QBE Insurance Group Limited

2015 Annual Report

23 February 2016

Contents

QBE Insurance Group Limited Annual Report 2015
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Section 1
Performance overview

2 Chairman's message
4 2015 snapshot
6 Group Chief Executive Officer's report

Section 2
Business review

10 Group Chief Financial Officer's report
26 Divisions at a glance
28 North American Operations business review
32 European Operations business review
35 Australian & New Zealand Operations business review
39 Emerging Markets business review
43 Equator Re business review
46 Divisional outlook for 2016
48 Group Chief Risk Officer's report

Section 3
Board and management

50 Board of directors
52 Group executive committee

Section 4
Directors' Report

54 Directors' Report

Section 5
Financial Report

91 Financial Report contents
92 Financial statements
96 Notes to the financial statements
162 Directors' declaration

Section 6
Other information

163 Independent auditor's report
170 Shareholder information
173 Financial calendar
174 10 year history
175 Glossary of insurance terms

All amounts in this report are US dollars unless otherwise stated.

Delivering on our promises

2015 presented a tough market for the insurance industry as a number of disruptive influences continued to shape what we do and how we succeed. I am pleased to report that QBE's strategic plans remain well on track as we move from a period of refocus and stabilisation to one of controlled growth. I am increasingly confident we are set up for future success.

The market

I think I can say without doubt that this is the toughest marketplace I can remember. Increasing globalisation has seen new capital entering the insurance market seeking a profitable home and consequently dragging down prices. At the same time, investment returns remain well below historic levels. To remain profitable insurers have no option but to focus their efforts on high quality underwriting, efficiency and cost reduction.

The past few years have seen the evolution of the "digitalisation" of insurance and 2015 really brought this home. Technologies which were until recently new and untried are now finding real purpose. The ability to analyse unstructured data and develop insights is having a profound impact on risk selection, pricing and claims management. Customers now have access to new data, offering them the ability to make more informed decisions including choice of retention and risk management strategies.

With limited growth in the mature markets, insurance companies seeking growth have to find strategies to win business from competitors – through unique propositions, data insights or deep customer understanding. Emerging markets are still growing, albeit more slowly than before and with inherent risks.

Increasingly, commentators are questioning whether the underwriting cycle of hard and soft markets is a thing of the past. While I am sure there will be some recovery, many of the underlying changes we are seeing are structural rather than cyclical and will have a permanent impact on how the insurance market operates.

From my perspective, QBE is well-placed to succeed in the new world:

- Our business is widely diversified along geographic and product lines enabling us to sustain performance as markets rise and fall, focusing our efforts on the most attractive segments.
- QBE has an enviable position in many of the developed markets – we are seen by clients and brokers as undoubted leaders in many commercial and specialty markets, with the experience and expertise to lead in this space.
- We have a sizeable footprint in the emerging markets of Asia Pacific and Latin America and, importantly, our many years' experience in these markets allow us to manage the risks inherent in a high growth environment.
- QBE operates shared services centres in low cost environments with our Group Shared Services Centre (GSSC) in the Philippines carrying out processing and administrative services on behalf of all of our divisions around the globe.
- We have innovative and comprehensive reinsurance arrangements to protect our balance sheet and profit and loss which are underpinned by a unique global program coordinated by our own captive reinsurer, Equator Re.

2015 performance

Against that challenging backdrop, QBE has delivered on 2015 promises. Last year we set some key objectives and I am pleased to say we have made real progress on all of them, while at the same time making significant investments for the future.

Despite challenges in a number of our markets, our business overall has largely achieved target. Particularly pleasing is the turnaround achieved in our North American Operations, where we have rationalised and refocused to return this important business to an underwriting profit.

We have begun to grow our business in those areas we consider core; in particular, specialty in North America, our UK regional business and emerging markets.

We continue our journey towards operational excellence, having implemented a stronger, more integrated global operating model and increasing our usage of the GSSC.

Our capital base has been strengthened and we are seeing positive prior accident year claims development in the aggregate.

Importantly, we continue to invest in building our own talent through our Leadership Academy and Executive Leadership Programs, as well as attracting fresh talent to transform and grow our business.

Looking to the future

QBE is entering a new phase of its evolution.

The last two years have been about remediating underperforming business, consolidating to achieve synergies and strengthening our operating model as a base for future growth. The next period is focused on delivering a series of strategic initiatives to build on the strong base we have established.

With markets remaining challenging, we will look to balance short term returns against investment for the future and will focus on three key areas:

- Achieving thoughtfully-managed **organic growth** in our core business focus areas.
- Continuing our journey towards **operational excellence**.
- Building our **talent pool** and ensuring remuneration is closely linked to performance, day-to-day as well as transformation and change.

Resetting our vision

As we enter an exciting new era, it is only right that we reconsider our vision. You will read more about this in the CEO's report but I want to touch briefly on one aspect here which I think is important for all our stakeholders. As a precursor to defining our vision, we stepped back and considered our **purpose** – why we exist as an organisation. We asked our customers, our investors and our people why they want to deal with QBE and a common theme from these conversations was one of belief; of trust in QBE to deliver and to help them achieve their own aims and objectives. So we considered that theme in developing our purpose: *"We give people the confidence to achieve their ambitions."*

Based upon my interactions with QBE's management team and with our underwriting and operations people, I believe we are delivering on our purpose in relation to our people, providing them with challenging and rewarding careers. For our customers, the depth of QBE's underwriting expertise, risk management capability and the responsiveness of our claims teams provides confidence that QBE will be there to support them should the unexpected happen.

Providing our shareholders with the confidence to achieve their ambitions is also central to our purpose. We need to give investors confidence that we will continue to grow our net profit after tax, increase our dividend payments and book value per share and, ultimately, increase our share price year on year.

QBE Group Board changes

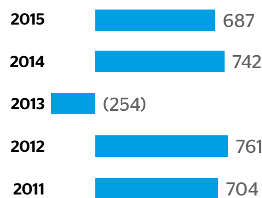
In closing, I want to highlight that John Graf retired from the Board at the end of December 2015. I would like to thank John for his contribution over the last four years.

W. Marston Becker
Chairman

2015 snapshot[1]

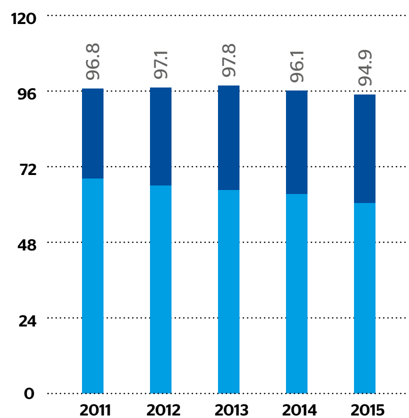
Performance

Net profit after income tax (US$M)



7%

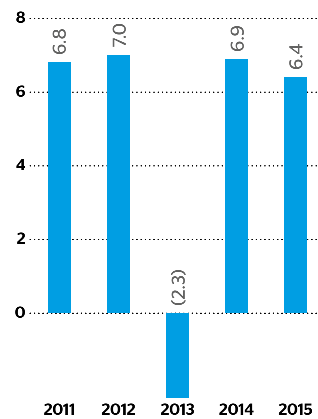
Combined operating ratio (COR) (%)



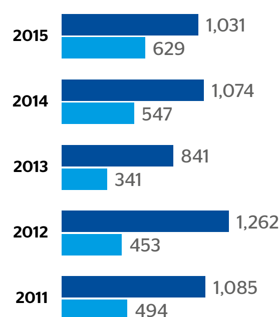
Combined commission and expense ratio

Net claims ratio

Return on average shareholders' funds (%)



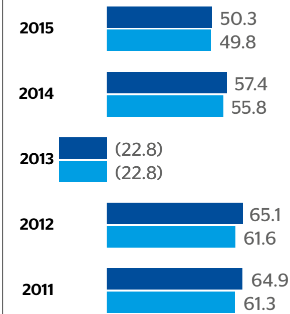
Insurance profit and underwriting result (US$M)



Insurance profit 4%

Underwriting result 15%

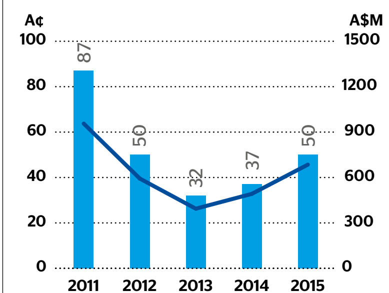
Earnings per share (EPS) (US¢)



Basic EPS

Diluted EPS

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



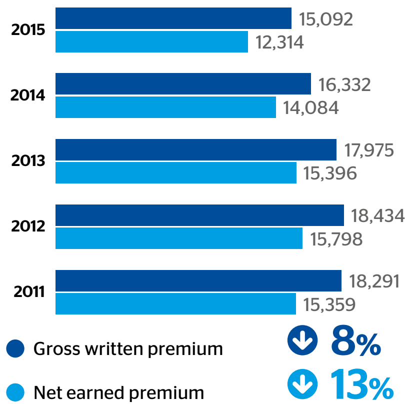
Dividend per share (A¢)

Dividend payout (A$M) 35%

1 The information in the tables above is extracted or derived from the Group's audited financial statements. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against targets provided to the market in February 2015. This further analysis includes adjustments to exclude material items related to the impact of business disposals not included in those targets.

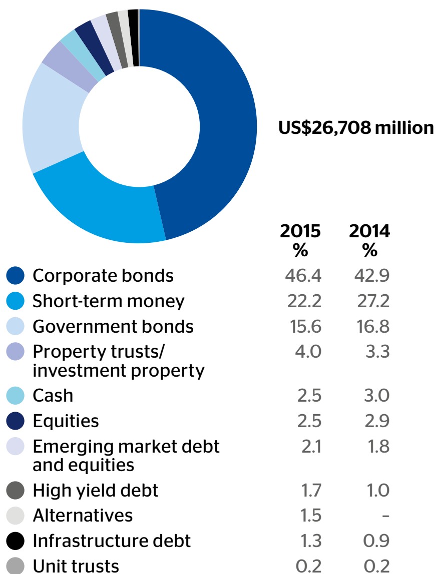
Profile

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



- Gross written premium ↓ 8%
- Net earned premium ↓ 13%

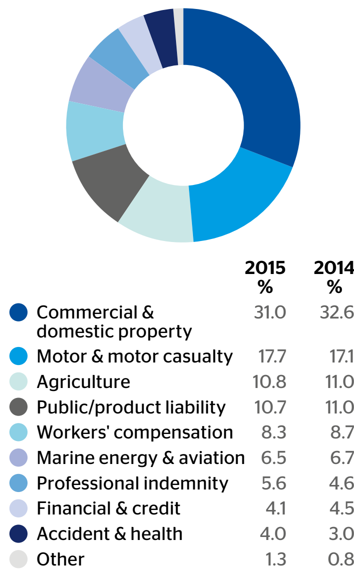
Investments and cash at 31 December 2015



US$26,708 million

	2015 %	2014 %
Corporate bonds	46.4	42.9
Short-term money	22.2	27.2
Government bonds	15.6	16.8
Property trusts/ investment property	4.0	3.3
Cash	2.5	3.0
Equities	2.5	2.9
Emerging market debt and equities	2.1	1.8
High yield debt	1.7	1.0
Alternatives	1.5	-
Infrastructure debt	1.3	0.9
Unit trusts	0.2	0.2

Gross earned premium by class of business



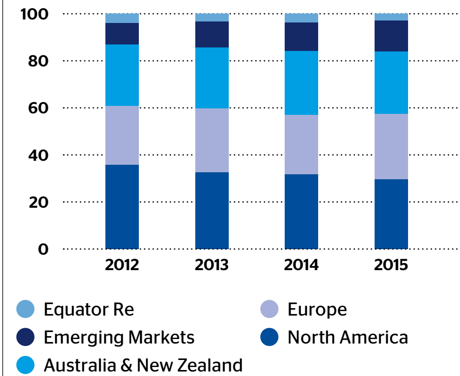
	2015 %	2014 %
Commercial & domestic property	31.0	32.6
Motor & motor casualty	17.7	17.1
Agriculture	10.8	11.0
Public/product liability	10.7	11.0
Workers' compensation	8.3	8.7
Marine energy & aviation	6.5	6.7
Professional indemnity	5.6	4.6
Financial & credit	4.1	4.5
Accident & health	4.0	3.0
Other	1.3	0.8

Net earned premium by type

93% direct and facultative insurance

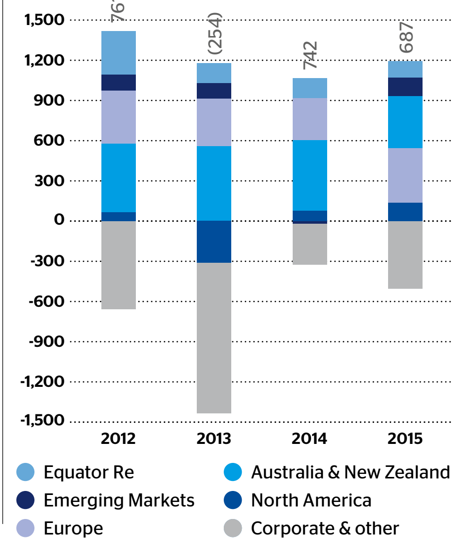
7% inward reinsurance

Divisional analysis of net earned premium (%)



- Equator Re
- Emerging Markets
- Australia & New Zealand
- Europe
- North America

Net profit after tax by division (US$M)



- Equator Re
- Emerging Markets
- Europe
- Australia & New Zealand
- North America
- Corporate & other

Transitioning to profitable growth

In 2015 we successfully balanced further improvement in short term performance with investment for the future. As we move into 2016 and look to the future, we are confident our strategy will deliver profitable growth, allowing us to increase earnings and dividends over time.

We faced a number of headwinds during 2015, including challenging markets for both insurance pricing and investments, the significantly weaker Australian dollar and continued low interest rate environment. Despite these headwinds, we are pleased to have produced an adjusted underwriting result at the better end of our target range and an insurance profit margin towards the middle of our target range.

Our strategy of rationalising the business to focus on our strengths has further improved performance by removing the drag from underperforming and non-core businesses. We have continued our emphasis on underwriting and claims excellence, recording our best combined operating ratio since 2010. Importantly, during 2015 we also invested heavily in infrastructure, technology and our people, creating a stable platform for continued success.

As we move forward, our strategy will allow us to grow in those areas where market opportunities exist and where we know we can lead. By doing so, we believe we can provide our customers with a service unrivalled in the market.

2015 achievements

Profitability

Excluding the sold Argentine workers' compensation business and the one-off impact of other non-core asset sales, our adjusted profit increased 1% to $807 million, or up 12% on a constant currency basis. This was despite substantially lower investment returns and reflected improved underwriting profitability.

Cash profit was $893 million, up 9% from $821 million in the prior period, or up 21% on a constant currency basis.

Cash profit return on equity increased to 8.3% from 7.7% a year earlier.

Our adjusted combined operating ratio of 94.0% is at the better end of the 94.0% – 95.0% target range we set at the beginning of 2015 and represents the Group's best underwriting performance since 2010.

During the past 24 months, and most notably in 2015, we have:

- executed a series of remediation initiatives that have substantially improved the quality of our underwriting account;
- restructured and considerably strengthened the quality of our balance sheet, a fact acknowledged by the major rating agencies in assessing our capital strength;
- returned our North American Operations to underwriting profit;
- created a rhythm of operational excellence throughout our business with significant cost reductions achieved and more to follow;
- attracted high quality talent to our executive, underwriting and business function teams;
- strengthened our reinsurance programs with a focus on reducing volatility in our profit and loss account (notably from large individual risk and catastrophe claims activity); and
- returned the Group to earnings stability and predictability.

Our 2015 adjusted result included $147 million of positive prior accident year claims development. We remain disciplined with robust reserving controls and claims management practices, a fact reflected in the Group reporting its third consecutive half year of positive prior accident year claims development.

Financial strength and flexibility

In 2015, we completed the final elements of our comprehensive capital plan which further strengthened our already robust capital ratios. This resulted in the key credit rating agencies affirming our strong financial security ratings and deeming our capital position to be "stable" while Moody's upgraded QBE's senior unsecured debt and long-term issuer ratings to Baa1 from Baa2. Significantly, Standard & Poor's referred to QBE's capital adequacy as being "at the AA level".

More specifically, during 2015 we:

- completed the sale of our workers' compensation business in Argentina and our Mortgage & Lender Services business in North America;
- replaced £300 million of senior debt with $300 million and A$200 million of capital-qualifying tier 2 subordinated debt;
- placed an innovative aggregate reinsurance program (for both 2015 and 2016) designed to limit the cost of large individual risk and catastrophe claims to less than 9% of net earned premium under most scenarios;
- purchased quota-share reinsurance and commodity-price derivatives to supplement the existing stop-loss reinsurance arrangements for our North American crop business; and
- reduced tail risk on new business in our highly profitable Australian lenders' mortgage insurer with a unique reinsurance program designed to substantially reduce down-side exposure to economic events in the 1 in 20 year to 1 in 250 year probability of occurrence.

Coupled with retained profit growth, the above initiatives have seen the Group's debt to equity ratio stabilise at 33.6% and reserving probability of adequacy increase to 89.0%. Coverage of APRA's prescribed capital amount (PCA) increased to 1.72x (the highest level since 2010) with a further increase in our excess over and above S&P's minimum AA capital requirement.

We remain very comfortable with our regulatory capital position.

Premium

Gross written premium decreased 7% to $14,782 million from $15,944 million in the prior period but was up 1% on a constant currency basis reflecting:

- excluding the now sold Mortgage & Lender Services, North American Operations' gross written premium was $4,578 million, down 4% from the prior period but in line with half year expectations. Encouragingly, we continue to see strong growth in the consumer business within Standard Lines which grew by 11% and our Specialty Lines business grew by a further 32%, consistent with plan;
- despite competitive market headwinds and the impact of the dramatic fall in commodity prices, European Operations reported encouraging growth of 5%;
- Australian & New Zealand Operations grew by 3% underpinned by pleasing growth in our traditional commercial lines portfolio; and
- our profitable growth strategy contributed to 9% growth in Emerging Markets, including 3% growth in Asia Pacific and 13% growth in Latin America.

Gross written premium of $14,782 million and net earned premium of $12,213 million fell slightly short of our gross written and net earned premium targets of $15.2 billion – $15.6 billion and $12.3 billion – $12.7 billion respectively. This was due to a combination of adverse currency movements, a second half slowdown in Asia on the back of Chinese economic deceleration, further remediation in North America, particularly in commercial motor, and a larger than expected industry-wide reduction in Australian lenders' mortgage insurance new business volumes.

Pricing remains challenged across the globe with rates down by around 1.3% overall and forecast to fall by a similar amount in 2016.

Operational excellence

At this point in the insurance cycle and given prevailing interest rates, it is critical that we continue to reduce both claims costs and operating costs.

Our operational transformation program commenced three years ago and, together with additional savings associated with the right-sizing of our North American Operations, has generated cost savings approaching $400 million including a further $126 million of incremental benefits in 2015.

Having reduced the Group's operating expenses and having reported positive prior accident year claims development over three consecutive half years, we are committed to achieving further savings in both claims costs and operating expenses as discussed later in my report.

Simultaneously, we are investing in four very important areas to ensure the future well-being of our business:

- transformation of our global finance and technology processes;
- development of claims management systems to reduce the indemnity cost of claims and the settlement costs associated with claims management as well as improving our service proposition to customers;
- implementation of global people management systems; and
- significantly strengthening our data and analytics capabilities through development of an integrated onshore/offshore model.

Investments

From an investment market perspective, the second half of 2015 proved to be as challenging as any period in recent history with a precipitous fall in oil prices. This was compounded by China recording its slowest pace of economic growth for a quarter of a century. Against this back-drop, we were pleased to deliver an adjusted net return of around 2.2% from an investment portfolio that remains defensively positioned to protect against the continued macro headwinds we are seeing in early 2016.

People

Our people are our key competitive advantage and developing their skills and providing fulfilling careers is therefore a prerequisite for our success.

Our Leadership Academy is in its third year of operation with over 1,800 of our leaders participating in a series of education and development programs. In the first quarter of 2016, we intend deepening our global focus on technical capability with the launch of our Underwriting Academy. Our medium term objective is to underpin that capability with an aligned global approach and to continue to lift the percentage of our underwriters who are formally accredited by leading insurance institutes.

All of our senior roles have structured succession planning in place and we were delighted to promote Tim Plant to Chief Executive Officer of our Australian & New Zealand Operations, succeeding Colin Fagen.

Divisional Performance

1. North American Operations

Dave Duclos and his senior team have achieved a strong turnaround of our North American Operations, improving the combined operating ratio from 111.5% in 2013 to 99.2% in 2015, thereby returning the business to underwriting profit. A number of actions taken during 2015 give us confidence we can deliver further meaningful improvement in underwriting profit in 2016 and beyond. These include remediation of our Standard Lines business, the successful restructuring of our Crop business, continued build-out of our profitable Specialty business and the sale of our Mortgage & Lender Services business.

2. Australian & New Zealand Operations

With the backdrop of the considerable catastrophe claims activity in the first half of 2015, ongoing price competition and a significant increase in NSW CTP claims frequency, Australian & New Zealand Operations' combined operating ratio of 91.3% is a solid outcome. By repricing our NSW CTP portfolio, and implementing important operational changes designed to build scalability in to the acquisition cost base, we aim to hold underwriting margins steady despite continued challenging market conditions.

3. European Operations

Richard Pryce and the team in Europe achieved the standout result in the Group, delivering 5% growth on a constant currency basis and recording a combined operating ratio of 89.1%. Notwithstanding highly competitive market conditions, European Operations recorded an improvement in its attritional claims ratio on the back of a reworking of the underwriting account over the past two years. Ongoing favourable prior accident year claims development is indicative of our disciplined approach to underwriting and reserving, particularly in the challenging International Markets and Reinsurance businesses.

4. Emerging Markets

Underpinned by an improved performance in both Asia Pacific and Latin America, David Fried and team grew our Emerging Markets business by 9% on a constant currency basis in 2015 while recording an improved combined operating ratio of 99.2%. The decision to hub these businesses in Hong Kong and Miami respectively has strengthened our governance and control framework, increasing confidence in our ability to simultaneously deliver further growth and improved profitability.

5. Equator Re

Equator Re provides excess of loss reinsurance protection and proportional cover to our four operating divisions. Despite further softening of reinsurance premium rates during 2015 and the impact of large individual risk claims from the divisions, Equator produced a solid combined operating ratio of 89.0% in a relatively benign catastrophe claims year.

In Summary

2015 was a year of transition, closing off our remediation phase and beginning our return to profitable growth. Our disciplined approach in difficult market conditions has allowed us to balance improvement in underwriting profitability and performance with a clear desire to invest for the future, leaving the business well positioned for sustained success.

On behalf of our Group Executive, I want to thank all of our stakeholders for trusting QBE and having the confidence that we will deliver on our promises. As I consider our business today, the future looks bright and I look forward to meeting our promises again in 2016 and beyond.

John Neal
Group Chief Executive Officer

Outlook for 2016

We expect both insurance pricing and investment markets to remain challenged in 2016. Our focus on quality underwriting and claims performance will not change while we continue to invest in our strategic growth and operational excellence initiatives. This will include a substantial build out of our data analytics capabilities and an emphasis on deepening our customer understanding and relationships."

2016 targets:

Gross written premium[1,2]

US$14.2–14.6billion

(US$14.6–15.0 billion at constant currency)

Net earned premium[1]

US$11.6–12.0billion

(US$11.9–12.3 billion at constant currency)

Combined operating ratio[3,4]

94–95%

Insurance profit margin[3,4,5]

8.5–10% of net earned premium

As we transition from a period of business remediation and refocus on profitable growth, it is timely to remind ourselves of what we believe is QBE's purpose – to give people the confidence to achieve their ambitions. That means understanding the needs of our many stakeholders – our customers, our investors as well as our own people – and providing products and services that fulfil these needs. Our refreshed vision captures how we will achieve that – by being "*the insurer that builds the strongest partnerships with customers*".

This vision will drive our strategy of customer-centric growth and operational excellence through a series of initiatives which will help us deliver medium and long term growth and efficiency.

Importantly, we also need to deliver on our short term promises and that means delivering on our 2016 plan. Consequently, our business plan for the coming year takes into account market opportunities and challenges, as well as our own short, medium and long term aspirations.

In 2016, an unwavering focus on five clear priorities will ensure we execute on our published near term targets as well as investing to achieve improved performance and profitability over the medium to longer term.

1. **Performance management**. Through 2014 and 2015 we demonstrated underwriting discipline. We anticipate 2016 will be a more challenging underwriting year than 2015 and accordingly, have further improved the rigour of our business plan review and remediation activities to ensure our performance objectives are met.
2. **North American Operations**. We will continue to refocus as a specialist insurer and reinsurer in this important market, integrating and streamlining our operations to lower our expense ratio and further improve profitability.
3. **Profitable growth**. We are investing $150 million in products and territories where we believe profitable growth opportunities exist. As one of the few truly global non-life insurers, we will use our geographic footprint, our extensive range of products and services and the quality of our people, to drive an attractive organic growth trajectory.
4. **Cost management**. We are targeting a reduction in operating expenses of $150 million in 2016 that will result in a 1% improvement in our 2016 expense ratio. Moreover, we are developing plans to eliminate a further $150 million of costs in 2017-18, thereby improving our expense ratio by 2% over the three years to 2018. Excluding asset sales, this is expected to result in a total reduction in the Group's gross operating expenses of approximately $700 million over the six year period to 2018.
5. **Claims transformation**. We are making substantial investments in our claims management systems to improve the cost of claims indemnity and reduce the cost of managing claims, while simultaneously improving our customer service capabilities. These actions are intended to assist in maintaining a stable attritional claims ratio despite an expectation of further modest premium rate softening.

QBE is known for strong underwriting discipline and robust capital management. With a renewed focus on our customers, our strategic initiatives will drive further profitable growth, while at the same time delivering excellent products and services to our customers and their brokers globally.

1 Premium targets are based on assumed foreign exchange rates which are significantly below 2015 foreign exchange rates.
2 Excludes an estimated $460 million of M&LS gross written premium that is 100% reinsured to National General. Nil impact on net earned premium.
3 Assumes no prior accident year claims release.
4 Assumes risk free rates as of 31 December 2015.
5 Assumes a 2.4% net investment yield.

Financial and operations overview

QBE's 2015 result demonstrated positive momentum with improved underlying earnings, stable reserving, a very strong capital position, healthy divisional dividend remittances and a 27% uplift in our dividend.

General overview

The Group reported a 2015 statutory net profit after tax of $687 million, down 7% from 2014, with a healthy increase in underwriting profit tempered by weaker investment returns and an increase in the effective tax rate.

Cash profit after tax was $893 million, up 9% from the prior period but up by a more impressive 21% on a constant currency basis supporting the 35% uplift in dividends to shareholders.

Cash profit return on equity increased to 8.3%, from 7.7% in 2014.

Book value per share increased 6% to A$10.51 from A$9.91 at the end of 2014 or 10% including dividends paid in 2015.

A number of material items relating to the disposal of businesses were not included in our published 2015 targets or plans and so the profit and loss commentary following refers to the Group's results adjusted to exclude those items. Details of the nature and impact of these transactions are provided in note 7.1 to the financial statements and on page 13 of this report.

Despite a very competitive insurance pricing environment and volatile investment and currency markets, I am pleased to report that the Group delivered a 1% increase in net profit after tax to $807 million, with lower investment income essentially offset by reduced borrowing and amortisation costs.

Allowing for the significantly stronger US dollar and more reflective of underlying performance, net profit after tax increased 12% on a constant currency basis.

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

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

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

1. Driving financial performance

We aim to run a tightly controlled business that is stable, predictable and profitable.

Notwithstanding the challenging environment, we are delighted to have achieved our financial targets for the year. Our 94.0% combined operating ratio was at the better end of the 94%-95% target range and our 9.0% insurance profit margin was comfortably within the 8.5%-10.0% target range despite investment yields falling significantly short of expectations after a weaker than budgeted second half return.

Key themes from the 2015 full year result include:

(a) Demonstrating reserving adequacy with three consecutive halves of positive prior accident year claims development

It was pleasing to once again demonstrate reserving adequacy with the 2015 full year result marking our third consecutive half of positive prior accident year development. We recorded net positive prior accident year claims development of $68 million in the second half of 2015, bringing the full year favourable claims development to $147 million or 1.2% of net earned premium.

European and Australian & New Zealand Operations again recorded positive prior accident year development which was partially offset by adverse development in Equator Re and North American Operations.

(b) Reduced volatility through enhanced reinsurance

At the beginning of 2015, we took the decision to significantly reduce potential underwriting volatility by purchasing additional reinsurance. In particular, we acquired a unique large individual risk and catastrophe aggregate reinsurance program designed to limit the cost of these claims to less than 9% of net earned premium under most scenarios. Similarly, we elected to reinsure the majority of our crop hail risk by way of an extensive quota share reinsurance program and expand the quota share reinsurance protecting Equator Re's net account.

While 2015 proved to be a relatively benign year in terms of catastrophe and crop hail experience, these covers remain in place in 2016 and underpin our confidence that we can achieve our 2016 combined operating ratio target in most large individual risk and catastrophe claim scenarios.

In the same vein, for the 2016 underwriting year we have significantly reduced the tail risk on new business in our Australian mortgage insurance business through a unique reinsurance program. This program is designed to reduce down-side exposure to severe economic events in the 1 in 20 year to 1 in 250 year probability of occurrence range.

(c) Portfolio enhancements

During 2015 we completed a number of non-core asset sales including distribution businesses in Australia and North America, underwriting businesses in Central and Eastern Europe, the workers' compensation business in Argentina and the Mortgage & Lender Services (M&LS) business in North America. Exiting the workers' compensation and M&LS businesses in particular will reduce earnings volatility and will be beneficial to both forward earnings and return on invested capital.

(d) Improved crop result

After three years of underwriting losses it is pleasing to report a strong performance by our North American crop insurance business. The crop portfolio produced a combined operating ratio of 83.6% on the back of improved industry conditions including good harvest yields and stable commodity prices. The result also benefited from the implementation of enhanced underwriting analytics to better determine which risks to retain and which to cede to the government reinsurance fund, which resulted in outperformance relative to the industry average.

(e) Improved results in North America and Emerging Markets – both returning to underwriting profit

The result was also pleasing from a qualitative perspective as it included a return to underwriting profitability for North America and Emerging Markets, both of which recorded combined operating ratios of 99.2%. The improved result in North America reflects the culmination of a significant change program including leadership renewal, extensive portfolio remediation and enhanced underwriting practices, a very significant cost-out program and, of course, a better crop result. The improved result in Emerging Markets primarily reflects an improved result in our remaining Argentine business and the early signs of improvement in the Colombian SOAT portfolio.

(f) A few areas require attention

Although perhaps not surprising given the competitive pricing landscape, we were nevertheless disappointed to report an increase in the Group's underlying attritional claims ratio to 48.1% from 47.0% in the prior period, with a few 'problem' areas deteriorating by more than the beneficial impact of portfolio remediation.

The attritional claims ratio in Australia & New Zealand increased appreciably primarily due to a simultaneous increase in both the relative quantum of NSW CTP insurance (which naturally incurs a higher attritional claims ratio relative to other, short-tail classes) and an industry-wide increase in claims frequency during the second half of 2015. We recently filed for a significant rate increase that will become effective from 1 May 2016 which should improve CTP profitability.

North American Operations also experienced an uptick in its attritional claims ratio, largely reflecting an increase in claims frequency in commercial auto classes, broadly consistent with industry trends. We remain optimistic of arresting this trend with a combination of premium rate increases and the cancellation of a number of commercial auto programs.

Underwriting expenses remain a key focus. While we reduced costs by 8% in absolute terms (inclusive of foreign exchange impacts) in 2015 and have delivered cost savings of nearly $400 million since 2012, our expense ratio has deteriorated as a result of reduced net earned premium due to remediation initiatives and increased reinsurance spend. There is much more the Group can do to improve efficiency and, to that end, we have committed to reducing operating expenses by $150 million in 2016, thereby improving the 2016 expense ratio by 1%.

A return to modest premium growth will also assist in this regard.

(g) Strong cash remittances from subsidiaries

Cash remittances from subsidiaries remained strong at $715 million compared with $770 million in 2014 and represented 80% of Group cash profit and dividend coverage (net of DRP) of 2.0x.

Group head office cash flows

FOR THE YEAR ENDED 31 DECEMBER	2015 US$M	2014 US$M
Opening head office cash balance	**369**	164
Total divisional dividend remittances	**715**	770
Interest on parent entity borrowings	**(89)**	(135)
Gross organic cash flow	**626**	635
Dividends paid - net of DRP	**(359)**	(216)
Net organic cash flow	**267**	419
Other (including asset sales)	**209**	(214)
Closing head office cash balance	**845**	369

2. Investment strategy and performance

The past year was characterised by significant investment market volatility which made for an especially challenging environment for investment returns. Global equities were down 4% and global bonds only returned 0.86%, one of the lowest annual returns in almost two decades.

Against this backdrop, we were pleased to deliver a net investment return of 2.2% which comprised a blended cash and fixed income return slightly less than 2% and an overall blended return of 5.7% from growth assets. Each growth asset segment delivered returns in excess of comparable market benchmarks and overall we succeeded in adding 100 basis points of return above the weighted average market reference rate due to timely duration extensions and our defensive style bias.

Given the likelihood that 2016 will be characterised by heightened macro-economic uncertainty and market volatility, we will be taking a modestly more cautious stance in our investment portfolio, favouring increased exposure to asset classes with greater stability of earnings and performance, such as property and infrastructure, and less exposure to potentially more volatile emerging market debt and equity.

We favour taking advantage of wider prevailing credit spreads to capture additional running yield in our fixed income portfolio and may do so in tandem with modest duration extensions should the level and slope of yield curves reach appropriately attractive levels.

3. Financial strength and capital management

Despite investment market volatility and strong foreign exchange headwinds, we have maintained capital at a very strong level throughout the year. Our multiple of APRA's prescribed capital amount (PCA) increased to 1.72x at 31 December 2015 from 1.67x a year earlier and, more importantly, our excess over and above S&P's minimum AA capital requirement further increased.

Given the extent to which our capital position now exceeds S&P's minimum AA capital requirement, the Board has revised the Group's benchmark PCA multiple to 1.6x – 1.8x from 1.7x – 1.9x previously, and we remain comfortable with our regulatory capital position at around 1.7x PCA. Consistent with this and commencing with the payment of the 2015 final dividend, the Board has elected (subject to APRA approval) to satisfy the demand for shares under the dividend reinvestment programs by acquiring any shares to be issued under the plans on-market.

Operating and financial performance

Summary income statement

FOR THE YEAR ENDED 31 DECEMBER	STATUTORY RESULT 2015 US$M	STATUTORY RESULT 2014 US$M	ARGENTINE WORKERS' COMP 2015 US$M	M&LS REINSURANCE 2015 US$M	GAIN (LOSS) ON DISPOSAL 2015 US$M	ADJUSTED RESULT 2015 US$M	ADJUSTED RESULT 2014[1] US$M
Gross written premium	**15,092**	16,332	**179**	**131**	**–**	**14,782**	15,944
Gross earned premium revenue	**14,922**	16,521	**178**	**138**	**–**	**14,606**	16,285
Net earned premium	**12,314**	14,084	**178**	**(77)**	**–**	**12,213**	14,210
Net claims expense	**(7,434)**	(8,900)	**(203)**	**77**	**–**	**(7,308)**	(8,897)
Net commission	**(2,114)**	(2,363)	**(9)**	**–**	**11**	**(2,116)**	(2,349)
Underwriting and other expenses	**(2,137)**	(2,274)	**(27)**	**–**	**(52)**	**(2,058)**	(2,236)
Underwriting result	**629**	547	**(61)**	**–**	**(41)**	**731**	728
Net investment income on policyholders' funds	**402**	527	**40**	**–**	**(6)**	**368**	470
Insurance profit	**1,031**	1,074	**(21)**	**–**	**(47)**	**1,099**	1,198
Net investment income on shareholders' funds	**263**	287	**24**	**–**	**–**	**239**	252
Financing and other costs	**(244)**	(297)	**–**	**–**	**–**	**(244)**	(297)
Gains (losses) on sale of entities	**(2)**	(17)	**–**	**–**	**(2)**	**–**	(17)
Share of net profits of associates	**–**	1	**–**	**–**	**–**	**–**	1
Amortisation and impairment of intangibles	**(95)**	(117)	**–**	**–**	**–**	**(95)**	(115)
Profit before tax	**953**	931	**3**	**–**	**(49)**	**999**	1,022
Income tax expense	**(260)**	(182)	**(1)**	**–**	**(73)**	**(186)**	(214)
Profit after tax	**693**	749	**2**	**–**	**(122)**	**813**	808
Profit attributable to non-controlling interests	**(6)**	(7)	**–**	**–**	**–**	**(6)**	(7)
Net profit after income tax	**687**	742	**2**	**–**	**(122)**	**807**	801

1 The 2014 result has been adjusted to exclude the Argentine workers' compensation business and the medical malpractice reinsurance transaction.

Overview of the 2015 result

The Group reported a 2015 statutory net profit after tax of $687 million, down 7% from $742 million, reflecting a 15% uplift in underwriting profit more than offset by weaker investment returns and a significantly higher effective tax rate.

Excluding amortisation of intangibles and other non-cash items, cash profit for the year was $893 million, up 9% from $821 million in 2014 or up 21% on a constant currency basis.

On 24 February 2015, QBE published the Group's 2015 target combined operating ratio of 94%-95% and target insurance profit margin of 8.5%-10.0%, both of which were reaffirmed with our interim result on 18 August 2015. To assist comparison of our performance against these targets, the statutory result in the table above has been adjusted to exclude the following material items that were not included in our published 2015 targets or plans:

- the realised gain on sale of $149 million in relation to the Australian and US agency businesses and other non-material disposals;
- the sale of the Argentine workers' compensation business which completed on 10 August 2015 giving rise to a loss of $58 million, of which $53 million was reclassification of foreign exchange losses from FCTR into profit or loss. In addition, we incurred a $6 million foreign exchange loss on repatriation of funds from Argentina. The financial impact of the sale and the results of this business have been excluded from both the 2014 and 2015 adjusted results above to assist comparability with our targets and to assist year on year comparability; and
- the sale of M&LS to National General which completed on 1 October 2015 and resulted in a $41 million deferred acquisition cost write down and a $92 million loss on sale. Until such time as National General obtains an insurance license, M&LS business will continue to be underwritten by QBE and fully reinsured to National General. While the reinsurance agreement has no profit impact, the impact on premium and claims expense has been excluded from the adjusted result above.

Unless otherwise stated, the profit and loss and underwriting result commentary following refers to the Group's adjusted results as per the table above.

Net profit after tax increased 1% to $807 million from $801 million in the prior period, with significantly lower investment income essentially offset by reduced interest and amortisation costs.

On a constant currency basis, net profit after tax increased 12%.

Gross written premium decreased 7% to $14,782 million from $15,944 million in the prior period but was up 1% on a constant currency basis.

The Group's reinsurance expense ratio increased to 16.4% from 12.7% in the prior year, due to the increased cost of the Group's enhanced large individual risk and catastrophe aggregate protection coupled with the purchase of crop quota share reinsurance, which more than offset premium rate reductions and reduced aggregate exposures.

Net earned premium fell 14% to $12,213 million from $14,210 million or 6% on a constant currency basis reflecting the slight increase in gross writings more than offset by the increase in reinsurance spend and unearned premium.

The Group's combined operating ratio improved to 94.0% from 94.9% in the prior period, due to a significant improvement in the net claims ratio to 59.8% from 62.7% previously. This was partly offset by an increase in the combined commission and expense ratio to 34.2% from 32.2%, primarily caused by the reduction in net earned premium and the sale of the Australian and US agencies which more than offset a significant reduction in operating costs.

The Group reported an insurance profit of $1,099 million, down 8% from $1,198 million in the prior period, due to significantly lower investment income on technical reserves. Notwithstanding lower investment income, the insurance margin improved to 9.0% compared with 8.4% a year earlier reflecting the stronger underwriting performance.

The net investment yield on technical reserves fell to 2.1% from 2.4%, contributing 3.0% to the insurance profit margin compared with 3.3% in 2014. Period premium held or insurance asset leverage remained relatively stable at around 1.3x.

Investment income on shareholders' funds declined to $239 million from $252 million in the prior period, reflecting significantly lower fixed income returns due to a widening in credit spreads, partially offset by higher income on growth assets and the non-recurrence of $18 million of prior year losses associated with the repurchase of QBE debt securities.

Although borrowings reduced by only $50 million or 1% since 31 December 2014, interest expense fell 18% to $244 million from $297 million, mainly reflecting the full year benefit of the reduction in borrowings in 2014.

