are monitoring our strategic positioning within each segment.

The executive management team in North America was strengthened with multiple high level appointments including Dave Duclos as Chief Executive Officer in April 2013 and Richard Dziadzio as Chief Financial Officer in August 2013. Other key changes in our North American leadership included a new Chief Claims Officer, Chief Actuary and Chief Information Officer, in preparation for the next phase of our development as we build a successful North America business franchise and transition to the global shared services structure.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**2,703**	3,228	3,144	2,119	1,904
Gross earned premium	US$M	**2,536**	3,053	2,770	1,852	1,745
Net earned premium	US$M	**1,286**	1,609	1,572	1,110	1,089
Net incurred claims	US$M	**739**	1,023	941	654	645
Net commission	US$M	**85**	117	151	124	154
Expenses	US$M	**391**	377	296	229	131
Underwriting result	US$M	**71**	92	184	103	159
Claims ratio	%	**57.5**	63.6	59.9	58.9	59.3
Commission ratio	%	**6.6**	7.3	9.6	11.2	14.1
Expense ratio	%	**30.4**	23.4	18.8	20.6	12.0
Combined operating ratio	%	**94.5**	94.3	88.3	90.7	85.4
Insurance profit margin	%	**6.9**	8.0	16.8	14.0	18.9

Outlook for full year 2013

2013 forecast full year GWP US$**5.9**billion

FPS US$ billion	US P&C US$ billion	Crop US$ billion	Reinsurance US$ billion
1.0	2.9	1.7	0.3

2013 forecast full year NEP US$**3.0**billion

The outlook for 2013 reflects the improved underwriting trends in our US P&C business, expected normal underwriting margins in the crop segment consistent with historical performance and reduced premiums and earnings in our FPS business. Rate increases should continue to contribute positively to the financial performance of our US P&C portfolio. The challenges in FPS will be met with a disciplined focus on managing costs, developing new business opportunities and leveraging our global operational transformation efforts to drive efficiency.

With respect to crop insurance business, crop conditions remain good to excellent with development approaching the five year average after excessive early season moisture levels. We remain optimistic of an average to slightly above average FY 2013 underwriting margin, assuming normal late summer and early autumn growing conditions.

Latin American Operations business review

> "Our underlying underwriting profit is on track and we continue to make progress in integrating our 2012 acquisitions and improving the performance of our different businesses across the region."

Jose Sojo Chief Executive Officer • Latin American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
733	622	31	66
↑ 43% from 2012	↑ 47% from 2012	Flat on 2012	↑ 12% from 2012
		Combined operating ratio 95.0% (2012 92.7%)	Insurance profit margin 10.6% (2012 14.0%)

Competitive landscape

Although the competitive landscape in Latin America remains uncompromising, pricing in some areas of the business is showing signs of hardening. This is occurring even without the pressure of significant catastrophic events in the region. Latin America continues to attract new capital; however, the rate of inflow has slowed relative to the past five years and consequently we remain optimistic that the pricing cycle will harden modestly across the region in coming periods.

The Latin American insurance industry continues to grow at an acceptable rate, partly reflecting the overall rate of economic growth but also reflecting low insurance penetration. In most countries within the region, the insurance industry has been growing at approximately twice the rate of GDP growth and we expect this ongoing trend will provide ample growth opportunities for us over the medium term.

Underwriting performance

The combined operating ratio was 95.0%, up from 92.7% in the same period last year.

The result was impacted by adverse prior accident year claims development, the severe flooding in Argentina during April and deterioration in the performance of our Colombian motor third party SOAT business. We remain confident that recent remedial actions will restore the profitability of this portfolio to appropriate levels.

Adverse claims experience and business mix changes were partially offset by improved efficiency, largely on the back of synergy benefits from the HSBC Argentina acquisition.

The remaining components of our business are performing in line with plan and we anticipate a significantly improved second half underwriting result.

Premium income

Gross written premium increased 43% to $733 million from $512 million in the same period last year. The increase reflected the acquisition of HSBC Argentina, which delivered $277 million in premiums in 1H 2013 compared with only $87 million in the two months of consolidated results in 1H 2012.

We continued to enjoy strong organic growth in Brazil, Colombia (ex SOAT business), Puerto Rico and Chile. Gross written premium was also positively impacted by approximately $5 million as a result of exchange rate fluctuations compared with the same period last year. Organic growth across the entire division was close to 7% despite a material and planned reduction in Colombian SOAT business.

Net earned premium growth was broadly in line with gross written premium.

Claims expense

Our net claims ratio increased to 59.1% from 55.8% for the same period last year.

The higher claims ratio reflects our $41 million upgrade of the prior accident year central estimate, largely due to an increase in the court prescribed interest rate used in estimating certain types of workers' compensation settlements.

In response to this development, significant premium rate increases were approved to maintain the profitability of new business.

Claims costs were also impacted by the large flood claim in Argentina which cost $14 million net of reinsurance, as well as increased claims experience in our Colombian SOAT portfolio which cost $5 million. This class of business, which is similar to Australian compulsory third party (CTP) business, has worsened for the whole market. We have now completely withdrawn from those market segments where we perceive there to be insufficient profit margins and have cut up to one third of our business with the expectation of improved underwriting profitability on the retained book in 2H 2013 and 2014.

Commission and expenses

The commission ratio remained stable at 21.4% despite significant changes in portfolio mix.

Notwithstanding the impact of HSBC Argentina which recorded a 1H 2013 expense ratio of 15.0%, Latin America's expense ratio improved to 14.5% during the first half compared with 15.6% for the same period last year and 17.6% in the second half of 2012, indicating a strong underlying improvement in efficiency.

Significant further synergy benefits are expected to emerge as we complete the integration of our Argentine businesses.

Other developments

During the first half of 2013, we moved to 100% ownership of QBE Asegurando, the largest SOAT agency in Colombia and Ecuador, by acquiring the 24.5% non-controlling interest.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**733**	512	380	223	161
Gross earned premium	US$M	**694**	493	384	221	156
Net earned premium	US$M	**622**	422	302	189	142
Net incurred claims	US$M	**368**	235	172	110	85
Net commission	US$M	**133**	90	62	45	35
Expenses	US$M	**90**	66	44	20	16
Underwriting result	US$M	**31**	31	24	14	6
Claims ratio	%	**59.1**	55.8	57.0	58.2	59.9
Commission ratio	%	**21.4**	21.3	20.5	23.8	24.6
Expense ratio	%	**14.5**	15.6	14.6	10.6	11.3
Combined operating ratio	%	**95.0**	92.7	92.1	92.6	95.8
Insurance profit margin	%	**10.6**	14.0	12.9	9.0	13.4

Outlook for full year 2013

2013 forecast full year GWP US$1.5billion

Argentina US$ million	Brazil US$ million	Chile US$ million	Colombia US$ million
850	70	20	300

Ecuador US$ million	Mexico US$ million	Puerto Rico US$ million
160	70	50

2013 forecast full year NEP US$1.3billion

Despite an interim result below plan, the full year 2013 result is expected to show improvement over 2012.

Our expectation of a very significant improvement in second half underwriting performance assumes the absence of catastrophes on the scale of the recent flood losses in Argentina, improving Colombian SOAT results, significant efficiencies from reorganisation of the Ecuadorian operations and the emergence of the full benefits from integration of our 2012 acquisitions.

Our gross written premium and net earned premium expectations are unchanged at approximately $1.5 billion and $1.3 billion respectively, the gross written premium equating to a market share of about 2% in the region. That said, the US dollar has strengthened more than we had anticipated against the Argentinian peso in the year to date and, should this trend continue, reported premium could fall slightly short of target.

The fundamentals of our business model remain sound and we are well positioned for the long run in Latin America. Our dedicated team of more than 1,800 employees in the region is confident in our ability to sustain underwriting results superior to those of our peers.

European Operations business review

"The first half of 2013 saw challenging market conditions with negligible premium rate increases and stiff competition although good premium growth was achieved, supported by our 2012 acquisitions. Strong underwriting discipline enabled us to deliver a creditable underwriting profit despite the late flurry of catastrophe claims and a higher frequency of large property losses."

Steven Burns Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
3,103	1,731	74	105
↑ 13% from 2012	↑ 11% from 2012	↓ 4% from 2012	↓ 40% from 2012
		Combined operating ratio	Insurance profit margin
		95.7% (2012 95.0%)	6.1% (2012 11.2%)

Competitive landscape

Market conditions remain challenging with premium rate increases averaging around 2% in 1H 2013. Pricing remains suppressed due to a continued surplus of capacity across all areas of our portfolio and the ongoing depressed economic environment.

Our reinsurance business achieved only modest average premium rate rises on claims impacted accounts. In the direct market, we are achieving increases only in those portfolios with ongoing poor market performance such as commercial motor and those areas with large claims activity such as onshore energy. Claims activity in marine and offshore energy has yet to trigger any broad rating change with adjustment only occurring on specific accounts.

Elsewhere, pricing was broadly unchanged with UK and international liability rates remaining flat in reaction to aggressive competition in both local and London markets. The professional indemnity market remains soft but stable. Terms and conditions are generally holding across all lines.