The Group's income tax expense fell to $186 million from $214 million in the prior period and equated to an effective tax rate of 19% compared with 21% in 2014. This is below the Group's expected longer term underlying tax rate of 21%-22%, reflecting increased UK profits (where the corporate tax rate is only 20%) and favourable prior year tax adjustments.

Cash profit

FOR THE YEAR ENDED 31 DECEMBER	2015 US$M	2014 US$M
Cash profit before tax	**1,164**	1,048
Tax expense on cash profit	**(265)**	(220)
Profit attributable to non-controlling interests	**(6)**	(7)
Net cash profit after tax	**893**	821
Losses on sale of entities after tax	**(94)**	–
M&LS deferred acquisition cost write down after tax	**(27)**	–
Amortisation and impairment of intangibles after tax	**(85)**	(79)
Net profit after tax	**687**	742
Basic earnings per share – cash basis (US cents)	**65.3**	63.5
Dividend payout ratio (percentage of cash profit)	**56%**	49%

Significant items in adjusted 2015 result

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

Realised and unrealised gains on investments increased slightly on the prior year while the remaining significant items tabled below are discussed in the incurred claims section later in this report.

Significant items in adjusted profit before tax

FOR THE YEAR ENDED 31 DECEMBER	2015 US$M	2014 US$M
Realised and unrealised gains on investments	**92**	108
Cost of large individual and catastrophe claims (current accident year) [1]	**(1,067)**	(1,351)
Discount rate benefit (cost), excluding Argentine peso	**38**	(324)
Prior accident year central estimate claims release [2]	**147**	152
Risk margin release	**19**	184

1 2014 crop catastrophe claims restated to the same basis as 2015.

2 Prior accident year claims release of $147 million includes a $53 million benefit (2014 $16 million cost) due to discount movement in relation to long tail classes where the level of assumed claims inflation is directly linked to the discount rate. This comprises:

- $53 million (2014 $35 million) benefit in relation to our retained Argentine business; and
- $nil (2014 $51 million cost) in relation to Australian dust disease liabilities, with the 2014 cost reflecting the significant fall in Australian dollar yields.

Premium income

Gross written premium decreased 7% during the year to $14,782 million from $15,944 million in the prior period.

On an average basis and compared with 2014, the Australian dollar and Euro depreciated against the US dollar by 16% and Sterling depreciated by 7%. Coupled with other intra-divisional cross currency movements against the US dollar, foreign exchange movements adversely impacted reported premium income by $1,307 million including a $735 million adverse impact in Australia & New Zealand Operations, $354 million in European Operations and $214 million in Emerging Markets.

On a constant currency basis, gross written premium increased 1% reflecting modest underlying growth in European Operations, Australia & New Zealand Operations and Emerging Markets, largely offset by contraction in North America due to portfolio remediation coupled with the sale of the M&LS business.

The global pricing landscape has become increasingly competitive. Group-wide premium rate reductions averaged around 1.3% across 2015 following a 1.6% reduction in the first half of the year and an increase of 0.1% in the prior corresponding period. This compares with expectations of broadly flat premium rates on average at the beginning of 2015. Premium rates are under pressure globally but especially so in Europe, Australia, New Zealand and increasingly Asia Pacific.

European Operations recorded gross written premium growth of 5% on a constant currency basis, an especially encouraging performance in light of an average premium rate reduction of 3.2% and the fall in the price of commodities and crude oil which adversely impacted insured values and project activity in the International Markets business. Premium growth was underpinned by a material improvement in retention and new business activity, particularly in the Retail business and the successful execution of a number of strategic initiatives across the business.

Despite an average premium rate reduction of 2.4%, Australia & New Zealand Operations recorded gross written premium growth of 3% on a constant currency basis. This represented a significant turnaround from the 1% reduction in gross written premium reported in the first half of 2015. In addition to improved retention, a number of large new business opportunities were finalised in the second half including wholesale broker and bancassurance deals. This growth coupled with strong growth in our traditional commercial markets was partly offset by a 29% contraction in lenders' mortgage insurance premium income due to regulatory pressure on banks to slow lending and the loss of the Westpac account.

Emerging Markets reported gross written premium growth of 9% on a constant currency basis with growth in Asia Pacific and Latin America of 3% and 13% respectively. Asia Pacific growth slowed appreciably in the second half of the year reflecting reduced demand for commercial insurance in Hong Kong and Singapore as a result of mainland China's economic slowdown. Asia Pacific growth was also impacted by premium rate reductions averaging 3.4% across the region.

Excluding the now sold M&LS business, gross written premium in our North America Operations fell 4%, largely due to standard commercial lines where, in addition to an increasingly competitive rate environment, volumes were impacted by corrective underwriting actions including the termination of underperforming programs. Crop premium also fell 7% as a result of lower commodity prices. Conversely, especially strong growth was achieved in Specialty as we continue to launch new products while the consumer business continues to grow on the back of the housing market recovery.

Gross earned premium fell 10% during the year to $14,606 million from $16,285 million in the prior period. On a constant currency basis and excluding the impact of the sale of the M&LS business, gross earned premium increased nearly 1% and broadly in-line with gross written premium growth.

The Group's reinsurance expense ratio increased to 16.4% from 12.7% in the prior year, primarily due to the $289 million incremental cost of the Group's enhanced large individual risk and catastrophe aggregate protection coupled with the crop quota share reinsurance, which more than offset premium rate reductions and reduced aggregate exposures.

Net earned premium fell 14% to $12,213 million from $14,210 million, or 6% on a constant currency basis, reflecting the slight increase in gross writings more than offset by the increase in reinsurance spend.

Underwriting performance

Key ratios – Group

FOR THE YEAR ENDED 31 DECEMBER	2015		2014	
	STATUTORY %	ADJUSTED[1] %	STATUTORY %	ADJUSTED[2] %
Net claims ratio	**60.4**	**59.8**	63.2	62.7
Net commission ratio	**17.2**	**17.3**	16.8	16.5
Expense ratio	**17.3**	**16.9**	16.1	15.7
Combined operating ratio	**94.9**	**94.0**	96.1	94.9
Insurance profit margin	**8.4**	**9.0**	7.6	8.4

1 Excludes Argentine workers' compensation business and the $41 million deferred acquisition cost write down on the sale of M&LS.
2 The 2014 ratios have been adjusted to exclude the Argentine workers' compensation business and the medical malpractice reinsurance transaction.

Divisional performance

Contributions by region

FOR THE YEAR ENDED 31 DECEMBER	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
	2015 US$M	2014 US$M	2015 US$M	2014 US$M	2015 %	2014 %	2015 US$M	2014 US$M
North American Operations	**4,961**	5,310	**3,666**	4,471	**99.2**	100.8	**93**	8
European Operations	**4,386**	4,526	**3,454**	3,929	**89.1**	94.3	**464**	345
Australian & New Zealand Operations	**3,787**	4,392	**3,282**	3,834	**91.3**	87.0	**467**	680
Emerging Markets	**1,728**	1,791	**1,436**	1,469	**99.2**	102.3	**71**	38
Equator Re	**1,007**	642	**367**	525	**89.0**	79.9	**103**	145
Equator Re elimination	**(1,007)**	(642)	**–**	–	**–**	–	**–**	–
Corporate adjustments	**(80)**	(75)	**8**	(18)	**0.1**	0.2	**(99)**	(18)
Group adjusted	**14,782**	15,944	**12,213**	14,210	**94.0**	94.9	**1,099**	1,198
Argentine workers' comp business	**179**	388	**178**	236	**134.3**	**176.7**	**(21)**	(124)
M&LS reinsurance[1]	**131**	–	**(77)**	–	**–**	–	**–**	–
Loss on disposal	**–**	–	**–**	–	**–**	–	**(47)**	–
Medical malpractice reinsurance	**–**	–	**–**	(362)	**–**	–	**–**	–
Group statutory	**15,092**	16,332	**12,314**	14,084	**94.9**	96.1	**1,031**	1,074
Direct and facultative	**14,138**	15,198	**11,511**	13,053	**95.2**	96.5	**921**	951
Inward reinsurance	**954**	1,134	**803**	1,031	**90.2**	91.0	**110**	123
Group statutory	**15,092**	16,332	**12,314**	14,084	**94.9**	96.1	**1,031**	1,074

1 The M&LS reinsurance transaction incepted on 1 October 2015 and had no impact on the net underwriting result or insurance profit.

Incurred claims

The Group's combined operating ratio improved to 94.0% from 94.9% in the prior year reflecting a significant improvement in the net claims ratio which more than offset an increase in the combined commission and expense ratio due to reduced net earned premium.

The following table provides a summary of the major components of the 2015 net claims ratio on a statutory and adjusted basis. To assist comparability, the 2014 adjusted numbers also exclude the one-off impact of the medical malpractice reinsurance transaction.

Analysis of net claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2015		2014	
	STATUTORY %	ADJUSTED %	STATUTORY %	ADJUSTED %
Attritional claims	**51.9**	**49.9**	52.1	50.1
Large individual risk and catastrophe claims	**8.7**	**8.7**	11.4	9.5
Claims settlement costs	**3.0**	**3.0**	2.8	2.7
Claims discount	**(3.9)**	**(1.7)**	(3.9)	(1.7)
Net incurred central estimate claims ratio (current accident year)	**59.7**	**59.9**	62.4	60.6
Changes in undiscounted prior accident year central estimate[1]	**(1.1)**	**(1.2)**	(2.6)	(1.1)
Changes in discount rates	**(0.3)**	**(0.3)**	2.3	2.3
Other (including unwind of prior year discount)	**2.3**	**1.6**	2.4	2.2
Net incurred central estimate claims ratio	**60.6**	**60.0**	64.5	64.0
Movement in risk margins	**(0.2)**	**(0.2)**	(1.3)	(1.3)
Net incurred claims ratio (current financial year)	**60.4**	**59.8**	63.2	62.7

1 Prior accident year claims release of 1.2% or $147 million includes a $53 million benefit (2014 $16 million cost) due to discount movement in relation to long tail classes where the level of assumed claims inflation is directly linked to the discount rate. This comprises:
- $53 million (2014 $35 million) benefit in relation to our retained Argentine business; and
- $nil (2014 $51 million cost) in relation to Australian dust disease liabilities, with the 2014 cost reflecting the significant fall in Australian dollar yields.

QBE has historically provided an analysis of the Group's underlying current accident year attritional claims ratio excluding various influences that distort the apparent year-on-year movement in the reported attritional claims ratio.

Excluding US crop, the recently sold M&LS business and the incremental cost of the Group's enhanced aggregate reinsurance protection, the Group's underlying attritional claims ratio deteriorated from 47.0% to 48.1% reflecting:

- overall premium rate movements lagging claims inflation more broadly;
- a change in divisional business mix, principally a contraction in Equator Re's contribution to Group net earned premium, which adversely impacted the Group's attritional claims ratio by 0.3%;
- a deterioration in North America, mainly within standard lines reflecting pricing pressure and an industry-wide increase in severity trends in commercial auto lines, which adversely impacted the Group's attritional claims ratio by 0.5%;
- a deterioration in Australia, largely due to increased frequency within the NSW CTP portfolio and exacerbated by the weaker Australian dollar, which adversely impacted the Group's attritional claims ratio by 1.3%; partly offset by
- an improvement in Europe, primarily due to portfolio remediation initiatives and improved claims management practices which more than offset premium rate pressure and improved the Group's attritional claims ratio by 0.8%.

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

Analysis of adjusted attritional claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2015		2014	
	NEP US$M	ATTRITIONAL %	NEP US$M	ATTRITIONAL %
Rest of world	**11,571**	48.1	12,701	47.0
Group large individual & catastrophe risk aggregate[1]	**(289)**	–	–	
Crop insurance[2]	**556**	69.0	965	93.6
M&LS[3]	**375**	38.3	544	43.6
QBE Group adjusted	**12,213**	49.9	14,210	50.1

1 Incremental cost of the Group's enhanced large individual risk and catastrophe aggregate reinsurance protection.
2 Crop attritional claims ratio is no longer assumed constant at 67.0%. All crop claims were deemed attritional in 2015 and 2014 analysis has been restated on a similar basis.
3 The M&LS business was sold effective 1 October 2015.

The total net cost of large individual risk and catastrophe claims fell to $1,067 million or 8.7% of net earned premium compared with $1,351 million or 9.5% in the prior period.

Although the gross cost of large individual risk and catastrophe claims before aggregate reinsurance recoveries was broadly in line with the prior period, the net cost fell significantly due to material recoveries under the Group's enhanced large individual risk and catastrophe aggregate reinsurance protection.

The weighted average risk-free rate (excluding the Argentine peso) used to discount net outstanding claims liabilities increased slightly from 1.45% to 1.62%, primarily due to higher US and sterling risk-free rates while Australian risk-free rates fell. This gave rise to a positive underwriting impact of $38 million (including a $45 million benefit in the first half) that reduced the net claims ratio by 0.3%, compared with a charge of $324 million in the prior period which increased the 2014 net claims ratio by 2.3%.

The 2015 result included $147 million of positive prior accident year claims development which benefited the claims ratio by 1.2%, similar to the $152 million of favourable development (excluding Argentine workers' compensation) experienced in 2014. Encouragingly, the $68 million of positive prior accident year claims development in the second half of 2015 marks the third consecutive half of development, following $79 million of favourable development in the first half of 2015 and $149 million in the second half of 2014.

The Group's overall positive prior accident year claims development of $147 million mainly comprised:

- QBE's European Operations experienced particularly strong positive prior accident year development of $254 million, up from $158 million in 2014, with favourable development occurring broadly across most portfolios;
- Australian & New Zealand Operations enjoyed $120 million of positive development, up slightly from $114 million in the prior corresponding period, reflecting continued favourable trends in wage inflation and claims frequency;
- North American Operations recognised $85 million of adverse development, up from $41 million in 2014, largely reflecting industry-wide development on commercial auto classes coupled with development on 2014 weather events in the consumer and agri portfolios; and
- Equator Re experienced $120 million of adverse development, up from $28 million in the prior year, reflecting adverse development from the Brisbane storms in December 2014, adverse development on various casualty covers and a $53 million reduction in assumed aggregate risk reinsurance recoveries due to claims falling below the (US dollar denominated) program attachment point, primarily as a result of foreign exchange movements.

The 2015 result also included a $19 million risk margin release which reduced the net claims ratio by 0.2% compared with a $184 million risk margin release in the prior year. Equator Re benefited from a risk margin release which was essentially offset by a modest net risk margin strengthening in North America.

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

Large individual risk and catastrophe claims

IN THE YEAR ENDED 31 DECEMBER 2015	COST US$M	% OF NEP
UK Storms Desmond/Eva/Frank (December)	**110**	**0.9**
North American wind/hail (April/May/June)	**82**	**0.7**
Cyclone Pam (13 March)	**58**	**0.5**
NSW east coast storms (19 April)	**58**	**0.5**
Cyclone Marcia (19 February)	**36**	**0.3**
Sydney hailstorm (25 April)	**29**	**0.2**
Chilean floods (March)	**26**	**0.2**
Other catastrophe claims including bulk IBNR	**139**	**1.1**
GLRC recoveries	**(114)**	**(1.0)**
Total catastrophe claims including bulk IBNR	**424**	**3.4**
Individual risk claims including bulk IBNR	**816**	**6.7**
GLRC recoveries	**(173)**	**(1.4)**
Total large individual risk claims including bulk IBNR	**643**	**5.3**
Total large individual risk & catastrophe claims including bulk IBNR	**1,067**	**8.7**

IN THE YEAR ENDED 31 DECEMBER 2014	COST US$M	% OF NEP
Total catastrophe claims including bulk IBNR[1]	516	3.6
Total large individual risk claims including bulk IBNR	835	5.9
Total large individual risk & catastrophe claims including bulk IBNR[1]	1,351	9.5

1 2014 crop catastrophe claims restated to the same basis as 2015.

Commission and expenses

The Group's combined commission and expense ratio increased to 34.2% from 32.2% in the prior corresponding period.

Numerous factors contributed to this increase including a 1.3% impact from increased reinsurance expenditure (0.8% due to the enhanced aggregate reinsurance and 0.5% due to the crop quota share), 0.2% due to the sale of the Australian and US agency businesses and 0.2% due to changes in divisional net earned premium mix.

The commission ratio increased to 17.3% from 16.5% in the prior period, primarily reflecting a 0.6% adverse impact from the sale of the Australian and US agency businesses and a 0.6% impact from increased reinsurance expenditure (0.4% due to the enhanced aggregate reinsurance and 0.2% due to the crop quota share), partly offset by a minor, largely business mix related reduction in the underlying commission ratios in all divisions except Equator Re.

Despite delivering an additional $126 million of operational transformation efficiencies and benefiting from $105 million reduction in implementation costs (to nil in 2015), the Group's expense ratio increased to 16.9% from 15.7% a year earlier. This was primarily due to a 1.5% adverse impact from lower net earned premium, including a 0.7% impact from increased

reinsurance expenditure and 0.8% attributed to generally lower gross writings consistent with the more competitive premium pricing landscape. The expense ratio was also adversely impacted by ongoing investment in systems and growth initiatives including Emerging Markets (0.9%) as well as the reduction in M&LS fee income (0.3%).

Income tax expense

The Group's statutory income tax expense of $260 million compared with $182 million in the prior period and equated to an effective tax rate of 27% compared with 20% in the prior period. The significant increase in the effective tax rate is principally due to the derecognition of deferred tax assets in Australia and Europe following a change in the outlook for their recoverability.

QBE paid $347 million in corporate income tax to tax authorities globally in the year to 31 December 2015, including $173 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A$391 million as at 31 December 2015. The Group is therefore capable of fully franking A$913 million of dividends.

The combination of a higher payout ratio and increased profitability of non-Australian operations is anticipated to reduce the franking account balance and shareholders should therefore expect the franking percentage to reduce to around 50% in 2016 and 2017.

Foreign exchange

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

Key exchange rates used in the preparation of the financial statements are set out in note 1 to the financial statements.

During 2015, the US dollar strengthened against all of the Group's major currencies.

As at 31 December 2015, the Australian dollar, Euro and Sterling had depreciated 11%, 10% and 5% respectively against the US dollar compared with closing rates at 31 December 2014. On an average basis, the Australian dollar, Euro and Sterling depreciated by 16%, 16% and 7% respectively against the US dollar relative to the prior period.

The impact of exchange rate movements on the 2015 result was an operational foreign exchange loss of $20 million compared with a $17 million gain in the prior period.

The table below shows the impact of foreign exchange on the 2015 result and balance sheet on a constant currency basis.

Impact of exchange rate movements

	2015 ACTUAL US$M	2015 AT 2014 EXCHANGE RATES [1] US$M	EXCHANGE RATE IMPACT US$M	EXCHANGE RATE IMPACT %
Gross written premium	**14,782**	16,089	(1,307)	(9)
Gross earned premium	**14,606**	15,887	(1,281)	(9)
Net earned premium	**12,213**	13,355	(1,142)	(9)
Net profit after tax	**807**	901	(94)	(12)
Total investments and cash	**26,708**	28,857	(2,149)	(8)
Total assets	**42,176**	45,443	(3,267)	(8)
Gross outstanding claims provision	**18,583**	19,992	(1,409)	(8)
Total liabilities	**31,616**	33,803	(2,187)	(7)
Net assets	**10,560**	11,640	(1,080)	(10)

1 Income statement items are restated to 31 December 2014 average rates of exchange and balance sheet items to 31 December 2014 closing rates of exchange.

Balance sheet

Capital management summary

Consistent with a significantly strengthened capital position, during 2015 the major ratings agencies, Standard & Poor's, A.M.Best and Fitch, reaffirmed the Group's financial strength and issuer credit ratings and revised the Group's outlook from "negative" to "stable" with Standard & Poor's referring to QBE Group's capital adequacy as being "at the AA level".

Moreover, Moody's Investors Service recently upgraded QBE Insurance Group Limited's senior unsecured debt and long-term issuer ratings to Baa1 from Baa2.

Other than senior debt refinancing by way of capital qualifying tier 2 debt issuance as discussed overleaf, no new capital management initiatives were undertaken or deemed necessary in the current period.

Capital summary

AS AT 31 DECEMBER	2015 US$M	2014 US$M
Net assets	**10,560**	11,082
Less: intangible assets	**(3,604)**	(3,831)
Net tangible assets	**6,956**	7,251
Add: borrowings	**3,529**	3,581
Total capitalisation	**10,485**	10,832

AS AT 31 DECEMBER	2015[1] US$M	2014[2] US$M
APRA's Prescribed Capital Amount (PCA)	**5,614**	5,816
QBE's regulatory capital base	**9,684**	9,704
PCA multiple	**1.72x**	1.67x

1 Indicative APRA PCA calculation at 31 December 2015.
2 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.

At 31 December 2015, the Group's indicative APRA PCA multiple was 1.72x, up from 1.67x a year earlier and our excess over and above S&P's minimum AA capital requirement further increased.

Significant retained profit growth during the year, coupled with the beneficial capital impact from the sale of the Argentine workers' compensation, M&LS and agency businesses, were partly offset by the impact of the weaker Australian dollar and a $463 million gross increase in the asset risk charge. This followed an increase in the exposure to growth assets to 11.9% (excluding 1.1% index derivative overlay) of the total cash and investments portfolio from 8.9% at 31 December 2014.

Excluding the impact of the weaker Australian dollar, the indicative APRA PCA multiple would have been around 1.80x.

In light of the extent to which our capital position now exceeds S&P's minimum AA capital requirement, we remain comfortable with our regulatory capital position at around 1.7x PCA.

Key financial strength ratios

	BENCHMARK	2015	2014
Debt to equity	25% to 35%	**33.6%**	32.5%
Debt to tangible equity		**51.1%**	49.7%
PCA multiple[1]	1.6x to 1.8x	**1.72x**	1.67x
Premium solvency[2]		**56.5%**	51.5%
Probability of adequacy of outstanding claims	87.5% to 92.5%	**89.0%**	88.7%

1 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.
2 Premium solvency ratio is calculated as the ratio of net tangible assets to net earned premium.

Borrowings

As at 31 December 2015, the Group's total borrowings stood at $3,529 million, down a modest $52 million or 1.4% from $3,581 million a year earlier.

Group Treasury was active in the capital markets during the year executing the following transactions:

- repayment of GBP 300 million of senior debt that matured on 28 September 2015;
- issuance of AUD 200 million of 25 year non call 5 tier 2 subordinated debt securities due 29 September 2040; and
- issuance of USD 300 million of 30 year non call 10 tier 2 subordinated debt securities due 12 November 2045.

At 31 December 2015, QBE's ratio of borrowings to shareholders' funds was 33.6%, up marginally from 32.5% a year earlier but within our benchmark range of 25%-35%. Gearing would have reduced to around 30.8% except for the adverse impact of the stronger US dollar on closing equity. Debt to tangible equity was 51.1%, up marginally from 49.7% at 31 December 2014, also adversely impacted by the stronger US dollar.

Interest expense for the year was $244 million, down 18% from $297 million for the same period last year. The weighted average annual cost of borrowings outstanding at the balance sheet date was unchanged from the prior year at 6.2%.

Debt issuance in 2015 was undertaken by way of capital qualifying tier 2 subordinated debt. In addition to achieving a modest absolute reduction in the level of the Group's borrowings, the weighting towards capital qualifying tier 2 within the Group's overall borrowing mix increased to 74% at 31 December 2015 from 61% at 31 December 2014, with incremental duration being built in to the term structure.

Consistent with the prior year, the Group did not incur any regulatory capital decay on any of its outstanding tier 2 subordinated debt during 2015. During 2016, $1,478 million of the Group's tier 2 subordinated debt will be subject to regulatory capital amortisation resulting in an estimated $240 million of amortisation.

In 2016, QBE's regulatory or ratings agency capital position is not expected to be impacted by the amortisation reflecting the Group's current excess tier 2 capital position.

Borrowings maturity [1]

AS AT 31 DECEMBER	2015 %	2014 %
Less than one year	**–**	13
One to five years	**30**	26
More than five years	**70**	61

1 Based on first call date.

Borrowings profile

AS AT 31 DECEMBER	2015 %	2014 %
Subordinated debt	**74**	61
Senior debt	**17**	30
Capital securities	**9**	9

Further details of borrowings are set out in note 5.1 to the financial statements.

Insurance liabilities

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

Insurance liabilities

AS AT 31 DECEMBER	2015[1] US$M	2014[1] US$M	2013 US$M	2012 US$M	2011 US$M
Net outstanding claims	**15,379**	16,948	18,208	18,412	16,984
Unearned premium net of deferred insurance costs [2]	**4,685**	5,341	5,968	6,023	5,929
	20,064	22,289	24,176	24,435	22,913
Central estimate – outstanding claims	**14,119**	15,595	16,643	17,079	15,783
Central estimate – unearned premium	**4,139**	4,398	4,956	5,024	5,062
Risk margin – outstanding claims	**1,260**	1,353	1,565	1,333	1,201
Risk margin – unearned premium [2]	**546**	943	1,012	999	867
	20,064	22,289	24,176	24,435	22,913
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**978**	1,396	1,606	1,374	1,152
	%	%	%	%	%
Probability of adequacy – outstanding claims	**89.0**	88.7	90.7	87.5	86.3
Probability of adequacy – total insurance liabilities	**91.8**	94.7	95.3	93.9	92.6
Weighted average discount rate	**1.9**	1.7	2.8	2.2	2.1
Weighted average term to settlement (years)	**3.0**	2.8	3.0	2.9	2.9

1 Excludes Argentine workers' compensation.
2 Adjusted for deferred reinsurance expense for future business not yet written of $217 million (2014 $6 million).

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

As at 31 December 2015, risk margins in net outstanding claims fell 7% to $1,260 million from $1,353 million at 31 December 2014. Risk margins reduced by $93 million during the period reflecting a risk margin release of $19 million and a $74 million foreign exchange impact. As the net discounted central estimate fell by a proportionally larger 9% from $15,595 million to $14,119 million, risk margins increased to 8.9% of the net discounted central estimate from 8.7% at 31 December 2014.

Since 31 December 2014, the probability of adequacy increased by 0.3% to 89.0%, mainly due to the increase in the margin above central estimate outlined above, partially offset by an increase in the Group coefficient of variation (CoV). The increase in the CoV largely reflects a lower level of short tail claims (in particular crop) as a proportion of net outstanding claims liabilities at 31 December 2015.

The probability of adequacy of total insurance liabilities was 91.8% compared with 94.7% at 31 December 2014, with the level of risk margins deemed appropriate to cover the inherent uncertainty in the net discounted central estimate.

Intangible assets

As at 31 December 2015, the carrying value of intangible assets (identifiable intangibles and goodwill) was $3,604 million, down 6% from $3,831 million at 31 December 2014 and down 20% from $4,480 million at 31 December 2013.

During the year, the carrying value of intangibles reduced by $227 million primarily due to a $217 million foreign exchange impact. Additions and reclassifications of $144 million during the period were more than offset by $33 million of intangibles disposed of through the sale of the M&LS business and a charge for amortisation and impairment of $121 million, of which $26 million was charged to the underwriting result relating to assets supporting the Group's underwriting activities.

At 31 December 2015, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard.

The updated valuation of goodwill in North American Operations indicated that the headroom (being the excess of recoverable value over carrying value) at the balance date increased slightly to $196 million compared with $158 million at 31 December 2014. The valuation remains highly sensitive to a range of assumptions, in particular, the forecast combined operating ratio used in the terminal value calculation and changes in the discount rate and long-term investment return assumptions.

Details of the sensitivities associated with this valuation are included in note 7.2.1 to the financial statements.

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

Reconciliation of movement in intangible assets

	31 DECEMBER 2015			31 DECEMBER 2014		
	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M
Opening balance	**423**	**3,408**	**3,831**	579	3,901	4,480
Disposals	**(3)**	**(30)**	**(33)**	–	–	–
Transfer to assets held for sale	**–**	**–**	**–**	(35)	(291)	(326)
Additions/reclassifications	**138**	**6**	**144**	9	1	10
Amortisation/impairment[1]	**(120)**	**(1)**	**(121)**	(106)	(11)	(117)
Foreign exchange	**(24)**	**(193)**	**(217)**	(24)	(192)	(216)
Closing balance	**414**	**3,190**	**3,604**	423	3,408	3,831

1 $26 million of amortisation expense is included in underwriting expenses (2014 nil).

Investment performance and strategy

A range of geo-political, financial and policy events combined to create significant market volatility and a challenging environment for investment returns during the year. Despite these events, the investment portfolio generated an overall investment return of 2.2% net of expenses.

Despite significant intra-period volatility, bond yields finished the year relatively unchanged with monetary policy for major central banks remaining extremely accommodative. Throughout the year we took advantage of volatility in global bond markets, actively moving duration to enhance fixed income returns. The modified asset duration ended the year at 0.9 years, up from 0.6 years at 31 December 2014. We will continue to monitor yield curve expectations for opportunities to sensibly extend duration in line with our commitment to having the duration of our assets more closely match the duration of our liabilities.

To combat low bond yields, the diversification of our fixed income portfolio continued with exposure to infrastructure debt and structured credit increased. These holdings performed very well, helping to cushion the portfolio against mark-to-market losses on our corporate bond holdings caused by wider credit spreads. Investment grade credit underperformed sovereign debt as the market digested large amounts of supply prior to the US Federal Reserve's rate increase. Higher corporate leverage and the risk of a spill over of defaults from the energy sector remain headwinds for credit; however, the credit quality of the portfolio remains conservative relative to our global peers and retains a focus on sector and individual corporate name selection where balance sheets are strong.

Growth assets experienced a volatile year resulting in return shortfalls against expectations across all asset classes with the exception of unlisted property. Notwithstanding this, all of our asset class exposures delivered a return exceeding their comparable market indices. Moreover, growth assets generated an overall blended return of 5.7% which was well ahead of the blended cash and fixed income return of slightly less than 2%. Throughout the year we successfully employed tactical asset allocation changes to take advantage of mispricing in markets and relative value between asset classes.

We expect that global policy divergence will continue to manifest in market volatility in 2016 and therefore our maximum exposure to growth assets will remain below 15%.

Total net investment income

FOR THE YEAR ENDED 31 DECEMBER	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
	2015 US$M	2014 US$M	2015 US$M	2014 US$M	2015 US$M	2014 US$M
Income on growth assets	**140**	86	**85**	66	**225**	152
Fixed interest, short-term money and cash income	**264**	388	**160**	214	**424**	602
Gross investment income	**404**	474	**245**	280	**649**	754
Investment expenses	**(16)**	(24)	**(10)**	(13)	**(26)**	(37)
Net investment income	**388**	450	**235**	267	**623**	717
Foreign exchange gain (loss)	**(14)**	18	**–**	–	**(14)**	18
Other income	**4**	2	**4**	5	**8**	7
Other expenses	**(10)**	–	**–**	(20)	**(10)**	(20)
Net investment and other income	**368**	470	**239**	252	**607**	722

Gross and net investment yield

FOR THE YEAR ENDED 31 DECEMBER	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
Gross [1]	**2.3**	2.5	**2.3**	2.7	**2.3**	2.6
Net [2]	**2.3**	2.3	**2.2**	2.6	**2.3**	2.4
Net investment income and other yield [3]	**2.1**	2.4	**2.3**	2.3	**2.2**	2.4

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

Total investments and cash

AS AT 31 DECEMBER	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2015 US$M	2014 US$M	2015 US$M	2014 US$M	2015 US$M	2014 US$M
Cash and cash equivalents	**404**	544	**258**	308	**662**	852
Short-term money	**3,616**	4,965	**2,308**	2,806	**5,924**	7,771
Government bonds	**2,538**	3,077	**1,620**	1,738	**4,158**	4,815
Corporate bonds	**7,560**	7,827	**4,825**	4,422	**12,385**	12,249
Infrastructure debt	**212**	162	**136**	92	**348**	254
Unit trusts	**39**	47	**25**	26	**64**	73
Strategic equities	**–**	–	**108**	114	**108**	114
Other equities	**351**	466	**224**	264	**575**	730
Emerging market equity	**155**	155	**99**	88	**254**	243
Emerging market debt	**194**	155	**124**	88	**318**	243
High yield debt	**280**	176	**178**	100	**458**	276
Alternatives	**242**	–	**155**	–	**397**	–
Property trusts	**637**	606	**406**	342	**1,043**	948
Investment properties	**7**	10	**7**	5	**14**	15
Total investments and cash	**16,235**	18,190	**10,473**	10,393	**26,708**	28,583

Interest bearing financial assets

SECURITY GRADING AS AT 31 DECEMBER	2015 %	2014 %
S&P rating		
AAA	**17**	16
AA	**37**	40
A	**38**	39
<A	**8**	5

CURRENCY MIX	MARKET VALUE OF GROWTH ASSETS		MARKET VALUE OF TOTAL INVESTMENTS AND CASH	
AS AT 31 DECEMBER	2015 %	2014 %	2015 %	2014 %
US dollar	**45**	61	**31**	32
Australian dollar	**37**	25	**30**	32
Sterling	**12**	11	**21**	19
Euro	**6**	3	**8**	7
Other	**–**	–	**10**	10

Dividend

Our dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business.

The final dividend for 2015 will be 30 Australian cents per share. Combined with the 2015 interim dividend of 20 Australian cents per share, the total dividend for 2015 will be 50 Australian cents, up 35% compared with the 2014 dividend of 37 Australian cents per share.

The dividend will be franked at 100% and is due to be paid on 14 April 2016. The dividend reinvestment programs continue at a nil discount.

The payout for the 2015 full year is A$685 million or around 56% of cash profit calculated by converting cash profit to Australian dollars at the closing rate of exchange. The calculation of cash profit is shown on page 14.

As announced in conjunction with the release of the Group's 2015 interim result, the Board has increased the maximum dividend payout ratio to 65% of cash profits, up from the current maximum of 50%, commencing with the 2016 interim dividend.

Moreover and commencing with the payout of the 2015 final dividend, the Board has elected (subject to APRA approval) to satisfy the demand for shares under the dividend reinvestment programs by acquiring any shares to be issued under the plans on-market.

Closing remarks

QBE's 2015 result showed positive momentum with improved underlying earnings, stable reserving, a very strong capital position, healthy divisional dividend remittances and a 35% uplift in our dividend.

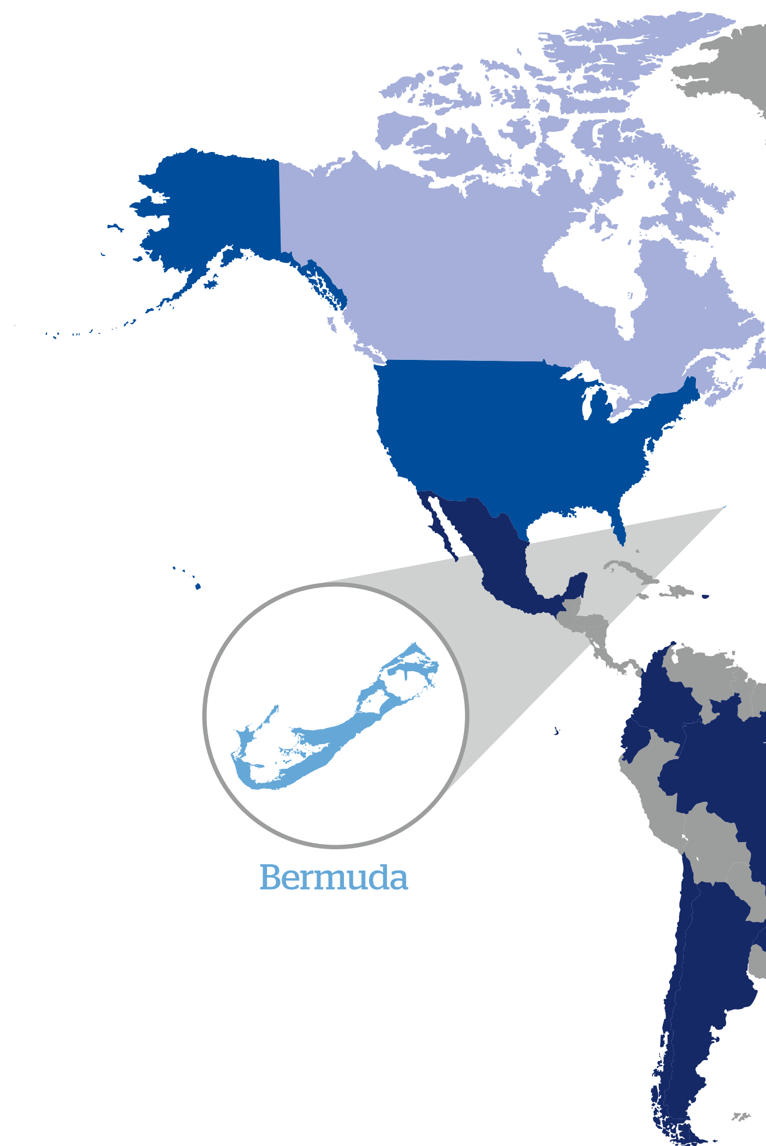
While we have made good progress over the past 12 months, there is still room for improvement.

Our priorities for 2016 remain similar to those we have delivered against in 2015, namely:

- deliver earnings and reserve stability and predictability;
- reduce operating expenses by $150 million thereby reducing the 2016 expense ratio by 1%;
- achieve modest organic growth in the business;
- reflecting the above items, achieve a meaningful improvement in our expense ratio;
- maintain strong divisional dividend remittances – again greater than $700 million;
- maintain a strong capital position consistent with an S&P AA level of capital; and
- strongly grow the dividend to our shareholders.

Patrick Regan
Group Chief Financial Officer

Divisions at a glance



North American Operations

North American Operations is a specialist insurer and reinsurer with a full scope of commercial, personal and specialty lines capabilities and a focus on delivering a comprehensive suite of products through a limited distribution model.

Gross written premium
US$ million
4,961 ↓ 7% from 2014

Net earned premium
US$ million
3,666 ↓ 18% from 2014

Combined operating ratio
99.2% — 100.8% in 2014

Insurance profit margin
2.5% — 0.2% in 2014

European Operations

European Operations' business units are aligned by geography and/or distribution characteristics. Retail distributes commercial and specialty products in the UK and Europe. International Markets is a global specialty business using the Lloyd's platform and QBE Re is the Group's global reinsurance business.

Gross written premium
US$ million
4,386 ↓ 3% from 2014

Net earned premium
US$ million
3,454 ↓ 12% from 2014

Combined operating ratio
89.1% — 94.3% in 2014

Insurance profit margin
13.4% — 8.8% in 2014

Equator Re

Equator Re is critical to the management of the Group's risk appetite and capital through its role in optimising divisional retentions and managing the Group's innovative global ceded reinsurance program.

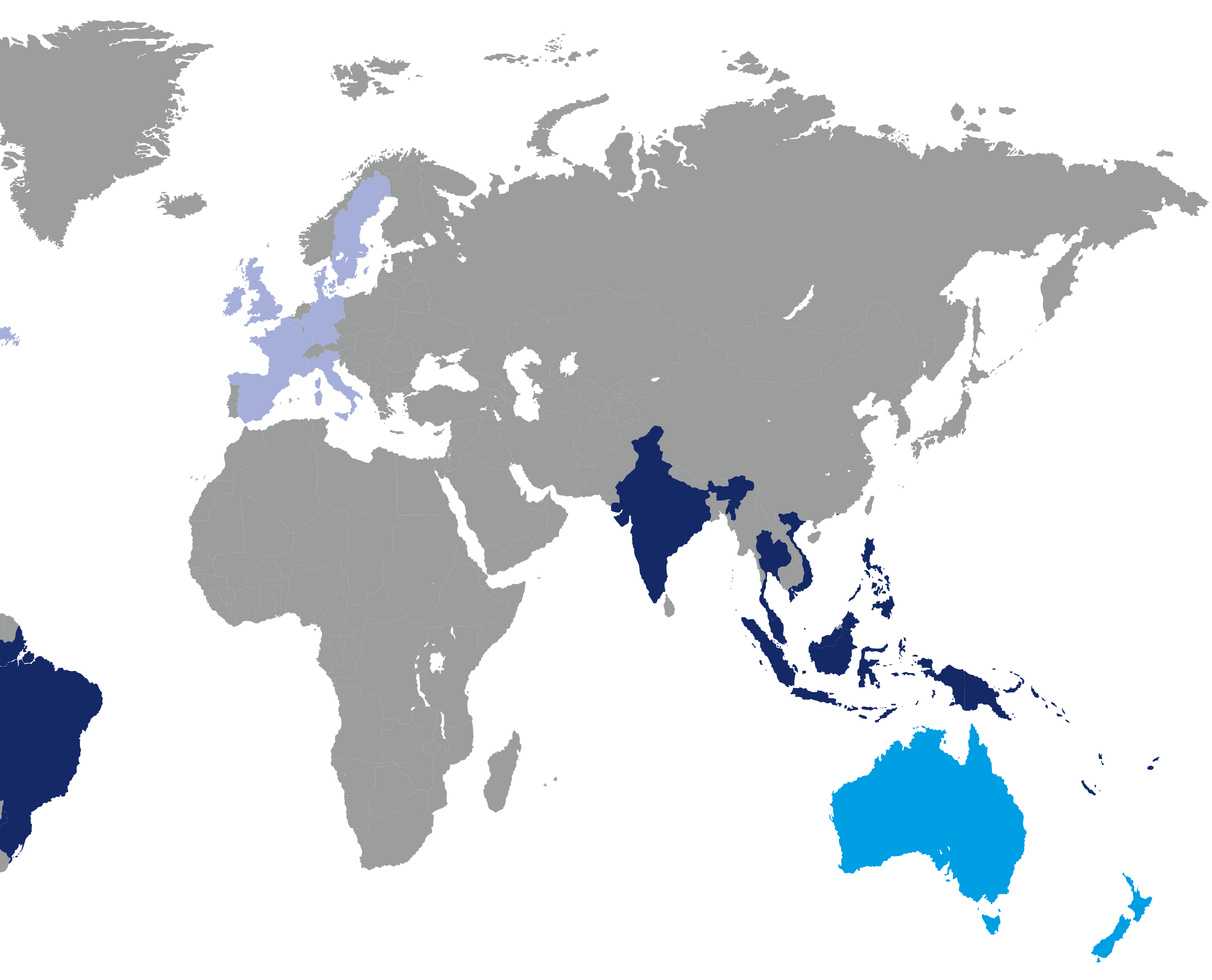
Gross written premium
US$ million
1,007 ↑ 57% from 2014

Net earned premium
US$ million
367 ↓ 30% from 2014

Combined operating ratio
89.0% — 79.9% in 2014

Insurance profit margin
28.1% — 27.7% in 2014

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information



Emerging Markets

We will drive business growth across Asia Pacific and Latin America leveraging cross-divisional synergies skills and expertise. With our strengthened business foundation and continued implementation of our profitable growth strategy, the overall outlook for Emerging Markets is positive.

Gross written premium
US$ million
1,728 ↓ 4% from 2014

Net earned premium
US$ million
1,436 ↓ 2% from 2014

Combined operating ratio
99.2% 102.3% in 2014

Insurance profit margin
4.9% 2.6% in 2014

Australian & New Zealand Operations

A diversified general insurer providing cover for commercial and personal risks. Our strong customer focus, disciplined underwriting and strong capital base assists consumers and business to mitigate and manage risk while delivering strong and stable returns.

Gross written premium
US$ million
3,787 ↓ 14% from 2014

Net earned premium
US$ million
3,282 ↓ 14% from 2014

Combined operating ratio
91.3% 87.0% in 2014

Insurance profit margin
14.2% 17.7% in 2014

North American Operations business review

"North American Operations turned a corner in 2015, posting an underwriting profit for the first time since 2011. With portfolio remediation largely behind us, the development of an operating model to support profitable growth and "go to market" capabilities is progressing."

David Duclos

Chief Executive Officer • North American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
4,961	3,666	30	93
↓ 7% from 2014	↓ 18% from 2014	↑ $68M from 2014	↑ $85M from 2014
		Combined operating ratio 99.2% (2014 100.8%)	Insurance profit margin 2.5% (2014 0.2%)

2015 overview

Following the sale of the Mortgage & Lender Services (M&LS) business, North American Operations has been reset as a specialist insurer and reinsurer with four key business units: Standard Lines, Specialty, Crop and Assumed Reinsurance, with the latter a component of QBE's global reinsurance business headquartered in London.

Competition has increased across all product lines (especially property) in 2015, reflecting an abundance of capacity coupled with a period of relatively low catastrophe losses (although convective and winter storms have emerged as a new "norm" for weather related losses). Premium rate increases were modest for the second consecutive year, up 0.4% on average across all business lines (excluding Crop), down from 1% in 2014.

Industry profitability remains challenged by price competition, slowing premium growth and historically low investment income, necessitating a heightened focus on cost reduction and the provision of superior service across multiple customer segments.

Operating and financial performance

Underwriting performance

North American Operations delivered an improved result in 2015, recording a combined operating ratio of 99.2% compared with 100.8% a year earlier. This result marks the first year that North American Operations has generated an underwriting profit since 2011.

The past year saw strong underwriting results in the Crop business with profit in excess of historical averages due to strong yields, favourable growing conditions and price stability in the core crops of corn and soybeans. In contrast, the prior year experienced significant commodity price declines (without

correspondingly sufficient yield increases) combined with exceptional hail claims and late claims notifications from 2013.

The improved combined operating ratio belies a material increase in the combined commission and expense ratio due to a combination of lower net earned premium (exacerbated by the additional cost of the Group's enhanced large individual risk and catastrophe aggregate reinsurance cover and the crop quote share) and the sale of the agency businesses.

The insurance profit margin improved to 2.5% from 0.2% a year earlier.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013	2012
Gross written premium	US$M	**4,961**	5,310	5,951	6,565
Gross earned premium	US$M	**4,930**	5,457	6,225	6,984
Net earned premium	US$M	**3,666**	4,471	5,030	5,625
Net incurred claims	US$M	**2,323**	3,023	3,804	4,038
Net commission	US$M	**635**	698	795	883
Expenses	US$M	**678**	788	1,011	830
Underwriting result	US$M	**30**	(38)	(580)	(126)
Net claims ratio	%	**63.4**	67.6	75.6	71.8
Net commission ratio	%	**17.3**	15.6	15.8	15.7
Expense ratio	%	**18.5**	17.6	20.1	14.7
Combined operating ratio	%	**99.2**	100.8	111.5	102.2
Insurance profit margin	%	**2.5**	0.2	(10.6)	(1.0)

Premium income

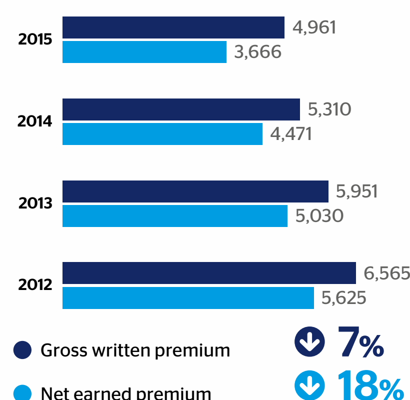
North American Operations' gross written premium declined 7% to $4,961 million compared with $5,310 million in 2014, partly reflecting the impact of the sale of M&LS which completed on 1 October 2015.

Excluding M&LS, gross written premium was $4,578 million, down 4% from the prior period but in line with expectations conveyed at the half year. The reduction in premium is largely due to standard commercial lines where, in addition to an increasingly competitive premium rate environment, premium production was lower due to corrective underwriting actions including the termination of underperforming programs. Conversely, we continue to see strong growth in the consumer business within Standard Lines, which grew by 11% due to an increase in housing starts which drove revenue growth in both tenant and owner-occupied home insurance.

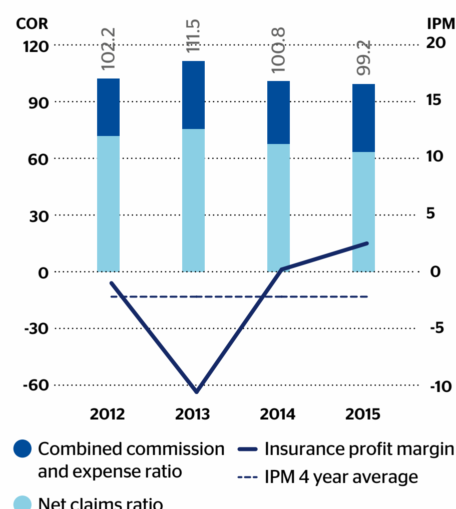
The Specialty Lines business remains focused on organic growth of existing lines and entry into targeted new lines which are expected to enhance both portfolio balance and underwriting results over time. Gross written premium increased 32%, albeit off a relatively small base. Higher retention and strong new business drove growth across management liability and professional lines, aviation, trade credit and surety. We added transactional liability and inland marine to our specialty product range during 2015, as well as QBE Rewards, a new medical stop loss experience refund product.

Net earned premium fell 18% to $3,666 million from $4,471 million a year earlier. In addition to the impact of the M&LS sale, retention in the Crop business fell materially as exposure to hail and MPCI was reduced through quota share reinsurance. Moreover, premium cessions into the government reinsurance program increased as a result of the stronger underwriting performance. These factors, coupled with North American Operation's share of higher Group reinsurance costs and a change in the reporting basis for Assumed Reinsurance, resulted in a reduction in net earned premium of approximately $500 million.

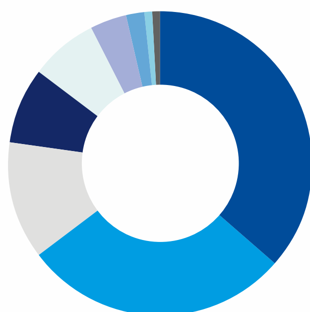
Gross written premium and net earned premium (US$M)



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



Gross earned premium by class of business 2015



	2015 %	2014 %
Commercial & domestic property	36.5	37.7
Agriculture	28.3	28.3
Motor & motor casualty	12.5	12.3
Workers' compensation	8.1	8.5
Public/product liability	7.3	7.8
Accident & health	3.7	2.7
Professional indemnity	2.0	1.0
Marine energy & aviation	0.9	0.7
Financial & credit	0.7	0.7
Other	-	0.3

Claims expense

North American Operations reported a 2015 net claims ratio of 63.4% compared with 67.6% in 2014.

Claims experience benefited from the strong underwriting results for Crop and lower catastrophe claims, partly offset by modest increases in attritional claims, large individual risk claims and prior accident year development affecting Standard Lines.

Excluding Crop, the attritional claims ratio increased from 48.3% to 49.8%, primarily driven by Standard Lines reflecting a combination of pricing pressure and an industry-wide increase in severity trends in commercial auto lines.

Despite increased large individual risk claims, the overall cost of large individual risk and catastrophe claims decreased to 3.9% from 5.0% previously, driven by decreased catastrophe claims in Standard Lines and Assumed Reinsurance.

Adverse prior accident year claims development increased to $85 million from $41 million in 2014, largely driven by development on commercial auto classes in Standard Lines (broadly consistent with industry trends), coupled with development on 2014 weather events which impacted the Consumer and Agri portfolios.

Higher risk-free rates used to discount claims liabilities benefitted the result by $20 million compared with an $18 million charge in 2014.

Commission and expenses

The combined commission and expense ratio increased to 35.8% from 33.2% a year earlier, reflecting lower net earned premium.

The commission ratio increased to 17.3% from 15.6% in 2014. Lower commission income, following the sale of the agency and M&LS businesses, was partially offset by additional commission income from crop quota share reinsurance.

The underwriting expense ratio increased to 18.5% from 17.6% in the prior period. Despite an $80 million reduction in controllable costs due to organisational restructuring, the underlying expense ratio increased as a result of lower net earned premium. Notwithstanding the year-on-year increase, the expense ratio improved from 19.7% in the first half to 17.3% in the second half as benefits from first half restructuring activities and the sale of M&LS started to be realised.

In driving towards an improved expense ratio, additional expense management efforts are underway including integrating and streamlining operations, consolidating our real estate footprint and greater utilisation of the Group Shared Services Centre (GSSC) in the Philippines. Collectively, these efforts are making our expense base more variable and contributing to an operating model better positioned for growth.

Summary

Numerous initiatives are underway to further improve the North American business and ensure more predictable and better quality underwriting results. Expansion of our Specialty Lines platform continues with the addition of new lines of business. Following the recent introduction of Surety, Cyber Liability, Inland Marine and Transactional Liability, we plan to launch a number of other products to be announced later in 2016.

During 2015, a key focus has been the ongoing development of our underwriting support system including the build-out of a field operations platform in order to be responsive to the needs of the rapidly evolving marketplace. This underscores our commitment to improving producer relationships, driving profitable growth through a product-centric and customer-focused approach and providing customers with direct access to the products and services they need. Through a sharp focus on technical underwriting, we have driven strong business performance and, in turn, stability in our underwriting appetite. Additionally, the transformation of our claims practice has focused on claims capabilities, differentiation, outcomes and analytics.

Transformation initiatives continue with a focus on creating the right environment and tools to deliver sustainable profitable growth as well as high quality and predictable results. In 2015, we executed on a technology and operations roadmap to improve our systems and support scalability and new business growth. Moreover, when complete, the build-out of our data and analytics capability will further enhance both our risk selection and pricing capabilities.

European Operations business review

"European Operations delivered a strong financial performance in 2015 despite market conditions continuing to deteriorate. The combined operating ratio was 89.1% and the insurance profit was $464 million. Gross written premium increased 5% on a constant currency basis."

Richard Pryce
Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
4,386	3,454	377	464
↓ 3% from 2014 [1]	↓ 12% from 2014 [2]	↑ $154M from 2014	↑ $119M from 2014
		Combined operating ratio 89.1% (2014 94.3%)	Insurance profit margin 13.4% (2014 8.8%)

2015 overview

The last 12 months have been characterised by intense competition, especially in the London market.

The pricing environment deteriorated in the second half of the year and, as a consequence, rates were marginally worse than our planning assumptions. Notwithstanding the competitive landscape, our strong market position combined with increased focus on cross class client engagement helped us improve our retention ratio and selectively grow gross written premium.

To support further selective growth we made several strategic hires across the business, most notably in the last quarter when we recruited extensively to expand our real estate business.

The operational environment improved during the year and our major IT infrastructure upgrade project is on schedule to be completed early in 2016. Further positive progress has been made in the data analytics arena, especially in claims management.

The year ended on a positive note with the Prudential Regulation Authority (PRA) approving our Solvency II internal capital model application.

Note: All comparative 2014 performance figures exclude the one-off impact of the medical malpractice reinsurance transaction.

1 Up 5% on a constant currency basis.
2 Down 5% on a constant currency basis (excluding the one-off impact of the medical malpractice reinsurance transaction).

Operating and financial performance

Underwriting performance

European Operations recorded a strong underwriting performance across the business. All three business units performed well and exceeded our planning expectation. This contributed to a materially improved combined operating ratio of 89.1% compared with 94.3% in the prior corresponding period.

European Operations reported an insurance profit margin of 13.4%, up materially from 8.8% in 2014, with lower investment returns more than offset by the significant improvement in underwriting profitability.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2015	2014 EX MED MAL	2014	2013
Gross written premium	US$M	**4,386**	4,526	4,526	5,236
Gross earned premium	US$M	**4,338**	4,805	4,805	5,146
Net earned premium	US$M	**3,454**	3,929	3,567	4,160
Net claims expense	US$M	**1,844**	2,362	2,000	2,486
Net commission	US$M	**634**	718	718	768
Expenses	US$M	**599**	626	626	646
Underwriting result	US$M	**377**	223	223	260
Net claims ratio	%	**53.4**	60.1	56.1	59.7
Net commission ratio	%	**18.4**	18.3	20.1	18.5
Expense ratio	%	**17.3**	15.9	17.6	15.5
Combined operating ratio	%	**89.1**	94.3	93.8	93.7
Insurance profit margin	%	**13.4**	8.8	9.7	9.0

Premium income

Given competitive market headwinds and the impact of the dramatic fall in commodity prices, particularly crude oil, it was encouraging to record gross written premium growth of 5% on a constant currency basis.

The fall in the price of commodities and crude oil particularly impacted our International Markets business where we have seen a reduction in insured values and a significant downturn in project activity.

Premium growth was underpinned by an improved performance in retention and new business activity as well as the successful execution of various strategic initiatives. As expected, higher percentage growth was achieved from our extended distribution such as in Continental Europe and Canada. The slight improvement in the European economies also contributed to this growth.

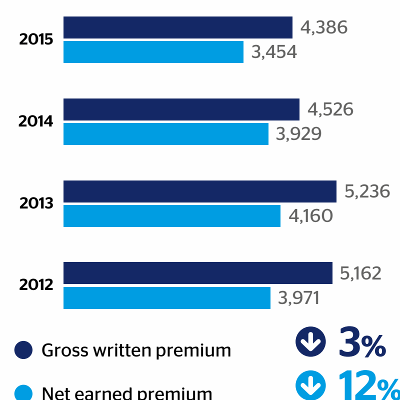
Renewal premium rates continued to deteriorate in most products and territories and resulted in a 3.2% reduction on average across the portfolio for the full year. Pricing pressure moderated most in QBE Re.

Notwithstanding the aforementioned gross written premium growth, net earned premium declined 5% on a constant currency basis due to significantly increased Group and local reinsurance costs. Reinsurance spend increased in 2015 due to European Operations' share of the increased costs associated with the Group's enhanced large individual risk and catastrophe aggregate reinsurance program and an increase in reinstatement costs following the spate of large individual energy risk claims during the first half of the year.

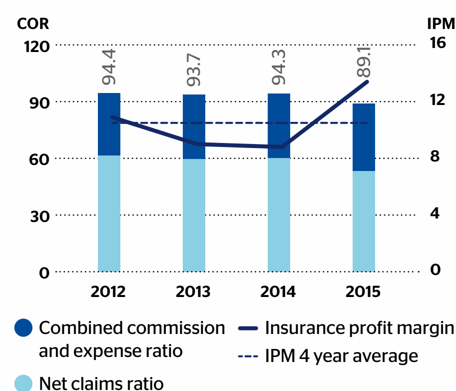
Claims expense

The claims ratio benefitted from continued favourable prior accident year reserve development of $253 million, up from $158 million in 2014, in part driven by improved claims management practices.

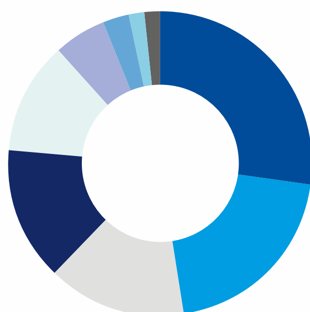
Gross written premium and net earned premium (US$M)



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



Gross earned premium by class of business 2015



	2015 %	2014 %
Commercial & domestic property	27.3	28.0
Public/product liability	20.3	21.7
Marine energy & aviation	14.8	15.8
Professional indemnity	14.1	11.9
Motor & motor casualty	11.9	11.3
Workers' compensation	5.7	6.0
Other	2.8	1.8
Financial & credit	1.6	1.6
Accident & health	1.5	1.4
Agriculture	-	0.5

The attritional claims ratio was adversely impacted by lower net earned premium due to additional reinsurance costs associated with the Group's enhanced large individual risk and catastrophe aggregate reinsurance program. Absent this impact, the current accident year attritional claims ratio was better than the prior year and benefited from the ongoing improvement in our claims analytics capabilities for fraud protection and indemnity management as well as the portfolio changes undertaken in 2013 and 2014. Claims inflation remains under control across most of the business.

The combined cost of large individual risk and catastrophe claims was 13.5% of net earned premium compared with 12.5% in the prior year. Catastrophe activity was relatively benign across the business until the extensive flooding in the UK which occurred throughout December. Large individual risk claims included several large energy claims during the first half of the year and a number of European property losses in the second half.

Having enjoyed a $36 million benefit from higher risk free rates used to discount claims liabilities during the first half of 2015, risk-free rates in GBP, EUR and AUD fell during the second half resulting in a reduced full year discount rate benefit of only $21 million. This compares with a charge of $217 million incurred in 2014.

Risk margins as a percentage of the net undiscounted central estimate increased slightly during the year as did the reserving probability of adequacy.

Commission and expenses

The increase in the commission ratio reflects a combination of increased broker demands as well as a reduction in our net earned premium. As previously highlighted, one of our biggest challenges is broker demand for increased commissions (both on individual risks and facilities) fuelled by the significant over supply of capacity.

Our expense ratio has also been adversely impacted by the reduction in net earned premium together with significant one-off project costs involving Solvency II, real estate consolidation and refurbishment, as well as the IT infrastructure upgrade. Underlying operating expenses will continue to reduce as these short term project and restructuring costs are eliminated.

Robust management of all costs including headcount will remain a priority in 2016 and beyond.

Summary

Notwithstanding the operating landscape, this has been a very positive year for European Operations.

Across the business we have delivered our financial, operational and strategic objectives and, as a consequence, we move into 2016 with positive momentum.

There is, however, much more to be accomplished to build the quality business to which we aspire. In particular, further developments in client engagement, getting more value from our extended distribution, data analytics and improved operational efficiency remain our priorities.

Our biggest challenge continues to be the extremely competitive pricing and commission landscape which shows little sign of abating. Our focus on underwriting discipline remains paramount and, combined with our position as a market leader, we are well placed to respond appropriately.

Once again the European Operations' team has performed very well. Individually and collectively they have displayed skill and commitment and the result is testimony to their efforts.

Australian & New Zealand Operations business review

"Our focus on operational efficiencies and disciplined underwriting has delivered a COR of 91.3% – a solid result in light of the storms on the eastern seaboard, fires in South and Western Australia and a competitive trading environment."

Tim Plant
Chief Executive Officer • Australian & New Zealand Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit (loss)
US$ million	US$ million	US$ million	US$ million
3,787	3,282	286	467
↓ 14% from 2014 [1]	↓ 14% from 2014 [2]	↓ $212M from 2014	↓ $213M from 2014
		Combined operating ratio 91.3% (2014 87.0%)	Insurance profit margin 14.2% (2014 17.7%)

2015 overview

The Australian and New Zealand economies continue to grow, albeit more slowly than in prior years, impacted by declining commodity prices and increasing levels of government debt. Interest rates continue to trend downwards while unemployment remains low.

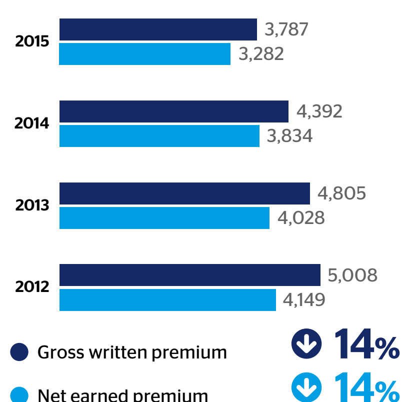
2015 saw a number of severe storms on the eastern seaboard and bushfires in Victoria and South and Western Australia. These events have highlighted the important role insurance plays in providing community support. Government is encouraged to support building community resilience and continued prioritisation of mitigation measures in areas exposed to natural catastrophes such as cyclone, flood and bushfire.

The insurance market remains competitive in Australia and New Zealand with increased levels of capital available through local and foreign capital providers. The Australian market has seen rate decreases of around 2% over the past 12 months while New Zealand continues to experience significant rate decreases.

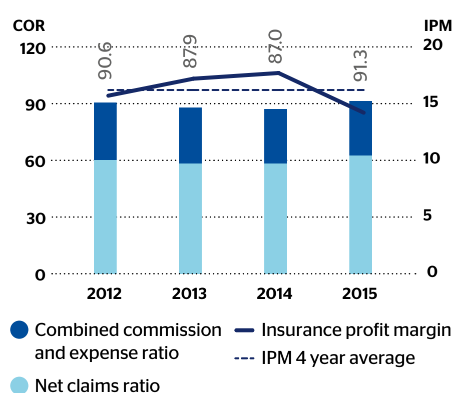
Continued pressure on lenders' mortgage insurance (LMI) by regulators has seen the housing market slow which has decreased the demand for LMI. Despite lower demand, pricing has held firm and underwriting profitability remains strong.

1 Up 3% on a constant currency basis.
2 Up 2% on a constant currency basis.

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



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



Operating and financial performance

Underwriting performance

Australian & New Zealand Operations delivered a combined operating ratio of 91.3% in a year of heightened natural catastrophes, including severe storms on the Eastern Seaboard in the first half of 2015 and catastrophic bushfires in Victoria, South and Western Australia in the final months of 2015.

Risk-free rates used to discount claims liabilities stabilised when compared with 2014; however, the downward trend in investment returns continued in 2015. Although the Reserve Bank does not appear to have any appetite for increasing interest rates in the short to medium term, we are well placed to benefit when rates eventually do trend higher.

Our underwriting result deteriorated in 2015 as a result of a number of factors including increased catastrophe activity and a material increase in the attritional claims ratio as discussed overleaf.

The LMI portfolio continues to outperform expectations with favourable claims experience supported by low interest rates, low unemployment rates and higher house prices in major metropolitan markets.

Our more traditional markets have continued to perform at or close to expectations and remain profitable. Competitive pressures in our traditional commercial product classes remain, particularly in New Zealand where premium rate reductions averaged 7% across the portfolio.

Policy retention has improved due to increased efforts to meet our customers' needs and is particularly pleasing in the currently competitive market conditions.

The expense ratio continues to improve as a result of operational efficiency measures taken over the past three years.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US$M	**3,787**	4,392	4,805
Gross earned premium	US$M	**3,753**	4,386	4,626
Net earned premium	US$M	**3,282**	3,834	4,028
Net claims expense	US$M	**2,054**	2,242	2,347
Net commission	US$M	**481**	532	572
Expenses	US$M	**461**	562	623
Underwriting result	US$M	**286**	498	486
Net claims ratio	%	**62.6**	58.4	58.2
Net commission ratio	%	**14.7**	13.9	14.2
Expense ratio	%	**14.0**	14.7	15.5
Combined operating ratio	%	**91.3**	87.0	87.9
Insurance profit margin	%	**14.2**	17.7	17.2

Premium income

Gross written premium fell 14% compared with 2014, negatively impacted by the depreciation of the Australian dollar which declined by 11% on a spot basis but 16% on an average basis. On a constant currency basis gross written premium grew by 3%. Pleasingly, our traditional commercial portfolio grew by around 5% despite premium rate decreases in most products. Growth was driven by a heightened focus on the customer experience which enhanced the retention of quality business and led to the placement of additional new business.

Premium rates fell by 2.4% on average across the portfolio with a decrease of 2.0% in Australia and 7.3% in New Zealand. Retention improved on a policy count basis to 81.7% for renewable portfolios. New business growth was strong in our Australian Intermediary, International Broker and CTP portfolios and across most lines of business in New Zealand.

LMI premium declined materially on the back of regulatory pressure on banks to slow lending, particularly with respect to the investment segment of the residential market, as well as the loss of the Westpac account which was taken in-house by Westpac with effect from May 2015.

The premium earning patterns of all lines of business were reviewed to ensure that earnings match the risk flow of business. No material changes were identified.

Net earned premium fell 14%. On a constant currency basis net earned premium grew 2% but was negatively impacted by additional costs associated with implementation of the Group's enhanced large individual risk and catastrophe aggregate cover which was placed for two years from 1 January, 2015. Notwithstanding increased reinsurance costs associated with this aggregate cover, the reinsurance expense ratio remained stable at 12.5% reflecting reinsurance cost savings elsewhere as well as business mix changes.

Claims expense

The net claims ratio increased to 62.6% from 58.4% in 2014, primarily due to an increase in the attritional claims ratio which increased from 49.7% to 55.1%, coupled with increased catastrophe incidence which resulted in the cost of large individual risk and catastrophe claims reaching 7.8% of net earned premium compared with only 7.1% in 2014.

The material increase in the attritional claims ratio is attributable to a number of factors including:

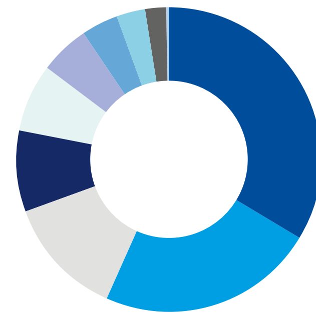
- the reduction in premium rates over the year (0.7%);
- an increase in the relative size of the CTP portfolio (which has a higher attritional claims ratio) and an industry-wide increase in the frequency of small to medium size NSW CTP claims during the second half of the year (1.4%);
- the 2014 change in LMI's earning patterns (1.1%);
- the division's share of the cost of the Group's enhanced large individual risk and catastrophe aggregate protection (0.9%); and
- the weaker Australian dollar which results in more claims being classified as attritional from large individual risk claims (0.5%).

In response to the recent but well-publicised industry wide increase in the frequency of small to medium size NSW CTP claims, QBE has filed for a significant premium rate increase (effective 1 May 2016) which is expected to restore underwriting margins to more acceptable levels.

The result benefited from $120 million of favourable prior accident year claims development compared with $114 million in 2014. The major drivers were changes in wage inflation and claims frequency assumptions.

Risk-free rates used to discount claims liabilities remained relatively stable across 2015, giving rise to a charge of only $6 million compared with $62 million in the prior year. While short term yields have declined on the back of near term economic concerns, long term yields have increased reflecting expectations that monetary policy coupled with the lower Australian dollar will encourage improved growth prospects over the medium to longer term.

Gross earned premium by class of business 2015



	2015 %	2014 %
Commercial & domestic property	33.7	34.8
Motor & motor casualty	23.1	21.9
Financial & credit	12.7	13.5
Public/product liability	8.7	8.5
Workers' compensation	7.2	7.2
Agriculture	5.2	5.2
Accident & health	4.0	3.4
Marine energy & aviation	3.0	3.0
Professional indemnity	2.3	2.4
Life	0.1	0.1

Divisional risk margins decreased by $2 million which contributed to a minor reduction in the claims reserving probability of adequacy to 93.8% from 94.4% a year earlier.

Commission and expenses

The combined commission and expense ratio remained relatively stable at 28.7% compared with 28.6% in 2014. The commission ratio increased and the expense ratio decreased as a result of the sale of the underwriting agencies with the combined commission and expense ratio increasing by a net 0.4% as a result of the sale. This increase was largely offset by further expense efficiencies.

The ongoing integration and leveraging of our Group Shared Services Centre (GSSC) in the Philippines has delivered additional cost savings across many parts of our business. We continue to review of our operations with a view to refining existing processes and improving control frameworks across the business.

The new technology platform for our direct business, Guidewire, was successfully launched in December. This platform will provide us with a strong competitive advantage allowing further operational efficiencies to be achieved. Moreover, the platform will result in improved customer experience, particularly online and when lodging a claim and will be implemented across other business units including CTP and Financial Institutions during 2016.

Summary

Our underwriting performance remains strong despite competitive pressures and a higher than average expected level of catastrophes. Significant investment in our workplace environment and new systems has led to improvements in workforce engagement and customer satisfaction.

There have been a number of changes to our executive team this year following Colin Fagen's transition into a newly created Group role. The transfer of the CEO position from Colin Fagen to Tim Plant has been seamless and reinforces the depth of leadership within Australian & New Zealand Operations.

We have also created a new transformation unit to align and drive strategy, innovation and transformation across our business and will welcome a new Executive General Manager, Marketing in 2016 to further improve the positioning of our product set.

Finally, I would like to thank the Australian and New Zealand teams for their ongoing commitment and for delivering another excellent result.

Emerging Markets business review

"Emerging Markets maintained steady, solid growth in 2015. With a strengthened leadership team and management structure in place, our expansion in Asia Pacific and Latin America is being driven by increased cross-regional synergies and implementation of our profitable growth strategy."

David Fried

Chief Executive Officer • Emerging Markets

Gross written premium	Net earned premium	Underwriting result	Insurance profit (loss)
US$ million	US$ million	US$ million	US$ million
1,728[1]	1,436[1]	11	71
↓ 4% from 2014[2]	↓ 2% from 2014[3]	↑ $45M from 2014	↑ $33M from 2014
		Combined operating ratio 99.2% (2014 102.3%)	Insurance profit (loss) margin 4.9% (2014 2.6%)

2015 overview

Emerging Markets continued to build on its solid foundation during the year.

A single operating model was established with the creation of a combined Emerging Markets board and management structure.

The Latin America profitable growth strategy was approved by the QBE Group Board in February 2015. A divisional head office was established in Miami and remediation actions were taken to further improve performance in the region. This included the sale of the Argentine workers' compensation business and a reduction in exposure to the Colombian SOAT business.

Inter-regional synergies were developed with the leadership team now providing oversight of underwriting, distribution and claims from our regional offices in Hong Kong, Singapore and Miami. To improve efficiency and consistency, and to further enhance the scalability of Emerging Markets' operations, some administrative, claims, human resource and finance services were relocated to the QBE Group's Shared Services Centre (GSSC) in the Philippines.

In 2015, the division posted steady, solid underlying growth in both gross written and net earned premium as well as an improved combined operating ratio.

Note: All figures in the above table and the performance figures in the commentary following exclude the Argentine workers' compensation business.

1 Excludes Argentine workers' compensation.
2 Up 9% on a constant currency basis.
3 Up 10% on a constant currency basis.

Operating and financial performance

Underwriting performance

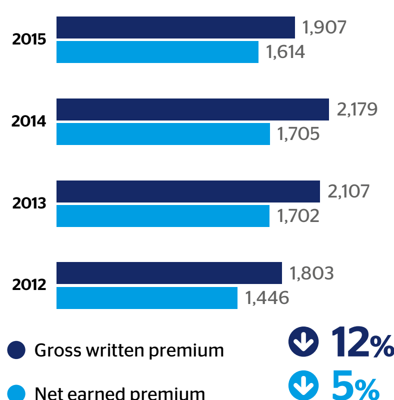
Through the implementation of a profitable growth strategy in both Asia Pacific and Latin America, Emerging Markets increased gross written and net earned premium in 2015 by 9% and 10% respectively on a constant currency basis.

The underwriting result improved significantly, producing a $11 million profit in 2015 compared with a loss of $34 million in the previous year. This turnaround was despite the significant impact of Cyclone Pam in Vanuatu and severe flooding in Chile.

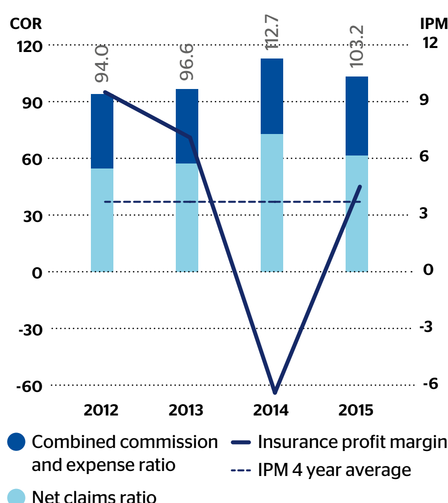
Insurance profit also increased from $38 million to $71 million, while the combined operating ratio improved to 99.2% in 2015 from 102.3% in 2014. On a regional basis, Asia Pacific reported a combined operating ratio of 93.2% while Latin America was 103.6%.

To improve the quality of the Colombian SOAT portfolio, a total of 1,320 unprofitable points of sale were closed in 2015 while still maintaining national coverage for our customers. A new SOAT governance structure was also implemented to monitor the portfolio's profitability. The sale of the workers' compensation business in Argentina to the specialist workers' compensation insurer, La Caja, completed in August. This exit allows for increased focus on the development of corporate, specialty and small-medium enterprise (SME) products and services in Latin America.

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



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



Underwriting result

Emerging Markets result – including Argentine workers' compensation

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US$M	**1,907**	2,179	2,107
Gross earned premium	US$M	**1,865**	1,942	1,984
Net earned premium	US$M	**1,614**	1,705	1,702
Net claims expense	US$M	**992**	1,245	976
Net commission	US$M	**345**	368	364
Expenses	US$M	**328**	309	304
Underwriting result	US$M	**(51)**	(217)	58
Net claims ratio	%	**61.5%**	73.0%	57.3%
Net commission ratio	%	**21.4%**	21.6%	21.4%
Expense ratio	%	**20.3%**	18.1%	17.9%
Combined operating ratio	%	**103.2%**	112.7%	96.6%

Emerging Markets result – excluding Argentine workers' compensation

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US$M	**1,728**	1,791	1,825
Gross earned premium	US$M	**1,687**	1,706	1,703
Net earned premium	US$M	**1,436**	1,469	1,419
Net claims expense	US$M	**788**	878	769
Net commission	US$M	**336**	354	346
Expenses	US$M	**301**	271	269
Underwriting result	US$M	**11**	(34)	35
Net claims ratio	%	**54.8%**	59.8%	54.2%
Net commission ratio	%	**23.4%**	24.1%	24.4%
Expense ratio	%	**21.0%**	18.4%	18.9%
Combined operating ratio	%	**99.2%**	102.3%	97.5%
Insurance profit margin	%	**4.9%**	2.6%	4.5%

Premium income

Reflecting a stronger US dollar, Emerging Markets' gross written and net earned premium decreased 4% and 2% respectively in 2015. On a constant currency basis, however, gross written and net earned premium increased by 9% and 10% respectively. Consistent with a targeted gradual business mix shift, strong growth was achieved in commercial property (11%) and marine (14%).

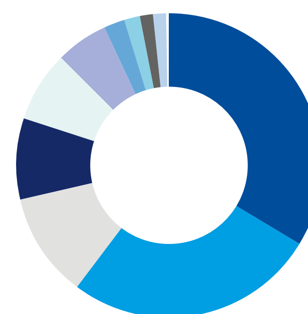
On a regional basis, the stronger US dollar translated into a 3% decrease in gross written premium to $759 million in Asia Pacific. On a constant currency basis, however, gross written premium increased 3% with growth driven by Indonesia, Macau, Malaysia, the Philippines and Vietnam which all achieved double-digit top-line growth. The substantial expansion of business in these markets was partially offset by Hong Kong and Singapore where demand for commercial insurance, especially marine and construction, was impacted by mainland China's economic slowdown which resulted in a slackening of trade flows across Asia Pacific. At the same time, rates continued to soften with premium rate reductions averaging 3.4% across the region. In the Pacific, new market entrants in Fiji and Solomon Islands also intensified rate pressures.

Implementation of the profitable growth strategy has led to further expansion in targeted market segments in Asia Pacific. QBE ranked second in market share in marine hull & liability (25%) in Singapore, second in marine (13%) in Malaysia and second in marine hull (15%) in Indonesia. QBE ranked second in liability (12%) in Malaysia and third in both professional indemnity (14%) in Singapore and public liability (9%) in Thailand. In engineering, QBE ranked first (19%) in Malaysia and third (11%) in Hong Kong. QBE retained leading market positions in both Hong Kong (ranked 1st) and Singapore (ranked 6th) and also remains the leading general insurer in the Pacific markets of Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

In Latin America, the stronger US dollar also contributed to the decline in gross written and net earned premium. On a constant currency basis, gross written and net earned premium grew strongly by 13% and 12% respectively.

Implementation of the new profitable growth strategy has seen a gradual shift in the business mix of the Latin American operations, writing more commercial, specialty and SME risks. In Argentina, QBE ranked first (16%) in cargo insurance, while in Ecuador QBE ranked first (8%) in property insurance and is the second (10%) largest private general insurer. Once again Latin America recorded growth through QBE's excellent affinity capabilities. Following changes to regulations for travel insurance distribution, QBE Brasil Seguros became the country's largest travel insurer (50%) by proactively engaging travel assistance operators.

Gross earned premium by class of business 2015



	2015[1] %	2014 %
Motor & motor casualty	33.9	31.2
Commercial & domestic property	26.5	24.2
Marine energy & aviation	11.1	8.5
Workers' compensation	8.7	19.2
Accident & health	7.4	5.7
Public/product liability	5.8	4.7
Professional indemnity	2.2	1.9
Other	1.6	0.3
Agriculture	1.4	0.9
Financial & credit	1.3	1.3
Life	0.2	2.1

1 The 2015 gross earned premium % split has been adjusted to exclude the Argentine workers' compensation business.

A key to the longer term success of Emerging Markets is the further leveraging of resources and skills between Asia Pacific, Latin America and other QBE divisions. For example, QBE Qnect – an innovative online insurance portal designed to meet the rising demand from intermediaries to quote, bind and provide documentation at the point of sale – was originally introduced in Hong Kong and Singapore in 2014. With similar demand noted in other countries within Emerging Markets, the platform will be extended to Latin American markets such as Argentina this year, further supporting our growth in the corporate and SME segments in the region.

Additionally, the Miami team is working with North American Operations to explore opportunities involving companies that have operations in both North America and Latin America. Moreover, European Operations will establish resources in Miami to bring together their technical expertise in International Markets and our local relationships and distribution capabilities in Latin America.

Claims expense

During the period, Emerging Markets was impacted by two major catastrophes: Cyclone Pam in Vanuatu and the floods in Chile.

Despite the cost of these events, the net claims ratio decreased to 54.8% in 2015 from 59.8% in 2014, reflecting remediation work in both Asia Pacific and Latin America.

Commission and expenses

The net commission ratio decreased to 23.4% in 2015 from 24.1% in 2014, mainly due to changes in portfolio mix. Lower commissions due to reduced exposure to the extended warranty business in Argentina and SOAT in Colombia were partially offset by increased commissions in Singapore and Indonesia, driven by market competition and a business mix shift towards engineering, fire and marine.