As trading conditions remain tough, our primary focus is to retain our quality renewal portfolio where we have a comprehensive understanding of the risk supported by information relating to historical financial performance and maintain a hyper-selective approach to new business.

Underwriting performance

Year on year premium growth reflects the strong trading relationships cultivated with our key broking partners to ensure that we remain their market of choice, plus of course the renewal of the ex-Brit UK business acquired in April 2012.

The combined operating ratio for the period was behind plan at 95.7%. The benefit from remediation activities across certain underperforming portfolios, including onshore energy, aviation, UK employers' liability and British Marine, is materialising slower than expected. We will continue to closely monitor the underlying performance of each portfolio over the remainder of 2013 and will take any necessary further underwriting actions prior to the 2014 renewal season.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**3,103**	2,748	2,824	2,412	2,228
Gross earned premium	US$M	**2,480**	2,267	2,242	1,935	1,802
Net earned premium	US$M	**1,731**	1,557	1,529	1,227	1,189
Net incurred claims	US$M	**1,091**	998	1,013	715	746
Net commission	US$M	**323**	273	257	191	200
Expenses	US$M	**243**	209	189	179	123
Underwriting result	US$M	**74**	77	70	142	120
Claims ratio	%	**63.0**	64.1	66.2	58.2	62.8
Commission ratio	%	**18.7**	17.5	16.8	15.6	16.8
Expense ratio	%	**14.0**	13.4	12.4	14.6	10.3
Combined operating ratio	%	**95.7**	95.0	95.4	88.4	89.9
Insurance profit margin	%	**6.1**	11.2	13.0	18.3	18.0

Our customers have the choice of Lloyd's or company paper and, in the current period, a higher proportion of the underwriting profit was generated in our Lloyd's franchise than was assumed in the plan. As we cede a greater share of our Lloyd's business to Equator Re, this had an adverse impact on divisional profitability whilst having no impact on the overall Group result.

Premium income

Gross written premium rose 13% to $3,103 million from $2,748 million in the prior year or up 15% in local currency terms. Net earned premium increased by 11% to $1,731 million from $1,557 million last year or up 13% in local currency.

Premium growth in our property, casualty and motor portfolios was largely offset by reduced premium in our energy & political, British Marine and inward reinsurance portfolios.

We declined certain energy & political and inward reinsurance renewals where competition resulted in insufficient premium rating levels. British Marine business faced significant competition from new entrants which resulted in a lower retention ratio.

As forecast, the Brit UK acquisition generated £125 million or $193 million of gross written premium during the period.

Alongside our divisional-specific products, we continue to collaborate with other QBE divisions to develop a number of global offerings across property, casualty, marine, energy and aviation. This is in addition to our global inward reinsurance franchise, QBE Re, which was launched in late 2012 and is managed from London.

Claims expense

The claims ratio of 63.0% was in line with plan and an improvement on 64.1% for the same period last year.

The result included catastrophe claims from floods in Europe, Canada and Argentina. These claims, together with a higher than normal severity of large individual risk claims on our property account, fully utilised the allowance factored into our plan for the half year and exceeded claims for the prior period.

We strengthened our claims provision across our medical liability portfolio; however, this prior accident year deterioration was partly offset by better than expected development elsewhere.

Commission and expenses

The commission ratio has increased over the last four years from 15.6% to 18.7%, due to an increased weighting to property insurance which incurs relatively high commissions and increased commission rates, particularly in the property and energy & political portfolios.

Our expense ratio increased slightly to 14.0% from 13.4% in the same period last year reflecting additional staff from the Brit UK acquisition, higher statutory levies and increased costs relating to the operational transformation program.

Other developments

On 2 April, we completed the sale of our shareholding in QBE Macedonia to the Vienna Insurance Group as this business was no longer considered core to our European Operations.

Uncertainty around the timing and precise approach to implementation of Solvency II continues to hang over the European insurance market. Notwithstanding that the final details have yet to be determined, both the European and UK regulators have issued protocols and guidelines to facilitate the transition to Solvency II.

European Operations has been preparing for Solvency II for a number of years and we are well placed to comply with the requirements that are likely to emerge under the new regime.

Outlook for full year 2013

2013 forecast full year GWP US$4.9billion

Property casualty & motor US$ billion	Marine energy & aviation US$ billion	Reinsurance & credit US$ billion
3.3	0.9	0.7

2013 forecast full year NEP US$3.4billion

Market conditions are likely to remain challenging across all product lines with an expected full year rate increase of 2.0%, down from 2.4% as originally planned. Superstorm Sandy in the final quarter of 2012 initially muted talk of price reductions on reinsurance and US property catastrophe pricing; however, recent renewals have seen significantly more competition. Moreover, an increase in collateralised security has placed particular pressure on US property catastrophe reinsurance rates and is now impacting other reinsurance lines. More recent catastrophe claims experience, including European floods, Canadian floods and US tornadoes, will not have any impact until 2014 renewals.

It is our intention to restructure our insurance underwriting business in the second half of 2013 with the key objective of aligning our individual business segments more directly with the characteristics of their market place and the activities of our trading partners and clients. We believe that this structure will enable European Operations to maximise its profitable growth potential when market conditions improve.

As announced in April 2013, Richard Pryce will assume the role of Chief Executive Officer of the division in the fourth quarter of 2013 as part of the handover from Steven Burns, who will move to our Sydney head office in 2014 as the Group's Chief Financial Officer.

Australian & New Zealand Operations business review

"Ongoing portfolio improvement in catastrophe-prone regions, premium rate increases and expense saving initiatives drove improved profitability, despite the impact of Cyclone Oswald and lower investment returns. The operational transformation program is progressing well and puts us in an extremely positive position for ongoing growth and profitability."

Colin Fagen Chief Executive Officer • Australian & New Zealand Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
2,507	2,077	210	359
↑ 1% from 2012	↑ 2% from 2012	↑ 21% from 2012	↓ 4% from 2012
		Combined operating ratio 89.9% (2012 91.4%)	Insurance profit margin 17.3% (2012 18.5%)

Competitive landscape

Economic conditions remained uncertain throughout the first half of the year with increasingly cautious consumer sentiment, compounded by concerns of a slowing Chinese economy and interest rates continuing on a downward trend. Nonetheless, the Australian general insurance sector has achieved significantly improved underwriting results due to increased premium rates and deductibles implemented throughout 2012 and early 2013. Despite some early signs of renewed competitive pricing pressures emerging, QBE has achieved average rate increases in Australian & New Zealand Operations of 6.5% in the first half of 2013 and retention has remained strong at 82%. The market price and/or risk exposure in some segments caused us to decline business as we continued to improve the performance of our overall portfolio.

Underwriting performance

The combined operating ratio of 89.9% was an excellent result, and compares favourably with the 91.4% recorded in the same period last year. The result reflects a combination of strict underwriting discipline and various portfolio improvement initiatives which have led to increased premium rate to risk, an improvement in the attritional claims ratio and a lower total acquisition cost ratio driven by a number of efficiency initiatives. Once again our New Zealand business exceeded profit expectations. Our diverse portfolios are stable, performing within our target range, and our business is positioned for sustainable growth.

The insurance profit margin was excellent at 17.3% compared with 18.5% for the same period last year. The prior period benefited from significant fixed interest gains due to credit spread contraction.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**2,507**	2,470	2,360	1,891	1,215
Gross earned premium	US$M	**2,392**	2,348	2,214	1,900	1,154
Net earned premium	US$M	**2,077**	2,027	1,815	1,558	951
Net incurred claims	US$M	**1,231**	1,252	1,329	978	556
Net commission	US$M	**314**	266	229	160	111
Expenses	US$M	**322**	335	315	261	171
Underwriting result	US$M	**210**	174	(58)	159	113
Claims ratio	%	**59.3**	61.8	73.2	62.7	58.4
Commission ratio	%	**15.1**	13.1	12.6	10.3	11.7
Expense ratio	%	**15.5**	16.5	17.4	16.8	18.0
Combined operating ratio	%	**89.9**	91.4	103.2	89.8	88.1
Insurance profit margin	%	**17.3**	18.5	5.6	16.2	22.0

Premium income

Gross written premium grew 4% in local currency or 1% in US dollars to $2,507 million, with growth adversely impacted by the recent strengthening of the US dollar.

Premium growth was largely driven by market share growth in NSW CTP as a result of our competitive pricing strategy, wages and rate growth in workers' compensation in Western Australia and the Northern Territory, and controlled growth in our lenders' mortgage insurance business. Customer retention remains strong with most portfolios averaging retention rates in the low to mid 80% range.

Net earned premium increased 5% in local currency or 2% in US dollars as a result of the earning of premium rate increases and lower overall reinsurance costs. The reinsurance expense ratio was 13.2% compared with 13.7% for the same period last year, reflecting increased divisional retentions. The Group's multi-year worldwide reinsurance program helped limit the extent of price increases on external catastrophe and per risk reinsurance; however, the cost of layers beneath the Group's cover and the portions of the Group's cover placed annually increased in line with market rates. The number of insurance policies written in the catastrophe-prone areas of Queensland, Northern NSW and Victoria continued to decrease in line with expectations.

Claims expense

The net claims ratio was 59.3% compared with 61.8% for 1H 2012, largely reflecting an improved attritional claims ratio and more normal catastrophe experience. The attritional claims ratio improved due to ongoing rate increases combined with tighter underwriting terms and conditions, including increased deductibles. Catastrophes impacting the first half included Cyclone Oswald, Tasmanian bushfires and Northern Victoria and Southern NSW storms. Catastrophe costs, whilst higher than 2012, remained within our expectations. Higher risk-free rates used to discount claims liabilities resulted in a $14 million reduction in claims costs.

Commission and expenses

The commission ratio was 15.1% compared with 13.1% for the same period last year. Commission increased due to changes in business mix and reduced commission income from underwriting agencies.

The expense ratio improved to 15.5% from 16.5% for the same period last year. The impact of higher net earned premium, higher managed fund fee income and gains from recent efficiency initiatives were partially offset by increased fire service levy expenses, $15 million of costs associated with the operational transformation program and increased staff incentive accruals reflecting the improved result.

Other developments

On 1 January 2013, APRA's new Life and General Insurance Capital (LAGIC) requirements took effect. We have implemented a capital framework that is more responsive to risk in accordance with APRA's changes to prudential standards and have set a capital target range that meets the financial strength criteria and our requirement to generate a suitable return on capital.

In February, our New Zealand Operations obtained a full insurance licence under the new regulatory regime.

The transformation project across Australian & New Zealand Operations is on track, with all business streams now underway and on target for completion in Q1 2014. Our focus has been on standardising processes and optimising service quality and milestone tracking to improve the timing of service delivery and maximise our financial outcomes. We have made great progress to date and key lessons learnt are allowing us to further refine our execution process.

In business areas where operational change is occurring, we remain committed to redeploying staff in preference to redundancies and have implemented a significant initiative to encourage redeployment.

Outlook for full year 2013

2013 forecast full year GWP US$4.8billion

Intermediary distribution US$ billion	Corporate partners & direct US$ billion	Lenders' mortgage insurance US$ billion
2.2	1.8	0.4

Credit & Surety US$ billion	New Zealand US$ billion
0.1	0.3

2013 forecast full year NEP US$4.0billion

Gross written premium growth for the full year should benefit from continued growth of our NSW CTP, workers' compensation and lenders' mortgage business, as well as improved retention and new business across most product lines. Strong rate increases achieved in 2012 and early 2013 are expected to moderate and fall in line with inflation levels over the next 12 to 18 months.

Subject to the usual caveats, insurance profitability is expected to improve further in the second half and full year gross written premium is forecast to be around $4.8 billion (A$4.9 billion).

Expense management remains a priority and our transformation activities continue. During the second half of the year, we will continue to reshape our workforce and implement new ways of collaborating globally to share and leverage expertise across divisions. This will ensure that ongoing cost efficiency is optimised both within the Australian and New Zealand businesses and across the globe.

We are very proud of the Australian & New Zealand Operations' financial result for 1H 2013 and the division's leadership in the establishment of the global shared services centre in Manila. The dedication, vision and teamwork demonstrated by our teams in implementing this complex and sensitive exercise has been commendable. We remain confident in our ability to further enhance our margins for the foreseeable future.

Asia Pacific Operations business review

"We remain focused on leveraging our extensive regional footprint and applying our in-depth understanding of local market conditions and careful product selection to achieve profitable growth."

David Fried Chief Executive Officer • Asia Pacific Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
400	244	37	40
↑ 51% from 2012	↑ 34% from 2012	↑ 131% from 2012	↑ 111% from 2012
		Combined operating ratio 84.8% (2012 91.2%)	Insurance profit margin 16.4% (2012 10.4%)

Competitive landscape

Although highly competitive, the insurance markets of the region are growing at a faster pace than the rest of the world due to strong GDP growth and improving insurance penetration and density.

In 2013, there is keen competition on rates as a number of players focus on top line expansion in the short-term with the expectation of increased profitability in later years. QBE's approach is to carefully select risks and price business suitably from the outset. For example, QBE believes that property business pricing does not reflect the level of underlying risk that exists in the region.

Whilst diverse regulatory regimes still exist across the region, in the main, regulatory and solvency requirements are falling more in line with established markets elsewhere in the world.

Underwriting performance

Asia Pacific Operations reported an impressive insurance result with a combined operating ratio of 84.8% and an insurance profit of 16.4% compared with 91.2% and 10.4% respectively for the same period last year.

In the absence of the significant catastrophe reinstatement premiums paid in 2012, the division enjoyed a material uplift in net earned premium income and a consequent recovery in both the net claims and expense ratios which trended back towards historical norms.

We continue to focus on retaining only profitable, high quality business, particularly those accounts where we can work with our intermediary partners and their clients to mitigate potential risk exposures.

Premium income

Gross written premium increased 51% to $400 million compared with $265 million for the same period last year. We experienced strong organic growth across the region supplemented by a major multi-year contract in Hong Kong and the acquisition of Hang Seng Bank's general insurance operations in Hong Kong. Excluding these two items, underlying organic growth was approximately 21%.

With the exception of French Polynesia and the Solomon Islands, all countries recorded growth in local currency terms.

Asia reported gross written premium of $339 million, up 61% on the same period last year, driven by the aforementioned multi-year contract, strong production in Hong Kong employers' liability and the 2012 acquisition. Strong organic growth was also recorded in Malaysia, the Philippines, Thailand and Singapore.

The Pacific region generated gross written premium of $61 million with strong growth in New Caledonia and Vanuatu supplemented by the acquisition of

Mitsui Sumitomo's non-life insurance operations in Papua New Guinea. In light of relatively subdued growth prospects, retention remains the key focus in the Pacific region.

We have excellent working relationships with agents, local brokers and major international broking houses across the region. Our bancassurance model with Hang Seng is also contributing to our distribution capabilities across the region.

Net earned premium increased 34% to $244 million and was ahead of gross earned premium growth of 28% reflecting the lower reinsurance expense.

Claims expense

The net claims ratio improved to 44.6% compared with 46.7% for the same period last year.

The benefit of a more benign period for natural catastrophes was partially offset by a higher frequency of large individual risk claims, mainly from the property and marine portfolios in Singapore and Papua New Guinea and largely emanating from risks that we have insured for many years.

Commission and expenses

The commission ratio improved to 21.3% from 22.5% for the same period last year. In addition to the prior period reinsurance expense impact as noted previously, the reduction also reflected portfolio mix changes, including an increased weighting to Hong Kong employers' liability and marine business which incurs relatively lower commission rates.

The expense ratio improved to 18.9% compared with 22.0% in the same period last year, reflecting scale benefits stemming from strong organic growth relative to prior period net earned premium which was depressed by higher reinsurance costs.

Notwithstanding the maintenance of a disciplined approach to cost control, we will continue to invest in people and technology to support the growth ambitions of the business.

Other developments

Effective 1 January 2013, we completed the acquisition of Mitsui Sumitomo's non-life insurance operations in PNG which is forecast to contribute $11 million of gross written premium income in FY 2013.

During the first half of 2013, we have continued to build upon our leadership capabilities across the division, which has led to several strategically important appointments i.e. Chief Operating Officer, Chief Financial Officer, Head of Internal Audit and Head of Communications. New Country Managers have been appointed in Vanuatu and Indonesia and we continue to review other key roles to improve overall bench strength.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**400**	265	234	216	196
Gross earned premium	US$M	**311**	243	224	202	182
Net earned premium	US$M	**244**	182	183	150	135
Net incurred claims	US$M	**109**	85	74	74	62
Net commission	US$M	**52**	41	35	31	29
Expenses	US$M	**46**	40	37	33	26
Underwriting result	US$M	**37**	16	37	12	18
Claims ratio	%	**44.6**	46.7	40.5	49.3	45.9
Commission ratio	%	**21.3**	22.5	19.1	20.7	21.5
Expense ratio	%	**18.9**	22.0	20.2	22.0	19.3
Combined operating ratio	%	**84.8**	91.2	79.8	92.0	86.7
Insurance profit margin	%	**16.4**	10.4	25.7	14.0	15.6

Outlook for full year 2013

2013 forecast full year GWP US$730million

Asia US$ million	Pacific US$ million
610	120

2013 forecast full year NEP US$510million

The outlook for 2013 and beyond in the Asia Pacific region is positive reflecting expected continued economic growth in the key Asian markets and building on our longstanding franchises throughout the region. Gross written premium is projected to be approximately 6% higher than budgeted, reflecting stronger than anticipated growth, mainly in the Asian operations.

Markets are expected to remain competitive. The continued execution of our Asia Pacific five year strategic plan represents one of the key regional platforms for profitable growth and diversification in the Group's refreshed strategy and value creation model.

Our dedicated team of professionals will be enhanced by further underwriting specialists strategically located throughout the region. Building upon our depth of market knowledge and strong relationships with local intermediaries and the Hang Seng Bank in Hong Kong, we will develop bespoke solutions for the insurance needs of our customers.

Finally, my thanks and congratulations go out to our hard working staff for their continued efforts to set a solid foundation for future profitable growth.

Equator Re business review

> QBE's captive reinsurer provides considerable competitive advantage in managing the Group's global exposures and optimising retentions and capital at divisional level."