Emerging Markets' underwriting expense ratio increased to 21.0% from 18.4% the previous year. The increase was mainly due to investments in people, strengthening of the governance and management framework, technology-related costs, resources required to support the profitable growth strategy and inflationary pressures (most notably in Argentina). Expenses were also impacted by non-recurring costs associated with the disposal of the Argentine workers' compensation business.

Summary

The ongoing and successful implementation of our profitable growth strategy in both Asia Pacific and Latin America is critical to sustaining profitable growth over the longer term.

To drive business growth, we will continue to enhance productivity, efficiency and consistency across Emerging Markets. We will also continue to strengthen the underwriting capabilities and focus on winning and retaining profitable and high quality business. Building on our customer-centric approach, we will continue to utilise technologies and work with our intermediaries and customers to mitigate potential risk exposures. We will also ensure the right people are in the right positions to drive business growth as we endeavour to deliver the best customer experience for the lowest possible cost.

My thanks go to our business partners for their continued support and to our dedicated staff for their hard work. We look forward to achieving our business targets together in 2016 and beyond.

Equator Re business review

> "Equator Re remains critical to the management of the Group's risk appetite and capital through its role in optimising divisional retentions and managing the Group's innovative global ceded reinsurance program."

Jim Fiore

Group Chief Reinsurance Officer President • Equator Re

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
1,007	367	40	103
↑ 57% from 2014	↓ 30% from 2014	↓ $65M from 2014	↓ $42M from 2014
		Combined operating ratio 89.0% (2014 79.9%)	Insurance profit margin 28.1% (2014 27.7%)

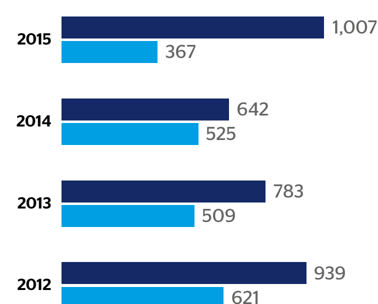
2015 overview

2015 was a year of transition for Equator, with the transfer of a significant number of roles to the Group Shared Services Centre (GSSC) in Manila and the build-out of our Bermuda based management team.

While existing divisional reinsurance programs were broadly maintained, Equator Re now provides increased limits on the treaty reinsurances which are offered to divisions on a bespoke basis and purchases the Group per risk and catastrophe programs for its own account. Equator Re also benefits from participation in the Group's aggregate reinsurance program as well as a significant Equator Re specific quota share.

A relatively benign catastrophe and large risk claims environment contributed to further softening in premium rates across most lines of business during 2015; however, rates were maintained or increased for loss affected programs. The increased gross premium associated with higher divisional limits has, however, been partially offset by reductions in underlying divisional exposures and premium rate movements.

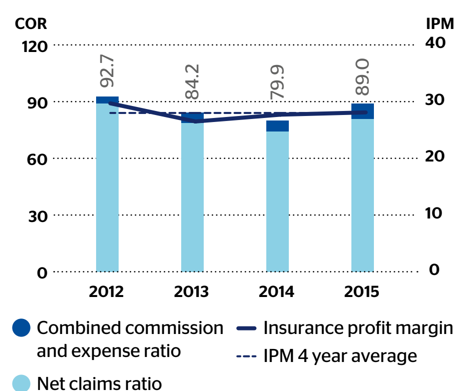
Gross written premium and net earned premium (US$M)



Gross written premium ↑ 57%

Net earned premium ↓ 30%

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



Operating and financial performance

Underwriting performance

The 89.0% combined operating ratio for the year reflected a weaker underwriting performance compared with the 79.9% combined operating ratio reported in 2014.

The result was adversely impacted by prior accident year claims development and a largely foreign exchange driven reduction in assumed recoveries under prior year Group aggregate risk reinsurance protections. While we were impacted by natural catastrophe and large individual risk claims from various divisions during the year, these were within business plan expectations.

Relatively benign current accident year claims activity meant that Equator Re did not recover under its specific excess of loss reinsurance programs; however, the result did benefit from recoveries under the new and significantly enhanced Group large individual risk and catastrophe aggregate cover as well as Equator Re's quota share reinsurance.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US$M	**1,007**	642	783
Gross earned premium	US$M	**994**	764	802
Net earned premium	US$M	**367**	525	509
Net claims expense	US$M	**297**	389	400
Net commission	US$M	**17**	18	21
Expenses	US$M	**13**	13	8
Underwriting result	US$M	**40**	105	80
Net claims ratio	%	**80.9**	74.2	78.6
Net commission ratio	%	**4.6**	3.3	4.1
Expense ratio	%	**3.5**	2.4	1.5
Combined operating ratio	%	**89.0**	79.9	84.2
Insurance profit margin	%	**28.1**	27.7	26.5

Premium income

While gross written premium increased by 57% to $1,007 million compared with $642 million for the previous year, net earned premium decreased by 30% to $367 million compared with $525 million.

Gross written premium growth reflects the strategic restructuring of the portfolio with Equator Re providing higher limits on the bespoke property and casualty treaty reinsurances to the divisions. Absent this impact, top line was pressured by reductions in underlying divisional exposures and premium rate reductions.

The strategic restructuring of the portfolio, the related decision to purchase the Group per risk and catastrophe reinsurance programs against Equator Re's own account, and an increase in quota share reinsurance combined to drive an overall reduction in net earned premium.

Claims expense

The net claims ratio deteriorated to 80.9% compared with 74.2% in the previous year.

On a central estimate basis, the current accident year net claims ratio was 49.8%, a significant improvement from 67.2% in the prior year, largely reflecting benign catastrophe experience and a reduction in large individual risk claims year on year. Catastrophe claims included Cyclone Pam which struck the South Pacific island of Vanuatu in March and a number of weather-related events which caused flooding in the United Kingdom during December.

The net claims ratio was impacted by $120 million of adverse prior accident year claims development compared with $28 million of development in 2014. This primarily reflected adverse development from weather-related losses in Brisbane during December 2014, and a reduction in assumed recoveries under the Group aggregate risk reinsurance program, largely as a result of foreign exchange movements.

The result benefited from a $3 million impact from higher risk-free rates used to discount net outstanding claims liabilities. This compares with a $26 million adverse impact in the previous year.

Commission and expenses

The commission ratio deteriorated to 4.6% from 3.3% in 2014, principally due to changes in business mix and profit commissions.

The expense ratio deteriorated to 3.5% from 2.4% in the previous year, principally reflecting the continuing investment in our operating model, build-out of capabilities in Bermuda and the impact of the reduction in net earned premiums. In absolute terms, expenses were in line with the prior year.

Summary

Equator Re produced a satisfactory result for 2015 with an 89.0% combined ratio.

We successfully completed the restructuring of the portfolio, with Equator Re now providing increased limits on the property and casualty per risk and catastrophe treaty reinsurances offered to divisions on a bespoke basis. Consistent with this, Equator Re now purchases the Group per risk and catastrophe programs for its own account.

During the year Equator Re also successfully negotiated the commutation of some low level excess of loss casualty programs. This transaction reduces Equator Re's exposure to further adverse prior accident year development and removes a large number of open claims from our balance sheet, thus improving the efficiency of our claims administration function.

Throughout the year, Equator Re worked closely with Group head office and QBE's divisions to develop innovative solutions to new business opportunities. While not all such efforts have come to fruition, Equator Re continues to provide the capacity and flexibility to help the divisions 'make it happen' for their customers.

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Divisional outlook for 2016[1,2]

North American Operations

2016 target full year GWP:

US$4.8billion

2016 target full year NEP:

US$3.6billion

Improvements in underlying business trends demonstrate that transformation of North American Operations is on the right path. Following the sale of the M&LS business, we anticipate further improvement in underwriting profitability in 2016 on the back of cost efficiencies and our renewed focus on Specialty Lines.

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

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

European Operations

2016 target full year GWP:

US$4.3billion

2016 target full year NEP:

US$3.4billion

The outlook for 2016 remains challenging on all fronts. There is no sign of market competition abating which means that our number one priority has to be underwriting discipline. Aligned to this is a real focus on retaining our existing profitable and high quality portfolio.

We will continue to invest carefully in the business both for growth and operational efficiency. Our priorities here will not change as we build upon the excellent work already undertaken enhancing our client proposition, building our distribution platform and expanding our analytical capabilities.

Finally, we will remain vigilant to opportunities emanating from any industry disruption throughout our region.

Australian & New Zealand Operations

2016 target full year GWP:

US$3.5billion

2016 target full year NEP:

US$3.1billion

Growth expectations for 2016 are underpinned by our successful tender for the South Australian CTP business, a heightened focus on retention, planned enhancements to the customer experience and continued collaboration with our distribution partners. At the same time, our strong and disciplined approach to underwriting coupled with further operational efficiency initiatives will underpin solid returns.

With an increased focus on the customer experience, we will continue to invest in technology and processes to meet changing customer needs and expectations (including offering our customers even greater choice in accessing our services) and building further efficiency into our operating models.

We will strive to make QBE an even better place to work through continued investment in our people via leadership and technical training and will continue our support for the community through the QBE Foundation and its partners.

Emerging Markets

2016 target full year GWP:

US$1.8billion

2016 target full year NEP:

US$1.4billion

The combination of large and strongly growing populations, increasing urbanisation, rising affluence and the under penetration of insurance translates into a very positive outlook for insurance business across the Emerging Markets.

Despite slower growth in China, economic activity in other parts of Asia Pacific is expected to be relatively robust with Malaysia, the Philippines and Vietnam all forecast to record strong levels of growth. In Latin America, premium growth is also likely to improve over the longer term on the back of macroeconomic recovery.

Excess capacity, the aggressive pursuit of market share by competitors and a potentially sustained low interest rate environment represent significant challenges for many emerging market insurers. Notwithstanding these, QBE is well positioned for further profitable growth due to our global strength, broad cross-regional presence and local expertise.

Equator Re

2016 target full year NEP:

US$0.3billion

Equator Re plays a central role in managing the Group's external reinsurance by offering expanded catastrophe protections to the divisions and facilitating the Group's external catastrophe reinsurance cover.

The significant majority of Equator Re's assumed and ceded business is placed 1 January. Consistent with the external reinsurance market, the renewal season saw moderate pricing pressure similar to that experienced during 2015 and in-line with expectations. Given the strength of our underwriting team, the robustness of our pricing tools and our significant reinsurance protections, we head into 2016 confident in our ability to deliver a strong underwriting result.

We continue to strengthen our organisational structure and technology platform which has allowed us to hone the service proposition to our divisional customers. We are pleased with our achievements and direction, and remain optimistic about our prospects.

1 Premium targets are based on assumed foreign exchange rates which are significantly below 2015 foreign exchange rates.

2 Excludes an estimated $460 million of M&LS gross written premium that is 100% reinsured to National General. Nil impact on net earned premium.

Risk: Our business

Managing risk is what we do at QBE. As an organisation, we are fully committed to ensuring that we apply a disciplined approach to risk management and that our risk management processes and systems are robust and aligned with global best practice. Our Enterprise Risk Management (ERM) framework, which is applied across the Group, provides a sound foundation for reducing uncertainty and volatility in business performance. QBE's ERM framework incorporates all of our key risk management processes including determination of the risk appetite, governance, risk and control assessments, stress and scenario testing, reporting, risk modelling and capital management, and monitoring of risk culture.

Risk appetite

Our risk appetite forms the basis of QBE's ERM framework. Risk appetite is the level of risk that the Board and management are prepared to accept in pursuit of QBE's objectives. It is aligned with, and is considered in all, strategic and business planning decisions QBE makes and we monitor our exposures against the risk appetite on an ongoing basis.

Governance

The Board plays a significant role in the ERM framework. The Board is responsible for ensuring that an effective risk management strategy is implemented and for defining the risk appetite boundaries within which risk must be managed. The Board is supported by the Board Risk and Capital Committee, which meets at least quarterly, and is responsible for overseeing that risks are actively and appropriately managed according to the stated risk appetite, strategy and business plans.

QBE manages risk in accordance with the "three lines of defence" governance model. Line one comprises any risk-taking businesses – these are responsible for managing the risk that arises as a result of the activities they undertake. Line two includes the risk management and compliance functions responsible for the maintenance and monitoring of risk management frameworks, as well as the measurement and reporting of risk performance and compliance. Line three includes internal and external audit, who are responsible for providing independent assurance to the Board and its various audit and risk committees, over controls and risk management practices. Having defined responsibilities across all three lines of defence ensures that QBE adopts a coordinated approach to risk management and that accountabilities are clear for our staff.

Stress and scenario testing

We also use stress and scenario testing to gain a clearer understanding of the nature and extent of our risk profile under a range of different environments. Assessing the impact of extreme, but plausible, events helps us better prepare for such situations and ensures that our risk exposure is acceptable to the Board.

QBE applies more sophisticated modelling techniques to estimate losses, manage catastrophe exposure and assist in making decisions regarding catastrophe risk management and coverage. This capability is critical to managing our exposure to possible catastrophic events, such as powerful earthquakes and major cyclones and typhoons.

Throughout 2015 we also continued to apply stress and scenario testing to our business plans, incorporating scenario analysis to fully understand the risks inherent within our business plans. This allows us to proactively consider the various risk exposures we may face as an organisation and determine what additional mitigation or remediation activities may be required.

Emerging risks

We recognise that the risk environment changes and evolves over time. Existing risks develop in novel or unexpected ways and new risks materialise, which are characterised by incomplete but developing knowledge. QBE operates emerging risk forums across the Group to identify and monitor these emerging risks, analyse their potential impact and develop strategies to mitigate or exploit opportunities.

Capital management

Capital management is another key component of the ERM framework and aims to achieve the appropriate balance between our risk appetite and the amount of capital required to support each of our businesses. QBE uses a number of capital management tools to support the assessment of risk and allocation of capital including:

- QBE's Economic Capital Model (ECM) – QBE's internal model, developed to measure overall exposure to risk as well as exposure to each of our main categories of risk, provides a quantitative base for us to understand, monitor and manage our exposures. We also use the model to make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis;
- analysis of regulatory and rating agency capital models – to better understand how the regulatory and rating agencies assess the impact of our strategic decisions on our risk profile and capital requirements, we conduct various financial modelling analysis which examines the various capital environments in which QBE operates; and
- a number of bespoke risk assessment tools – we use catastrophe models, scenario analysis, reverse stress testing and stress tests to evaluate business plans and support our capital plan.

Another key capital management tool is QBE's Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is supported by the ECM and is used to manage the capital held by QBE, monitor risk profile against appetite, ensure the risks taken by QBE are commensurate with required returns, allocate capital to operating entities for planning and performance monitoring purposes, and analyse alternative reinsurance options and regulatory and rating agency submissions.

In line with the broader strategic direction of QBE, several actions were initiated during 2014/2015 to reduce the risk profile of the Group. These included reinsurance of the claims reserves relating to the European medical malpractice business, sale of non-core assets, implementation of comprehensive new aggregate and bespoke reinsurance arrangements, and capital raising and debt restructure. Completing these activities improved QBE's regulatory and rating agency capital metrics, reduced gearing, converted intangibles to tangible capital and strengthened the balance sheet.

Risk culture

QBE defines risk culture as observable patterns of behaviour in the way employees perform their work and the judgements they take, as it relates to risk. Risk culture is an integral component of QBE's ERM framework. We are committed to developing and maintaining a strong risk culture through various initiatives, including global risk training programmes, reflecting risk objectives in the employee performance process, data analytics and setting the right tone from the top.

Regulatory risk

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

Board of directors

W. Marston Becker

JD, BSBA

Chairman

Age 63

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

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

John M Green

B JURIS/LLB, FAICD, SF FIN

Deputy Chairman

Age 63

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

John is a non-executive director of WorleyParsons, a member of the Council of the National Library of Australia, a book publisher at Pantera Press, a novelist and a business writer. John was for many years an executive director at Macquarie Group and, before that, he was a partner at two major law firms.

Stephen Fitzgerald

B Ec

Independent non-executive director

Age 52

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

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

Margaret Leung

B Ec

Independent non-executive director

Age 63

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

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

John Neal

Group Chief Executive Officer and executive director
Age 51

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

John has 30 years' experience in the insurance industry and, before joining QBE, John was the Chief Executive Officer of Ensign, a Lloyd's managing agent. John developed Ensign to become the UK's leading commercial motor insurance brand. QBE acquired Ensign in 2003.

Patrick Regan

BSc, ACA
Group Chief Financial Officer and executive director
Age 49

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

Patrick has more than 26 years' of professional accounting experience of which nearly 20 years is in insurance and financial services. Patrick was previously the CFO/COO of Willis and has held several roles at RSA and AXA.

Sir Brian Pomeroy

MA, FCA
Independent non-executive director
Age 71

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

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

Jann Skinner

B Com, FCA, FAICD
Independent non-executive director
Age 58

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

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

Retired directors

John Graf BA

Independent non-executive director
Age 56

John Graf served as an independent non-executive director of QBE from 2012 until his retirement on 31 December 2015. John was Chairman of the Remuneration Committee and the Deputy Chairman of the Risk and Capital Committee and Investment Committee until his retirement. John is also a non-executive director of the financial services company Global Atlantic Financial Group Ltd. John has 35 years' experience in the US and global financial services industry, including senior executive positions with AIG, American General Corporation and Conseco Inc. He most recently served as the CEO of Forethought Financial prior to that company's sale to Global Atlantic.

Group executive committee

John Neal

Group Chief Executive Officer
Age 51

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

John has 30 years' experience in the insurance industry and, before joining QBE, John was the Chief Executive Officer of Ensign, a Lloyd's managing agent. John developed Ensign to become the UK's leading commercial motor insurance brand. QBE acquired Ensign in 2003.

David Duclos

BSBA
Chief Executive Officer, North American Operations
Age 58

David Duclos was appointed Chief Executive Officer of QBE North American Operations in 2013. Prior to joining QBE, David held various management positions at XL over an eight year period, most notably as Chief Executive of Insurance in which he was responsible for all global insurance operations.

David has more than 35 years' experience in the insurance industry. He began his career at INA/CIGNA as an underwriter, where he spent 21 years, rising through a variety of regional and national management roles. David also worked in senior level positions at Kemper Insurance for three years before joining XL.

Jason Brown

B ECON, ACA
Group Chief Risk Officer
Age 46

Jason Brown has been involved in the financial services industry for over 20 years, including in consulting, assurance and senior executive roles. Jason was Chief Risk Officer for QBE Australian & New Zealand Operations before being appointed Group Chief Risk Officer in March 2014. Jason joined QBE in 2002 and previously held the role of Executive General Manager, Technical & Operations with responsibility for national underwriting, national claims, reinsurance, actuarial, legal, compliance, strategy and mergers & acquisitions.

Jason was previously a Principal at Ernst & Young in both assurance and consulting in Australia and the UK. He is also a Chartered Accountant.

Mike Emmett

B COM, CA
Group Executive Officer, Operations
Age 49

Mike Emmett joined QBE in 2011 and was appointed Group Executive Officer, Operations in 2014. Previously, Mike was the Group Head of Operational Transformation and Chief Information Officer, Australia and Asia Pacific.

Before joining QBE, Mike was a partner at Ernst & Young in Australia where he led the Financial Services Advisory Practice. Before moving to Australia, Mike worked in the UK and South Africa for PwC, Accenture and IBM where he assisted major insurers and retail banks to transform their operations.

Colin Fagen

B COM, MBA

Group Chief Strategy Officer

Age 48

Colin Fagen has worked for QBE for over 16 years. He was appointed Group Chief Strategy Officer in August 2015. Prior to this he held the position of Chief Executive Officer, Australian & New Zealand Operations. Colin has been involved in the Insurance Industry for over 21 years in operational, marketing, relationship management and senior executive roles across all classes of general insurance.

Colin is Vice President of the Insurance Council of Australia and a director of the Australian and New Zealand Institute of Insurance and Finance.

Richard Pryce

B HIS (HONS)

Chief Executive Officer, European Operations

Age 56

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

Richard began his insurance career with R.W. Sturge syndicate at Lloyd's where he became Claims Director. In 1996, Richard moved to Ockham (which was subsequently acquired by ACE) as Professional Lines Class Underwriter for Syndicate 204. Richard went on to run ACE's Financial Lines business in London before becoming President of ACE Global Markets in 2003 and ACE UK in 2007. Richard has worked in the London insurance market for 33 years.

David Fried

BA-ECON/POLI. SCIENCE

Chief Executive Officer, Emerging Markets

Age 54

David Fried joined QBE in 2013 as Chief Executive Officer, Asia Pacific Operations and was subsequently appointed Chief Executive Officer, Emerging Markets in 2014. Prior to joining QBE, David was the Regional Chief Executive Officer of Allianz Asia Pacific, where he was responsible for the insurer's life and non-life business across 14 countries.

David was previously at HSBC for 27 years, where he worked in numerous senior management and global strategic roles, including as the Group Head of Insurance where he managed HSBC's insurance operations across 54 countries.

Patrick Regan

BSc, ACA

Group Chief Financial Officer

Age 49

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

Patrick has more than 26 years' of professional accounting experience of which nearly 20 years is in insurance and financial services. Patrick was previously the CFO/COO of Willis and has held several roles at RSA and AXA.

Tim Plant

B AgrSc, MBA, AMP

Chief Executive Officer, Australian & New Zealand Operations

Age 48

Tim Plant joined QBE in 1992 and was appointed Chief Executive Officer, Australian & New Zealand Operations in 2015. Prior to his current role, Tim was the Executive General Manager, Corporate Partners & Direct for Australia & New Zealand Operations. Tim has also held executive positions for Australian Operations, including Executive General Manager, Technical; and Managing Director, Elders Insurance.

Tim has more than 20 years' insurance and reinsurance experience and has worked for Australian Eagle Insurance, Swiss Re and QBE in London.

Jenni Smith

MBA

Group Executive Officer, People and Communications

Age 53

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

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

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2015

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the year ended 31 December 2015.

Directors

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

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

Mr John Graf was a director from the beginning of the financial year until his retirement on 31 December 2015.

Details of the directors and their qualifications are provided on pages 50 and 51.

Consolidated results

	STATUTORY RESULT		ADJUSTMENTS		ADJUSTED RESULT [1]	
	2015 US$M	2014 US$M	2015 US$M	2014 US$M	2015 US$M	2014 US$M
Gross written premium	**15,092**	16,332	**310**	388	**14,782**	15,944
Gross earned premium revenue	**14,922**	16,521	**316**	236	**14,606**	16,285
Net earned premium	**12,314**	14,084	**101**	(126)	**12,213**	14,210
Net claims expense	**(7,434)**	(8,900)	**(126)**	(3)	**(7,308)**	(8,897)
Net commission	**(2,114)**	(2,363)	**2**	(14)	**(2,116)**	(2,349)
Underwriting and other expenses	**(2,137)**	(2,274)	**(79)**	(38)	**(2,058)**	(2,236)
Underwriting result	**629**	547	**(102)**	(181)	**731**	728
Net investment income on policyholders' funds	**402**	527	**34**	57	**368**	470
Insurance profit	**1,031**	1,074	**(68)**	(124)	**1,099**	1,198
Net investment income on shareholders' funds	**263**	287	**24**	35	**239**	252
Financing and other costs	**(244)**	(297)	**–**	–	**(244)**	(297)
Losses on sale of entities	**(2)**	(17)	**(2)**	–	**–**	(17)
Share of net profits of associates	**–**	1	**–**	–	**–**	1
Amortisation and impairment of intangibles	**(95)**	(117)	**–**	(2)	**(95)**	(115)
Profit before income tax	**953**	931	**(46)**	(91)	**999**	1,022
Income tax expense (credit)	**(260)**	(182)	**(74)**	32	**(186)**	(214)
Profit after income tax	**693**	749	**(120)**	(59)	**813**	808
Net profit attributable to non-controlling interests	**(6)**	(7)	**–**	–	**(6)**	(7)
Net profit after income tax	**687**	742	**(120)**	(59)	**807**	801

1 The non-IFRS financial information contained within this table has not been audited.

Result

Net profit after tax for the year to 31 December 2015 was $687 million, compared with a net profit of $742 million last year. The underwriting result was a profit of $629 million compared with $547 million last year, reflecting a combined operating ratio of 94.9% compared with 96.1%.

On 24 February 2015, QBE published the Group's FY15 target combined operating ratio of 94% – 95% and a target insurance profit margin of 8.5% – 10%. To assist comparison of our 2015 performance against these targets, the result in the table above has been adjusted to exclude the following material items which were not in our targets:

- our Argentine workers' compensation business was designated as held for sale in the financial statements at 31 December 2014, with the sale completed on 10 August 2015, realising a loss of $58 million after reclassification of foreign exchange losses of $53 million from the foreign currency translation reserve. The results of this business were explicitly excluded from our published targets and are excluded from both the 2014 and 2015 adjusted results in the table above to assist year on year comparability;
- the Australian and US agency businesses were held for sale at 31 December 2014, with the respective transactions completed in early 2015, realising a gain of $142 million;
- our North American Mortgage & Lender Services (M&LS) business was sold on 1 October 2015, realising an overall loss of $133 million. This loss includes a write down of deferred acquisition costs of $41 million; and
- gains on other individually non-material disposals during the year.

Details of these transactions are set out in note 7.1 to the financial statements.

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

Adjusted net earned premium of $12,213 million was down 14% compared with last year, and down 6% on a constant currency basis. The decrease reflects higher reinsurance expense due to the increased cost of the Group's enhanced large individual risk and catastrophe claims aggregate protection and additional crop quota share reinsurance to reduce the volatility in our crop result.

The Group's adjusted underwriting result was a profit of $731 million compared with a profit of $728 million last year, reflecting a combined operating ratio of 94.0% compared with 94.9%.The result benefited from a significant improvement in the net claims ratio (59.8% compared with 62.7%), partially offset by an increase in the combined commission and expense ratio (34.2% compared with 32.2%) primarily caused by the reduction in net earned premium and the sale of the Australian and US agencies.

Adjusted net investment income of $607 million was down compared with $722 million last year, reflecting the impacts of recent investment market volatility, widening credit spreads and foreign exchange movements (principally the strengthening of the US dollar). Prior year investment income benefited from unrealised gains on fixed income securities due to the narrowing of credit spreads.

The adjusted tax rate was 19% of net profit, down slightly from 21% last year, reflecting the mix of corporate tax rates in the countries in which QBE operates.

Dividends

The directors are pleased to announce a final dividend of 30 Australian cents per share, up from the final dividend of 22 Australian cents per share last year. The dividend will be franked at 100%. The total dividend payout is A$685 million, or around 56% of full year cash profit, compared with A$492 million for 2014, or around 49% of cash profit.

Our objective is to deliver a stable and growing dividend to our shareholders. As announced at the half year, the Board has reviewed the dividend policy and will increase the maximum dividend payout ratio to 65% of cash profits commencing with the 2016 interim dividend.

Activities

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

Presentation currency

The Group has presented this Financial Report in US dollars because a significant proportion of its underwriting activity is denominated in US dollars. The US dollar is also the currency which is widely understood by the global insurance industry, international investors and analysts.

Operating and financial review

Information on the Group's business strategies and prospects (including the results of those operations) and financial position of the Group is set on pages 4 to 47 of this Annual Report. These pages also deal with the Group's business strategies and prospects for future financial years.

Outstanding claims provision

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

As in previous years, the directors consider that substantial risk margins are required over the actuarial central estimate to mitigate the potential for uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 31 December 2015 was 89.0% compared with 88.7% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Group indemnities

Article 78 of the company's constitution provides that the company indemnifies past and present directors, secretaries or other officers against any liability incurred by that person as a director, secretary or other officer of the company or its subsidiaries. The indemnity does not apply to any liability (excluding legal costs):

- owed to the company or a related body corporate (e.g. breach of directors' duties);
- for a pecuniary penalty under section 1317G or a compensation order under sections 1317H or 1317HA the *Corporations Act 2001* (or a similar provision of the corresponding legislation in another jurisdiction); or
- that is owed to someone other than the company or a related body corporate and which did not arise out of conduct in good faith.

The indemnity extends to legal costs other than where:

- in civil proceedings, one or more of the above exclusions apply;
- in criminal proceedings, the person is found guilty;
- the person is liable in proceedings brought by the Australian Securities and Investments Commission (ASIC), a corresponding regulator in another jurisdiction or a liquidator (unless as part of the investigation before proceedings are commenced); or
- the court does not grant relief after an application under the *Corporations Act 2001* or corresponding legislation in another jurisdiction.

In addition, a deed exists between the company and each director which includes an indemnity in similar terms to article 78 of the company's constitution.

Directors' and officers' insurance

QBE pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the Group together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the Group's employees against liabilities past, present or future. The officers of the Group covered by the insurance contract include the directors listed on pages 50 and 51, the Group Company Secretary, Carolyn Scobie, and Deputy Company Secretary, Peter Smiles.

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

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

Significant changes

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

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 4 to 47 of this Annual Report.

Events after balance date

The directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect, the Group's operations, the results of those operations and the Group's state of affairs in future financial years.

Material business risks

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

Some of the material business risks that QBE faces include strategic risk, insurance risk, credit risk, market risk, liquidity risk and operational risk. Explanations of these risks and their mitigations are set out in more detail in note 4 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report, on pages 48 to 49 of this Annual Report, and the section of the Corporate Governance Statement addressing ASX CGC Principle 7: Recognise and Manage Risk.

The Corporate Governance Statement is available on the QBE website at www.qbe.com.

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities, the most significant of which are in relation to the determination of the outstanding claims provision, the application of the liability adequacy test and the valuation of deferred tax assets and goodwill in North American Operations. More detail of each of these is included in notes 2.3, 2.5.1, 6.2 and 7.2 respectively, which we recommend you read.

Meetings of directors

	FULL MEETINGS OF DIRECTORS [1]	MEETINGS OF NON-EXECUTIVE DIRECTORS	MEETINGS OF COMMITTEES					
			AUDIT	INVESTMENT	REMUNERATION	RISK & CAPITAL	NOMINATION	SUB-COMMITTEES [2]
Number of meetings held	9	6	6	4	4	6	5	5
Number attended								
Marty Becker	9	6	6	4	4	6	5	2
Stephen Fitzgerald	8	6	–	4	–	6	5	–
John Graf	9	6	–	4	4	5	5	–
John M Green	9	6	–	4	4	6	5	2
Margaret Leung	9	6	6	–	4	–	5	–
John Neal [3]	9	–	–	–	–	–	–	2
Sir Brian Pomeroy	9	6	6	–	–	6	5	3
Patrick Regan [3]	9	–	–	–	–	–	–	3
Jann Skinner	9	6	6	–	4	–	5	5

1 Included meetings in the UK and the US.
2 Ad hoc committees of the Board were convened during the year in relation to the financial results and reporting matters. Members of the ad hoc committees attended all meetings they were required to attend.
3 Messrs Neal and Regan attended Audit, Investment and Risk & Capital Committee meetings by invitation, not being members of these committees. Mr Neal also attended Remuneration Committee meetings by invitation, not being a member of that Committee.

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

Directorships of listed companies held by the members of the Board

From 1 January 2013 to 23 February 2016, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
John M Green			
WorleyParsons	Director	11 October 2002	–
Margaret Leung			
China Construction Bank Corporation	Director	12 December 2013	–
Chong Hing Bank Limited	Director and Deputy Chairman	14 February 2014	–
First Pacific Company Limited	Director	21 December 2012	–
Hong Kong Exchanges and Clearing Limited	Director	24 April 2013	–
Li & Fung Ltd	Director	1 April 2013	–
Sun Hung Kai Properties Limited	Director	1 March 2013	–

Qualifications and experience of directors

The qualifications and experience of each director are set out on pages 50 to 51 of this Annual Report.

Qualifications and experience of company secretaries

Carolyn Scobie, BA, LLB, MA, AGIA and ACIS
Ms Scobie commenced in the role of Group General Counsel in January 2016 and was formally appointed as Group Company Secretary on 18 February 2016. Prior to joining QBE, Ms Scobie was Group General Counsel at the ASX-listed multinational Goodman Group for 17 years, where she ran a multi-disciplinary legal team working on matters across 16 countries and over 800 entities. Ms Scobie has extensive experience in compliance, regulatory matters, litigation and managing the complexity of multiple jurisdictions.

Peter Smiles, LLB, MBA, AGIA and ACIS
Mr Smiles is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 24 years of insurance experience, which includes 17 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Mr Smiles worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he acts as a corporate lawyer advising QBE Group head office departments and Asia Pacific offices.

Peter Horton, BA, LLB
Mr Horton was Group General Counsel and Company Secretary of QBE Insurance Group Limited from June 2014 until December 2015. Mr Horton joined QBE from Woolworths Limited where he performed a similar role. His previous experience includes the retail, mining and petroleum sectors.

Directors' interests and benefits

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

DIRECTOR	2015 NUMBER	2014 NUMBER
Marty Becker	**80,243**	67,736
Stephen Fitzgerald	**32,147**	–
John M Green	**37,258**	37,258
Margaret Leung	**6,464**	286
John Neal	**234,998**	202,981
Sir Brian Pomeroy	**6,662**	828
Patrick Regan	**388,979**	118,960
Jann Skinner	**25,000**	20,000

Options and conditional rights
At the date of this report, John Neal had 825,252 (2014 458,285) conditional rights to ordinary shares of the company and Patrick Regan had 697,843 (2014 732,930) conditional rights to ordinary shares of the company. Following the cancellation or forfeiture of remaining options during 2015, no executives hold options at the date of this report. Details of the schemes under which options and rights are granted are provided in the Remuneration Report and in note 8.4 to the financial statements.

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

Loans to directors and executives
Information on loans to directors and executives is set out in the Remuneration Report.

Environmental regulation

The Group is not currently required to report under any significant environmental regulations under either Commonwealth, State or Territory legislation.

Remuneration Report

To our shareholders

On behalf of the Board, I present QBE's Remuneration Report for 2015, my first as Chairman of the Remuneration Committee.

2015 performance and remuneration

We are pleased QBE has delivered an adjusted underwriting result at the better end of our target range and an insurance profit margin towards the middle of our range. QBE continues to focus on improving performance, predictability and transforming the underlying quality of everything we do.

We are alert to the macro backdrop to investment markets since late 2015 and the disappointing impact this has had on QBE's share price. The Group CEO has initiated that neither he, nor the KMPs, nor other senior executives will accept any fixed pay review for the 2016 year.

In determining the payments for Short-Term Incentives (STI) for 2015, we have made two adjustments to the ROE component.

First, consistent with last year, we reversed 50% of the effect of the actual discount rate movement versus our budget assumptions. This decreased the ROE outcome for management by 0.2%.

Second, we exclude the impact (up or down) of acquisitions or disposals which were not included in our original budget. Accordingly, the sale of the Agency businesses during 2015, being included in our 2015 budget and thus STI target, required no ROE adjustment. However the sales of our Argentine workers' compensation business and our US lender placed insurer were not included in our 2015 budget. With our half-year results announced in August, we confirmed our Group targets for underwriting result and insurance margin excluded those two businesses, and consistent with that we have adjusted the ROE measure for STI for their impact. This increased the ROE outcome for management by 1.6%.

Consequently, the Group ROE outcome for STI purposes was 7.8% compared to the statutory 6.4%.

The Group CEO and Group CFO were very mindful of the impact on shareholders of the recent share price volatility, as was the Remuneration Committee. Consequently, it was agreed to defer a further 30% of their 2015 STI awards, which would otherwise be payable in cash, into conditional rights over QBE shares. These are subject to an additional performance condition that QBE shares trade at A$13.00 or more over a consecutive three-month period during the vesting period of the next three years.

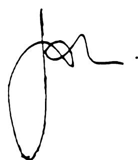
Remuneration structure

In 2013, we reviewed the framework to better align it with all of our stakeholders and our ONE QBE vision, values and strategy. We are generally satisfied these objectives are being met, but in the context of the evolving operating environment, regulatory change, and the progression of our strategy to deliver operational excellence and profitable growth, we are taking another look at it to make sure our framework remains fit for purpose. Any changes will only take effect for 2017 and we will set them out in next year's remuneration report.

Group statutory ROE targets for 2016

Each year we set Group ROE targets for STI and LTI purposes that reflect the Group's business plan and the operating environment. We anticipate that both global pricing and investment markets will remain challenging this year and accordingly our focus will be on maintaining underwriting discipline and exercising strict cost control, while continuing to invest in our strategic growth and operational initiatives. The Group ROE target range for 2016 STI is 5.0% to 12.0%, with on-target performance set at 8.5%, and for the 2016 LTI grant (being the three-year average return) the target range is 7.0% to 10.6%.

In closing, I wish to acknowledge the contribution of our outgoing Chairman of the Remuneration Committee, John Graf.



John M Green
Chairman, Remuneration Committee
Group Deputy Chairman

Remuneration Report contents

1. INTRODUCTION
1.1 Key management personnel 60

2. SUMMARY OF REMUNERATION OUTCOMES FOR 2015
2.1 Remuneration and incentive outcomes in 2015 61
2.2 Realised 2015 remuneration 62

3. DETAILED REMUNERATION OUTCOMES FOR 2015
3.1 The impact of QBE's 2015 performance on remuneration 63
3.2 Measuring performance 64
3.3 Long-term company performance and incentive outcomes 65

4. 2015 REMUNERATION EXPLAINED
4.1 QBE's remuneration principles 66
4.2 Remuneration framework 67
4.3 Fixed remuneration 69
4.4 Short-term incentives 69
4.5 Long-term incentives 71
4.6 Keeping executives' and shareholders' interests aligned 72

5. REMUNERATION GOVERNANCE
5.1 Role of the Remuneration Committee 75
5.2 Use of remuneration consultants 75
5.3 Risk management 75

6. REMUNERATION IN DETAIL
6.1 Statutory remuneration disclosures 76
6.2 Equity-based remuneration 77
6.3 Conditional rights 77
6.4 Options 78
6.5 Employment agreements 79

7. NON-EXECUTIVE DIRECTOR REMUNERATION
7.1 Remuneration philosophy 80
7.2 Fee structure and components 80
7.3 Other benefits 80
7.4 Minimum shareholding requirement 81
7.5 Remuneration details for non-executive directors 81

8. APPENDIX
8.1 Legacy equity schemes 82
8.2 Valuation of conditional rights and options 84
8.3 Equity instruments 85
8.4 Shareholdings 87
8.5 Loans 88

Remuneration Report CONTINUED

1. INTRODUCTION

Overview

This Remuneration Report sets out QBE's remuneration framework and provides detail of remuneration outcomes for key management personnel (KMP) for 2015 and how this aligns with QBE's performance.

Accounting standards define KMP as those executives and non-executive directors with the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly.

The 2015 Remuneration Report has been prepared and audited in accordance with the disclosure requirements of the Corporations Act 2001.

1.1 Key management personnel

NAME	POSITION	COUNTRY OF RESIDENCE	TERM AS KMP IN 2015
Executives			
John Neal	Group Chief Executive Officer Executive Director	Australia	Full year
Jason Brown	Group Chief Risk Officer	Australia	Full year
David Duclos	Chief Executive Officer, North American Operations	United States of America	Full year
Mike Emmett	Group Executive Officer, Operations	Australia	Full year
Colin Fagen [1]	Group Chief Strategy Officer	Australia	Full year
David Fried	Chief Executive Officer, Emerging Markets	Hong Kong	Full year
Tim Plant [2]	Chief Executive Officer, Australian & New Zealand Operations	Australia	Part year
Richard Pryce	Chief Executive Officer, European Operations	United Kingdom	Full year
Patrick Regan	Group Chief Financial Officer Executive Director	Australia	Full year
Jenni Smith	Group Executive Officer, People and Communications	Australia	Full year
Non-executive directors			
Marty Becker	Chairman, Non-executive director	United States of America	Full year
Stephen Fitzgerald	Non-executive director	United Kingdom	Full year
John Graf [3]	Non-executive director	United States of America	Full year
John M Green	Deputy Chairman, Non-executive director	Australia	Full year
Margaret Leung	Non-executive director	Hong Kong	Full year
Sir Brian Pomeroy	Non-executive director	United Kingdom	Full year
Jann Skinner	Non-executive director	Australia	Full year

1 Colin Fagen became the Group Chief Strategy Officer on 18 August 2015. Prior to that he was the Chief Executive Officer, Australian & New Zealand Operations.

2 Tim Plant became the Chief Executive Officer, Australian & New Zealand Operations on 18 August 2015.

3 John Graf retired on 31 December 2015.

2. SUMMARY OF REMUNERATION OUTCOMES FOR 2015

2.1 Remuneration and incentive outcomes in 2015

This section provides a summary of the remuneration outcomes for executives and non-executive directors for 2015. Further details of remuneration outcomes are found in section 6 of the Remuneration Report.