Jim Fiore Group Chief Reinsurance Officer • Equator Re

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
1,889	1,373	107	131
↓ 10% from 2012	↓ 12% from 2012	↓ 19% from 2012	↓ 35% from 2012
		Combined operating ratio 92.2% (2012 91.5%)	Insurance profit margin 9.5% (2012 12.9%)

Competitive landscape

Equator Re is QBE's wholly-owned captive reinsurer providing excess of loss and proportional reinsurance protection to QBE's five operating divisions. Equator Re is an integral part of the Group's overall global reinsurance strategy and the capacity provided to the divisions is fully aligned with the global reinsurance programs purchased in the external market.

The company provides cover to the various divisional business units below the retention on the Group's global reinsurance covers while remaining within the overall risk tolerance for the Group. All contracts written by Equator Re are comprehensively modelled and benchmarked externally against market rates.

Reinsurance excess of loss pricing for the Group's divisional operations was generally flat across the entire book for the 1 January 2013 renewals in line with open market trends. On proportional treaties, terms and conditions were tightened on marginal and/or poorly performing accounts in order to achieve the expected minimum rate of return.

Retentions and deductible levels have also been increased across both catastrophe and risk programs to further limit the captive's risk exposure.

The investment environment remains extremely challenging and yields on cash and fixed interest securities have continued to fall. Insurance profit was down on the previous period as a result of the lower yield on policyholders' funds.

Underwriting performance

The combined operating ratio of 92.2% was up slightly from the 91.5% reported last year. While catastrophe claims activity was below historical levels for the period, in part reflecting higher divisional retentions, the overall excess of loss result was negatively impacted by a higher than expected frequency and severity of large individual risk claims out of Australia, Asia and European Operations. Claims included the Rio Tinto mining claim in the US and a number of other major UK property claims.

While the proportional portfolio was profitable overall, the combined operating ratio was higher than expected due to the reduced profitability of North American business, in particular the lender-placed business written by Financial Partner Services.

The captive benefits from the Group's reinsurance protection, which has helped mitigate the large individual risk claims activity in the period. In addition, Equator Re continues to purchase stand alone catastrophe reinsurance to provide further protection to the Group.

Premium income

Gross written premium reduced by 10% to $1,889 million compared with $2,093 million for the same period last year.

Following the higher frequency of catastrophe claims in 2010 and 2011 and Superstorm Sandy last year, divisional retentions and deductibles on a number of divisional catastrophe and per risk excess of loss programs were increased further in 2013 causing a reduction in excess of loss income.

Premium income on the proportional book also decreased reflecting reduced business activity on certain portfolios, most notably our North American LPI business and lower crop insurance premium which was impacted by delayed planting.

Net earned premium decreased by 12% from $1,562 million to $1,373 million in the current period reflecting the aforementioned reduction in written premium coupled with a higher reinsurance expense on stand alone covers.

Claims expense

The net claims ratio was unchanged at 59.8%.

A higher frequency and severity of large individual risk claims coupled with reduced North American quota share profitability offset more favourable catastrophe experience. The captive's share of adverse prior year claims development was offset by improved catastrophe incidence, greater aggregate risk reinsurance recoveries and a $40 million benefit from higher risk-free rates used to discount claim liabilities.

Commission and expenses

The combined commission and expense ratio of 32.4% was 0.7% higher compared with the same period last year.

The commission ratio increased slightly due to higher profit commissions which were largely offset by a change in the underlying mix of business, which saw a reduced contribution from North America where commission rates are relatively high.

Expenses have risen following the creation of a number of new positions as we look to increase technical capabilities in the captive and enhance its underwriting, risk and claims presence in Bermuda.

Other developments

Equator Re has implemented a new operating model following a strategic review of the company last year. A number of new functions have been created and existing functions were re-aligned to ensure that the company operates to the highest possible standards. The new operating model has strengthened the overall governance framework with key roles created in risk management, financial and catastrophe modelling, internal audit and claims management.

Premium income

Gross written premium by source – local currency

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
North American Operations	US$M	**914**	1,137	875	576	526
Latin American Operations	US$M	**23**	9	17	18	-
European Operations	£M	**403**	374	395	347	353
Australian & New Zealand Operations	A$M	**230**	261	388	178	163
Asia Pacific Operations	US$M	**97**	88	86	75	48

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2013	2012	2011	2010	2009
Gross written premium	US$M	**1,889**	2,093	2,021	1,359	1,216
Gross earned premium	US$M	**1,533**	1,682	1,545	1,032	893
Net earned premium	US$M	**1,373**	1,562	1,377	1,006	873
Net incurred claims	US$M	**821**	935	941	605	566
Net commission	US$M	**395**	448	335	250	215
Expenses	US$M	**50**	47	67	39	38
Underwriting result	US$M	**107**	132	34	112	54
Claims ratio	%	**59.8**	59.8	68.3	60.1	64.8
Commission ratio	%	**28.8**	28.7	24.3	24.9	24.6
Expense ratio	%	**3.6**	3.0	4.9	3.9	4.4
Combined operating ratio	%	**92.2**	91.5	97.5	88.9	93.8
Insurance profit margin	%	**9.5**	12.9	8.1	15.6	11.1

Outlook for full year 2013

2013 forecast full year GWP **US$3.3billion**

2013 forecast full year NEP **US$3.1billion**

Full year 2013 gross written premium is expected to be around $3.3 billion and net earned premium around $3.1 billion, slightly below previous guidance reflecting reduced divisional forecasts, particularly in North America.

We will continue to provide reinsurance protection to the Group operating divisions below the Group's risk appetite on a carefully selected basis and have in place extensive reinsurance to protect against unexpected frequency and/or severity of loss activity for the remainder of the year.

Equator Re's financial rating has been re-affirmed by Standard & Poor's as A+ and the company has net assets of $1.6 billion at 30 June 2013.

Directors' report

FOR THE HALF YEAR ENDED 30 JUNE 2013

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2013.

Directors

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

DM Boyle
JA Graf
JM Green
IF Hudson
BJ Hutchinson AM (chairman)
IYL Lee
JD Neal

Mr CLA Irby was a director from the beginning of the financial year until his retirement on 31 March 2013.

Consolidated results

FOR THE HALF YEAR ENDED 30 JUNE	2013 US$M	2012 US$M
Gross written premium	**9,446**	9,223
Unearned premium movement	**(1,033)**	(819)
Gross earned premium revenue	**8,413**	8,404
Outward reinsurance premium	**(1,679)**	(1,714)
Deferred reinsurance premium movement	**599**	669
Outward reinsurance premium expense	**(1,080)**	(1,045)
Net earned premium	**7,333**	7,359
Net claims incurred	**(4,359)**	(4,528)
Net commission	**(1,302)**	(1,235)
Underwriting and other expenses	**(1,142)**	(1,074)
Underwriting result	**530**	522
Net investment income on policyholders' funds	**260**	436
Insurance profit	**790**	958
Net investment income on shareholders' funds	**134**	247
Financing and other costs	**(168)**	(166)
Share of net profits of associates	**–**	3
Amortisation/impairment of intangible assets	**(171)**	(128)
Profit before income tax	**585**	914
Income tax expense	**(102)**	(148)
Profit after income tax	**483**	766
Net profit attributable to non-controlling interests	**(6)**	(6)
Net profit after income tax	**477**	760

Profit

Net profit after income tax for the period ended 30 June 2013 was down 37% from $760 million for the same period last year to $477 million. Net profit after tax in the prior period benefited from significant realised and unrealised gains on our fixed interest and equity portfolios. The result for the current period was impacted by an increase in amortisation.

Dividends

The directors are pleased to announce an interim dividend of 20 Australian cents per share for the period ended 30 June 2013. The interim dividend will be franked at 100%. The total dividend payout is A$244 million compared with an interim dividend payout of A$473 million in 2012. The bonus share and dividend reinvestment plans continue, but at a 1.0% discount.

Presentation currency

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

Operating and financial review

Information on the Group's business strategies and prospects (including the results of those operations) and financial position of the Group is set out on pages 2 to 28 of this half year report. These pages also deal with the Group's business strategies and prospects for future financial years.

Outstanding claims provision

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

As in previous years, the directors consider that substantial risk margins are required over the actuarial central estimate to mitigate the potential for uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 30 June 2013 was 88.1% compared with 87.5% at 31 December 2012. The APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on pages 2 to 28 of this half year report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 31.

Rounding of amounts

The company is of a kind referred to in the Australian Securities and Investments Commission class order 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the financial report and in the directors' report. Amounts have been rounded off in the financial report and the directors' report to the nearest million dollars in accordance with that class order.

Signed in SYDNEY this 20th day of August 2013 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

JD Neal
Director

Auditor's independence declaration

FOR THE HALF YEAR ENDED 30 JUNE 2013

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

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

KG Smith
Partner, PricewaterhouseCoopers

Sydney
20 August 2013

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2013

	NOTE	2013 US$M	2012 US$M
Gross written premium		**9,446**	9,223
Unearned premium movement		**(1,033)**	(819)
Gross earned premium revenue	4(A)	**8,413**	8,404
Outward reinsurance premium		**(1,679)**	(1,714)
Deferred reinsurance premium movement		**599**	669
Outward reinsurance premium expense	4(B)	**(1,080)**	(1,045)
Net earned premium (a)		**7,333**	7,359
Gross claims incurred	4(B)	**(4,958)**	(4,944)
Reinsurance and other recoveries revenue	4(A)	**599**	416
Net claims incurred (b)		**(4,359)**	(4,528)
Gross commission expense	4(B)	**(1,401)**	(1,344)
Reinsurance commission revenue	4(A)	**99**	109
Net commission (c)		**(1,302)**	(1,235)
Other acquisition costs (d)	4(B)	**(440)**	(392)
Underwriting and other expenses (e)	4(B)	**(702)**	(682)
Underwriting result (a)+(b)+(c)+(d)+(e)		**530**	522
Investment and other income – policyholders' funds	5	**277**	448
Investment expenses – policyholders' funds	5	**(17)**	(12)
Insurance profit		**790**	958
Investment and other income – shareholders' funds	5	**143**	259
Investment expenses – shareholders' funds	5	**(9)**	(12)
Financing and other costs		**(168)**	(166)
Share of net profits of associates		**–**	3
Amortisation of intangibles and impairment of goodwill/intangibles		**(171)**	(128)
Profit before income tax		**585**	914
Income tax expense		**(102)**	(148)
Profit after income tax		**483**	766
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**306**	(38)
Associates' share of other comprehensive income		**(7)**	–
Income tax relating to these components of other comprehensive income		**45**	(4)
Items that will not be reclassified to profit or loss			
Gains (losses) on remeasurements of defined benefit superannuation plans		**52**	(14)
Losses on revaluation of owner occupied properties		**(15)**	–
Income tax relating to these components of other comprehensive income		**(10)**	–
Other comprehensive income (expense) after income tax		**371**	(56)
Total comprehensive income after income tax		**854**	710
Profit after income tax attributable to:			
Ordinary equity holders of the company		**477**	760
Non-controlling interests		**6**	6
		483	766
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**848**	704
Non-controlling interests		**6**	6
		854	710

Earnings per share for profit after income tax attributable to ordinary equity holders of the company	NOTE	2013 US CENTS	2012 US CENTS
Basic earnings per share	6	**38.0**	67.7
Diluted earnings per share	6	**35.8**	63.1

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

Consolidated balance sheet

AS AT 30 JUNE 2013

	NOTE	30 JUNE 2013 US$M	31 DECEMBER 2012 US$M
Assets			
Cash and cash equivalents		**1,938**	2,025
Investments	7	**28,006**	29,471
Derivative financial instruments	8	**10**	24
Trade and other receivables		**5,751**	5,232
Current tax assets		**18**	3
Deferred insurance costs		**3,187**	2,606
Reinsurance and other recoveries on outstanding claims	9	**3,461**	4,377
Other assets		**5**	10
Assets held for sale		**35**	–
Defined benefit plan surpluses		**46**	1
Property, plant and equipment		**519**	564
Deferred tax assets		**490**	290
Investment properties		**11**	29
Investment in associates		**14**	62
Intangible assets		**5,614**	6,068
Total assets		**49,105**	50,762
Liabilities			
Derivative financial instruments	8	**22**	14
Trade and other payables		**2,313**	2,012
Current tax liabilities		**360**	451
Unearned premium		**9,024**	8,559
Outstanding claims	9	**20,770**	22,789
Provisions		**61**	76
Defined benefit plan deficits		**124**	139
Deferred tax liabilities		**459**	373
Borrowings	10	**4,762**	4,932
Total liabilities		**37,895**	39,345
Net assets		**11,210**	11,417
Equity			
Share capital	11	**9,123**	10,002
Treasury shares held in trust		**(2)**	(1)
Equity component of hybrid securities		**10**	134
Reserves		**(1,541)**	(1,859)
Retained profits		**3,573**	3,082
Shareholders' funds		**11,163**	11,358
Non-controlling interests		**47**	59
Total equity		**11,210**	11,417

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

Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2013

2013	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL SHAREHOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2013	10,002	(1)	134	(1,859)	3,082	11,358	59	11,417
Profit after income tax	–	–	–	–	477	477	6	483
Other comprehensive income	–	–	–	332	39	371	–	371
Total comprehensive income	–	–	–	332	516	848	6	854
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	(16)	–	–	–	(16)	–	(16)
Share based payment expense	–	–	–	16	–	16	–	16
Shares vested and/or released to participants	–	15	–	(15)	–	–	–	–
Contributions of equity, net of transaction costs and tax	335	–	–	–	–	335	–	335
Extraordinary dividend on hybrid securities	–	–	–	–	(29)	(29)	–	(29)
Tax on extraordinary dividend on hybrid securities	–	–	–	–	7	7	–	7
Purchase of non-controlling interests	–	–	–	(1)	–	(1)	(3)	(4)
Disposal of non-controlling interests	–	–	–	–	–	–	(12)	(12)
Equity component of hybrid securities	–	–	(119)	–	119	–	–	–
Final dividend paid on ordinary shares	–	–	–	–	(125)	(125)	(2)	(127)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	3	3	–	3
Foreign exchange movement	(1,214)	–	(5)	(14)	–	(1,233)	(1)	(1,234)
As at 30 June 2013	9,123	(2)	10	(1,541)	3,573	11,163	47	11,210

2012	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL SHAREHOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2012	8,939	(2)	132	(1,776)	3,093	10,386	52	10,438
Profit after income tax	–	–	–	–	760	760	6	766
Other comprehensive income	–	–	–	(42)	(14)	(56)	–	(56)
Total comprehensive income	–	–	–	(42)	746	704	6	710
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	(24)	–	–	–	(24)	–	(24)
Share based payment expense	–	–	–	19	–	19	–	19
Shares vested and/or released to participants	–	25	–	(25)	–	–	–	–
Contributions of equity, net of transaction costs and tax	746	–	–	–	–	746	–	746
Purchase of non-controlling interests	–	–	–	(1)	–	(1)	–	(1)
Final dividend paid on ordinary shares	–	–	–	–	(288)	(288)	(2)	(290)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	10	10	–	10
Foreign exchange movement	(7)	–	–	1	–	(6)	–	(6)
As at 30 June 2012	9,678	(1)	132	(1,824)	3,561	11,546	56	11,602

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

Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2013

	HY 2013 US$M	HY 2012 US$M
Operating activities		
Premium received	**9,996**	7,993
Reinsurance and other recoveries received	**2,961**	491
Outward reinsurance paid	**(3,135)**	(810)
Claims paid	**(6,779)**	(4,812)
Acquisition and other underwriting costs paid	**(2,206)**	(2,449)
Interest received	**360**	432
Dividends received	**8**	15
Other operating income	**19**	54
Other operating payments	**(182)**	(152)
Interest paid	**(142)**	(105)
Income taxes (paid) received	**(250)**	185
Net cash flows from operating activities [1]	**650**	842
Investing activities		
Proceeds on sale of equity investments	**638**	408
Purchase of equity investments	**(746)**	(679)
Proceeds from forward foreign exchange contracts	**41**	27
(Payments for) proceeds on sale of other investments	**(585)**	102
Payments for controlled entities and businesses acquired [2]	**(6)**	(309)
Proceeds on disposal of controlled entities	**9**	–
Proceeds on sale of investment property	**1**	1
Proceeds on sale of property, plant and equipment	**1**	–
Payments for property, plant and equipment	**(74)**	(129)
Net cash flows from investing activities	**(721)**	(579)
Financing activities		
Proceeds from issue of shares [3]	**–**	635
Share issue expenses	**–**	(9)
Purchase of treasury shares	**(15)**	(23)
Proceeds from settlement of staff share loans	**2**	6
Proceeds from borrowings	**596**	100
Repayment of borrowings [3]	**(395)**	(611)
Dividends paid	**(81)**	(166)
Net cash flows from financing activities	**107**	(68)
Net movement in cash and cash equivalents	**36**	195
Cash and cash equivalents at the beginning of the half year	**2,025**	1,457
Effect of exchange rate changes	**(123)**	(58)
Cash and cash equivalents at the end of the half year	**1,938**	1,594

1 Included within net cash flows from operating activities are premiums received of $1,504 million (2012 nil), reinsurance recoveries received of $1,867 million (2012 nil), outward reinsurance paid of $1,340 million (2012 nil) and claims paid of $2,193 million (2012 nil) that are paid in to/out of a specified account as required by government authorities.
2 Net of cash acquired.
3 Hybrid securities with a value of $300 million were repurchased during the period as part of a tender process and settled by the issue of ordinary shares.

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

Notes to the financial statements

1. Basis of preparation of half year financial report

This general purpose consolidated financial report for the half year ended 30 June 2013 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Standards Board Interpretations and the *Corporations Act 2001*.

The financial report for the half year ended 30 June 2013 does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 31 December 2012 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group) during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

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

Changes in accounting policy

The Group changed some of its accounting policies in response to new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2013. The affected policies and standards are:

(i) Principals of consolidation – controlled entities.