COMPONENT	2015 OUTCOMES
Fixed remuneration	• Fixed remuneration of the Group CEO increased by 4.8% to A$2,200,000 effective 1 April 2015. This was the first increase since his appointment in August 2012. • All executives, with the exception of David Duclos, received fixed remuneration increases (between 3.0% and 7.4%) on 1 April 2015 to improve their competitiveness against their market peers. • Colin Fagen received a further 25% increase in fixed remuneration from A$1,040,000 to A$1,300,000 on promotion to the newly established role of Group Chief Strategy Officer on 18 August 2015. • There are no budgeted fixed remuneration increases to the Group CEO, executives and other senior leaders for 2016.
Short-term incentive (STI)	• The Group ROE for STI purposes was 7.8%, above the 6.0% threshold required for the Group component of STI to vest. • Based on this and the Board's assessment of the Group CEO's performance against his balanced scorecard, an STI of A$2,199,953 (or 50.0% of maximum opportunity) was awarded to the Group CEO. 50% of the Group CEO's STI is deferred in the form of conditional rights vesting in two equal tranches over 2 years subject to services conditions and malus provisions. • The average STI awarded to executives, other than the Group CEO, was 57.9% of the maximum opportunity, 33% of which is deferred in the form of conditional rights. • The Group CEO and Group CFO have agreed to defer a further 30% of their 2015 STI award for a three year period and subject to an additional performance condition. For further detail, refer to section 4.4 of the Remuneration Report. • Maximum STI opportunity for the Group CFO increased from165% to 180% on becoming an executive director. The maximum STI opportunity for the CEO, North American Operations increased from 150% to 180% to improve alignment and competitiveness of his remuneration with the US market. • For 2015, the STI performance measures for the Group Chief Risk Officer and the Group Chief Strategy Officer were re-weighted to 50% Group ROE and 50% individual key performance indicators (KPIs) to reflect the specific priorities of their roles. For 2016, the STI performance measures for the Group Chief Strategy Officer will revert to 80% Group ROE and 20% individual KPIs.
Long-term incentive (LTI)	• LTI grants were made in 2015 in accordance with the target remuneration mix for each executive.
Other payments	• Jason Brown and Mike Emmett were awarded a one-off grant of 25,000 conditional rights in March 2015 and August 2015 respectively to recognise their contribution and additional responsibilities in their respective roles. These awards are subject to Group ROE performance conditions measured annually over three performance years and the achievement of key performance indicators in their balanced scorecard. • On 20 August 2014, Patrick Regan was granted conditional rights as compensation for incentives forfeited on ceasing his previous employment to join QBE. The award comprised three tranches of conditional rights subject to service conditions. The first tranche of the award vested in March 2015. • Richard Pryce's 2012 award of conditional rights, made in 2013, vested in March 2015.
Legacy schemes	• Conditional rights in respect of the 2009 Deferred Compensation Plan (DCP) vested during the year following completion of the five year vesting period. • The first tranche of conditional rights in respect of the 2011 Deferred Equity Award (DEA) vested during the year following the completion of the three year vesting period with the exception of awards in Latin American Operations which were cancelled prior to vesting following the decision by the Remuneration Committee to apply malus due to the subsequent material adverse deterioration of the ROE on which the awards were originally made. • There was no scheduled performance testing point for legacy LTI grants during the year.
Non-executive director fees	• Total amount paid to non-executive directors in 2015 was A$2,957,000 (2014: A$3,076,000). • An inflation increase of 3.0% to non-executive director fees was effective 1 April 2015. This was the first increase since 2012. • The travel allowance was extended to Australian-based directors to reflect the time spent travelling outside of Australia to Board meetings and other Board commitments. • Total remuneration pool available to non-executive directors was increased from A$3,300,000 to A$3,500,000 following approval at the 2015 AGM.

2.2 Realised 2015 remuneration

Overview

QBE is required to disclose actual remuneration outcomes in the financial period under review. The values reported include the accrued STI cash award for the 2015 financial year and the value of any equity awards that vested during the year. The value of vested equity awards has been calculated using the closing share price on the vesting date.

The figures in this table are different from those shown in the statutory table in section 6.1 of the Remuneration Report. For example, the statutory table includes an apportioned accounting value for all unvested equity held during the year, which remains subject to performance and service conditions and consequently may or may not ultimately vest.

The table below sets out the actual value of the remuneration realised by executives in 2015.

	REMUNERATION EARNED IN 2015			DEFERRED EQUITY OUTCOME IN 2015	
EXECUTIVES	FIXED REMUNERATION US$000	STI CASH [1] US$000	OTHER [2] US$000	CONDITIONAL RIGHTS VESTED [3] US$000	TOTAL REMUNERATION REALISED IN 2015 US$000
John Neal	1,631	330	66	259	2,286
Jason Brown	515	310	65	36	926
David Duclos	1,014	729	28	–	1,771
Mike Emmett	692	339	55	–	1,086
Colin Fagen	858	465	97	52	1,472
David Fried	912	501	1,243	–	2,656
Tim Plant	279	140	10	–	429
Richard Pryce	1,085	985	166	342	2,578
Patrick Regan	1,190	412	25	2,550	4,177
Jenni Smith	570	279	51	118	1,018

1 The STI cash amount in respect of performance in 2015 is payable in March 2016. For further details, refer to section 4.4 of the Remuneration Report.

2 “Other” includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest-free share loans, the movement in annual leave and long-service leave provisions, tax payments and other one-off expenses. For David Fried, this also includes expatriate benefits including a housing allowance, education assistance, a cost of living adjustment and associated taxes thereon.

3 The value of conditional rights has been determined by reference to the closing share price on the relevant vesting date. For Patrick Regan this includes the first tranche of conditional rights granted on 20 August 2014 which vested on 1 March 2015. For further details, refer to section 6.3.3 of the Remuneration Report.

3. DETAILED REMUNERATION OUTCOMES FOR 2015

Overview

This section explains the link between our reward framework and the key financial profit drivers that encourage achievement of Group business plans and create long-term shareholder value.

The incentive structure and financial targets are approved annually by the Remuneration Committee. ROE and total shareholder return (TSR) are the primary measures for at-risk remuneration purposes. Achievement of these targets demonstrates the alignment between financial performance over time and incentive awards for Group executives.

3.1 The impact of QBE's 2015 performance on remuneration

The table below shows 2015 Group ROE and divisional return on allocated capital (RoAC) performance for executive incentive purposes.

	ROE / ROAC PERFORMANCE				
	NORTH AMERICAN OPERATIONS	EUROPEAN OPERATIONS	AUSTRALIAN & NEW ZEALAND OPERATIONS	EMERGING MARKETS	GROUP
Performance	5.6%	14.6%	16.0%	12.4%	7.8%
% achievement of target	93.2%	150.0%	75.4%	76.6%	70.0%

The table below shows the performance and total 2015 STI outcomes (both the cash and deferred portions) achieved by executives for the period to 31 December 2015.

	PERFORMANCE AS A % OF TARGET				TARGET STI	ACTUAL STI OUTCOME [1]			
EXECUTIVES	GROUP ROE %	DIVISIONAL ROAC %	BALANCED SCORECARD %	TOTAL STI OUTCOME %	% OF FIXED REMUNERATION %	% OF FIXED REMUNERATION %	TOTAL US$000	STI CASH US$000	STI DEFERRED US$000
Group head office									
John Neal	70.0%	N/A	95.0%	75.0%	133.3%	100.0%	1,651	330	1,321
Jason Brown	70.0%	N/A	106.3%	88.1%	100.0%	88.1%	463	310	153
Patrick Regan	70.0%	N/A	106.3%	77.2%	120.0%	92.7%	1,113	412	701
Mike Emmett	70.0%	N/A	82.5%	72.5%	100.0%	72.5%	506	339	167
Colin Fagen [2]	70.0%	75.4%	100.0%	81.4%	100.0%	81.4%	694	465	229
Jenni Smith	70.0%	N/A	80.0%	72.0%	100.0%	72.0%	416	279	137
Divisional									
David Duclos	70.0%	93.2%	106.3%	88.8%	120.0%	106.6%	1,088	729	359
David Fried	70.0%	76.6%	106.3%	80.6%	100.0%	80.6%	748	501	247
Tim Plant [3]	70.0%	75.4%	100.0%	78.7%	100.0%	78.7%	209	140	69
Richard Pryce	70.0%	150.0%	109.4%	117.9%	100.0%	117.9%	1,470	985	485

1 The STI award is calculated as a percentage of fixed remuneration as at 31 December 2015.
2 The STI award for Colin Fagen has been determined on a pro-rata basis reflecting the proportion of the year in his role as CEO, Australian & New Zealand Operations and Group Chief Strategy Officer.
3 The STI award for Tim Plant reflects the proportion of 2015 he was in the role of CEO, Australian & New Zealand Operations.

3.2 Measuring performance

Overview

All executives have 20% of their STI outcome determined with reference to individual KPIs (50% for the Group Chief Strategy Officer, Colin Fagen and the Group Chief Risk Officer, Jason Brown reflecting the specific priorities of their roles). A balanced scorecard of individual KPIs is used to ensure that a broader view of performance and specific strategic priorities is considered when assessing performance and incentive outcomes.

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

The balanced scorecard for each executive is reviewed by the Remuneration Committee to ensure it is appropriate. The table below sets out a summary of the key objectives for the Group Chief Executive Officer for 2015. The objectives for other executives are consistent.

VALUE CREATION COMPONENT	2015 OBJECTIVES	OUTCOME	COMMENTS
Strategic management	• Refresh purpose, vision and strategy	• On target	• Refreshed purpose and vision • Implemented strategic growth and cost initiatives
Profitable growth and diversification	• Implement new product line and geographic opportunities	• Below target	• Progress made on a number of bespoke growth initiatives • Remediation of underperforming businesses resulted in reduced growth written premiums
Leadership in our core business	• Drive leadership in core businesses • Progress strategic growth initiatives • Increase gross written premium from major trading partners	• On target	• Progressed initiatives to drive growth over the next five years • Disposed of Mortgage & Lender Services business, US and Australian agencies, and Argentine workers' compensation business • Remediation of businesses in Latin and North America • Improved retention in intermediated business • Continued growth in Emerging Markets despite remediation activity in Latin America and market conditions in Asia Pacific
Operational excellence – global reach and scale	• Strengthen reinsurance program • Continue operational transformation	• On target	• Initiatives in train to achieve savings in 2016 and beyond including claims and further leverage of GSSC. Finance transformation program underway • Cash expenses on plan • Enhanced reinsurance structures • Progress made in transforming operating model to ONE QBE global approach
Financial strength and flexibility	• Demonstrate improvements in risk, capital and investment management	• Above target	• Standard & Poor's, AM Best and Fitch revised ratings outlook from negative to stable. Moody's rating upgraded from Baa2 to Baa1 • Share price outperformed peers in 2015
World class talent and leadership	• Implement global talent framework • Improve employee engagement • Implement against diversity and inclusion commitments	• Above target	• Diversity and inclusion integrated into leadership programs • Underwriting and technical academies developed • Significantly strengthened talent and succession pools through strategic diverse hires and proactive management of female priority talent pools • Improved engagement scores

How performance translated to remuneration outcomes

For 2015, the Board approved a balanced scorecard outcome of 19% for the Group CEO, being 95% of target opportunity and 63.3% of the maximum opportunity. The balanced scorecard outcomes of the other executives are detailed in section 3.1 of the Remuneration Report.

3.3 Long-term company performance and incentive outcomes

The following table shows KPIs of the Group over the last five years.

FINANCIAL RESULTS		2015	2014	2013	2012	2011
Combined operating ratio	%	**94.9**	96.1	97.8	97.1	96.8
Profitability measures						
Net profit (loss) after income tax (NPAT)	US$M	**687**	742	(254)	761	704
Diluted earnings per share	US cents	**49.8**	55.8	(22.8)	61.6	61.3
Weighted average risk-free discount rate [1]	%	**1.6**	1.4	2.2	1.6	2.0
Net investment yield	%	**2.5**	2.7	2.6	4.1	2.9
Return on equity						
Return on average shareholders' funds [2]	%	**6.4**	6.9	(2.3)	7.0	6.8
Return to shareholders						
Dividend per share	Australian cents	**50**	37	32	50	87
Share price at 31 December	A$ per share	**12.59**	11.21	11.51	10.90	12.95
Underwriting profit	US$M	**629**	547	341	453	494
Total Shareholder Return [3]	%	**15.24**	(0.37)	7.72	(11.44)	(22.62)

1 Excludes the Argentine peso.
2 Group statutory ROE is the basis used to measure performance for STI and for LTI awards.
3 Total Shareholder Return is a performance measure for LTI.

How performance translated to remuneration outcomes

Our 2011 to 2015 net investment income and net profit after tax were significantly impacted by lower risk-free rates, reflecting governments' fiscal policy in our major trading markets in response to ongoing economic volatility. In 2012 and 2013, results were impacted by adverse prior accident year claims development and the write-down of intangibles and other assets being held by our North American Operations following the strategic review of that business in 2013.

Following North American Operations' poor underwriting performance in 2012 and 2013, net profit after tax for the years ended 31 December 2014 and 2015 benefited from significant improvements in the underwriting result of that division. The Group's 2015 result benefited from a strong crop result, an increase in the Group's aggregate positive prior accident year claims development and recoveries under the Group's enhanced aggregate reinsurance protection.

Incentive outcomes for executives reflect this performance with no short-term incentives awarded to Group head office executives for 2011 to 2013 (with the exception of a pro-rata award paid to former Group CEO, Frank O'Halloran, on termination in 2012 based on the 30 June 2012 results and in accordance with the QIS rules).

Performance against five year Group ROE and combined operating ratio targets in respect of outstanding LTI awards made in 2011, 2012 and 2013 is tracking below the level required for these awards to vest, though five year diluted EPS targets may be met if future business plans are achieved. With respect to the 2014 LTI award and with one year remaining of the three year performance period, performance against Group ROE and RTSR is below the level required for any awards to vest. Group ROE and RTSR performance conditions for 2015 LTI awards are still in the early stages of the performance period.

4. 2015 REMUNERATION EXPLAINED

Overview

QBE's remuneration strategy is designed to provide market competitive remuneration that motivates and retains QBE's executives, aligned with the creation of sustained shareholder value. QBE's executive remuneration structure comprises a mix of fixed and at-risk remuneration reflecting a balance of short and long-term incentives. This section provides an overview of the remuneration components and their link to strategy.

4.1 QBE's remuneration principles

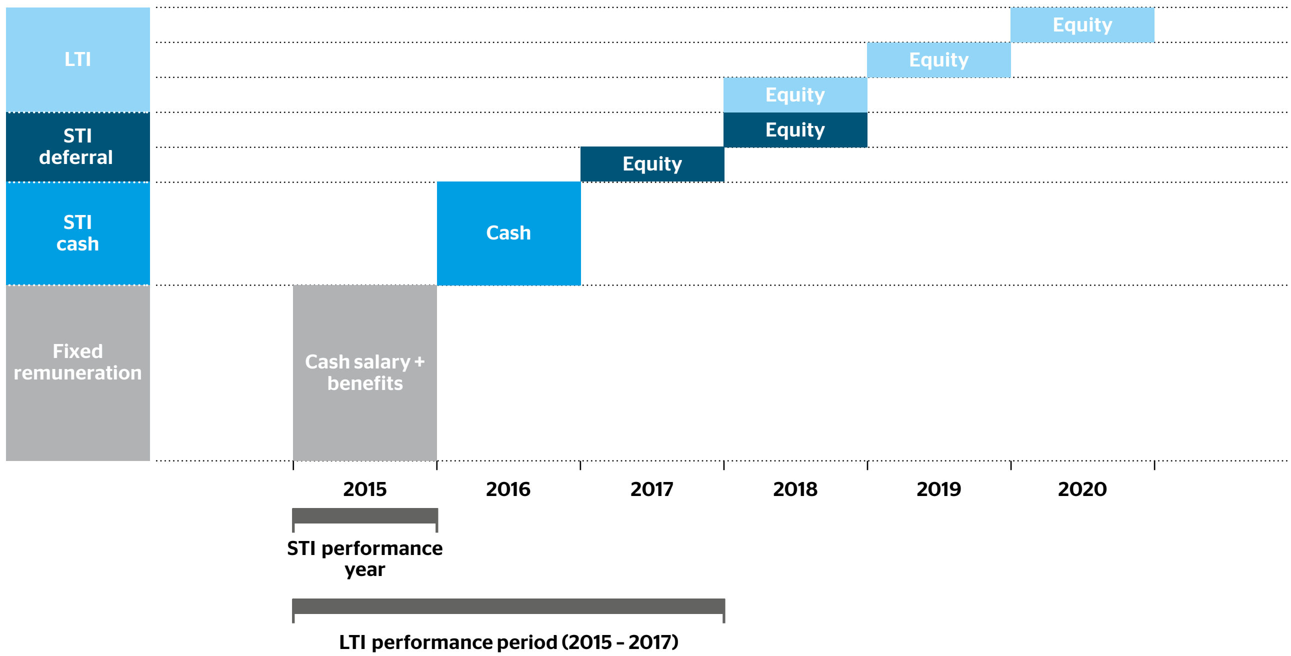
Overview

QBE's remuneration principles have been developed to promote robust risk management practices to manage remuneration across the Group. These are summarised below.

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

4.2 Remuneration framework

The diagram below illustrates the payment profile of the 2015 total remuneration framework. This does not include the one-off arrangement for the Group CEO and Group CFO where they agreed to replace a portion of the cash component of their STI with further conditional rights.



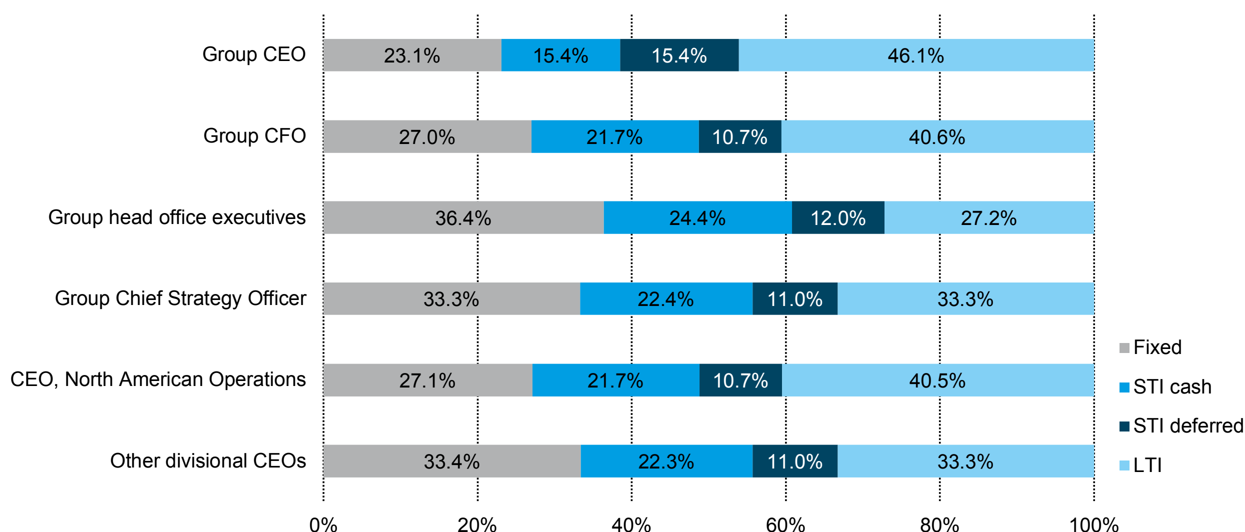
4.2.1 Target remuneration mix

Overview

QBE's remuneration mix is designed to remunerate executives competitively and provide reward for achievement of the Group's performance targets, whilst providing strong governance to protect the financial soundness of the Group and shareholders' interests.

The mix of total remuneration is reflective of an executive's ability to influence QBE's financial results, therefore the range is varied. The mix between short-term cash, deferred STI and LTI is focused towards the longer term time horizon, enhancing alignment with the delivery of QBE's long-term strategy and shareholders' interests.

The diagram below shows the remuneration mix for 2015, assuming on-target performance.



4.2.2 2015 maximum incentive opportunity

The table below shows the 2015 maximum incentive opportunity for executives. In the case of STI, this is 150% of target opportunity.

EXECUTIVES	2015 INCENTIVE OPPORTUNITY AS A % OF FIXED REMUNERATION		
	MAXIMUM STI %	MAXIMUM LTI %	MAXIMUM INCENTIVE %
Group CEO	200	200	400
Group CFO	180	150	330
Group head office executives	150	75	225
Group Chief Strategy Officer	150	125	275
Divisional CEOs	150	100	250
CEO, North American Operations	180	150	330

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

4.3 Fixed remuneration

The table below outlines the key details of executives' fixed remuneration.

COMPONENT	DETAILS
Description	Fixed remuneration comprises cash salary, superannuation/pension and packaged benefits, additional annual benefits and associated taxes. Additional annual benefits may include health insurance, life assurance, personal accident insurance, car allowances, expatriate benefits and the applicable taxes thereon. Excludes deemed interest on employee share loans and long service leave accruals. Delivered in accordance with terms and conditions of employment.
Determining fixed remuneration levels	Fixed remuneration considers the diversity, complexity and expertise required of individual roles. Remuneration quantum is set in the context of QBE's broader reward strategy and internal relativities. To assess the competitiveness of fixed remuneration, the Remuneration Committee considers market data and published recognised surveys. In addition, external market reviews are undertaken periodically to inform the setting of competitive fixed remuneration levels. Executive roles that are Australian based are generally benchmarked to the ASX30 peer group of companies, with a specific focus on global companies and companies in the financial services industry. Overseas-based executives or roles that have a global reach are compared with a peer group consisting of global insurers. The peer group of companies used for remuneration benchmarking purposes in 2015 is set out in the table below:

PEER GROUP	DESCRIPTION
ASX30 peer group	Excludes infrastructure trusts and companies domiciled overseas. The financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers. The sub-peer group of global companies in the ASX30 is determined based on the global complexity of the organisation using the following criteria: • companies with greater than 25% revenue from overseas; and • companies operating in greater than two geographic locations.
Global insurance peer group	Consists of large, global insurance companies in the Dow Jones Insurance Titans Index excluding life and health insurance, reinsurance and insurance brokers. RSA and Hartford are included in this peer group, given their similarities to QBE.

COMPONENT	DETAILS
Purpose and link to strategy	Fixed remuneration is benchmarked against an ASX30 peer group and a global insurance peer group to ensure market competitiveness for the purpose of attracting and retaining executives, with reference to the following factors: • positioned at a level that reflects the contribution and value to the Group; • recognises capability, expertise and performance of the executive; and • designed to provide a predictable "base" level of remuneration.

4.4 Short-term incentives

The table below outlines the key details of the STI plan. STI awards made in 2015 are summarised in section 3.1 of the Remuneration Report.

COMPONENT	DETAILS
Description	The STI is a performance based incentive delivered in the form of an annual cash payment and a deferred award in the form of conditional rights to QBE shares. For executives in the United Kingdom, the deferred award is in the form of zero exercise price options (ZEPOs). Performance is measured over a 12 month period.
Performance measures and rationale	STI outcomes are based on performance against Group statutory ROE and divisional RoAC targets in the case of divisional executives, as well as individual performance against a balanced scorecard of KPIs relevant to each executive's role. Group statutory ROE is calculated as statutory consolidated net profit after tax as a percentage of average shareholders'

COMPONENT	DETAILS

funds. Statutory ROE was selected as it is transparent and a strong measure of value created for shareholders.

RoAC is calculated as the divisional management-basis profit divided by allocated capital, as determined by the Group's economic capital model.

The balanced scorecard comprises financial and non-financial KPIs relevant to each executive's role which are aligned to the QBE value creation model. Executive performance against the balanced scorecard is evaluated annually by the Group CEO and by the Chairman in respect of the Group CEO, through formal business review assessments.

The STI rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure STI awards appropriately reflect performance. For 2015, the Remuneration Committee has agreed to make adjustments for:

- the effect of the sale of the Mortgage & Lender Services and Argentine workers' compensation businesses; and
- consistent with the principle adopted for 2014, 50% of the effect of movements in discount rates during the year. This acknowledges that QBE's results are heavily impacted by movements in discount rates that are beyond the influence of management.

The following table details the weighting of the performance measures for the STI.

ROLE	GROUP ROE	DIVISIONAL ROAC	BALANCED SCORECARD
Group CEO, Group CFO and Group head office executives	80%	0%	20%
Group Chief Strategy Officer and Group Chief Risk Officer	50%	0%	50%
Divisional CEOs	30%	50%	20%

Financial performance targets

The table below shows the 2015 Group and divisional financial performance targets for 2015. The ROE/RoAC targets reflect market factors in each division.

	THRESHOLD %	TARGET %	SUPERIOR %
Group ROE	6.0%	8.8%	13.8%
Divisional RoAC			
Australian and New Zealand Operations	12.4%	17.4%	22.4%
Emerging Markets	6.6%	14.6%	22.6%
European Operations	4.1%	9.1%	14.1%
North American Operations	1.0%	6.0%	12.0%

Vesting schedule

The STI vesting schedule is outlined below:

	THRESHOLD	TARGET	SUPERIOR
% of STI opportunity achieved	15%	100%	150%

Instrument and deferral mechanics

67% of any STI award is delivered in cash (50% in the case of the Group CEO); and

33% of any STI award is deferred as conditional rights to QBE shares (50% in the case of the Group CEO).

Deferred STI vests in two tranches – 50% on the first anniversary of the award and the other 50% on the second anniversary of the award. Vesting is subject to service conditions and malus provisions during the deferral period.

For the 2015 STI award, the Group CEO and Group CFO have agreed to replace a portion of the cash component of their STI award with further deferred conditional rights making up 30% of their total award. Vesting of these conditional rights is subject to service conditions as well as the QBE share price being at least A$13.00 for a consecutive three-month period during the three year vesting period. This means that the cash component of the Group CEO's 2015 STI award will reduce from 50% to 20%, and for the Group CFO, from 67% to 37%.

To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days prior to the grant date.

Notional dividends accrue during the deferral period.

Leaver provisions

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that:

- STI opportunity is reduced to a pro-rata amount to reflect the proportion of the performance year in service;
- deferred awards remain in the plan subject to the original vesting conditions; and
- on voluntary termination, dismissal or termination due to poor performance, all awards are forfeited.

Malus provision

STI deferral is subject to malus provisions, enabling awards to be either forfeited or reduced at the discretion of the Remuneration Committee. See section 4.6 of the Remuneration Report for more details on malus.

Purpose and link to strategy

STI cash

- Rewards and motivates achievement of annual business plans.
- Financial targets based on Group (ROE) and divisional (RoAC) performance give clear alignment to shareholders.

COMPONENT	DETAILS
	• The balanced scorecard of individual KPIs considers a broader view of performance and specific strategic priorities. **STI deferred** • Rewards sustainable performance. • Encourages longer-term focus and risk management. • Retention and shareholder alignment – executives are exposed to the performance of QBE shares over two years.

4.5 Long-term incentives

The table below outlines the key details of the LTI plan. LTI awards made in 2015 are summarised in section 6.3.2 of the Remuneration Report.

COMPONENT	DETAILS
Description	The LTI plan consists of an award of conditional rights to QBE shares. For executives in the United Kingdom, the LTI award is in the form of ZEPOs. Conditional rights (and ZEPOs) are awarded at no cost to the executive. LTI awards for the Group CEO and Group CFO are subject to shareholder approval at the Annual General Meeting.
Performance measures	Vesting is subject to two performance conditions measured over a three year performance period: 1. Average Group statutory ROE over three years – for 50% of the award. 2. Relative total shareholder return (RTSR) – for 50% of the award.
LTI allocation	To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days prior to the grant date.
Vesting schedules	**Group ROE** The Group ROE portion vesting schedule for 2015 awards is outlined below:

ROE PERFORMANCE	PERCENTAGE OF CONDITIONAL RIGHTS IN THE ROE TRANCHE TO VEST
Below 7.7%	0%
At 7.7%	20%
Between 7.7% and 11.6%	Straight line between 20% and 100%
At or above 11.6%	100%

The Remuneration Committee may use, and intends to use, discretion when assessing the extent to which the Group statutory ROE performance target has been met, to adjust the vesting outcome upwards or downwards in circumstances where there has been a material variance in the discount rate over the performance period from that assumed when setting the target. This acknowledges that QBE's results are heavily influenced by movements in discount rates that are beyond the influence of participants.

Relative Total Shareholder Return
The RTSR vesting schedule is outlined below:

QBE RTSR RANKING RELATIVE TO THE COMPARATOR GROUP	PERCENTAGE OF CONDITIONAL RIGHTS IN THE RTSR TRANCHE TO VEST
Less than the 50th percentile	0%
At the 50th percentile	50%
Between the 50th and the 75th percentile	Straight line between 50% and 100%
75th percentile or greater	100%

The RTSR comparator group will generally consist of companies in the Dow Jones Insurance Titans Index group adjusted for those with most relevance to QBE's business operations. The comparator group for the 2015 LTI award is: ACE Ltd (US), Allstate Corp (US), Allianz SE-Reg (Germany), American International Group (US), Assicurazoni Generali (Italy), Aviva Plc (UK), AXA – SA (France), Chubb Corp (US), IAG Ltd (Australia), RSA Group (UK), Suncorp Group Ltd (Australia), The Hartford (US), The Travellers Cos Inc (US), QBE Insurance Group Ltd (Australia), and Zurich Insurance Group (Switzerland).

COMPONENT	DETAILS
Vesting of LTI	Following assessment of performance measures at the end of the three year performance period, conditional rights will vest in three tranches as set out in the table below, subject to service conditions and malus provisions.

TRANCHE	VESTING DATE	PORTION OF ELIGIBLE CONDITIONAL RIGHTS TO VEST
1	End of the three year performance period	33%
2	First anniversary of the end of the performance period	33%
3	Second anniversary of the end of the performance period	34%

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that a pro-rata amount (applied over the three year performance period) of LTI conditional rights remain subject to the original performance and vesting conditions.

Notional dividends accrue during the vesting period.

COMPONENT	DETAILS
Malus	LTI is subject to malus provisions such that awards may be either forfeited or reduced at the discretion of the Remuneration Committee.

4.6 Keeping executives' and shareholders' interests aligned

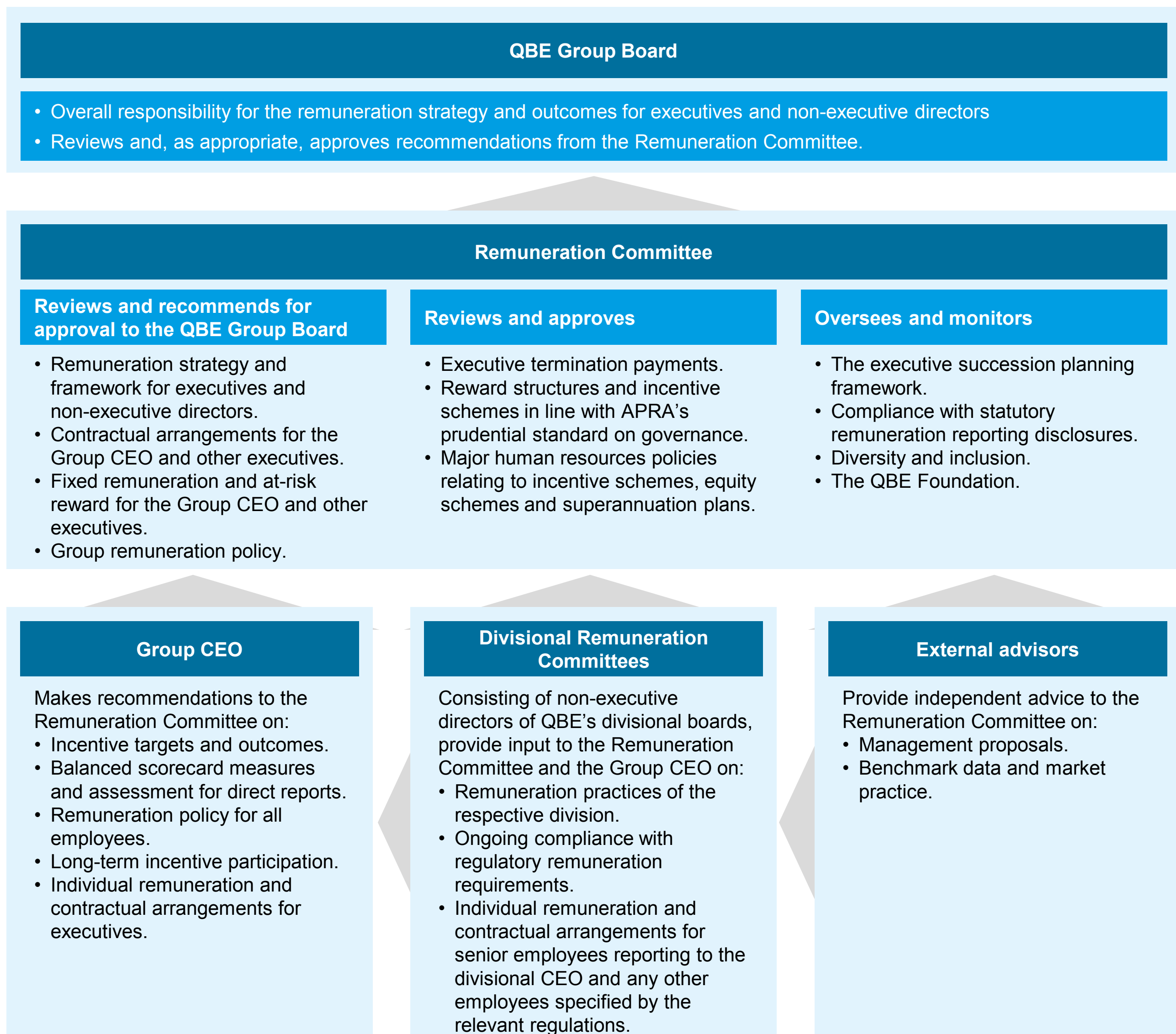
QBE has a number of practices which ensure executives' interests are aligned with those of QBE's shareholders.

COMPONENT	DETAILS
Minimum shareholding	The minimum shareholding requirement (MSR) encourages executives to build their shareholding and ensures they have significant exposure to QBE's share price and, by doing so, confirms their long-term interests are aligned with shareholders. Under the requirement, all executives must accumulate a minimum vested shareholding in QBE equivalent to one year's fixed remuneration and 1.5 times fixed remuneration for the Group CEO by 31 March each year. This minimum holding is to be maintained for as long as the executive remains employed by QBE. New executives are required to build their shareholding over a three year period after becoming an executive. For the 2015 test, the following components were included in the calculation: • all 'issued shares' – using the closing share price as at 1 April 2015; and • all unvested conditional rights without a performance condition – using the greater of the cost at grant price and the closing share price as at 1 April 2015. If an executive does not meet the minimum shareholding at the annual review date, QBE may impose a restriction on the future sale of any equity grants. Individual executive requirements are recalculated annually to consider fixed remuneration increases and changes in the share price or exchange rates. The total shareholding investment of executives against the MSR at the 2015 test date (31 March 2015) is shown in the table in section 8.4 of the Remuneration Report.
Malus	The "malus" provision gives the Remuneration Committee discretion to reduce the amount of an unvested award (including to zero) in certain circumstances during the retention period including in the case of: • serious misconduct; or • circumstances that materially undermine the reputation or performance of QBE; and on the basis that in each case the conduct or circumstances were not foreseen at the time of granting the award. This provision reflects best practice and QBE's obligations under APRA's prudential standard CPS 510 to incorporate terms allowing for the adjustment of incentive awards to protect QBE's financial soundness and ability to respond to unforeseen significant issues.
Treatment of conditional rights on a change in control of QBE	In accordance with the STI and LTI rules, a change in control is defined as either a scheme of arrangement that has been approved by QBE's shareholders or a bidder has at least 50% of the issued and to be issued QBE shares under an unconditional takeover offer made in accordance with the Corporations Act 2001. Should a change in organisational control occur, the Remuneration Committee has discretion to determine how unvested conditional rights should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change of control.

Trading policy	Trading in QBE ordinary shares is generally permitted outside of designated blackout periods. The QBE Share Trading Policy states that non-executive directors and executives should notify any intended share transaction to nominated people within the Group. The policy prohibits the hedging of unvested equity entitlements by executives. The purpose of this prohibition is to ensure that, until equity has vested, there is an alignment between the interests of executives and shareholders, with the effect that share price movements (either positive or negative) will economically impact executive rewards. There is a further restriction on hedging vested equity entitlements if such entitlement counts towards the executive's minimum shareholding requirement. The policy is enforced by requiring non-executive directors and executives to sign an annual declaration that confirms compliance with the restrictions on hedging. A copy of QBE's trading policy for dealing in securities is available from www.group.qbe.com/corporate-governance/background-documents.
Dilution limits for share plans	Shares awarded under QBE's employee share plans may be purchased on market or issued subject to Board discretion and the requirements of the Corporations Act 2001 and the ASX Listing Rules. As at 31 December 2015, the proportion of shares and unvested conditional rights and options held in a QBE employee share plan is 1.74%. This is significantly less than the maximum of 10% over a 10 year period allowed under the plan rules.

5. REMUNERATION GOVERNANCE

QBE has a robust remuneration governance framework overseen by the QBE Group Board.



5.1 Role of the Remuneration Committee

The Remuneration Committee, consisting only of independent directors, has the highest level of governance responsibility for executive remuneration structures and outcomes to ensure that remuneration frameworks are aligned with robust risk management practices and strong guiding principles. On an annual basis, the Remuneration Committee reviews the Group's remuneration policy to ensure that fixed remuneration is appropriately positioned relative to the market and that at-risk rewards remain linked to QBE's financial targets, investment performance targets and strategic business objectives.

Further details on the role and scope of the Remuneration Committee are set out in the QBE Remuneration Committee charter (available from www.group.qbe.com/corporate-governance/background-documents).

5.2 Use of remuneration consultants

Remuneration consultants provide guidance on remuneration for executives, facilitate discussion, review remuneration and at-risk reward benchmarking within industry peer groups and provide guidance on current trends in executive remuneration practices.

Any advice provided by remuneration consultants is used as a guide and is not a substitute for consideration of all the issues by each non-executive director on the Remuneration Committee.

The Remuneration Committee retained UK based firm FIT Remuneration Consultants LLP (FIT) to act as its independent remuneration adviser. Having received a declaration by FIT that they were not unduly influenced by QBE executives in regard to their remuneration recommendations, the Remuneration Committee and the Board are satisfied that the advice provided by FIT during 2015 was provided free from undue influence.

The cost of advice and assistance provided by FIT in 2015 was $66,000 (£43,000).

During 2015, management requested reports on market practice and benchmarking on total remuneration from PwC and other sources. No recommendations in relation to the remuneration of KMP were provided as part of these engagements.

5.3 Risk management

The Remuneration Committee works closely with Group Risk to ensure that any risk associated with remuneration arrangements is managed within the Group's risk management framework. Risk oversight policies exist within the remuneration governance framework to ensure executives cannot unduly influence a decision that could materially impact their own incentive outcome. In addition, The Group Chief Risk Officer attends the Remuneration Committee annually to report on executive risk behaviours.

The Group Board approves a comprehensive delegated authority for the Group CEO, which is an integral part of QBE's risk management process.

Executives are required to adhere to a range of Group-wide policies to ensure risk taking is well managed, strong governance structures are in place and high ethical standards are maintained. These policies are communicated to all employees throughout the Group.

6. REMUNERATION IN DETAIL

6.1 Statutory remuneration disclosures

Overview

The following table provides details of the remuneration of QBE's executives as determined by reference to applicable Australian Accounting Standards (AASB) for the financial year ended 31 December 2015. Remuneration has been converted to US dollars using the average rate of exchange for the relevant year.

		SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS [1]		
EXECUTIVES	YEAR	BASE SALARY US$000	OTHER [2] US$000	STI CASH [3] US$000	SUPERANNUATION US$000	LEAVE ACCRUALS [4] US$000	CONDITIONAL RIGHTS [5] US$000	OPTIONS US$000	TOTAL US$000
Group head office									
John Neal	**2015**	**1,631**	**79**	**330**	**–**	**(13)**	**1,232**	**–**	**3,259**
	2014	1,883	122	586	–	–	731	5	3,327
Jason Brown	**2015**	**501**	**39**	**310**	**14**	**26**	**377**	**–**	**1,267**
	2014	421	7	147	17	1	177	–	770
Mike Emmett	**2015**	**678**	**31**	**339**	**14**	**24**	**449**	**–**	**1,535**
	2014	760	27	260	17	(15)	284	–	1,333
Colin Fagen	**2015**	**844**	**40**	**465**	**14**	**57**	**708**	**–**	**2,128**
	2014	862	136	596	17	(38)	740	1	2,314
Patrick Regan	**2015**	**1,190**	**34**	**412**	**–**	**(9)**	**2,155**	**–**	**3,782**
	2014	829	2,483	339	–	19	3,042	–	6,712
Jenni Smith	**2015**	**556**	**23**	**279**	**14**	**28**	**224**	**–**	**1,124**
	2014	632	30	214	17	43	232	2	1,170
Divisional									
David Duclos	**2015**	**1,000**	**19**	**729**	**23**	**–**	**826**	**–**	**2,597**
	2014	1,000	17	222	21	–	768	–	2,028
David Fried	**2015**	**899**	**1,235**	**501**	**21**	**–**	**573**	**–**	**3,229**
	2014	714	694	236	21	–	498	–	2,163
Tim Plant	**2015**	**270**	**20**	**140**	**9**	**(10)**	**318**	**–**	**747**
	2014	–	–	–	–	–	–	–	–
Richard Pryce	**2015**	**1,085**	**166**	**985**	**–**	**–**	**775**	**–**	**3,011**
	2014	1,143	183	870	–	–	451	–	2,647
Total 2015	**2015**	**8,654**	**1,686**	**4,490**	**109**	**103**	**7,637**	**–**	**22,679**
Total 2014 [6]	2014	8,244	3,699	3,470	110	10	6,923	8	22,464

1 The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights and options are provided in sections 6.3 and 6.4 of the Remuneration Report.