The adoption of the new standard AASB 10 Consolidated Financial Statements resulted in a change to the consolidated entity's accounting policy during the period. Control is now defined as when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The revised policy did not result in a change in entities controlled by the company during the period.

(ii) Other new standards that are applicable for the first time in the half year ended 30 June 2013 are as follows:

TITLE	
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 127 (revised)	Separate Financial Statements
AASB 128	Investments in Associates and Joint Ventures
2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income
2012-2	Amendments to Australian Accounting Standards – Disclosure – Offsetting Financial Assets and Financial Liabilities
2012-5	Amendments to Australian Accounting Standards arising from the Annual Improvements 2009-2011 cycle
2012-10	Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

These standards have introduced new disclosures for the interim report but did not affect the consolidated entity's accounting policies or materially affect the amounts recognised in the financial statements.

2. New accounting standards and amendments

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2015
AASB 9 (revised)	Financial Instruments	1 January 2015
2009 -11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2015
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2014
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014

The Australian accounting standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is permitted except for AASB 2011-4, where early adoption is not permitted.

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

3. Segment information

Australian accounting standard 8: Operating Segments (AASB 8) requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. In accordance with AASB 8, the Group has identified its operating segments based on the reports that are used by the Group Executive (being the chief operating decision maker) and the Group Board of directors for measuring performance and determining the allocation of capital. The operating segments have been identified by management based on the way the Group's underwriting products and services are managed within the various markets in which we operate.

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 46 countries. The business is managed as follows:

- North American Operations writes general insurance and reinsurance business in the US and Bermuda.
- Latin American Operations writes general insurance business in North, Central and South America.
- European Operations writes general insurance business principally in the UK and throughout mainland Europe, both general insurance and reinsurance business through Lloyd's of London, and reinsurance business in Ireland and mainland Europe.
- Australian & New Zealand Operations primarily underwrites general insurance risks throughout Australia and New Zealand, providing all major lines of insurance cover for personal and commercial risks.
- Asia Pacific Operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- Equator Re is based in Bermuda and provides reinsurance protection to related entities. All inward premium received by Equator Re is currently derived from within the Group and is eliminated on consolidation.

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

The measurement method used to determine the allocation of diversification benefits and risk margins to operating segments was revised from 1 January 2013 to reflect changes in reporting to the chief operating decision maker. Reporting by operating segment to the chief operating decision maker and in the reported segment results is now based on the requirements of Australian Accounting Standard 1023: General Insurance Contracts in each of the individual operating segments. The determination of the diversification benefit and allocation of the overall Group risk margin is necessarily undertaken at the consolidated entity level in order to appropriately recognise the benefits of product and geographic diversification. Total liabilities and net assets of the operating segments for the period ending 30 June 2013 have been adjusted to reflect this change. Had we applied the current measurement method to the reporting of operating segment results in 2012, there would have been no significant change to the result of each operating segment.

3. Segment information CONTINUED

2013	NORTH AMERICAN OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	13,448	1,990	18,659	13,061	1,746	7,584	(7,383)	49,105
Total liabilities	10,390	1,572	15,975	10,122	1,177	6,042	(7,383)	37,895
Adjustment [1]	79	(5)	414	(459)	(14)	(15)	–	–
Total adjusted liabilities	10,469	1,567	16,389	9,663	1,163	6,027	(7,383)	37,895
Net assets	2,979	423	2,270	3,398	583	1,557	–	11,210
Gross written premium	2,703	733	3,103	2,507	400	1,889	(1,889)	9,446
Gross earned premium revenue – external	2,536	694	2,480	2,392	311	–	–	8,413
Gross earned premium revenue – internal	–	–	–	–	–	1,533	(1,533)	–
Outward reinsurance premium expense	(1,250)	(72)	(749)	(315)	(67)	(160)	1,533	(1,080)
Net earned premium	1,286	622	1,731	2,077	244	1,373	–	7,333
Net claims incurred	(739)	(368)	(1,091)	(1,231)	(109)	(821)	–	(4,359)
Net commission	(85)	(133)	(323)	(314)	(52)	(395)	–	(1,302)
Underwriting and other expenses	(391)	(90)	(243)	(322)	(46)	(50)	–	(1,142)
Underwriting result	71	31	74	210	37	107	–	530
Net investment income on policyholders' funds	18	35	31	149	3	24	–	260
Insurance profit	89	66	105	359	40	131	–	790
Net investment income on shareholders' funds	8	17	21	69	2	17	–	134
Financing and other costs	(80)	(7)	(26)	(46)	(2)	(7)	–	(168)
Amortisation/impairment of intangible assets	(147)	(8)	(9)	(5)	(2)	–	–	(171)
(Loss) profit before income tax	(130)	68	91	377	38	141	–	585
Income tax credit (expense)	43	(27)	(3)	(96)	(9)	(10)	–	(102)
(Loss) profit after income tax	(87)	41	88	281	29	131	–	483
Profit after income tax attributable to non-controlling interests	–	–	–	(3)	(3)	–	–	(6)
Net (loss) profit after income tax	(87)	41	88	278	26	131	–	477

1 See page 37 for details of change in measurement method.

2012	NORTH AMERICAN OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	14,492	1,955	17,787	13,485	1,320	7,401	(7,588)	48,852
Total liabilities	10,868	1,538	15,018	10,626	974	5,814	(7,588)	37,250
Net assets	3,624	417	2,769	2,859	346	1,587	–	11,602
Gross written premium	3,228	512	2,748	2,470	265	2,093	(2,093)	9,223
Gross earned premium revenue – external	3,053	493	2,267	2,348	243	–	–	8,404
Gross earned premium revenue – internal	–	–	–	–	–	1,682	(1,682)	–
Outward reinsurance premium expense	(1,444)	(71)	(710)	(321)	(61)	(120)	1,682	(1,045)
Net earned premium	1,609	422	1,557	2,027	182	1,562	–	7,359
Net claims incurred	(1,023)	(235)	(998)	(1,252)	(85)	(935)	–	(4,528)
Net commission	(117)	(90)	(273)	(266)	(41)	(448)	–	(1,235)
Underwriting and other expenses	(377)	(66)	(209)	(335)	(40)	(47)	–	(1,074)
Underwriting result	92	31	77	174	16	132	–	522
Net investment income on policyholders' funds	37	28	98	200	3	70	–	436
Insurance profit	129	59	175	374	19	202	–	958
Net investment income on shareholders' funds	81	8	59	59	7	33	–	247
Financing and other costs	(78)	(7)	(28)	(48)	–	(5)	–	(166)
Share of net profits of associates	–	–	–	3	–	–	–	3
Amortisation/impairment of intangible assets	(112)	(4)	(7)	(5)	–	–	–	(128)
Profit before income tax	20	56	199	383	26	230	–	914
Income tax credit (expense)	1	(18)	(9)	(107)	(8)	(7)	–	(148)
Profit after income tax	21	38	190	276	18	223	–	766
Profit after income tax attributable to non-controlling interests	–	–	–	(4)	(2)	–	–	(6)
Net profit after income tax	21	38	190	272	16	223	–	760

4. Income and expense

(A) Income summary

	2013 US$M	2012 US$M
Gross earned premium revenue		
Direct and facultative	7,821	7,679
Inward reinsurance	592	725
	8,413	8,404
Other revenue		
Reinsurance and other recoveries revenue	599	416
Reinsurance commission revenue	99	109
	9,111	8,929
Other income		
Interest, dividend and other income	356	418
Net fair value gains on financial assets	21	292
Realised gains on sale of controlled entities	12	–
Gain on repurchase of debt securities	2	–
Foreign exchange gains	35	–
Share of net profits of associates	–	3
	426	713
Income	9,537	9,642

(B) Expenses

	2013 US$M	2012 US$M
Outward reinsurance premium expense	1,080	1,045
Gross claims incurred	4,958	4,944
Gross commission expense	1,401	1,344
Other acquisition costs	440	392
Underwriting and other expenses [1]	702	682
Net fair value losses on assets held for sale	6	–
Investment expenses	26	24
Financing and other costs	168	166
Amortisation/impairment of intangible assets [2]	171	128
Foreign exchange losses	–	3
Expenses	8,952	8,728

1 Includes $86 million (2012 $99 million) of agency income earned by the Group's agency operations which is treated as a recovery of the Group's underwriting expenses.

2 Includes an impairment charge of $3 million (2012 $50 million).

5. Investment income

	2013 US$M	2012 US$M
Interest, dividend and other income		
Dividends received or receivable	**8**	17
Interest received or receivable	**346**	399
Other investment income	**2**	2
	356	418
Net fair value gains (losses) on financial assets		
Equities	**45**	33
Fixed interest and other	**(24)**	259
	21	292
Realised gains on sale of controlled entities	**12**	–
Net fair value losses on assets held for sale	**(6)**	–
Gain on repurchase of debt securities	**2**	–
Foreign exchange gains (losses)	**35**	(3)
Investment and other income	**420**	707
Investment expenses	**(26)**	(24)
Net investment and other income	**394**	683

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		INVESTMENT INCOME	
	2013 US$M	2012 US$M	2013 US$M	2012 US$M	2013 US$M	2012 US$M
Investment and other income	**277**	448	**143**	259	**420**	707
Investment expenses	**(17)**	(12)	**(9)**	(12)	**(26)**	(24)
Net investment and other income	**260**	436	**134**	247	**394**	683

6. Earnings per share

	2013 US CENTS	2012 US CENTS
Basic earnings per share	38.0	67.7
Diluted earnings per share	35.8	63.1

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

	2013 US$M	2012 US$M
Net profit after income tax attributable to ordinary equity holders of the company	477	760
Less: extraordinary dividend after income tax on convertible securities	(22)	–
Net profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	455	760
Add: finance costs of convertible securities	10	13
Earnings used in calculating diluted earnings per share	465	773

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

	30 JUNE 2013 NUMBER OF SHARES MILLIONS	30 JUNE 2012 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	1,199	1,126
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	(3)	(3)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share [1]	1,196	1,123
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	3	3
Convertible securities	100	99
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,299	1,225

1 Weighted average number of ordinary shares reflects shares adjusted to derecognise shares subject to non-recourse loan agreements issued under the Plan. Basic earnings per share calculated with reference to issued share capital notified to the Australian Securities Exchange would have been US 37.9 cents (30 June 2012 US 67.5 cents).

7. Investments

	30 JUNE 2013 US$M	31 DECEMBER 2012 US$M
Fixed interest rate		
Short-term money	7,382	7,598
Government bonds	4,703	7,013
Corporate bonds	4,057	3,282
	16,142	17,893
Floating interest rate		
Short-term money	307	568
Government bonds	1,140	972
Corporate bonds	10,021	9,839
Infrastructure debt	74	–
Unit trusts	74	76
	11,616	11,455
Equities		
Listed	108	96
Unlisted	28	27
	136	123
Property trusts		
Listed	4	–
Unlisted	108	–
	112	–
Total investments	28,006	29,471

(A) Fair value hierarchy

The investments of the Group are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes and valuation models with observable inputs.

Level 3: Valuation techniques are applied in which any one or more significant input is not based on observable market data.

	30 JUNE 2013				31 DECEMBER 2012			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Assets								
Short-term money	**1,246**	**6,443**	**–**	**7,689**	1,721	6,445	–	8,166
Government bonds	**2,674**	**3,163**	**6**	**5,843**	4,977	2,995	13	7,985
Corporate bonds	**–**	**13,850**	**228**	**14,078**	–	12,990	131	13,121
Infrastructure debt	**–**	**–**	**74**	**74**	–	–	–	–
Unit trusts	**–**	**74**	**–**	**74**	–	76	–	76
Equities – listed	**108**	**–**	**–**	**108**	95	–	1	96
Equities – unlisted	**–**	**–**	**28**	**28**	–	–	27	27
Property trusts – listed	**4**	**–**	**–**	**4**	–	–	–	–
Property trusts – unlisted	**–**	**108**	**–**	**108**	–	–	–	–
Total investments	**4,032**	**23,638**	**336**	**28,006**	6,793	22,506	172	29,471

$70 million of government bonds were transferred from level 2 to level 1 due to the availability of quoted prices in active markets at the reporting date.

(B) Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

Listed securities in active markets

Fair values of listed assets traded in active markets have been determined by reference to quoted bid prices whilst investment liabilities traded in active markets are valued with reference to quoted ask prices.

Asset backed securities

The fair value price of asset backed securities is obtained from either an external pricing source or broker quotes.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available for fair value measurement. Where there is no directly comparable asset and no observable market inputs for the underlying asset, the investment manager may use par plus accrued interest as a fair value proxy for floating rate infrastructure debt investments.

Unlisted equities

Unlisted equities are predominately priced using directors' valuation of QBE's share of the net assets of the entity.

Unlisted property trusts

Unlisted property trusts are valued using the current unit price as advised by the responsible entity or trustee.

The significant majority of other instruments, being fixed and floating rate securities, are valued using independently sourced valuations which do not involve the exercise of judgment by management.

Less than 2% of investments are valued using common valuation practices such as discounted cash flow analysis and option pricing tools. Any reasonable changes in the inputs used to value these investments would not have had a significant impact on the balance sheet.

Group Investments' independent control team values each asset, as described above, in accordance with the Group's investment valuation policy. The Group's investment valuation policy is reviewed at least annually and any changes are approved by the Group Chief Investment Officer, who reports directly to the Group Chief Financial Officer.

7. Investments CONTINUED

(C) Movements in level 3 investments

The following table presents the changes in level 3 instruments for the half year ended 30 June 2013:

LEVEL 3	30 JUNE 2013 US$M	31 DECEMBER 2012 US$M
At 1 January	**172**	27
Reclassification to level 2	**(28)**	–
Purchases	**204**	143
Disposals	**(9)**	(2)
Net fair value unrealised gains recognised in profit or loss [1]	**–**	3
Foreign exchange	**(3)**	1
At 30 June	**336**	172

1 Recognised within investment and other income (policyholders' and shareholders' funds) in the consolidated statement of comprehensive income.

8. Derivative financial instruments

The Group's derivatives are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The hierarchy is explained in more detail in note 7(A).

	30 JUNE 2013				31 DECEMBER 2012			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Assets								
Forward foreign exchange contracts	**10**	**–**	**–**	**10**	24	–	–	24
Liabilities								
Forward foreign exchange contracts	**(22)**	**–**	**–**	**(22)**	(14)	–	–	(14)

At the balance date no derivatives were designated as hedges.

(A) 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. $10 million (31 December 2012 $24 million) is receivable in relation to forward foreign exchange contracts as at 30 June 2013.

(B) Forward foreign exchange contracts

Forward foreign exchange contracts are entered into by the Group for the purpose of managing residual foreign currency exposures. Undiscounted contractual amounts to purchase $1,791 million (31 December 2012 $2,478 million) were outstanding as at 30 June 2013. All contracts mature within 12 months of the balance date.

9. Claims

	30 JUNE 2013 US$M	31 DECEMBER 2012 US$M
Gross outstanding claims	**20,553**	22,309
Claims settlement costs	**393**	448
	20,946	22,757
Discount to present value	**(1,496)**	(1,301)
Gross discounted central estimate	**19,450**	21,456
Reinsurance and other recoveries on outstanding claims [1]	**3,585**	4,514
Discount to present value	**(124)**	(137)
Reinsurance and other recoveries on outstanding claims	**3,461**	4,377
Net central estimate	**15,989**	17,079
Risk margin	**1,320**	1,333
Net outstanding claims	**17,309**	18,412

1 Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of $23 million (31 December 2012 $29 million).

Risk margin

The risk margin included in net outstanding claims is 8.3% (31 December 2012 7.8%) of the net discounted central estimate. The increase in the risk margin reflects increased uncertainty in the net discounted central estimate at 30 June 2013. As a consequence, the probability of adequacy at 30 June 2013 is 88.1% (31 December 2012 87.5%) which is well above APRA's 75% benchmark. Net profit after tax would have increased by $27 million if the probability of adequacy was maintained at 87.5%.

Prior accident year claims development

Net incurred claims includes prior accident year net undiscounted central estimate development of $178 million. This arises primarily in our North American Operations due to an upgrade of claims provisions on underperforming and run-off portfolios; in Latin American Operations due to an increase in court prescribed interest rates used to estimate workers' compensation settlements; in European Operations' casualty portfolios; and in Equator Re, mainly due to its exposure to North American Operations.

10. Borrowings

(A) Changes in borrowings

During the period the following major changes occurred in the Group's borrowings:

(i) Senior debt due 2018

On 1 May 2013, the consolidated entity raised $600 million through the issue of five year senior notes. Interest is paid semi annually in arrears on 1 May and 1 November of each year at 2.4% per annum. The notes mature on 1 May 2018. The notes are unsecured and unsubordinated obligations of QBE. The securities are rated A by Standard & Poor's, Baa1 by Moody's and A- by Fitch.

QBE may redeem the notes in whole or in part at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principle and interest on the notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the redemption date on a semi annual basis using an equivalent yield to maturity of a US treasury security with a maturity comparable to the remaining term of the notes, plus 30 basis points;

plus, in either of the above cases, accrued and unpaid interest thereon to the redemption date.

(ii) Hybrid securities due 2030

Hybrid securities with a redemption value of $234 million were put to QBE on 13 May 2013 and were settled for cash. Further securities were repurchased during the period at a redemption value of $458 million (31 December 2012 $29 million) giving rise to a gain of $2 million (31 December 2012 nil). $300 million of the redemption value was settled by the issue of shares as part of a tender process.

The redemption value of securities held by parties not related to QBE at 30 June 2013 was $223 million (31 December 2012 $878 million).