2 "Other" includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest-free share loans, tax payments and other one-off expenses. For David Fried, this also includes expatriate benefits including a housing allowance, education assistance, a cost of living adjustment and associated taxes thereon. The lower amount in 2014 is due to David Fried receiving a one-off tax benefit as a result of his relocation from Singapore to Hong Kong.

3 Cash STI is payable in March 2016 for performance in 2015.

4 Includes the movement in annual leave and long service leave provisions during the year.

5 For Patrick Regan this includes the conditional rights granted on 20 August 2014. For further details, refer to section 6.3.3 of the Remuneration Report.

6 Comparative information is only provided for executives who were disclosed in QBE's 2014 Remuneration Report. The 2014 totals above are not the same as those disclosed in the 2014 Remuneration Report because of changes in KMP.

6.2 Equity-based remuneration

6.2.1 Executive investment in QBE as at 31 January 2016

The table below shows the investment exposure of QBE's executives as at 31 January 2016. Amounts in the table include relevant interests but do not include interests attributable to personally related parties.

EXECUTIVES	ORDINARY SHARES NUMBER	CONDITIONAL RIGHTS NUMBER	TOTAL POTENTIAL SHARES IN QBE AT 31 JAN 2016 NUMBER	VALUE OF POTENTIAL SHARES IN QBE AT 31 JAN 2016 US$000	COST TO REPAY SHARE LOANS US$000	NET INVESTMENT IN QBE AT 31 JAN 2016 [1] US$000
Group head office						
John Neal	234,998	825,252	1,060,250	8,167	–	8,167
Jason Brown	38,552	154,651	193,203	1,488	(2)	1,486
Mike Emmett	–	190,804	190,804	1,470	–	1,470
Colin Fagen	78,585	353,743	432,328	3,330	(189)	3,141
Patrick Regan	388,979	697,843	1,086,822	8,372	–	8,372
Jenni Smith	30,762	130,226	160,988	1,240	–	1,240
Divisional						
David Duclos	–	472,915	472,915	3,643	–	3,643
David Fried	–	277,661	277,661	2,139	–	2,139
Tim Plant	4,945	163,189	168,134	1,295	–	1,295
Richard Pryce	50,570	378,364	428,934	3,304	–	3,304

1 The closing share price at 31 January 2016 was A$10.88 ($7.70 using the 31 January 2016 closing rate of exchange).

6.3 Conditional rights

Overview

Equity awards at QBE are granted in the form of conditional rights. A conditional right is a promise by QBE to acquire one fully paid ordinary QBE Insurance Group Limited share where certain conditions are met.

6.3.1 Deferred equity awards

The table below details conditional rights provided under the terms of the STI Plan, QBE Incentive Scheme (QIS) (which ceased from 1 January 2014) and contractual arrangements. Further details are provided in sections 4.4 and 8.1 of the Remuneration Report.

EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US$000
Group head office						
John Neal	51,729	501	26,557	259	–	–
Jason Brown	8,596	75	3,683	36	–	–
Mike Emmett	11,709	102	–	–	–	–
Colin Fagen	25,932	226	5,351	52	–	–
Patrick Regan	14,732	143	–	–	–	–
Jenni Smith	9,306	81	12,086	118	–	–
Divisional						
David Duclos	11,100	97	–	–	–	–
David Fried	11,807	103	–	–	–	–
Tim Plant	13,882	121	–	–	–	–
Richard Pryce	40,772	356	34,293	342	–	–

Remuneration Report CONTINUED

6.3.2 Long-term incentive plan

The table below details conditional rights provided under the terms of the LTI plan. LTI conditional rights are subject to future performance hurdles as detailed in section 4.5 of the Remuneration Report.

EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE [1] US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US$000
Group head office						
John Neal [2]	348,377	2,908	–	–	–	–
Jason Brown	41,568	340	–	–	–	–
Mike Emmett	55,226	451	–	–	–	–
Colin Fagen	82,344	673	–	–	–	–
Patrick Regan [2]	190,024	1,586	–	–	–	–
Jenni Smith	45,724	374	–	–	–	–
Divisional						
David Duclos	162,846	1,331	–	–	–	–
David Fried	94,005	768	–	–	–	–
Tim Plant	47,232	386	–	–	–	–
Richard Pryce	127,861	1,045	–	–	–	–

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

2 Granted following shareholder approval at the 2015 AGM.

6.3.3 Future-performance conditional rights

The table below details conditional rights provided as remuneration to executives during 2015.

EXECUTIVES	CONDITIONAL RIGHTS GRANTED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT GRANT DATE US$000	CONDITIONAL RIGHTS VESTED AND EXERCISED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT VESTING DATE US$000	CONDITIONAL RIGHTS CANCELLED IN THE YEAR NUMBER	VALUE OF CONDITIONAL RIGHTS AT CANCELLATION DATE US$000
Jason Brown [1]	25,000	237	–	–	–	–
Mike Emmett [1]	25,000	264	–	–	–	–
John Neal [2]	–	–	–	–	32,313	325
Patrick Regan [3]	–	–	261,601	2,550	–	–

1 Jason Brown and Mike Emmett were awarded a one-off grant of 25,000 conditional rights in March 2015 and August 2015 respectively to recognise their contribution and additional responsibilities in their respective roles. These awards are subject to Group ROE performance conditions measured annually over three performance years and the achievement of key performance indicators in their balanced scorecard.

2 On 5 April 2012, John Neal was granted an appointment performance incentive of 90,000 conditional rights. The award comprised three tranches of 30,000 conditional rights, relating to 2012, 2013 and 2014 respectively. The conditional rights for each of the three years were to vest in April 2015 if vesting conditions were met, which included QBE achieving a minimum ROE target for the relevant year. The minimum ROE target for 2014 was not met therefore the third tranche of conditional rights (and associated notional dividends) lapsed in April 2015.

3 On 20 August 2014, Patrick Regan was granted conditional rights as compensation for incentives forfeited on ceasing his previous employment to join QBE. The award comprised three tranches of conditional rights subject to service conditions. The first tranche of the award vested on 1 March 2015.

6.4 Options

Options were provided to executives under the legacy DCP until March 2010. The table below details options vested, lapsed or cancelled during the year.

With the options that lapsed and were cancelled during 2015, there are now no executives who hold options.

	OPTIONS VESTED IN THE YEAR NUMBER	OPTIONS LAPSED/CANCELLED IN THE YEAR NUMBER
Group head office		
John Neal	–	104,697
Jason Brown	–	12,091
Jenni Smith	–	40,757
Colin Fagen	–	17,569

6.5 Employment agreements

The table below summarises the material terms of the employment agreements for the current executives which are subject to applicable laws. The terms and conditions of employment of each executive reflect market conditions at the time of their contract negotiation on appointment and thereafter.

CONTRACTUAL TERM	EXECUTIVES AFFECTED	CONDITIONS
Duration of contract	All	Permanent full-time employment contract until notice given by either party.
Notice to be provided by executive or QBE	All	Notice period is 12 months for John Neal. Other executives' notice periods are six months. QBE may elect to make a payment in lieu of notice.
Treatment of incentives on involuntary termination	All	**On termination with cause or for poor performance** All unvested incentives are forfeited. **On termination without cause** For STI in the year of termination, the executive remains eligible to be considered for an award on a pro-rata basis with any award to be determined following the end of the performance year and subject to the standard deferral arrangements. Unvested deferred STI conditional rights remain in the plan subject to the original vesting dates and malus provisions. A pro-rata number of LTI conditional rights, reflecting the portion of the three year performance period the executive was in service, remain in the plan subject to the original performance and vesting conditions. Legacy LTI awards generally remain in the plan subject to the original performance and vesting conditions; however, the Remuneration Committee has discretion to vest these awards. Legacy QIS-DEA awards generally remain in the plan subject to the original vesting conditions. 50% of QIS-DEA awards in 2010, 2011 and 2012 may vest at the time of termination at the discretion of the Remuneration Committee.
Treatment of incentives on voluntary termination	All	All unvested incentives are forfeited.
Deferred bonus	John Neal	Three weeks' fixed remuneration for each year of service capped at 12 months' fixed remuneration on termination if not due to resignation, termination without notice, poor performance, or serious misconduct.
Post-employment restraints	John Neal	12 month non-compete and non-solicitation.
	All others	Six month non-compete and non-solicitation.

7. NON-EXECUTIVE DIRECTOR REMUNERATION

7.1 Remuneration philosophy

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain experienced independent directors and to ensure their active participation in the Group's affairs for the purposes of corporate governance, regulatory compliance and other matters. QBE aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multinational financial institutions. The Board reviews surveys published by independent remuneration consultants and other public information to ensure that fee levels are appropriate. The remuneration arrangements of non-executive directors are distinct and separate from the executives. Non-executive directors do not have formal service agreements.

7.2 Fee structure and components

The aggregate amount approved by shareholders at the 2015 AGM was A$3,500,000 per annum.

Under the current fee framework, non-executive directors receive a base fee expressed in Australian dollars. In addition, a non-executive director (other than the Chairman) may receive further fees for chairmanship or membership of a board committee.

An inflationary increase of 3.0% to non-executive director fees was effective 1 April 2015. This was the first increase since 2012.

Active committees in 2015 were as follows:

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

The non-executive director fee structure for 2015 and 2014 is shown in the table below.

FEE FRAMEWORK	2015 A$000	2014 A$000
Chairman base fee	**663**	644
Deputy Chairman base fee	**229**	222
Non-executive director base fee	**208**	202
Committee chairman base fee	**50**	49
Committee membership fee	**27**	27

7.3 Other benefits

Non-executive directors do not receive any performance-based remuneration such as cash incentives or equity awards. Under QBE's constitution, non-executive directors are entitled to be reimbursed for all travel and related expenses properly incurred in connection with the business of QBE. All non-executive directors receive an annual cash travel allowance of A$42,750 (A$64,000 for the Chairman) in addition to fees for the time involved in travelling to Board meetings and other Board commitments. The travel allowance was increased by 3% during 2015 and extended to Australian based directors to reflect the time travelling outside of Australia and for consistency with overseas based directors.

Superannuation

QBE pays superannuation to Australian-based non-executive directors in accordance with Australian superannuation guarantee legislation. Overseas-based, non-executive directors receive the cash equivalent amount in addition to their fees.

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

7.4 Minimum shareholding requirement

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

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

Directors' shareholdings are shown in section 8.4 of the Remuneration Report.

7.5 Remuneration details for non-executive directors

The table below details the nature and amount of each component of the remuneration of QBE's non-executive directors.

		SHORT-TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		
NON-EXECUTIVE DIRECTOR	YEAR	FEES [1] US$000	OTHER US$000	SUPERANNUATION - SGC [2] US$000	SUPERANNUATION - OTHER [3] US$000	TOTAL [4] US$000
Marty Becker	**2015**	**593**	**–**	**–**	**–**	**593**
	2014	584	–	4	–	588
Stephen Fitzgerald	**2015**	**256**	**–**	**5**	**7**	**268**
	2014	72	–	3	1	76
John Graf	**2015**	**285**	**–**	**4**	**–**	**289**
	2014	385	–	5	–	390
John M Green	**2015**	**272**	**–**	**14**	**12**	**298**
	2014	266	–	16	9	291
Margaret Leung	**2015**	**248**	**–**	**–**	**–**	**248**
	2014	288	–	3	–	291
Sir Brian Pomeroy	**2015**	**267**	**–**	**–**	**–**	**267**
	2014	263	–	–	–	263
Jann Skinner	**2015**	**234**	**–**	**14**	**8**	**256**
	2014	88	–	7	1	96
Total	**2015**	**2,155**	**–**	**37**	**27**	**2,219**
	2014	1,946	–	38	11	1,995

1 Travel allowances, additional fees in lieu of superannuation in Australia and amounts sacrificed in relation to the Director Share Acquisition Plan are included in directors' fees.
- Sir Brian Pomeroy, John Graf, Margaret Leung and Stephen Fitzgerald received a travel allowance of $30,000 (A$42,000) per annum from 1 January to 31 March 2015 and $31,000 (A$43,000) per annum from 1 April to 31 December 2015. John Green and Jann Skinner received a travel allowance of $31,000 (A$43,000) per annum from 1 April to 31 December 2015. Marty Becker received a travel allowance of $45,000 (A$62,000) per annum for the period 1 January to 31 March 2015 and $47,000 (A$64,000) per annum from 1 April to 31 December 2015.
- Sir Brian Pomeroy, John Graf, Marty Becker and Margaret Leung receive additional fees of 9.5% in lieu of superannuation in Australia.
- Stephen Fitzgerald was an Australian tax resident for a portion of the year and received superannuation contributions during this period. For the balance of the year, he was a non-resident and received additional fees of 9.5% in lieu of superannuation in Australia.
- Marty Becker, Margaret Leung, Sir Brian Pomeroy and Stephen Fitzgerald all participate in the Director Share Acquisition Plan.

2 John Green and Jann Skinner are Australian residents. Superannuation is calculated as 9.5% of fees. Superannuation in excess of the statutory minimum may be taken as additional cash fees or in the form of superannuation contributions at the option of the director.

3 For Jann Skinner, this includes fees and superannuation of $14,000 and $1,000 respectively for her role as a non-executive director on subsidiary boards in QBE Australian & New Zealand Operations to 20 February 2015.

4 Remuneration has been converted to US dollars using the average rate of exchange for the relevant year.

8. APPENDIX

8.1 Legacy equity schemes

The table below summarises QBE's legacy incentive plans.

EQUITY SCHEME	DESCRIPTION
LEGACY LONG-TERM INCENTIVE PLAN (LTI)	
Until 31 December 2013	The legacy LTI plan comprised an award of conditional rights to fully-paid shares without payment by the executive, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows: • 50% of the award granted will be contingent on QBE's diluted EPS increasing by a compound average of 7.5% per annum over the five year vesting period; and • 50% of the award granted will be contingent on QBE's average statutory ROE and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period. Conditional rights were granted as a maximum percentage of fixed remuneration ranging from 50% for the Group CEO, 25% for the Group CFO and 15% for Group and divisional executives.
QBE Incentive Scheme (QIS)	
Until 31 December 2013	The QBE Incentive Scheme (QIS) was a short-term, at-risk reward structure comprised cash and deferred equity awards (QIS-DEA). It came into effect from 1 January 2010 and was applicable to deferred equity awards made in March 2011 to March 2014. Under the QIS, the directors could approve the issue of conditional rights to shares to executives who achieved predetermined performance targets. The maximum deferred equity award was based on an amount which was the lesser of 80% of the cash award earned or 100% of fixed remuneration at 31 December, in each case for the financial year immediately prior to the year in which the cash award was paid. The deferred equity award was used as the basis for calculating the number of conditional rights as follows: • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after three years; and • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after five years. During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of QBE. The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price). The shares issued pursuant to the conditional rights vest only if the individual has remained in the Group's service throughout the vesting period. For awards made prior to 2012, the Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights may be reduced (including to zero) for any material deterioration of the relevant entity's return on equity during the vesting period.

EQUITY SCHEME	DESCRIPTION
Deferred Compensation Plan (DCP)	
Until 31 December 2008 and applicable to awards granted in March 2009 and prior	For DCP awards made up to and including March 2009 in relation to financial performance in 2008 and prior years, KMP were provided with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment and options to subscribe for shares at market value at the grant date. The DCP award amount was restricted to the lesser of 66.67% of the STI award for that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award was paid. This DCP award amount was used to acquire conditional rights to fully paid shares and options respectively as follows: • conditional rights to shares to the value of 60% of the DCP award, converted to shares after three years; and • options over ordinary shares to the value of 40% of the DCP award, with the resulting number multiplied by three, exercisable after five years (three years if in Group Investments). Interest-free personal recourse loans were available on terms permitted by the Employee Share and Option Plan to persons in the employment of QBE who held options under the DCP, to fund the exercise of the options. Interest-free personal recourse loans under the DCP ceased on 5 March 2015 after the final vesting of all incentives granted in March 2009.
From 1 January 2009 and applicable to awards granted in March 2010	For DCP awards made in March 2010 in respect of financial performance for 2009, executives received conditional rights to fully paid shares. The maximum DCP award was based on an amount which was the lesser of 80% of the STI award (previously 66.67%) in that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award was paid. The maximum DCP award was used as the basis of calculating the number of conditional rights to fully paid shares as follows: • conditional rights to the value of 50% of the DCP award, converted to shares after three years; and • conditional rights to the value of 50% of the DCP award, converted to shares after five years. The vesting of the conditional rights is contingent on there being no material subsequent deterioration of the consolidated entity's ROE during the vesting period.
All awards	Conditional rights and any options relating to the achievement of profit targets in the financial year were granted in March of the following year. The share price upon which the allocation of conditional rights was calculated was the volume weighted average sale price of QBE shares over the five trading days on the ASX prior to the grant date. Notional dividends under the Bonus Share Plan are added to the number of conditional rights granted and are provided on vesting.

8.2 Valuation of conditional rights and options

8.2.1 Conditional rights

The table below details the conditional rights issued affecting remuneration of KMP in the previous, current or future reporting periods.

GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE [1]
5 March 2010	4 March 2015	A$20.90
7 March 2011	6 March 2016	A$17.93
7 March 2012	6 March 2017	A$11.78
5 April 2012	4 April 2015	A$14.25
1 September 2012	1 March 2015	A$13.03
1 September 2012	1 March 2016	A$13.03
5 March 2013	4 March 2016	A$13.18
5 March 2013	4 March 2018	A$13.18
27 March 2013	26 March 2018	A$13.02
2 April 2013	1 April 2016	A$13.18
2 April 2013	1 April 2018	A$13.18
8 April 2013	7 April 2016	A$13.61
8 April 2013	7 April 2018	A$13.61
4 March 2014	3 March 2017	A$8.34
4 March 2014	3 March 2018	A$8.34
4 March 2014	3 March 2019	A$8.34
4 March 2014	3 March 2017	A$8.60
4 March 2014	3 March 2018	A$8.60
4 March 2014	3 March 2019	A$8.60
4 March 2014	3 March 2017	A$12.68
4 March 2014	3 March 2018	A$12.68
4 March 2014	3 March 2019	A$12.68
4 March 2014	3 March 2017	A$12.75
4 March 2014	3 March 2018	A$12.75
4 March 2014	3 March 2019	A$12.75
20 August 2014	3 March 2017	A$6.08
20 August 2014	3 March 2018	A$6.08
20 August 2014	3 March 2019	A$6.08
20 August 2014	3 March 2017	A$10.70
20 August 2014	3 March 2018	A$10.70
20 August 2014	3 March 2019	A$10.70
20 August 2014	1 March 2015	A$11.23
20 August 2014	1 March 2016	A$11.23
20 August 2014	1 March 2017	A$11.23
3 March 2015	2 March 2018	A$9.15
3 March 2015	2 March 2019	A$9.15
3 March 2015	2 March 2020	A$9.15
3 March 2015	2 March 2018	A$9.35
3 March 2015	2 March 2019	A$9.35
3 March 2015	2 March 2020	A$9.35
3 March 2015	2 March 2016	A$11.63
3 March 2015	2 March 2017	A$11.63
3 March 2015	2 March 2016	A$12.63
3 March 2015	2 March 2017	A$12.63
3 March 2015	2 March 2018	A$12.63
3 March 2015	2 March 2019	A$12.63
3 March 2015	2 March 2020	A$12.63
3 March 2015	2 March 2016	A$12.90
3 March 2015	2 March 2017	A$12.90
3 March 2015	2 March 2018	A$12.90
3 March 2015	2 March 2019	A$12.90
3 March 2015	2 March 2020	A$12.90
19 August 2015	2 March 2016	A$14.06
19 August 2015	2 March 2017	A$14.06
19 August 2015	2 March 2018	A$14.06

1 The fair value of conditional rights at grant date is calculated using a binomial model. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights are provided in section 6.3 of the Remuneration Report.

8.2.2 Options

The table below details the options affecting remuneration of KMP in the previous, current or future reporting periods.

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE [1]
6 March 2009	5 March 2014	6 March 2015	A$17.57	A$2.81

1 The fair value of options at grant date is calculated using a binomial model. The fair value of each option is recognised evenly over the service period ending at vesting date. Details of options vested, lapsed or cancelled are provided in section 6.4 of the Remuneration Report.

8.3 Equity instruments

8.3.1 QBE deferred equity plans – conditional rights

The table below details the movements in the number of conditional rights to ordinary shares in QBE provided as remuneration to the KMP and issued under the STI, QIS and DCP.

2015	BALANCE AT 1 JAN 2015 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	VESTED AND TRANSFERRED IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2015 NUMBER
Executive directors						
John Neal	54,301	51,729	2,559	(26,557)	–	82,032
Patrick Regan	–	14,732	474	–	–	15,206
Other key management personnel						
Jason Brown	39,028	8,596	1,413	(3,683)	–	45,354
David Duclos	145,949	11,100	5,056	–	–	162,105
Mike Emmett	58,850	11,709	2,272	–	–	72,831
Colin Fagen	149,549	25,932	5,473	(5,351)	–	175,603
David Fried	102,618	11,807	3,684	–	–	118,109
Tim Plant	51,535	13,882	2,104	–	–	67,521
Richard Pryce	116,190	40,772	3,948	(34,293)	–	126,617
Jenni Smith	17,845	9,306	485	(12,086)	–	15,550

8.3.2 Long-term incentive plans – conditional rights

The table below details the movements in the number of conditional rights to ordinary shares in QBE provided as remuneration to the KMP and issued under the LTI plan and legacy LTI plan. No conditional rights to ordinary shares in QBE were provided to KMP under any legacy schemes.

2015	BALANCE AT 1 JAN 2015 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	VESTED AND TRANSFERRED IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2015 NUMBER
Executive directors						
John Neal	371,671	348,377	23,172	–	–	743,220
Patrick Regan	209,731	190,024	12,866	–	–	412,621
Other key management personnel						
Jason Brown	39,320	41,568	2,606	–	–	83,494
David Duclos	138,276	162,846	9,688	–	–	310,810
Mike Emmett	34,476	55,226	2,886	–	–	92,588
Colin Fagen	90,242	82,344	5,554	–	–	178,140
David Fried	60,569	94,005	4,978	–	–	159,552
Tim Plant	45,452	47,232	2,984	–	–	95,668
Richard Pryce	116,040	127,861	7,846	–	–	251,747
Jenni Smith	65,378	45,724	3,574	–	–	114,676

None of these conditional rights were vested or exercisable at 31 December 2015.

8.3.3 Other – conditional rights

The table below details the movements in the number of conditional rights to ordinary shares in QBE provided as remuneration to KMP.

2015	BALANCE AT 1 JAN 2015 NUMBER	GRANTED IN THE YEAR NUMBER	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	VESTED AND TRANSFERRED IN THE YEAR NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2015 NUMBER
Executive directors						
John Neal	32,313	–	–	–	(32,313)	–
Patrick Regan	523,199	–	8,418	(261,601)	–	270,016
Other key management personnel						
Jason Brown	–	25,000	803	–	–	25,803
Mike Emmett	–	25,000	385	–	–	25,385

8.3.4 QBE deferred equity plans – options

The table below details the movements in the number of DCP options over ordinary shares in QBE provided as remuneration to KMP.

2015	BALANCE AT 1 JAN 2015 NUMBER	CANCELLED/ FORFEITED IN THE YEAR NUMBER	BALANCE AT 31 DEC 2015 NUMBER	VESTED AND EXERCISABLE AT 31 DEC 2015 NUMBER	EXERCISE COST AT 31 DEC 2015 A$000
Executive director					
John Neal	104,697	(104,697)	–	–	–
Other key management personnel					
Jason Brown	12,091	(12,091)	–	–	–
Colin Fagen	17,569	(17,569)	–	–	–
Jenni Smith	40,757	(40,757)	–	–	–

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

8.4 Shareholdings

The table below details movements during the year in the number of ordinary shares in QBE held by KMP, including their personally related parties.

2015	INTEREST IN SHARES AT 1 JAN 2015 NUMBER	CONDITIONAL RIGHTS VESTED NUMBER	SHARES PURCHASED (SOLD) NUMBER	DIVIDENDS REINVESTED IN THE YEAR NUMBER	INTEREST IN SHARES AT 31 DEC 2015 NUMBER	INTEREST IN SHARES AT 31 DEC 2015 SUBJECT TO NON-RECOURSE LOANS NUMBER
Non-executive directors						
Marty Becker	67,736	–	12,507	–	80,243	–
Stephen Fitzgerald	–	–	32,147	–	32,147	–
John Graf	29,600	–	–	–	29,600	–
John M Green	37,258	–	–	–	37,258	–
Margaret Leung	286	–	6,138	40	6,464	–
Sir Brian Pomeroy	828	–	5,834	–	6,662	–
Jann Skinner	20,000	–	5,000	–	25,000	–
Executive directors						
John Neal	202,981	26,557	(1,895)	7,355	234,998	–
Patrick Regan	118,960	261,601	–	8,418	388,979	–
Other key management personnel						
Jason Brown	33,167	3,683	–	1,202	38,052	2,276
David Duclos	–	–	–	–	–	–
Mike Emmett	–	–	–	–	–	–
Colin Fagen	71,250	5,351	498	1,080	78,179	18,175
David Fried	–	–	–	–	–	–
Tim Plant	5,829	–	–	93	5,922	–
Richard Pryce	31,949	34,293	(16,236)	564	50,570	–
Jenni Smith	33,287	12,086	(15,000)	389	30,762	–

The table below details the position of KMP against the minimum shareholding requirement.

2015	MINIMUM SHAREHOLDING REQUIREMENT A$000	INTEREST IN SHARES AT 31 MARCH 2015 A$000	UNVESTED CONDITIONAL RIGHTS WITHOUT PERFORMANCE CONDITIONS A$000	VALUE OF EMPLOYEE LOAN SHARES[1] A$000	TOTAL VALUE OF HOLDINGS A$000	MINIMUM SHAREHOLDING REQUIREMENT STATUS[2]
Non-executive directors						
Marty Becker	663	930	–	–	930	Met
Stephen Fitzgerald	208	327	–	–	327	Met
John Graf	208	379	–	–	379	Met
John M Green	229	775	–	–	775	Met
Margaret Leung	208	24	–	–	24	On track
Sir Brian Pomeroy	208	41	–	–	41	On track
Jann Skinner	208	338	–	–	338	Met
Executive directors						
John Neal	3,300	2,909	1,151	–	4,060	Met
Patrick Regan	1,600	4,867	2,985	–	7,853	Met
Other key management personnel						
Jason Brown	700	355	584	13	952	Met
David Duclos	1,339	–	2,028	–	2,028	Met
Mike Emmett	930	–	905	–	905	On track
Colin Fagen	1,040	706	2,218	173	3,097	Met
David Fried	1,216	–	1,527	–	1,527	Met
Tim Plant[3]	N/A	N/A	N/A	N/A	N/A	N/A
Richard Pryce	1,586	640	1,573	–	2,213	Met
Jenni Smith	770	388	221	–	609	Not met

1 Value at statement date less balance of loan owing.
2 This shows whether the MSR has been met as at 31 March 2015 using the closing share price on 1 April 2015 of A$12.79 or the value at purchase, if greater. Detailed information on the MSR is provided in sections 4.6 and 7.4 of the Remuneration Report.
3 Tim Plant was not a KMP at the 2015 test date (31 March 2015).

8.5 Loans

This section details the loans made by the Group to KMP. All recourse and non-recourse loans are due to be paid within 10 days of ceasing employment.

8.5.1 Personal recourse share loans

2015	BALANCE AT 1 JAN 2015 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2015 A$000	INTEREST NOT CHARGED A$000 [1]	HIGHEST BALANCE IN THE PERIOD A$000
Key management personnel						
Jason Brown	107	–	107	–	4	107
Colin Fagen	134	–	134	–	2	134

1 Deemed value of interest not charged for the period as KMP.

8.5.2 Non-recourse share loans

Prior to 20 June 2005, non-recourse loans were provided by the Group to KMP for the purchase of shares in QBE. Under AASB 2 *Share-based Payment*, non-recourse loans and the related shares are derecognised and are instead treated as options.

2015	BALANCE AT 1 JAN 2015 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2015 A$000	INTEREST NOT CHARGED A$000 [1]	HIGHEST BALANCE IN THE PERIOD A$000
Key management personnel						
Jason Brown	3	–	–	3	–	3
Colin Fagen	267	–	–	267	15	267

1 Deemed value of interest not charged for the period as KMP.

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

Auditor

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

Non-audit services

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

The Board, on the advice of the Audit Committee, has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 8.7 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

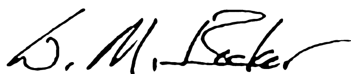
A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 90.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 8.7 to the financial statements.

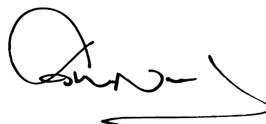
Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the Directors' Report. Amounts have been rounded off in the Directors' Report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

Signed in SYDNEY this 23rd day of February 2016 in accordance with a resolution of the directors.



W. Marston Becker
Director



John Neal
Director

Auditor's independence declaration for the year ended 31 December 2015

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

RJ Clark
Partner, PricewaterhouseCoopers

Sydney
23 February 2016

Liability limited by a scheme approved under Professional Standards Legislation

Financial Report contents

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income 92
Consolidated balance sheet 93
Consolidated statement of changes in equity 94
Consolidated statement of cash flows 95

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW
1.1 About QBE 96
1.2 About this report 97
1.3 Segment information 99

2. UNDERWRITING ACTIVITIES
2.1 Revenue 102
2.2 Net claims expense 103
2.3 Net outstanding claims provision 103
2.4 Claims development – net undiscounted central estimate 109
2.5 Unearned premium and deferred insurance costs 111
2.6 Trade and other receivables 114
2.7 Trade and other payables 115

3. INVESTMENTS
3.1 Net investment income and expenses 116
3.2 Investment assets 117

4. RISK MANAGEMENT
4.1 Strategic risk 122
4.2 Insurance risk 123
4.3 Credit risk 124
4.4 Market risk 126
4.5 Liquidity risk 130
4.6 Operational risk 131

5. CAPITAL STRUCTURE
5.1 Borrowings 132
5.2 Cash and cash equivalents 135
5.3 Equity and reserves 135
5.4 Dividends 137
5.5 Earnings per share 138
5.6 Derivatives 139

6. TAX
6.1 Income tax 140
6.2 Deferred income tax 141

7. GROUP STRUCTURE
7.1 Asset disposals 144
7.2 Intangible assets 145
7.3 Controlled entities 148

8. OTHER
8.1 Other accounting policies 152
8.2 Contingent liabilities 153
8.3 Reconciliation of profit after income tax to cash flows from operating activities 154
8.4 Share-based payments 155
8.5 Key management personnel 158
8.6 Defined benefit plans 159
8.7 Remuneration of auditors 160
8.8 Ultimate parent entity information 160

Directors' declaration 162

This Financial Report includes the consolidated financial statements for QBE Insurance Group Limited (the ultimate parent entity or the company) and its controlled entities (QBE or the Group). All amounts in this Financial Report are presented in US dollars unless otherwise stated. QBE Insurance Group Limited is a company limited by its shares, incorporated and domiciled in Australia. Its registered office is located at:

Level 27, 8 Chifley Square
Sydney NSW 2000
Australia

A description of the nature of the Group's operations and its principal activities is included on pages 4 to 47, none of which is art of this Financial Report. The Financial Report was authorised for issue by the directors on 23 February 2016. The directors have the power to amend and reissue the financial statements.

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

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTE	2015 US$M	2014 US$M
Gross written premium		**15,092**	16,332
Unearned premium movement		**(170)**	189
Gross earned premium revenue	2.1	**14,922**	16,521
Outward reinsurance premium		**(3,319)**	(2,480)
Deferred reinsurance premium movement		**711**	43
Outward reinsurance premium expense		**(2,608)**	(2,437)
Net earned premium (a)		**12,314**	14,084
Gross claims expense	2.2	**(8,712)**	(10,326)
Reinsurance and other recoveries revenue	2.2	**1,278**	1,426
Net claims expense (b)	2.2	**(7,434)**	(8,900)
Gross commission expense		**(2,488)**	(2,642)
Reinsurance commission revenue	2.1	**374**	279
Net commission (c)		**(2,114)**	(2,363)
Underwriting and other expenses (d)		**(2,137)**	(2,274)
Underwriting result (a)+(b)+(c)+(d)		**629**	547
Investment and other income – policyholders' funds	3.1	**418**	553
Investment expenses – policyholders' funds	3.1	**(16)**	(26)
Insurance profit		**1,031**	1,074
Investment and other income – shareholders' funds	3.1	**273**	301
Investment expenses – shareholders' funds	3.1	**(10)**	(14)
Financing and other costs		**(244)**	(297)
Losses on sale of entities	7.1	**(2)**	(17)
Share of net profits of associates		**–**	1
Amortisation and impairment of intangibles	7.2	**(95)**	(117)
Profit before income tax		**953**	931
Income tax expense	6.1	**(260)**	(182)
Profit after income tax		**693**	749
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve	5.3.2	**74**	54
Net movement in cash flow hedges	5.3.2	**(1)**	–
Income tax relating to these components of other comprehensive income		**41**	(5)
Items that will not be reclassified to profit or loss			
Gains (losses) on remeasurement of defined benefit superannuation plans		**17**	(42)
Gains on revaluation of owner occupied property	5.3.2	**1**	2
Income tax (expense) credit relating to these components of other comprehensive income		**(6)**	15
Other comprehensive income after income tax		**126**	24
Total comprehensive income after income tax		**819**	773
Profit after income tax attributable to:			
Ordinary equity holders of the company		**687**	742
Non-controlling interests		**6**	7
		693	749
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**813**	766
Non-controlling interests		**6**	7
		819	773

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	2015 US CENTS	2014 US CENTS
Basic earnings per share	5.5	**50.3**	57.4
Diluted earnings per share	5.5	**49.8**	55.8

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

Consolidated balance sheet

AS AT 31 DECEMBER 2015

	NOTE	2015 US$M	2014 US$M
Assets			
Cash and cash equivalents	5.2	**662**	852
Investments	3.2	**26,032**	27,716
Derivative financial instruments	5.6	**33**	20
Trade and other receivables	2.6	**4,950**	4,748
Current tax assets		**46**	5
Deferred insurance costs	2.5	**2,538**	2,031
Reinsurance and other recoveries on outstanding claims	2.3	**3,204**	3,464
Other assets		**6**	15
Assets held for sale		**–**	1,096
Defined benefit plan surpluses	8.6	**44**	44
Property, plant and equipment		**263**	362
Deferred tax assets	6.2	**767**	787
Investment properties		**14**	15
Investment in associates		**13**	14
Intangible assets	7.2	**3,604**	3,831
Total assets		**42,176**	45,000
Liabilities			
Derivative financial instruments	5.6	**35**	73
Trade and other payables	2.7	**2,101**	1,228
Current tax liabilities		**43**	192
Liabilities held for sale		**–**	671
Unearned premium	2.5	**7,006**	7,366
Outstanding claims	2.3	**18,583**	20,412
Provisions		**76**	95
Defined benefit plan deficits	8.6	**67**	117
Deferred tax liabilities	6.2	**176**	183
Borrowings	5.1	**3,529**	3,581
Total liabilities		**31,616**	33,918
Net assets		**10,560**	11,082
Equity			
Share capital	5.3.1	**8,440**	9,391
Reserves	5.3.2	**(1,248)**	(1,405)
Retained profits		**3,313**	3,044
Shareholders' funds		**10,505**	11,030
Non-controlling interests		**55**	52
Total equity		**10,560**	11,082

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2015

2015	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January	**9,391**	**–**	**(1,405)**	**3,044**	**11,030**	**52**	**11,082**
Profit after income tax	**–**	**–**	**–**	**687**	**687**	**6**	**693**
Other comprehensive income	**–**	**–**	**114**	**12**	**126**	**–**	**126**
Total comprehensive income	**–**	**–**	**114**	**699**	**813**	**6**	**819**
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	**–**	**(18)**	**–**	**–**	**(18)**	**–**	**(18)**
Share-based payment expense	**–**	**–**	**59**	**–**	**59**	**–**	**59**
Shares vested and/or released to participants	**–**	**18**	**(18)**	**–**	**–**	**–**	**–**
Contributions of equity, net of transaction costs and tax	**59**	**–**	**–**	**–**	**59**	**–**	**59**
Reclassification on disposal	**–**	**–**	**15**	**(15)**	**–**	**–**	**–**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(421)**	**(421)**	**–**	**(421)**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Foreign exchange movement	**(1,010)**	**–**	**(13)**	**–**	**(1,023)**	**(3)**	**(1,026)**
As at 31 December	**8,440**	**–**	**(1,248)**	**3,313**	**10,505**	**55**	**10,560**

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

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

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTE	2015 US$M	2014 US$M
Operating activities			
Premium received		**15,144**	16,552
Reinsurance and other recoveries received		**1,563**	1,596
Outward reinsurance paid		**(2,664)**	(2,058)
Claims paid		**(9,410)**	(10,754)
Acquisition and other underwriting costs paid		**(4,430)**	(4,802)
Interest received		**483**	664
Dividends received		**99**	66
Other operating income		**46**	26
Other operating payments		**(253)**	(288)
Interest paid		**(247)**	(287)
Income taxes paid		**(347)**	(383)
Net cash flows from operating activities	8.3	**(16)**	332
Investing activities			
Proceeds on sale of growth assets		**692**	898
Purchase of growth assets		**(1,289)**	(2,853)
Payments for foreign exchange transactions		**(58)**	(44)
Net proceeds on sale of interest bearing financial assets		**534**	1,597
Payments for intangibles acquired		**(26)**	(25)
Proceeds on disposal of controlled entities (net of cash disposed)		**493**	–
Proceeds on sale of investment property		**1**	4
Proceeds on sale of property, plant and equipment		**13**	44
Capital expenditure		**(107)**	(83)
Net cash flows from investing activities		**253**	(462)
Financing activities			
Capital contribution from non-controlling interest		**2**	–
Proceeds from issue of shares		**–**	780
Share issue expenses		**–**	(10)
Purchase of treasury shares		**(18)**	(12)
Proceeds from settlement of staff share loans		**4**	3
Proceeds from borrowings		**640**	1,398
Repayment of borrowings		**(657)**	(2,085)
Dividends paid		**(359)**	(216)
Net cash flows from financing activities		**(388)**	(142)
Net movement in cash and cash equivalents		**(151)**	(272)
Cash and cash equivalents at the beginning of the year		**852**	1,238
Effect of exchange rate changes		**(39)**	(31)
Cash transferred to assets held for sale		**–**	(83)
Cash and cash equivalents at the end of the year	5.2	**662**	852

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2015

1. OVERVIEW

1.1 About QBE

About QBE Insurance Group

QBE is one of the world's top 20 insurance and reinsurance companies, with operations in all the major insurance markets. Formed in Australia in 1886, QBE employs over 14,000 people in 37 countries, with significant operations in Australia, Europe, North America and across the emerging markets of Latin America and Asia Pacific. QBE's captive reinsurer, Equator Re, provides reinsurance protection to our divisions in conjunction with the Group's external reinsurance programs.

QBE is listed on the Australian Securities Exchange and is a for-profit entity.