(B) Fair value of borrowings

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

AS AT 30 JUNE 2013	FAIR VALUE US$M	CARRYING AMOUNT US$M
Senior debt	2,022	1,930
Hybrid securities	223	215
Subordinated debt	2,399	2,301
Capital securities	310	316
	4,954	4,762

11. Share capital

	30 JUNE 2013 US$M	31 DECEMBER 2012 US$M
Issued ordinary shares, fully paid	9,123	10,002

2013	NUMBER OF SHARES MILLIONS	US$M
Issued and fully paid at 1 January 2013	1,194	10,002
Shares issued under the Employee Share and Option Plan	–	2
Shares issued	21	292
Shares issued under the Dividend Reinvestment Plan	3	43
Share issue expenses (net of taxation)	–	(2)
Foreign exchange movement	–	(1,214)
Issued and fully paid at 30 June 2013	1,218	9,123
Shares notified to the Australian Securities Exchange	1,221	9,139
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(3)	(16)
Issued and fully paid at 30 June 2013	1,218	9,123

11. Share capital CONTINUED

2012	NUMBER OF SHARES MILLIONS	US$M
Issued and fully paid at 1 January 2012	1,112	8,939
Shares issued under the Employee Share and Option Plan	–	2
Shares issued under the Dividend Reinvestment Plan	9	115
Shares issued under the Bonus Share Plan	1	–
Shares issued pursuant to the share placement	56	635
Share issue expenses (net of taxation)	–	(6)
Foreign exchange movement	–	(7)
Issued and fully paid at 30 June 2012	1,178	9,678
Shares notified to the Australian Securities Exchange	1,182	9,703
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(4)	(25)
Issued and fully paid at 30 June 2012	1,178	9,678

12. Dividends

	2012		2011
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	10.0	40.0	25.0
Franking percentage	100%	15%	25%
Franked amount per share (Australian cents)	10.00	6.00	6.25
Dividend payout (A$M)	120	473	279
Payment date	28 Mar 2013	24 Sep 2012	30 Mar 2012

On 20 August 2013, the directors declared a 100% franked interim dividend of 20 Australian cents per share, payable on 23 September 2013. The interim dividend payout is A$244 million (2012 A$473 million). The record date is 2 September 2013.

	2013 US$M	2012 US$M
Final dividend paid on ordinary shares		
Franked	**125**	72
Unfranked	**–**	216
	125	288
Dividend reinvested under the Bonus Share Plan	**(3)**	(10)
Total dividend paid	**122**	278

13. Events occurring after the balance date

On 1 July 2013, the company settled $211 million of subordinated debt securities for cash at the first call date. The final maturity date was 1 July 2023.

Directors' declaration

FOR THE HALF YEAR ENDED 30 JUNE 2013

The directors declare that the financial statements and notes set out on pages 32 to 46:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Group's financial position as at 30 June 2013 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

In the directors' opinion, the financial statements and notes are in accordance with the *Corporations Act 2001*, including sections 304 (compliance with accounting standards) and 305 (true and fair view) and there are reasonable grounds to believe that QBE Insurance Group Limited will be able to pay its debts as and when they become due and payable.

Signed in SYDNEY this 20th day of August 2013 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

JD Neal
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the half year financial report

We have reviewed the accompanying half year financial report of QBE Insurance Group Limited, which comprises the consolidated balance sheet as at 30 June 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for the QBE Insurance Group Limited (the consolidated entity). The consolidated entity comprises both QBE Insurance Group Limited (the company) and the entities it controlled during that half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half year ended 30 June 2013 included on 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 review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

K.G. Smith.

KG Smith
Partner

Sydney
20 August 2013

Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2013

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2013	2012	2011	2010	2009	2012	2011	2010	2009	2008
Gross written premium	US$M	**9,446**	9,223	8,942	6,861	5,704	18,434	18,291	13,629	11,239	11,015
Gross earned premium	US$M	**8,413**	8,404	7,834	6,110	5,039	18,341	17,840	13,432	10,943	10,773
Net earned premium	US$M	**7,333**	7,359	6,778	5,240	4,379	15,798	15,359	11,362	9,446	9,293
Claim ratio	%	**59.4**	61.5	65.9	59.9	60.8	66.0	68.2	59.9	60.3	57.6
Commission ratio	%	**17.8**	16.8	15.8	15.3	17.0	16.2	14.9	15.5	16.2	17.2
Expense ratio	%	**15.6**	14.6	14.0	14.5	11.5	14.9	13.7	14.3	13.1	13.7
Combined operating ratio	%	**92.8**	92.9	95.7	89.7	89.3	97.1	96.8	89.7	89.6	88.5
Investment income											
before net fair value gains/losses	US$M	**373**	391	542	330	512	712	957	660	838	1,237
after net fair value gains/losses	US$M	**394**	683	657	116	542	1,216	776	659	1,159	1,199
Insurance profit	US$M	**790**	958	762	827	766	1,262	1,085	1,703	1,609	1,830
Insurance profit to net earned premium	%	**10.8**	13.0	11.2	15.8	17.5	8.0	7.1	15.0	17.0	19.7
Financing and other costs	US$M	**168**	166	114	108	90	324	275	222	191	223
Operating profit											
before income tax	US$M	**585**	914	776	528	893	941	868	1,551	1,891	2,028
after income tax and non-controlling interests	US$M	**477**	760	673	440	720	761	704	1,278	1,532	1,558
Number of shares on issue [1]	millions	**1,221**	1,182	1,093	1,035	1,003	1,197	1,116	1,052	1,025	987
Shareholders' funds	US$M	**11,163**	11,546	11,209	8,921	8,253	11,358	10,386	10,311	9,164	7,834
Total assets	US$M	**49,105**	48,852	47,781	37,128	36,057	50,762	46,737	41,386	36,723	33,967
Net tangible assets per share [1]	US$	**4.58**	4.54	4.58	4.46	4.17	4.47	3.92	4.76	4.63	4.02
Borrowings to shareholders' funds [1]	%	**42.7**	37.1	43.3	38.9	29.3	43.4	45.8	31.5	29.1	32.9
Basic earnings per share [1]	US cents	**37.9**	67.5	62.8	42.7	72.2	64.9	64.7	123.2	152.1	174.1
Diluted earnings per share	US cents	**35.8**	63.1	59.9	42.2	71.6	61.6	61.3	119.6	149.9	172.2
Returns on average shareholders' funds	%	**8.5**	13.9	12.5	9.7	17.9	7.0	6.8	13.1	18.0	22.3
Dividend per share	Australian cents	**20**	40	62	62	62	50	87	128	128	126
Dividend payout	A$M	**244**	473	677	642	628	593	956	1,336	1,306	1,187
Cash flow from operations	US$M	**650**	842	1,121	698	564	2,753	2,139	1,362	1,344	1,886
Total investments and cash [2]	US$M	**29,955**	28,851	28,966	22,272	20,644	31,525	28,024	25,328	22,448	19,995

1 Reflects shares notified to the Australian Securities Exchange.

2 Includes financial assets at fair value through the income statement, cash and cash equivalents, investment properties and property held for sale.

Glossary of insurance terms

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Acquisition cost	Operating expenses incurred in the generation of net earned premium and net commission expense. Often expressed as a percentage of net earned premium.
Attritional claims ratio	Total of all individual claims with a net cost of less than $2.5 million as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy is sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, and receives a commission from the insurer or reinsurer for placement of the insurance contract and other services rendered. In contrast to an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Casualty insurance	Insurance that is primarily concerned with claims resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses incurred from an accumulation of claims resulting from a single catastrophe event, or a series of such 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 during that accounting period.
Claims provision	The estimated present value of the most likely cost of settling present and future claims in relation to events that have occurred as at the balance date, including associated claims adjustment expenses, plus a risk margin to cover possible fluctuation of the estimated liability. Also referred to as the outstanding claims provision.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker, usually as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.
Deductible	The amount or proportion of some or all claims arising under an insurance contract that the insured must bear.
Deferred acquisition costs	The portion of acquisition costs which relate to the unexpired exposure for contracts in force as at the balance date. These costs are carried forward from one accounting period to subsequent accounting periods to align the recognition of income and expenses on a policy with the period of exposure or coverage.
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. Claims incurred can include those paid and also estimates for future payments on events that have occurred but where the claim has not yet been settled in cash,
Gross earned premium (GEP)	The portion of gross premium underwritten in the current and previous underwriting years, which has been earned during a specified period. Premium is earned over the period that an insurer is exposed to events that may give rise to claim. The pattern of the earning will reflect the expected pattern of exposure to risk events.
Gross written premium (GWP)	The total premium on all insurance contracts underwritten and incepting 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 carrier	The insurance company that provides insurance protection to a customer for a premium.
Insurance profit	The sum of the underwriting result and investment income earned on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	The reinsurance or assumption of risks written by another insurer. Inward reinsurance premium income is included in gross written premium.
Large individual risk and catastrophe claims ratio	The aggregate of all individual claims with a net cost of $2.5 million or more, as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Lender-placed insurance (LPI)	Coverage obtained by the lender when the customer's voluntary home building insurance has lapsed, been cancelled or proof of the customer's insurance has not been received. Coverage is required by the mortgage contract to protect the lender's interest in the property if damage was to occur and the customer had not maintained adequate coverage.
Letters of credit (LOC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members who often join together to form syndicates.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions on behalf of a member or syndicate.
Long tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Multi-peril crop scheme (MPCI)	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium for a year.
Net investment income	Gross investment income net of foreign exchange gains and losses and investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.

Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudential capital requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
Short tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's claims in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.
Surplus (or excess) lines insurance	In contrast to "admitted insurers", every US state also allows non-admitted (or "surplus" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Written premium	Premiums written, whether or not earned, during a given period.

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