About insurance

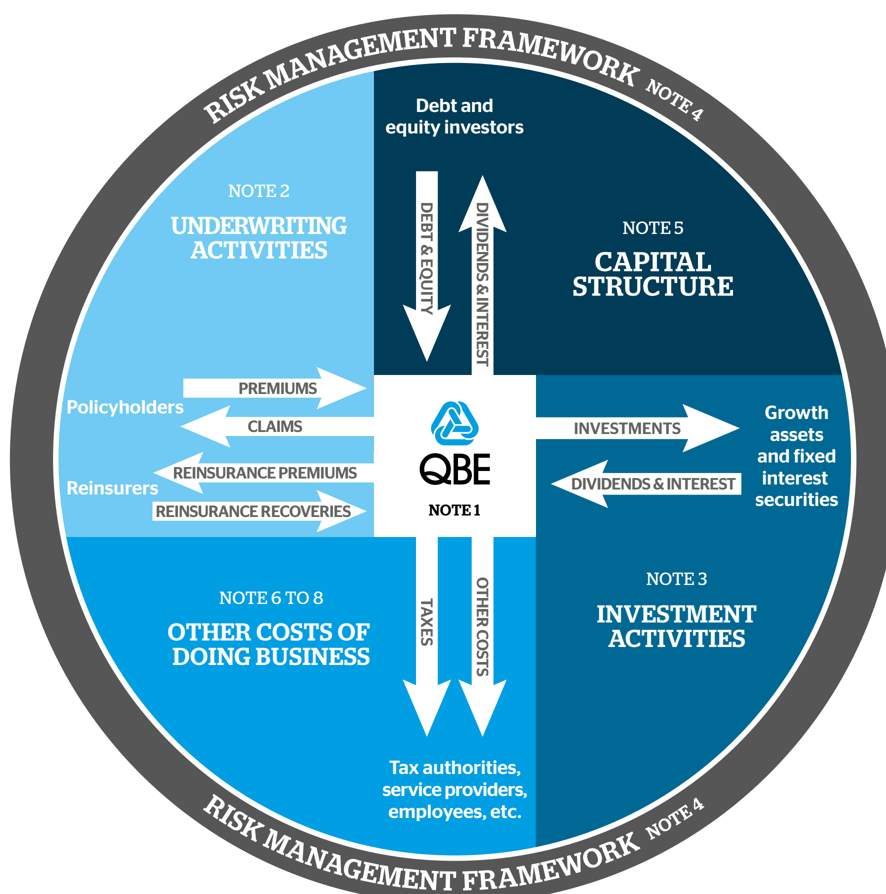
In simple terms, insurance and reinsurance companies help their customers (consumers, businesses and other insurance companies) to manage risk. More broadly put, insurance companies create value by pooling and redistributing risk. This is done by collecting premium from those that it insures, (i.e. policyholders) and then paying the claims of the few that call upon their insurance protection. The company may also choose to reduce some of its own accumulated risk through the use of outward reinsurance, which is insurance for insurance companies. As not all policyholders will actually experience a claims event, the effective pooling and redistribution of risk lowers the total cost of risk management, thereby making insurance protection more cost effective for all.

The operating model of insurance companies relies on profits being generated:

- by appropriately pricing risk and charging adequate premium to cover the expected payouts that will be incurred over the life of the insurance policy (both claims and operating expenses); and
- by earning a return on the collected premium and funds withheld to pay future claims through the adoption of an appropriate investment strategy.

Insurance therefore serves a critical function of providing customers with the confidence to achieve their business and personal goals through cost effective risk management. This is achieved within a highly regulated environment, designed to ensure that insurance companies maintain adequate capital to protect the interests of policyholders.

The diagram below presents a simplified overview of the key components of this Financial Report.



1.

1.2 About this report

This Financial Report includes the consolidated financial statements for QBE Insurance Group Limited (the ultimate parent entity or the company) and its controlled entities (QBE or the Group).

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), balance sheet, statement of changes in equity and statement of cash flows, and associated notes as required by Australian Accounting Standards. The notes have been restructured this year to improve clarity of the financial statements. Disclosures have been grouped into the following categories:

1. **Overview** contains information that impacts the Financial Report as a whole, as well as segment reporting disclosures.
2. **Underwriting activities** brings together all results and balance sheet disclosures relevant to the Group's insurance activities.
3. **Investments** includes all results and balance sheet disclosures relevant to our investment activities.
4. **Risk management** provides commentary on the Group's exposure to various financial and capital risks, explaining the potential impact on the results and balance sheet and how the Group manages these risks.
5. **Capital structure** provides information about the debt and equity components of the Group's capital.
6. **Tax** includes all required disclosures in relation to the Group's tax balances.
7. **Group structure** provides a summary of the Group's controlled entities and includes disclosures in relation to transactions impacting the Group structure.
8. **Other** includes disclosures required in order to comply with Australian Accounting Standards but which are considered less material to understanding the Group's results or balance sheet.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures.
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards.
- **How we account for the numbers** summarises the accounting policies relevant to an understanding of the numbers.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by management in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, balance sheet and results of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important to assist an understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, significant acquisitions or disposals; or,
- it relates to an aspect of the Group's operations that is important to its future performance.

1.2.1 Basis of preparation

This Financial Report is a general purpose financial report which:

- has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and the *Corporations Act 2001*;
- has been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, derivative assets and liabilities, investment properties and owner occupied properties;
- is presented in US dollars; and
- is presented with values rounded to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with ASIC class order 98/100.

New and amended Accounting Standards and Interpretations issued by the AASB that are now effective are detailed in note 8.1.

The Group has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective. Refer to note 8.1 for further details.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company as at 31 December 2015 and the results for the financial year then ended. A list of entities controlled by the company at year end is contained in note 7.3.

The financial statements of controlled entities are prepared for the same reporting period as the ultimate parent company.

In preparing the consolidated financial statements, all transactions between controlled entities are eliminated in full. Where control of a entity commences or ceases during a financial year, the results are included for that part of the year during which control existed.

Lloyd's syndicates are accounted for on a proportional basis. The nature of Lloyd's syndicates is such that even when one party provides the majority of capital, the syndicate as a whole is not controlled for accounting purposes.

1.2.2 Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect amounts reported in the consolidated profit or loss and balance sheet. The diversity and complexity of the Group is evidenced by its worldwide operations and the broad product range as shown in the class of business analysis in note 4.2.

In view of its geographic and product diversity, the Group has developed a centralised risk management and policy framework, designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the claims provision and investment management.

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

The key areas in which critical estimates and judgements are applied are as follows:

- net outstanding claims (note 2.3);
- liability adequacy test (note 2.5.1);
- deferred income tax (note 6.2); and
- intangible assets (note 7.2).

1.2.3 Foreign currency

Translation of foreign currency transactions and balances

Transactions included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

Translation of foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from the Group's presentation currency of US dollars are translated into US dollars as follows:

- income, expenses and other current period movements in comprehensive income are translated at average rates of exchange; and
- balance sheet items are translated at the closing balance date rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of financial liabilities and other instruments designated as hedges of foreign operations, are taken to shareholders' equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part and capital is repatriated, exchange differences on translation from the entity's functional currency to the ultimate parent entity's functional currency of Australian dollars are reclassified out of other comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

Derivatives and hedging transactions

Derivatives and borrowings which meet the specified criteria in AASB 139 *Financial Instruments: Recognition and Measurement* are accounted for using fair value hedge accounting, cash flow hedge accounting or hedging of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in other comprehensive income and the gain or loss on the ineffective portion is recognised immediately through profit or loss. The cumulative gain or loss previously recognised in equity is reclassified through profit or loss on the disposal or partial disposal of the foreign operation.

Exchange rates

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

	2015		2014	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/US$	**0.750**	**0.729**	0.897	0.816
£/US$	**1.527**	**1.474**	1.645	1.558
€/US$	**1.111**	**1.087**	1.323	1.210

1.

1.3 Segment information

Overview

The Group provides segment information by operating division to assist the understanding of the Group's performance. The Group's operating segments are consistent with the basis on which information is provided to the Group Executive for measuring performance and determining the allocation of capital, being the basis upon which the Group's underwriting products and services are managed within the various markets in which QBE operates.

Operating segments

The Group's operating segments are as follows:

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

Corporate entities include non-operating holding companies and financing entities that do not form part of the Group's insurance operations and gains or losses on disposal of entities.

Divisional management results are reported before corporate quota share reinsurances to Equator Re which exist to optimise capital management in the Group.

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

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

2015	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	EMERGING MARKETS US$M	EQUATOR RE US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE US$M	OTHER [1] US$M	TOTAL US$M
Total assets	11,099	16,999	10,183	3,025	6,361	47,667	871	(6,362)	42,176
Total liabilities	8,911	14,070	7,533	2,181	5,038	37,733	245	(6,362)	31,616
Net assets	2,188	2,929	2,650	844	1,323	9,934	626	–	10,560
Other non-current assets	1,835	612	1,152	192	–	3,791	90	–	3,881
Gross written premium	4,961	4,386	3,787	1,907	1,007	16,048	–	(956)	15,092
Gross earned premium revenue – external	4,930	4,338	3,753	1,865	–	14,886	–	36	14,922
Gross earned premium revenue – internal	–	–	–	–	994	994	–	(994)	–
Outward reinsurance premium expense	(1,264)	(884)	(471)	(251)	(627)	(3,497)	–	889	(2,608)
Net earned premium	3,666	3,454	3,282	1,614	367	12,383	–	(69)	12,314
Net claims expense	(2,323)	(1,844)	(2,054)	(992)	(297)	(7,510)	–	76	(7,434)
Net commission	(635)	(634)	(481)	(345)	(17)	(2,112)	–	(2)	(2,114)
Underwriting and other expenses	(678)	(599)	(461)	(328)	(13)	(2,079)	(15)	(43)	(2,137)
Underwriting result	30	377	286	(51)	40	682	(15)	(38)	629
Net investment income on policyholders' funds	63	87	181	123	63	517	–	(115)	402
Insurance profit (loss)	93	464	467	72	103	1,199	(15)	(153)	1,031
Net investment income on shareholders' funds	48	30	88	132	25	323	2	(62)	263
Financing and other costs	–	–	–	–	–	–	(244)	–	(244)
Losses on sale of entities	–	–	–	–	–	–	(2)	–	(2)
Amortisation and impairment of intangibles	–	–	–	–	–	–	–	(95)	(95)
Profit (loss) before income tax	141	494	555	204	128	1,522	(259)	(310)	953
Income tax (expense) credit	(4)	(89)	(166)	(65)	(6)	(330)	(16)	86	(260)
Profit (loss) after income tax	137	405	389	139	122	1,192	(275)	(224)	693
Non-controlling interests	–	–	–	–	–	–	–	(6)	(6)
Net profit (loss) after income tax	137	405	389	139	122	1,192	(275)	(230)	687

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

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

1.

2014	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	EMERGING MARKETS US$M	EQUATOR RE US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE US$M	OTHER[1] US$M	TOTAL US$M
Total assets	12,026	17,623	11,319	3,655	6,608	51,231	566	(6,797)	45,000
Total liabilities	9,603	14,599	8,113	2,859	5,276	40,450	265	(6,797)	33,918
Net assets	2,423	3,024	3,206	796	1,332	10,781	301	–	11,082
Other non-current assets	1,951	677	1,289	234	–	4,151	57	–	4,208
Gross written premium	5,310	4,526	4,392	2,179	642	17,049	–	(717)	16,332
Gross earned premium revenue – external	5,457	4,805	4,386	1,942	–	16,590	–	(69)	16,521
Gross earned premium revenue – internal	–	–	–	–	764	764	–	(764)	–
Outward reinsurance premium expense	(986)	(1,238)	(552)	(237)	(239)	(3,252)	–	815	(2,437)
Net earned premium	4,471	3,567	3,834	1,705	525	14,102	–	(18)	14,084
Net claims expense	(3,023)	(2,000)	(2,242)	(1,245)	(389)	(8,899)	–	(1)	(8,900)
Net commission	(698)	(718)	(532)	(368)	(18)	(2,334)	–	(29)	(2,363)
Underwriting and other expenses	(788)	(626)	(562)	(309)	(13)	(2,298)	8	16	(2,274)
Underwriting result	(38)	223	498	(217)	105	571	8	(32)	547
Net investment income on policyholders' funds	46	122	182	108	40	498	61	(32)	527
Insurance profit (loss)	8	345	680	(109)	145	1,069	69	(64)	1,074
Net investment income on shareholders' funds	38	35	78	58	12	221	–	66	287
Financing and other costs	–	–	–	–	–	–	(297)	–	(297)
Losses on sale of entities	–	–	–	–	–	–	(17)	–	(17)
Share of net profits of associates	–	–	–	–	–	–	–	1	1
Amortisation and impairment of intangibles	–	–	–	–	–	–	–	(117)	(117)
Profit (loss) before income tax	46	380	758	(51)	157	1,290	(245)	(114)	931
Income tax credit (expense)	29	(69)	(227)	31	(6)	(242)	46	14	(182)
Profit (loss) after income tax	75	311	531	(20)	151	1,048	(199)	(100)	749
Non-controlling interests	–	–	–	–	–	–	–	(7)	(7)
Net profit (loss) after income tax	75	311	531	(20)	151	1,048	(199)	(107)	742

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

Geographical analysis

All operating segments except for Emerging Markets are defined by reference to the geographical locations of each operating segment and, as such, satisfy the requirements of a geographical analysis as well as an operating segment analysis. No country within Emerging Markets is individually material.

Gross earned premium revenue – external for Australia, QBE's country of domicile, was $3,515 million (2014 $4,122 million).

Product analysis

QBE does not collect Group-wide revenue information by product and the cost to develop this information would be excessive. Gross earned premium revenue by class of business is disclosed in note 4.2.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

2. UNDERWRITING ACTIVITIES

Overview

This section provides analysis and commentary on the Group's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1 Revenue

Overview

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- direct, being those paid by the policyholder to the insurer;
- facultative, being reinsurance of an individual (usually significant) risk by a ceding company; or
- inward reinsurance premiums, being coverage provided to an insurer or reinsurer in relation to a specified grouping of policies or risks.

Other sources of revenue include amounts recovered from reinsurers under the terms of reinsurance contracts and commission income from reinsurers.

	NOTE	2015 US$M	2014 US$M
Gross earned premium revenue			
Direct and facultative [1]		**13,967**	15,206
Inward reinsurance		**955**	1,315
		14,922	16,521
Other revenue			
Reinsurance and other recoveries revenue	2.2	**1,278**	1,426
Reinsurance commission revenue		**374**	279
		16,574	18,226

1 In 2014, the earnings pattern of the Australian lenders' mortgage insurance business was revised to more appropriately reflect the pattern of the incidence of risk resulting in an increase in gross earned premium of $85 million.

How we account for the numbers

Premium revenue

Premium written comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. Premium is recognised as revenue in profit or loss based on the incidence of the pattern of risk. The earned portion of premium on unclosed business, being business that is written at the balance date but for which detailed policy information is not yet booked, is also included in premium revenue.

Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries are measured as the present value of the expected future receipts.

2.

2.2 Net claims expense

Overview

The largest expense for an insurance company is net claims expense, which is the difference between the net outstanding claims provision (as described in note 2.3 below) at the beginning and the end of the financial year plus any new and existing claims settled during the financial year. Claims expense may be reported on a gross basis (i.e. before reinsurance recoveries) or on a net basis (i.e. after reinsurance recoveries).

	NOTE	2015 US$M	2014 US$M
Gross claims and related expenses			
Direct and facultative		**8,367**	9,493
Inward reinsurance		**345**	833
		8,712	10,326
Reinsurance and other recoveries revenue			
Direct and facultative		**1,210**	1,283
Inward reinsurance		**68**	143
	2.1	**1,278**	1,426
Net claims expense		**7,434**	8,900
Analysed as follows:			
Movement in net discounted central estimate	2.4.2	**7,453**	9,084
Movement in risk margin	2.3.3	**(19)**	(184)
Net claims expense		**7,434**	8,900

2.3 Net outstanding claims provision

Overview

The net outstanding claims provision comprises the elements described below.

- The gross central estimate (note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs.
- Less amounts recoverable from reinsurers (note 2.3.2). Insurance companies may elect to purchase reinsurance cover to manage their exposure to any one claim or series of claims. When an insurance company incurs a claim as a result of an insured loss, it may be able to recover some of that claim from reinsurance.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The weighted average risk-free rate for each operating segment and for the consolidated Group are summarised in note 2.3.4.
- Plus a risk margin (note 2.3.3). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

	NOTE	2015 US$M	2014 US$M
Gross discounted central estimate	2.3.1	**17,323**	19,059
Risk margin	2.3.3	**1,260**	1,353
Gross outstanding claims provision		**18,583**	20,412
Reinsurance and other recoveries on outstanding claims	2.3.2	**(3,204)**	(3,464)
Net outstanding claims provision		**15,379**	16,948

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

The table below analyses the movement in the outstanding claims provision:

	2015			2014		
	OUSTANDING CLAIMS US$M	REINSURANCE US$M	NET US$M	OUSTANDING CLAIMS US$M	REINSURANCE US$M	NET US$M
At 1 January	**20,412**	**(3,464)**	**16,948**	21,669	(3,461)	18,208
Net claims expense in current accident year (note 2.4.2)	**8,743**	**(1,394)**	**7,349**	9,894	(1,116)	8,778
Movement in prior accident year claims provision (note 2.4.2)	**(12)**	**116**	**104**	616	(310)	306
Movement in risk margins (note 2.3.3)	**(19)**	**–**	**(19)**	(184)	–	(184)
Incurred claims recognised in profit or loss (note 2.2)	**8,712**	**(1,278)**	**7,434**	10,326	(1,426)	8,900
Transfers to (liabilities) assets held for sale	**–**	**–**	**–**	(414)	9	(405)
Disposals	**(135)**	**5**	**(130)**	–	–	–
Claims payments	**(9,259)**	**1,402**	**(7,857)**	(10,099)	1,379	(8,720)
Foreign exchange	**(1,147)**	**131**	**(1,016)**	(1,070)	35	(1,035)
At 31 December	**18,583**	**(3,204)**	**15,379**	20,412	(3,464)	16,948

2.3.1 Gross discounted central estimate

	NOTE	2015 US$M	2014 US$M
Gross undiscounted central estimate		**17,925**	19,476
Claims settlement costs		**396**	397
		18,321	19,873
Discount to present value		**(998)**	(814)
Gross discounted central estimate	2.3	**17,323**	19,059
Payable within 12 months		**6,040**	7,495
Payable in greater than 12 months		**11,283**	11,564
Gross discounted central estimate	2.3	**17,323**	19,059

Critical accounting judgements and estimates

Gross and net discounted central estimate is determined by the Group Chief Actuary, supported by a team of actuaries in each of QBE's businesses. The valuation process is performed quarterly and includes extensive consultation with claims and underwriting staff as well as senior management. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually. The risk management procedures related to the actuarial function are explained further in note 4.2.

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

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- changing social, political and economic trends (e.g. price and wage inflation).

The estimation of IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, for which some information about the claims is generally available. The settlement of claims relating to liability and other long tail classes of business may not happen for many years after the event giving rise to the claim. As a consequence, liability and other long tail classes typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled soon after the claim event, giving rise to more certainty.

Central estimates for each class of business are determined using a variety of estimation techniques, generally based on an analysis of historical experience and with reference to external benchmarks where relevant. The gross central estimate is discounted to present value using the appropriate risk-free rate.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate (note 2.3.2).

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2015 US$M	2014 US$M
Reinsurance and other recoveries on outstanding claims [1]		**3,426**	3,550
Discount to present value		**(222)**	(86)
Reinsurance and other recoveries on outstanding claims	2.3	**3,204**	3,464
Receivable within 12 months		**1,099**	1,560
Receivable in greater than 12 months		**2,105**	1,904
Reinsurance and other recoveries on outstanding claims	2.3	**3,204**	3,464

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

How we account for the numbers

The recoverability of amounts due from reinsurers is assessed at each balance date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty credit risk in relation to reinsurance assets is considered in note 4.3. Recoveries are discounted to present value using the appropriate risk-free rate.

2.3.3 Risk margin

Overview

A risk margin is determined by the Group Board to reflect the inherent uncertainty in the central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims provision to ultimately be able to pay claims. For example, a 90% probability of adequacy indicates that the net discounted central estimate is expected to be adequate nine years in 10.

	2015 US$M	2014 US$M
Risk margin	**1,260**	1,353
Risk margin as a percentage of the net discounted central estimate	**8.9%**	8.7%
Probability of adequacy	**89.0%**	88.7%

The decrease in the risk margin of $93 million includes a foreign exchange movement of $74 million and a reduction of $19 million to reflect reduced uncertainty in the net discounted central estimate at 31 December 2015. Net profit after tax would have increased by $18 million if the probability of adequacy was maintained at 88.7%.

How we account for the numbers

AASB 1023 General Insurance Contracts requires an entity to adopt an appropriate risk margin. The resulting probability of adequacy is not of itself an accounting policy as defined by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The appropriate level of the Group's risk margin is not determined by reference to a fixed probability of adequacy.

QBE reviews a number of factors when determining the appropriate risk margin, including any changes in the level of uncertainty in the net central estimate, the resulting probability of adequacy and the risk margin as a percentage of the net discounted central estimate. The Group aims to maintain a probability of adequacy in the range of 87.5% to 92.5%.

Critical accounting judgements and estimates

Risk margins are determined by the Group Board and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement; and
- the level of uncertainty in the net discounted central estimate due to estimation error, data quality, variability of key inflation assumptions and possible economic and legislative changes.

The variability by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

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

The probability of adequacy for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgement of experienced and qualified actuaries.

2.3.4 Discount rate used to determine the outstanding claims provision

Overview

Claims in relation to long tail classes of business (e.g. professional indemnity and workers' compensation) typically may not settle for many years. As such, provisions are discounted to reflect the time value of money. The table below summarises the weighted average discount rate for each operating segment and for the consolidated Group.

	2015 %	2014 %
North American Operations	**1.85**	1.37
European Operations	**1.21**	1.08
Australian & New Zealand Operations	**2.36**	2.47
Emerging Markets [1]	**10.43**	11.48
Equator Re	**1.73**	1.48
Group [1]	**1.86**	3.51

1 Emerging Markets and Group excluding the Argentine peso were 2.34% (2014 2.15%) and 1.62% (2014 1.45%) respectively.

How we account for the numbers

AASB 1023 General Insurance Contracts requires that the net central estimate is discounted to reflect the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

2.

2.3.5 Weighted average term to settlement

Overview

The weighted average term to settlement refers to the period from the balance date to the expected date of claims settlement. All other factors being equal, a longer weighted average term to settlement results in a larger benefit from discount and a resulting lower discounted central estimate.

	2015 YEARS						2014 YEARS					
	US$	£	A$	€	OTHER	TOTAL	US$	£	A$	€	OTHER	TOTAL
North American Operations	**2.8**	**–**	**–**	**–**	**–**	**2.8**	2.1	–	–	–	–	2.1
European Operations	**2.6**	**3.4**	**3.7**	**5.1**	**3.1**	**3.7**	2.6	3.3	4.0	5.1	2.7	3.7
Australian & New Zealand Operations	**–**	**–**	**2.2**	**–**	**1.4**	**2.2**	–	–	2.5	–	1.5	2.4
Emerging Markets	**0.9**	**–**	**–**	**–**	**1.5**	**1.5**	1.2	–	–	–	1.4	1.4
Equator Re	**2.9**	**3.5**	**2.9**	**3.5**	**2.3**	**2.9**	1.9	4.0	3.1	3.7	2.6	2.7
Group	**2.7**	**3.4**	**2.4**	**5.0**	**2.1**	**3.0**	2.1	3.4	2.6	5.0	2.0	2.8

2.3.6 Net discounted central estimate maturity profile

Overview

The maturity profile is the Group's expectation of the period over which the net central estimate will be settled. The Group uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Group's investment strategy. The expected maturity profile of the Group's net discounted central estimate is analysed below.

2015	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
North American Operations	**821**	**461**	**288**	**169**	**110**	**488**	**2,337**
European Operations	**1,622**	**1,086**	**716**	**521**	**373**	**1,277**	**5,595**
Australian & New Zealand Operations	**1,134**	**614**	**425**	**269**	**133**	**235**	**2,810**
Emerging Markets	**396**	**129**	**64**	**39**	**19**	**35**	**682**
Equator Re	**968**	**541**	**370**	**210**	**153**	**453**	**2,695**
	4,941	**2,831**	**1,863**	**1,208**	**788**	**2,488**	**14,119**

2014	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
North American Operations	1,337	454	292	186	99	244	2,612
European Operations	1,708	1,069	738	532	379	1,292	5,718
Australian & New Zealand Operations	1,159	663	454	294	171	343	3,084
Emerging Markets	424	137	70	43	20	24	718
Equator Re	1,307	678	454	297	207	520	3,463
	5,935	3,001	2,008	1,352	876	2,423	15,595

2.3.7 Impact of changes in key variables on the net outstanding claims provision

Overview

The impact of changes in key variables used in the calculation of the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. Over the medium to longer term, the impact of a change in discount rates is expected to be largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, if the central estimate was to increase, at least part of the increase may result in a change in the level of risk margins rather than in a change to profit after tax, depending on the nature of the change in the central estimate. Likewise, if the coefficient of variation were to increase, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax.

		PROFIT (LOSS)[1,2]	
	SENSITIVITY %	2015 US$M	2014 US$M
Net discounted central estimate	+5	**(494)**	(546)
	-5	**494**	546
Risk margin	+5	**(44)**	(47)
	-5	**44**	47
Inflation rate	+0.5	**(145)**	(150)
	-0.5	**139**	144
Discount rate	+0.5	**139**	144
	-0.5	**(145)**	(150)
Coefficient of variation	+1	**(124)**	(135)
	-1	**124**	135
Probability of adequacy	+1	**(43)**	(45)
	-1	**40**	42
Weighted average term to settlement	+10	**58**	55
	-10	**(59)**	(55)

1 Net of tax at the Group's prima facie rate of 30%.

2 The impact of a change in interest rates on net profit after income tax due to market value movements on fixed interest securities is shown in note 4.4.

2.

2.4 Claims development – net undiscounted central estimate

Overview

The claims development table demonstrates the extent to which the original estimated ultimate claims cost in any one accident year (item (a) in the table below) has subsequently developed positively (i.e. claims cost estimates have reduced) or negatively (i.e. further claims expense has been recognised in subsequent years). This table therefore illustrates the variability and inherent uncertainty in estimating the central estimate each year. The ultimate claims cost for any particular accident year is not known until all claims payments have been made which, for some long tail classes of business, could be many years into the future. Minimal variability in the central estimate demonstrates disciplined claims management and robust estimation techniques.

The revised ultimate claims cost at the end of each subsequent accident year demonstrates how the original estimate has been revised over time (b).

Cumulative claims payments (d) are deducted from the cumulative cost of each accident year (c) at the current balance date, resulting in the undiscounted central estimate at a fixed rate of exchange (e). This is revalued to the balance date rate of exchange (f) to report the net undiscounted central estimate (g), which is reconciled to the discounted net central estimate (h). The treatment of foreign exchange in the claims development table is explained on the following page.

The accident year movement (i) reflects the ultimate undiscounted net claims estimate at the end of the current financial year less the equivalent at the end of the previous financial year (b). This is further summarised in note 2.4.1.

The central estimate claims development table is presented net of reinsurance. With operations in 37 countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated basis, it is considered neither meaningful nor practicable to provide this information other than on a consolidated net accident year basis.

	2005 & PRIOR US$M	2006 US$M	2007 US$M	2008 US$M	2009 US$M	2010 US$M	2011 US$M	2012 US$M	2013 US$M	2014 US$M	2015 US$M	TOTAL US$M
Net undiscounted central estimate												
(a) Original estimate of net ultimate claims cost		3,000	5,990	5,562	5,468	7,348	9,283	8,475	8,148	8,221	7,473	
(b) One year later		2,909	5,765	5,730	5,507	7,444	9,570	8,604	8,170	8,284		
Two years later		2,827	5,885	5,708	5,456	7,488	9,604	8,622	8,161			
Three years later		2,771	5,881	5,834	5,497	7,503	9,508	8,661				
Four years later		2,717	5,873	5,838	5,616	7,687	9,506					
Five years later		2,713	5,868	5,994	5,627	7,714						
Six years later		2,734	5,934	5,964	5,593							
Seven years later		2,760	5,926	5,960								
Eight years later		2,730	5,911									
Nine years later		2,716										
(c) Current estimate of net ultimate claims cost		2,716	5,911	5,960	5,593	7,714	9,506	8,661	8,161	8,284	7,473	
(d) Cumulative net payments to date		(2,671)	(5,537)	(5,671)	(5,390)	(6,581)	(8,344)	(7,137)	(6,216)	(5,351)	(2,709)	
(e) Net undiscounted central estimate at fixed rate of exchange	689	45	374	289	203	1,133	1,162	1,524	1,945	2,933	4,764	15,061
(f) Foreign exchange impact												(586)
(g) Net undiscounted central estimate at 31 Dec 2015												14,475
Discount to present value												(776)
Claims settlement costs												396
Other												24
(h) Net discounted central estimate at 31 Dec 2015 (note 2.3)												14,119
(i) Movement in accident year undiscounted net claims estimate (note 2.4.1)	26	(14)	(15)	(4)	(34)	27	(2)	39	(9)	63	7,473	7,550

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

How we account for the numbers

The net central estimate of acquisitions is included in the net claims cost in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the increased share of the central estimate is allocated to the original accident year.

The Group writes business in currencies other than the US dollar. The translation of central estimates denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, central estimates have been translated to the functional currencies of our controlled entities at constant rates of exchange. All central estimates and cumulative claims payments for the 10 most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2015 average rate of exchange.

2.4.1 Reconciliation of claims development table to profit or loss

Overview

The table below reconciles the net movement in undiscounted net central estimate from the claims development table in note 2.4 (i) to the movement in the analysis of current and prior year central estimate development recognised in profit or loss (note 2.4.2).

	2015			2014		
	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
Net undiscounted central estimate movement (note 2.4)	**7,473**	**77**	**7,550**	8,956	522	9,478
Discount reclassification [1]	**–**	**(214)**	**(214)**	–	(523)	(523)
Net undiscounted central estimate development	**7,473**	**(137)**	**7,336**	8,956	(1)	8,955
Medical malpractice reinsurance [2]	**–**	**–**	**–**	–	(362)	(362)
Movement in claims settlement costs	**373**	**21**	**394**	392	9	401
Movement in discount [1]	**(486)**	**202**	**(284)**	(558)	661	103
Other movements	**(11)**	**18**	**7**	(12)	(1)	(13)
Movement in net discounted central estimate (note 2.4.2)	**7,349**	**104**	**7,453**	8,778	306	9,084

1 Prior accident year central estimate release of $137 million includes a $214 million (2014 $523 million) benefit due to discount movement in relation to long tail classes where the level of assumed claims inflation is directly linked to movement in the discount rate. This comprises:
- $214 million (2014 $574 million) benefit in relation to our long-tail Argentine business (including $161 million in relation to Argentine workers' compensation that was sold in 2015); and
- $nil (2014 $51 million cost) in relation to Australian dust disease liabilities, with the 2014 cost reflecting the significant fall in the Australian dollar yield.

2 2014 included a $362 million recovery resulting from the Group's reinsurance of medical malpractice liabilities to a third party.

In 2015, prior accident year central estimate development was a net release of $137 million compared with a net release of $1 million in 2014. The net benefit to the result mainly reflects positive development in European and Australian & New Zealand Operations, partly offset by adverse development in North American Operations and Equator Re.

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

2.

2.4.2 Net central estimate development

Overview

The table further analyses the current and prior accident year movement in the net discounted central estimate, separately identifying the gross and reinsurance components. Prior accident year claims are those claims that occurred in a previous year but for which a reassessment of the claims cost has impacted the result in the current period.

	FOR THE YEAR ENDED 31 DECEMBER 2015			FOR THE YEAR ENDED 31 DECEMBER 2014		
	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M
Gross claims and related expenses						
Undiscounted	**9,250**	**123**	**9,373**	10,430	474	10,904
Discount	**(507)**	**(135)**	**(642)**	(536)	142	(394)
	8,743	**(12)**	**8,731**	9,894	616	10,510
Reinsurance and other recoveries						
Undiscounted	**1,415**	**7**	**1,422**	1,094	306	1,400
Discount	**(21)**	**(123)**	**(144)**	22	4	26
	1,394	**(116)**	**1,278**	1,116	310	1,426
Net central estimate development						
Undiscounted	**7,835**	**116**	**7,951**	9,336	168	9,504
Discount	**(486)**	**(12)**	**(498)**	(558)	138	(420)
Net discounted central estimate development (note 2.4.1)	**7,349**	**104**	**7,453**	8,778	306	9,084

2.5 Unearned premium and deferred insurance costs

Overview

Gross written premium is recognised or earned in profit or loss in accordance with the pattern of incidence of risk. The unearned premium liability is that portion of premium that QBE has not yet recognised as it has not been earned at the balance date.

Acquisition costs are the costs associated with obtaining and recording insurance contracts. These are similarly capitalised and amortised, consistent with the recognition of the relevant premium income.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

Summary of unearned premium and deferred insurance costs balances

	2015 US$M	2014 US$M
Unearned premium (a)	**7,006**	7,366
To be earned within 12 months	**6,356**	6,572
To be earned in greater than 12 months	**650**	794
Unearned premium	**7,006**	7,366
Deferred reinsurance premium	**1,160**	502
Deferred net commission	**995**	1,019
Deferred acquisition costs	**383**	510
Deferred insurance costs (b)	**2,538**	2,031
To be expensed within 12 months	**2,377**	1,933
To be expensed in greater than 12 months	**161**	98
Deferred insurance costs	**2,538**	2,031
Net premium liabilities (a) - (b)	**4,468**	5,335

Unearned premium movements

	2015 US$M	2014 US$M
At 1 January	**7,366**	8,184
Acquisitions	**–**	3
Deferral of premium on contracts written in the financial year	**6,043**	6,651
Earning of premium written in previous financial years [1]	**(5,873)**	(6,840)
Transfer to liabilities held for sale	**–**	(144)
Foreign exchange	**(530)**	(488)
At 31 December	**7,006**	7,366

1 In 2014, the earnings pattern of the Australian lenders' mortgage insurance business was revised to more appropriately reflect the pattern of the incidence of risk. The impact in 2014 was an increase in gross earned premium of $85 million.

Deferred insurance costs movements

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2015 US$M	2014 US$M	2015 US$M	2014 US$M	2015 US$M	2014 US$M
At 1 January	**502**	495	**1,019**	1,222	**510**	504
Costs deferred in financial year	**1,106**	477	**673**	871	**382**	381
Amortisation of costs deferred in previous financial years	**(395)**	(434)	**(661)**	(1,004)	**(365)**	(344)
Disposals	**–**	–	**–**	–	**(45)**	–
Impairment	**–**	–	**–**	–	**(41)**	–
Foreign exchange	**(53)**	(36)	**(36)**	(70)	**(58)**	(31)
At 31 December	**1,160**	502	**995**	1,019	**383**	510

How we account for the numbers

Unearned premium

Unearned premium is calculated based on the coverage period of the risk and in accordance with the expected pattern of the incidence of risk, using either the daily pro-rata method or the 24ths method, adjusted where appropriate to reflect different risk patterns.

Deferred insurance costs

Costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are amortised on the same basis as the earning pattern of the premium. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Costs are carried forward to a subsequent accounting period in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

2.

2.5.1 Liability adequacy test

Overview

At each balance date, the Group is required to assess net premium liabilities (being unearned premium less deferred insurance costs) to determine whether the amount provided is sufficient to pay future claims.

If the present value of expected future claims exceeds the net premium liabilities, the net premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

Expected present value of future cash flows for future claims including risk margin

	2015 US$M	2014 US$M
Undiscounted central estimate	**4,378**	4,625
Discount to present value	**(240)**	(227)
	4,138	4,398
Risk margin	**186**	197
Expected present value of future cash flows for future claims including risk margin	**4,324**	4,595

The application of the liability adequacy test did not identify a deficiency at either 31 December 2015 or 2014.

How we account for the numbers

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the operating segment level, being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio. The exception is the Emerging Markets segment where risks are broadly similar within each of the Latin American and Asia Pacific geographic regions but not across the operating segment as a whole.

Critical accounting judgements and estimates

In assessing the adequacy of net premium liabilities, AASB 1023 General Insurance Contracts requires the inclusion of a risk margin but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities.

The Group has adopted a risk margin of 4.5% (2014 4.5%) for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA. Without allowing for diversification benefits, the application of the 4.5% risk margin to the net premium liabilities is estimated to achieve a probability of adequacy of 71% (2014 70%) for net unearned premium liabilities on a standalone basis.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

2.6 Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to QBE by policyholders or reinsurance counterparties. Unclosed premium receivables are estimated amounts due to QBE in relation to business for which the Group is on risk but where the policy is not billed to the counterparty at the balance date.

	2015 US$M	2014 US$M
Trade debtors		
Premium receivable [1]	**2,289**	2,299
Reinsurance and other recoveries [2]	**1,088**	926
Unclosed premium	**1,085**	930
Other trade debtors	**192**	205
	4,654	4,360
Other receivables	**296**	388
Trade and other receivables	**4,950**	4,748
Receivable within 12 months	**4,744**	4,585
Receivable in greater than 12 months	**206**	163
Trade and other receivables	**4,950**	4,748

1 Net of a provision for impairment of $86 million (2014 $66 million).
2 Net of provision for impairment of $61 million (2014 $32 million).

Due to the predominantly short-term nature of these receivables, the carrying value is assumed to approximate the fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Group as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of these balances is included in note 4.3.

How we account for the numbers

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses.

2.

2.7 Trade and other payables

Overview

Trade payables primarily comprise amounts owed to reinsurance counterparties and cedants. Treasury and investment payables are amounts due to investment counterparties for settlement of transactions.

	2015 US$M	2014 US$M
Trade payables	**1,261**	463
Other payables and accrued expenses	**678**	704
Treasury payables	**32**	34
Investment payables	**130**	27
Trade and other payables	**2,101**	1,228
Payable within 12 months	**2,056**	1,165
Payable in greater than 12 months	**45**	63
Trade and other payables	**2,101**	1,228

How we account for the numbers

Trade payables are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest method.

3. INVESTMENTS

Overview

Premiums collected from policyholders are invested to meet the Group's cash flow needs to pay claims and other expenses, as well as generating a return that contributes to the Group's profitability. A sound investment strategy is therefore integral to the success of an insurer's operations.

The Group invests its portfolio across a diversified range of instruments to achieve an appropriate balance between risk and return. The decision where to invest is dependent on expected returns, cash flow requirements of the Group, liquidity of the instrument, credit quality of the instrument and the overall risk appetite of the Group. Further details on the management of risk associated with investment assets can be found in note 4.

3.1 Net investment income and expenses

	2015 US$M	2014 US$M
Income on growth assets	**225**	152
Income on fixed interest securities, short-term money and cash	**489**	694
Gross investment income [1]	**714**	846
Investment expenses	**(26)**	(40)
Net investment income	**688**	806
Foreign exchange (loss) gain	**(20)**	17
Realised losses on repurchased debt securities	**–**	(18)
Other (expense) income	**(3)**	9
Net investment income	**665**	814
Investment and other income – policyholders' funds	**418**	553
Investment expenses – policyholders' funds	**(16)**	(26)
Investment and other income – shareholders' funds	**273**	301
Investment expenses – shareholders' funds	**(10)**	(14)
Net investment income	**665**	814

1 Includes net fair value gains of $128 million (2014 $137 million) and dividend income of $104 million (2014 $66 million).

How we account for the numbers

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

1 Performance overview
2 Business review
3 Board and management
4 Directors' Report
5 Financial Report
6 Other information

3.

3.2 Investment assets

	2015 US$M	2014 US$M
Fixed income		
Short-term money	**5,924**	7,771
Government bonds	**4,158**	4,815
Corporate bonds	**12,385**	12,249
Infrastructure debt	**348**	254
Unit trusts	**64**	73
	22,879	25,162
Growth assets		
Developed market equity	**683**	844
Emerging market equity	**254**	243
Emerging market debt	**318**	243
High yield debt	**458**	276
Property trusts	**1,043**	948
Alternatives	**397**	–
	3,153	2,554
Total investments	**26,032**	27,716
Amounts maturing within 12 months	**10,442**	13,157
Amounts maturing in greater than 12 months	**15,590**	14,559
Total investments	**26,032**	27,716

How we account for the numbers

Investment assets are designated as either assets that back insurance liabilities (policyholders' funds) or assets that back shareholders' funds.

Investments are designated as fair value through profit or loss on initial recognition, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. The fair value hierarchy and the Group's approach to measuring the fair value of each investment instrument is disclosed in note 3.2.1.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

3.2.1 Fair value hierarchy

Overview

The Group Investments Valuation Committee is responsible for the governance and oversight of the investment valuation process and ensures that the determination of fair value is in accordance with the Group's investment valuation policy.

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

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

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

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

	2015				2014			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Fixed income								
Short-term money	**861**	**5,062**	**1**	**5,924**	1,167	6,604	–	7,771
Government bonds	**2,849**	**1,300**	**9**	**4,158**	2,920	1,892	3	4,815
Corporate bonds	**–**	**12,384**	**1**	**12,385**	–	12,249	–	12,249
Infrastructure debt	**–**	**139**	**209**	**348**	–	99	155	254
Unit trusts	**–**	**64**	**–**	**64**	–	73	–	73
	3,710	**18,949**	**220**	**22,879**	4,087	20,917	158	25,162
Growth assets								
Developed market equity	**657**	**–**	**26**	**683**	816	–	28	844
Emerging market equity	**–**	**254**	**–**	**254**	–	243	–	243
Emerging market debt	**–**	**318**	**–**	**318**	–	243	–	243
High yield debt	**–**	**458**	**–**	**458**	–	276	–	276
Property	**–**	**1,043**	**–**	**1,043**	–	948	–	948
Alternatives	**–**	**397**	**–**	**397**	–	–	–	–
	657	**2,470**	**26**	**3,153**	816	1,710	28	2,554
Total investments	**4,367**	**21,419**	**246**	**26,032**	4,903	22,627	186	27,716

The Group's approach to measuring the fair value of investments is described below:

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using QBE's share of the net assets of the entity.

Emerging market debt, emerging market equity, high yield debt, unit trusts and unlisted property trusts

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Alternatives

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

Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

LEVEL 3	2015 US$M	2014 US$M
At 1 January	**186**	197
Transfers to assets held for sale	**–**	(4)
Purchases	**105**	43
Disposals	**(37)**	(43)
Unrealised gains recognised in profit or loss	**1**	3
Realised gains recognised in profit or loss	**–**	1
Foreign exchange	**(9)**	(11)
At 31 December	**246**	186

3.2.2 Charges over investments and restrictions on use

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 8.2.

Included in investments are amounts totalling $3,346 million (2014 $3,508 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds.

Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met. Included in this amount is $678 million (2014 $498 million) of short-term money.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

3.2.3 Derivatives over investment assets

Overview

In accordance with our investment management policies and procedures, derivatives are used in the investment portfolio as both a hedging tool and to alter the risk profile of the portfolio. All long positions must be cash backed, all short positions must be covered by an underlying physical asset and no net short exposure to an asset class is permitted. Risk management policies over the use of derivatives are set out note 4. QBE may also have exposure to derivatives through investments in underlying pooled funds in accordance with the fund mandate. Those derivative exposures are not reflected in the table below.

The Group's notional exposure to investment derivatives at the balance date is set out in the table below.

GROSS EXPOSURE	2015 US$M	2014 US$M
Fixed interest futures		
ASX 90 day bank bills	**760**	1,292
SFE Australian 3 year bond futures	**81**	–
90 day sterling futures	**(713)**	–
Equity futures		
ASX SPI 200	**104**	(100)
S&P 500 E-mini	**191**	(278)

How we account for the numbers

Derivatives over investment assets are initially recognised at fair value and are subsequently remeasured to fair value through profit or loss. For derivatives traded in an active market, the fair value of derivatives is determined by reference to quoted market prices. The mark to market value of futures positions are cash settled on a daily basis resulting in a fair value of nil at the balance date.

4.

4. RISK MANAGEMENT

Overview

QBE is in the business of managing risk. The Group's ability to satisfy customers' risk management needs is central to what we do. QBE aims to generate wealth and maximise returns for its shareholders by pursuing opportunities that involve risk. Our people are responsible for ensuring that QBE's risks are managed and controlled on a day-to-day basis. QBE aims to use its ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

QBE applies a consistent and integrated approach to enterprise risk management (ERM); we refer to this as ONE ERM. ONE ERM is applied across the Group. QBE's global risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for our shareholders. QBE's risk management framework is articulated in the Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), both of which are approved annually by the Group Board and lodged with APRA.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, reporting, risk assessments, modelling, management, and monitoring and risk culture.

Risk management is a continuous process and an integral part of robust business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

QBE Group's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- operate within our stated risk appetite and more effectively allocate capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks.

The framework is supported by a suite of risk policies that detail QBE's approach to the seven categories used by QBE to classify risk:

- Strategic risk (note 4.1)
- Insurance risk (note 4.2)
- Credit risk (note 4.3)
- Market risk (note 4.4)
- Liquidity risk (note 4.5)
- Operational risk (note 4.6)

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

4.1 Strategic risk

Overview

Strategic risk is the potential impact on earnings and/or capital as a result of strategic business decisions or lack of responsiveness to external change. QBE classifies strategic risk into five subcategories, as follows:

- business, product and market distribution;
- capital structure and management;
- acquisition, decision and negotiation;
- tax risk management; and
- investment strategy.

QBE's approach to managing strategic risk is underpinned by the Group strategic risk appetite statement as set by the Group Board and is summarised below.

Business, product and market distribution

Business: The Group is a geographically diversified international general insurance and reinsurance group, underwriting most major commercial and personal line classes of business through operations in 37 countries. The Group Board and the board (or equivalent) of each division meet at least quarterly to review performance against business plans. Actual results are monitored and analysed regularly at various levels in the Group to identify adverse trends so that remedial action can be taken at an early stage. One of the key tools used to ensure achievement of business plans is to identify our 'manage to' likely scenarios impacting the plan year. We assess how these scenarios would impact return on equity (ROE) forecasts and develop and implement bridging actions to drive plan achievability.

Products: QBE reviews the structuring of its insurance products on an ongoing basis in line with developments in the market, legislation (including tax legislation) and claims performance.

Market distribution approach: QBE makes use of distributed networks of insurance agents and brokers to undertake sales and marketing of its insurance products. The Group also markets and distributes insurance products directly by phone and on the internet.

Capital structure and management

QBE's objective when managing capital is to maintain an optimal balance of debt and equity in the capital structure to reduce the cost of capital whilst meeting capital adequacy requirements, providing security for policyholders and continuing to provide sufficient returns to shareholders.

Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or debt securities with capital characteristics, sell assets to reduce debt or adopt more conservative investment or reinsurance strategies.

QBE is subject to, and complies with, various externally imposed regulatory capital requirements, both through its wholly-owned insurance controlled entities and as a consolidated insurance group. These requirements are designed to ensure that a sufficient solvency margin is maintained in order to provide adequate protection for policyholders. In addition, the Group aims to maintain a strong credit and insurer financial strength rating along with robust capital ratios, in order to support its business objectives and maximise shareholder wealth.

The Group uses a group-wide economic capital model (ECM) to assess the level of capital required for the underwriting, claims estimation, credit, market, liquidity, operational and group risk to which it is exposed. Economic capital is determined as the level of capital that the Group needs to ensure that it can, with a pre-specified probability, satisfy its ultimate policyholder obligations in relation to all insurance contracts issued on or before the end of the business plan year. The ECM is used by management to help in the determination of strategic capital allocation, business planning, underwriting performance, pricing, reinsurance arrangements and aggregate management. Capital is allocated to business units, divisions and ultimately to underwriting portfolios according to the associated risk. The business plans include net asset, dividend, issued share capital and solvency projections as well as the impact of potential acquisitions. In the event of a significant change in the Group's risk profile, the ECM will be recalculated and the results reported to the Group's Board.

The Group reviews its capital structure on an ongoing basis to optimise the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the Group to maintain its insurer financial strength and credit rating, and has afforded QBE good access to capital markets when needed.

Management has a particular focus on the following performance indicators.

- The Group actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. Having determined that the current risk appetite of the Group remains appropriate, the Board set the target level of regulatory capital for 2016 at 1.6 – 1.8 times (2015 1.7 – 1.9 times) the Prescribed Capital Amount (PCA).
- All regulated wholly-owned entities are required to maintain a minimum level of capital to meet obligations to policyholders. It is the Group's policy that each regulated entity maintains a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds local regulatory requirements.

- The Group aims to maintain the ratio of borrowings to shareholders' funds at 25 – 35% (2014 25 – 35%). The ratio of borrowings to shareholders' funds at 31 December 2015 was 33.6% (2014 32.5%).
- Insurer financial strength ratings provided by the major rating agencies demonstrate the Group's financial strength and claims paying ability.

In addition to the management reporting and planning processes, the Group has dedicated staff across its business units and divisions responsible for understanding the regulatory capital requirements of both the operating insurance entities and consolidated operations. The quality of QBE's assets (particularly investments and reinsurance recoveries) is continuously monitored to ensure any potential issues are identified and remedial action, where necessary, is taken to restore effective capital performance and levels.

Acquisition, decision and negotiation

QBE's growth strategy is based on a combination of organic and inorganic growth. QBE's approach to inorganic growth/acquisitions is based on the principle that QBE will only acquire businesses that are aligned with our strategic intent and direction and which will contribute to the achievement of our corporate ambition. QBE's acquisition strategy supports QBE's value creation model by reinforcing leadership in core businesses and enabling profitable growth and diversification.

Tax risk management

QBE's approach to managing taxation risk is underpinned by the QBE Group Tax Risk Management Framework, which is approved by the Group Board and aligns with QBE's business strategy.

Investment strategy

QBE's approach to investment risk is underpinned by the Group's investment strategy, which is designed to achieve absolute return targets within pre-defined risk and capital constraints whilst meeting regulatory requirements in every jurisdiction. The strategy requires QBE to invest in a range of asset classes with portfolios consisting mainly of investment grade fixed income securities.

4.2 Insurance risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of individual insurance contracts, reserving and insurance claims.

QBE classifies insurance risk into four subcategories, as follows:

- underwriting;
- insurance concentrations;
- reserving; and
- reinsurance.

QBE's approach to managing insurance risk is underpinned by the Group insurance risk appetite statement as set by the Group Board and is summarised below.

Underwriting risk

QBE manages underwriting risk by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle.

QBE's underwriting strategy aims to diversify and limit the type of insurance risks accepted and reduce the variability of the expected outcome. The underwriting strategy is implemented through QBE's annual business planning process, supported by underwriting authorities. The authorities are delegated to underwriters based on a detailed retrospective and prospective analysis of each class of business. These authorities reflect the level of risk that the Group is prepared to take with respect to each permitted insurance class.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which QBE operates. Underwriters and actuaries maintain pricing and claims analysis for each portfolio, combined with a knowledge of current developments in the respective markets and classes of business.

Concentration risk

QBE's exposure to concentrations of insurance risk is mitigated by maintaining a business portfolio that is diversified across countries and classes of business. Product diversification is pursued through a strategy of developing strong underwriting skills in a wide variety of classes of business.

The table below demonstrates the diversity of QBE's operations.

GROSS EARNED PREMIUM	2015 US$M	2014 US$M
Commercial & domestic property	**4,625**	5,374
Motor & motor casualty	**2,640**	2,831
Agriculture	**1,616**	1,815
Public/product liability	**1,592**	1,815
Workers' compensation	**1,240**	1,434
Marine energy & aviation	**976**	1,104
Professional indemnity	**840**	760
Financial & credit	**611**	750
Accident & health	**592**	501
Other	**190**	137
At 31 December	**14,922**	16,521

Concentration risk includes the risks from natural or man-made events that have the potential to produce claims from many of the Group's policyholders at the same time (e.g. catastrophes). QBE currently uses a variety of methodologies to monitor aggregates and manage catastrophe risk. These include the use of catastrophe models from third party vendors such as RMS and AIR, the Lloyd's realistic disaster scenarios (RDS) and group aggregate methodology (GAM). QBE sets the risk appetite relating to catastrophe risk with reference to the insurance concentration risk charge (ICRC). QBE's maximum risk tolerance for an individual natural catastrophe, measured using the ICRC methodology, is determined annually and is linked to budgeted net earned premium.

Reserving risk

Reserving risk is managed through the quarterly actuarial valuation of insurance liabilities. The valuation of the net central estimate is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

Reinsurance risk

The Group limits its exposure to an individual catastrophe or an accumulation of claims by reinsuring a portion of risks underwritten. This allows the Group to control exposure to insurance losses, reduce volatility of reported results and protect capital.

4.3 Credit risk

Overview

Credit risk is the risk of not recovering money owed to QBE by third parties as well as the loss of value of assets due to deterioration in credit quality. QBE's exposure to credit risk arises from financial transactions with securities issuers and/or a reduction or delay in repayments or interest payments from the default of counterparties such as debtors, brokers, policyholders, reinsurers and guarantors. QBE categorises credit risk into three sub-categories, as follows:

- reinsurance counterparty credit;
- investment counterparty credit; and
- premium and other counterparty credit.

QBE's approach to managing credit risk is underpinned by the Group credit risk appetite as set by the Group Board and summarised below.

Reinsurance counterparty credit risk

The Group's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the Group's Security Committee and is controlled by reference to the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the Group REMS and Group Security Committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical claims and potential future losses based on the Group's insurance concentrations; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Group holds $694 million (2014 $346 million) in collateral to support reinsurance recoveries on outstanding claims. The credit rating analysis on the following page includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis set out below.

4.

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

	CREDIT RATING						
	AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2015							
Reinsurance recoveries on outstanding claims [1,2]	**51**	**1,572**	**1,099**	**7**	**12**	**123**	**2,864**
Reinsurance recoveries on paid claims [1]	**1**	**878**	**185**	**11**	**4**	**9**	**1,088**
As at 31 December 2014							
Reinsurance recoveries on outstanding claims [1,2]	39	1,990	943	23	9	82	3,086
Reinsurance recoveries on paid claims [1]	–	786	116	4	8	12	926

1 Net of a provision for impairment.
2 Excludes other recoveries of $340 million (2014 $378 million).

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

			PAST DUE BUT NOT IMPAIRED				
		NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	3 TO 6 MONTHS US$M	6 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
Reinsurance recoveries on paid claims [1]	**2015**	**690**	**344**	**28**	**10**	**16**	**1,088**
	2014	724	108	23	20	51	926

1 Net of a provision for impairment.

Investment counterparty credit risk

The Group only transacts with investment counterparties within the limits outlined in the delegated authorities policy. Investment counterparty exposure limits are applied to individual counterparty exposures and to multiple exposures within the one group of related companies (as set out in the delegated authorities policy) in relation to investments, cash deposits and forward foreign exchange exposures. Counterparty exposure limit compliance is monitored daily.

The following table provides information regarding the Group's aggregate credit risk exposure at the balance date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they comprise smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to S&P counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2015							
Cash and cash equivalents	**4**	**183**	**289**	**148**	**6**	**32**	**662**
Interest-bearing investments	**3,937**	**8,444**	**8,773**	**1,337**	**263**	**126**	**22,880**
Derivative financial instruments	**–**	**12**	**12**	**9**	**–**	**–**	**33**
As at 31 December 2014							
Cash and cash equivalents	3	55	727	22	12	33	852
Interest-bearing investments	4,128	10,222	9,366	684	229	533	25,162
Derivative financial instruments	–	9	9	2	–	–	20

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

Premium and other counterparty credit risk

The Group transacts with brokers that are reputable, suitable and approved in accordance with local broker policies. The continuous due diligence over brokers involves an assessment of the broker's reputation, regulatory standing and financial strength.

QBE regularly reviews the collectability of receivables and the adequacy of associated provisions for impairment. Concentration risk is also monitored for large brokers. Balances are monitored on the basis of uncollected debt and debt outstanding in excess of six months. Brokers are also subject to regular due diligence to ensure adherence to local broker policies and associated requirements.

The following table provides information regarding the ageing of the Group's financial assets that are past due but not impaired and which are largely unrated at the balance date.

		PAST DUE BUT NOT IMPAIRED				
	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	3 TO 6 MONTHS US$M	6 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
As at 31 December 2015						
Premium receivable	**1,359**	**681**	**138**	**68**	**43**	**2,289**
Other trade debtors	**172**	**2**	**1**	**3**	**14**	**192**
Other receivables	**284**	**11**	**–**	**–**	**1**	**296**
As at 31 December 2014						
Premium receivable	1,603	536	110	28	22	2,299
Other trade debtors	202	1	1	–	1	205
Other receivables	373	2	5	2	6	388

4.4 Market risk

Overview

Market risk is the risk of variability in the value of investments due to:

- movement in market factors (including interest rates, credit spreads and equity prices); and
- movement in foreign exchange rates.

QBE's approach to managing market risk is underpinned by the Group market risk appetite as set by the Group Board and is summarised below.

QBE's approach to managing investment market movements is underpinned by the Group's investment strategy which outlines QBE's view of the markets and its corresponding investment approach. One of the key limits set by the strategy is the probability (as determined by the Economic Scenario Generator (ESG) Model) of earning negative returns on the investment portfolio. The ESG models asset class and portfolio returns using a stochastic process based on a range of economic and financial market scenarios.

Investment market risk is also managed through the application of exposure and asset limits. These limits are based on the market risk appetite as determined by the Group Board and apply to:

- initial losses generated on the investment portfolio under a market stress scenario. The scenario assumes adverse movements in credit spreads, equity markets and property markets and is designed to reflect a significant short-term market stress event. The loss generated by the stress scenario is partially offset by any gains from a downward shift in sovereign bond yields;
- interest rate risk, measured in terms of modified duration and spread duration; and
- total combined holdings in equity, investment property and other growth assets as a proportion of the Group's total investment portfolio.

4.

Interest rate risk

QBE is exposed to interest rate risk through its holdings in interest-bearing assets, emerging market debt and high yield debt investments. Financial instruments with a floating interest rate expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

QBE's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The Group predominantly invests in high quality, liquid interest-bearing securities and cash, and may use derivative financial instruments to manage the interest rate risk of the fixed interest portfolio. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board and other management reporting. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored. Interest-bearing borrowings issued by the Group are measured at amortised cost and therefore do not expose the Group result to fair value interest rate risk.

The net central estimate of outstanding claims is discounted to present value by reference to risk-free interest rates. The Group is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, over the longer term, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 2.3.7. QBE maintains a relatively short duration for assets backing policyholders' funds in order to minimise any further potential volatility affecting insurance profit. At 31 December 2015, the average modified duration of cash and fixed interest securities was 0.9 years (2014 0.6 years).

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Group at the balance date is shown in the table below.

		PROFIT (LOSS) [1]	
	SENSITIVITY %	2015 US$M	2014 US$M
Interest rate movement – interest-bearing financial assets	+0.5	**(71)**	(59)
	-0.5	**67**	53
Interest rate movement – high yield and emerging market debt	+0.5	**(13)**	(7)
	-0.5	**13**	7

1 Net of tax at the Group's prima facie rate of 30%.

Price risk

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

QBE is exposed to price risk on its investment in equities and may use derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those explained above in respect of interest rate derivative financial instruments. Exposure is also managed by diversification across worldwide markets and currencies.

At 31 December 2015, 3.8% (2014 1.7%) of the Group's investments and cash was held in listed equities (including derivatives), of which the majority was publicly traded in the major financial markets and 2.5% (2014 0.9%) of the Group's investments and cash was held in emerging market equity and alternatives.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of investments (including derivatives – refer to note 3.2.3) owned by the Group at the balance date on consolidated profit after tax is shown in the table below.

		PROFIT (LOSS) [1]	
	SENSITIVITY %	2015 US$M	2014 US$M
ASX 200	+20	**48**	28
	-20	**(48)**	(28)
FTSE 100	+20	**8**	10
	-20	**(8)**	(10)
EURO STOXX	+20	**13**	7
	-20	**(13)**	(7)
S&P 500	+20	**57**	44
	-20	**(57)**	(44)
MSCI Emerging Markets Index	+20	**36**	32
	-20	**(36)**	(32)
Alternatives	+20	**56**	–
	-20	**(56)**	–

1 Net of tax at the Group's prima facie rate of 30%.

QBE is also exposed to price risk on its interest-bearing (fixed interest, high yield and emerging market debt) financial assets. All securities are measured at fair value through profit or loss. Movements in credit spreads impact the value of corporate interest-bearing securities, emerging market debt, alternative and high yield debt and therefore impact reported profit after tax. This risk is managed by investing in high quality, liquid interest-bearing securities and by managing the credit spread duration of the corporate securities portfolio.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

The impact of either a 0.5% increase or decrease in credit spreads on interest-bearing financial assets held by the Group at the balance date is shown in the table below.

		PROFIT (LOSS) [1]	
	SENSITIVITY %	2015 US$M	2014 US$M
Credit spread movement – corporate interest-bearing financial assets	+0.5	**(113)**	(76)
	-0.5	**106**	57
Credit spread movement - high yield and emerging market debt	+0.5	**(13)**	(8)
	-0.5	**13**	8

1 Net of tax at the Group's prima facie rate of 30%.

QBE is also exposed to price risk on its investment in unlisted property trusts. All unlisted property trust investments are measured at fair value through profit or loss. QBE manages this risk by investing in high quality, diversified unlisted property funds. Movements in unit prices impact the value of unlisted property trusts and therefore impact reported profit after tax. The impact of a 10% increase or decrease in unit prices on unlisted property trust securities owned by the Group at the balance date was $73 million (2014 $66 million) net of tax at the Group's prima facie rate of 30%.

Foreign exchange

QBE's approach to foreign exchange management is underpinned by the Group's foreign currency strategy. The Group's foreign exchange exposure generally arises as a result of either the translation of foreign currency amounts to the functional currency of a controlled entity (operational currency risk) or due to the translation of the Group's net investment in foreign operations to the functional currency of the parent entity of Australian dollars and to QBE's presentation currency of US dollars (currency translation risk).

Operational currency risk

Operational currency risk is managed as follows:

- each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, as far as is practicable, thus ensuring that any exposures to foreign currencies are minimised; and
- forward foreign exchange contracts are used where possible to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 5.6.

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent with the gains or losses from related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The Group's aim is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level. From time to time, the company or controlled entities may maintain an operational foreign currency exposure to offset currency volatility arising from translation of foreign currency forecast profits, subject to senior management approval and adherence to board approved limits.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies against the US dollar to which QBE is exposed. The sensitivity is measured with reference to the Group's residual (or unmatched) operational foreign currency exposures at the balance date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1.2.3. The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged.

The sensitivities shown in the table below are relevant only at the balance sheet date, as any unmatched exposures are actively monitored by management and the exposure matched.

	2015			2014		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS) [1] US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS) [1] US$M
Australian dollar	**(32)**	**+10**	**(2)**	(43)	+10	(3)
		-10	**2**		-10	3
Sterling	**12**	**+10**	**1**	(47)	+10	(3)
		-10	**(1)**		-10	3
Euro	**(41)**	**+10**	**(3)**	82	+10	6
		-10	**3**		-10	(6)
Hong Kong dollar	**10**	**+10**	**1**	3	+10	–
		-10	**(1)**		-10	–
Canadian dollar	**(6)**	**+10**	**–**	1	+10	–
		-10	**–**		-10	–
New Zealand dollar	**7**	**+10**	**–**	2	+10	–
		-10	**–**		-10	–

1 Net of tax at the Group's prima facie rate of 30%.

Currency risk in relation to translation of net investment in foreign operations

QBE is exposed to currency risk in relation to:

- the translation of the ultimate parent entity's net investment in foreign operations to its functional currency of Australian dollars; and
- the translation of all foreign operations to the presentation currency of US dollars.

QBE does not currently seek to use derivatives to mitigate currency translation risk on translation to the ultimate parent's functional currency of Australian dollars for the following reasons:

- currency translation gains and losses generally have no cash flow;
- currency translation gains and losses are accounted for in the foreign currency translation reserve (a component of equity) and therefore do not impact profit or loss unless related to the disposal of an entity; and
- management of translation risk needs to be balanced against the impact on capital requirements and liquidity risk.

Currency translation risks in QBE's investments in controlled entities are monitored on an ongoing basis and may be mitigated by designation of foreign currency borrowings as a hedge of this risk. Any debt security that qualifies as a hedging instrument may be designated as a hedge of the Australian dollar parent entity's net investment in foreign operations and any residual exposure to foreign operations in tradeable currencies may be hedged up to the limit specified in the Group risk appetite statement. The extent of hedging this exposure is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels.

Currency management processes are actively monitored by the Group Chief Financial Officer and involve close senior management scrutiny, including appropriate Board and other management reporting. All hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis. All instruments that are designated as hedges in accordance with AASB 139 are tested for effectiveness on both a prospective and a retrospective basis. These tests are performed at least quarterly.

At the balance date, $2,858 million (2014 $3,641 million) of borrowings and accrued interest were designated as hedges of net investments in foreign operations.

Foreign exchange gains or losses arising on translation of the Group's foreign operations from the parent entity's functional currency of Australian dollars to the Group's US dollar presentation currency are recognised directly in equity in accordance with the policy set out in note 1.2.3. The Group cannot hedge this exposure.

The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which QBE is exposed through its net investment in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance date.

	2015			2014		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US$M
Australian dollar	**5,677**	**+10**	**568**	6,126	+10	613
		-10	**(568)**		-10	(613)
Sterling	**2,261**	**+10**	**226**	1,972	+10	197
		-10	**(226)**		-10	(197)
Euro	**711**	**+10**	**71**	572	+10	57
		-10	**(71)**		-10	(57)
Hong Kong dollar	**73**	**+10**	**7**	72	+10	7
		-10	**(7)**		-10	(7)
Argentinian peso	**143**	**+10**	**14**	203	+10	20
		-10	**(14)**		-10	(20)
New Zealand dollar	**142**	**+10**	**14**	151	+10	15
		-10	**(14)**		-10	(15)
Singapore dollar	**115**	**+10**	**12**	117	+10	12
		-10	**(12)**		-10	(12)
Colombian peso	**40**	**+10**	**4**	55	+10	6
		-10	**(4)**		-10	(6)

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

4.5 Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and other creditors or only being able to do so at excessive cost. The Group's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

QBE's approach to managing liquidity risk is underpinned by the Group liquidity risk appetite as set by the Group Board and is summarised below.

QBE manages liquidity risk using a number of tools, as follows:

- cash flow targeting;
- maintaining a proportion of liabilities in liquid assets;
- cash flow forecasting; and
- stress testing and contingency planning.

Liquidity is managed across the Group using a number of cash flow forecasting and targeting tools and techniques. Cash flow forecasting and targeting is conducted at a legal entity level and involves managing operational cash flow requirements utilising normal operating balances.

To supplement the cash flow targeting and to ensure that there are sufficient liquid funds available to meet insurance and investment obligations, a minimum percentage of QBE's liabilities is held, at all times, in cash and liquid securities. QBE also maintains a defined proportion of the funds under management in liquid assets.

QBE actively forecasts cash flow requirements to identify future cash surpluses and shortages to optimise invested cash balances and limit unexpected calls from the investment pool. The Group limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries.

The following table summarises the maturity profile of the Group's financial liabilities based on the remaining contractual obligations. Borrowings and contractual undiscounted interest payments are disclosed by reference to the first call date of the borrowings, details of which are included in note 5.1.

	1 YEAR OR LESS US$M	1 TO 3 YEARS US$M	3 TO 5 YEARS US$M	OVER 5 YEARS US$M	NO FIXED TERM US$M	TOTAL US$M
As at 31 December 2015						
Forward foreign exchange contracts	**35**	**–**	**–**	**–**	**–**	**35**
Trade payables	**1,160**	**60**	**2**	**4**	**35**	**1,261**
Treasury payables	**32**	**–**	**–**	**–**	**–**	**32**
Investment payables	**130**	**–**	**–**	**–**	**–**	**130**
Borrowings [1]	**11**	**901**	**146**	**2,479**	**–**	**3,537**
Contractual undiscounted interest payments	**219**	**394**	**364**	**317**	**–**	**1,294**
As at 31 December 2014						
Forward foreign exchange contracts	73	–	–	–	–	73
Trade payables	289	132	5	–	37	463
Treasury payables	34	–	–	–	–	34
Investment payables	27	–	–	–	–	27
Borrowings [1]	468	917	–	2,208	–	3,593
Contractual undiscounted interest payments	237	543	320	230	–	1,330

1 Excludes net capitalised expenses of $8 million (2014 $12 million).

The maturity profile of the Group's net discounted central estimate is analysed in note 2.3.6.

4.

The maturity of the Group's directly held interest-bearing financial assets is shown in the table below. Interest bearing assets held indirectly through collective investment schemes (such as high yield debt and emerging market debt) are excluded from the analysis.

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						
		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
As at 31 December 2015								
Fixed rate	US$M	**8,005**	**1,768**	**557**	**496**	**1,791**	**511**	**13,128**
Weighted average interest rate	%	**1.5**	**1.7**	**2.3**	**1.9**	**2.3**	**3.0**	**1.7**
Floating rate	US$M	**3,099**	**1,642**	**1,513**	**634**	**1,390**	**2,135**	**10,413**
Weighted average interest rate	%	**1.7**	**2.2**	**2.0**	**3.7**	**2.0**	**2.8**	**2.2**
As at 31 December 2014								
Fixed rate	US$M	10,961	1,780	1,774	190	676	58	15,439
Weighted average interest rate	%	1.5	1.7	1.7	2.7	1.8	3.8	1.6
Floating rate	US$M	3,048	3,916	1,605	427	369	1,210	10,575
Weighted average interest rate	%	1.6	2.0	2.4	3.3	4.8	2.7	2.2

4.6 Operational risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk).

Operational risk can materialise in a number of forms including fraud perpetrated by employees or by external parties (e.g. claims fraud or cyber attacks), employment practices (losses arising from breaches of employment, health or safety laws, breach of employment contracts, payment of personal injury claims or diversity and discrimination events), improper business practices (failure to meet professional obligations or issues with the nature or design of an insurance product), disasters and other events, technology and infrastructure failures, or business and transaction processing failures.

QBE identifies and assesses operational risk through Risk and Control Assessment (RCA), Divisional Risk Assessment (DRA), top risks and emerging risks processes, and scenario analysis. The RCA process identifies and assesses the key risks to achieving business objectives and is conducted at the business unit level. The DRA process creates a single, divisional-level view of risk across all QBE risk categories. The top risks process identifies and assesses the divisional CEOs' key divisional risks. The emerging risks process identifies and assesses new risks, which are characterised by incomplete but developing knowledge or existing risks that develop in new or surprising ways. The scenario analysis process assesses the impact of potentially extreme scenarios and the appropriateness of our contingency planning. Risk assessments are also informed by Business Environment Internal Control Factor (BEICFs).

QBE manages operational risk through various systems, controls and processes, including effective segregation of duties, access controls, authorisations and reconciliation procedures, business continuity management, fraud management, information security and physical security. QBE monitors operational risk through control assurance, key risk indicators and internal loss events and issues and actions. Another key tool used by QBE is the targeted risk review process whereby reviews are conducted to identify whether there are any unmitigated risks or inadequacies in control design and provide recommendations to enhance the management of risk. The reviews are generally conducted by the second line of defence and involve various risk management techniques and approaches.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

5. CAPITAL STRUCTURE

Overview

QBE's objective in managing capital is to maintain an optimal balance between debt and equity in order to reduce the overall cost of capital whilst satisfying the capital adequacy requirements of regulators and rating agencies, providing financial security for our policyholders and continuing to provide an adequate return to shareholders.

QBE is listed on the ASX and its equity is denominated in Australian dollars. The Group also accesses international debt markets to diversify its funding base and maintain an appropriate amount of leverage. Debt is diversified across currencies, tenure and levels of seniority. The Group targets a benchmark debt to equity ratio of between 25% to 35%.

Details of the Group's approach to capital risk management are disclosed in note 4.1.

5.1 Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	2015 US$M	2014 US$M
Senior debt			
28 September 2015	Nil (2014 £300 million)	**–**	467
1 May 2018	$600 million	**599**	598
		599	1,065
Subordinated debt			
29 September 2040	A$200 million	**145**	–
24 May 2041	$1,000 million	**1,000**	998
24 May 2041	£325 million	**479**	506
2 December 2044	$700 million	**695**	695
12 November 2045	$300 million	**300**	–
		2,619	2,199
Capital securities			
No fixed date	£8 million	**11**	15
No fixed date	$301 million	**300**	302
		311	317
Total borrowings [1]		**3,529**	3,581
Borrowings payable within 12 months		**11**	467
Borrowings payable in greater than 12 months		**3,518**	3,114
Total borrowings		**3,529**	3,581

1 Finance costs of $1 million (2014 $6 million) were capitalised in the year.

Senior debt

Senior notes due 2015

In 2009, the company issued £550 million of senior notes maturing on 28 September 2015. During 2014, QBE repurchased and cancelled £250 million of these senior notes. In September 2015, the Group repaid the remainder of these notes out of cash reserves.

Senior notes due 2018

On 1 May 2013, the company issued $600 million of senior notes maturing on 1 May 2018. The notes are unsecured and unsubordinated obligations of the company and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. Interest of 2.4% per annum is payable half yearly in arrears.

Subordinated debt

Subordinated debt due 2040

On 29 September 2015, the company raised A$200 million through the issue of subordinated debt securities with a 25 year maturity. The securities entitle the holders to receive interest at the 90 day average mid-rate bank bill rate plus a margin of 4%. Interest is paid quarterly in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 29 September 2020 and on each subsequent interest payment date during the 12 months following or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2041

On 24 May 2011, the Group raised $1 billion and £325 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 7.25% and 7.5% per annum respectively until 24 May 2021, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 4.05% and 4.0% per annum respectively. The rate will reset again, on the same basis, on 24 May 2031.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 24 May 2021, 24 May 2031, 24 May 2041 or in the event of:

- certain tax and US investment company registration events, which allow a redemption at any time; or
- certain regulatory and rating agency equity credit events which allow redemption at any time after 24 May 2016.

Subordinated debt due 2044

On 2 December 2014, the company raised $700 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 6.75% per annum until 2 December 2024, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 4.3%. The rate will reset again, on the same basis, on 2 December 2034. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 2 December 2024, 2 December 2034 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2045

On 12 November 2015, the company raised $300 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 6.1% per annum until 12 November 2025, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 3.993%. The rate will reset again, on the same basis, on 12 November 2035. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 12 November 2025 and 12 November 2035 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Security arrangements

The claims of bondholders pursuant to the subordinated debt will be subordinated in right of payment to the claims of all senior creditors.

Capital securities

In 2006, a controlled entity issued £300 million of capital securities. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The issuer may redeem the securities on 18 July 2016 and certain specified dates thereafter or upon the occurrence of certain tax, regulatory, US investment company registration or take over events. On 18 July 2016, the coupon on the securities will change from a fixed to a floating rate. Between 2008 and 2012, £291 million of capital securities were repurchased by the Group for cash at a discount, and are held on the balance sheets of Group entities as an investment asset. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the profit or loss.

In 2007, a controlled entity issued $550 million of capital securities. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The issuer may redeem the securities on 1 June 2017 and certain specified dates thereafter or upon the occurrence of certain tax, regulatory, US investment company registration or take over events. On 1 June 2017, the coupon on the securities will change from a fixed to a floating rate. Between 2008 and 2012, $248 million of capital securities were repurchased by the Group for cash at a discount, and are held on the balance sheets of Group entities as an investment asset. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the profit or loss.

Both issues of capital securities are subordinated. Distributions are deferrable and not cumulative. If a distribution or principal amount is not paid by the controlled entity, and the company does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE preference shares. For so long as the distributions or principal amounts are outstanding, no payments (including distributions or principal amounts) are to be made on the company's shares or other instruments ranking junior to the securities. Payment of distributions or principal amounts on equal ranking securities may be paid proportionally.

The performance of the obligations of the controlled entity under the capital securities is guaranteed by the company to the extent that the controlled entity has funds. The guarantee is an unsecured and subordinated obligation of the company. The guarantee ranks senior to the claims of the holders of ordinary shares of the company, equally with equally ranked securities and instruments of the company and junior to the claims of other creditors of the company.

5.1.1 Fair value of borrowings

	2015 US$M	2014 US$M
Senior notes	**601**	1,083
Subordinated debt	**2,813**	2,376
Capital securities	**322**	325
Total borrowings	**3,736**	3,784

Consistent with other financial instruments, QBE is required to disclose the basis of valuation with reference to the fair value hierarchy which is explained in detail in note 3.2.1. All borrowings are designated as level 2 under the fair value hierarchy. Fixed and floating rate securities are priced using broker quotes and comparable prices for similar instruments in active markets. Where no active market exists, floating rate resettable notes are priced using par plus accrued interest.

How we account for the numbers

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

5.2 Cash and cash equivalents

	2015 US$M	2014 US$M
Fixed interest rate	**29**	102
Floating interest rate	**633**	750
	662	852

Restrictions on use

Included in cash and cash equivalents are amounts totalling $63 million (2014 $83 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

QBE has operations in many countries which have foreign exchange controls and regulations. The nature of the controls and regulations is highly dependent on the relevant country's banking practices, and these practices can vary from simple reporting requirements to outright prohibition of movement of funds without explicit prior central bank approval. The impact of these controls and regulations may be the restriction of the Group's capacity to repatriate capital and/or profits. Whilst QBE's operations in these countries are generally small, foreign exchange controls and regulations may impact our ability to repatriate funds.

How we account for the numbers

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements. Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 8.3.

5.3 Equity and reserves

Overview

Ordinary shares in the company rank after all creditors, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

5.3.1 Share capital

	2015 NUMBER OF SHARES MILLIONS	2015 US$M	2014 NUMBER OF SHARES MILLIONS	2014 US$M
Issued ordinary shares, fully paid at 1 January	**1,363**	**9,391**	1,247	9,195
Shares issued under the Employee Share and Option Plan	**–**	**3**	–	2
Shares issued	**–**	**–**	108	1,029
Shares issued under dividend reinvestment plans	**7**	**56**	8	88
Share issue expenses (net of taxation)	**–**	**–**	–	(7)
Foreign exchange	**–**	**(1,010)**	–	(916)
Issued ordinary shares, fully paid at 31 December	**1,370**	**8,440**	1,363	9,391
Shares notified to the Australian Securities Exchange	**1,371**	**8,448**	1,365	9,403
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	**(1)**	**(8)**	(2)	(12)
Issued ordinary shares, fully paid at 31 December	**1,370**	**8,440**	1,363	9,391

5.3.2 Reserves

	2015 US$M	2014 US$M
Owner occupied property revaluation reserve [1]		
At 1 January	**10**	11
Valuation increase	**1**	2
Sale of owner occupied property, net of taxation	**–**	(2)
Deferred taxation	**–**	–
Foreign exchange	**(2)**	(1)
At 31 December	**9**	10
Cash flow hedges reserve [2]		
At 1 January	**1**	1
Transfers into reserve	**(1)**	1
Transfers out of reserve	**–**	(1)
At 31 December	**–**	1
Foreign currency translation reserve [3]		
At 1 January	**(1,541)**	(1,590)
Gains on translation	**377**	243
Reclassification to profit or loss on disposal	**53**	–
Losses on hedging transactions	**(356)**	(189)
Taxation	**41**	(5)
At 31 December	**(1,426)**	(1,541)
Option reserve [4]		
At 1 January	**185**	158
Options and conditional rights expense	**59**	54
Transfers from reserve on vesting of options and conditional rights	**(18)**	(12)
Foreign exchange	**(18)**	(15)
At 31 December	**208**	185
Associates [5]		
At 1 January	**1**	1
Movement in the year	**–**	–
At 31 December	**1**	1
Premium on purchase of non-controlling interests [6]		
At 1 January	**(61)**	(51)
Purchase of non-controlling interest	**–**	(16)
Reclassification to retained profits on disposal	**15**	–
Foreign exchange	**6**	6
At 31 December	**(40)**	(61)
Total reserves at 31 December	**(1,248)**	(1,405)

1 Used to recognise fair value movements in the carrying value of owner occupied property.
2 Used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity.
3 Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments are taken to the foreign currency translation reserve. Refer to note 1.2.3. In the event of the disposal of a relevant net investment, the movement in the reserve is recognised in profit or loss.
4 Used to recognise the fair value of instruments issued as share-based payments.
5 Used to recognise other comprehensive income of associates.
6 Used to recognise movements in ownership interest that do not result in a change of control. Recognises any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received.

5.4 Dividends

Overview

The Group's dividend policy sets the dividend payout ratio at up to 50% of full year cash profit with a likely weighting of 40% for the interim dividend and 60% for the final. Commencing with the 2016 interim dividend, a revised policy is being implemented to increase the maximum dividend payout ratio to 65% of cash profit.

	2015	2014	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	**20**	22	15
Franking percentage	**100%**	100%	100%
Franked amount per share (Australian cents)	**20**	22	15
Dividend payout (A$M)	**274**	300	192
Payment date	**2 Oct 2015**	13 April 2015	23 Sep 2014

On 23 February 2016, the directors announced a 100% franked final dividend of 30 Australian cents per share payable on 14 April 2016. The final dividend payout is A$411 million (2014 A$300 million).

	2015 US$M	2014 US$M
Previous year final dividend on ordinary shares – fully franked	**228**	139
Interim dividend on ordinary shares – fully franked	**193**	170
Bonus Share Plan dividend foregone	**(6)**	(5)
Total dividend paid	**415**	304

Dividend Reinvestment and Bonus Share Plans

The company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP) which allow equity holders to receive their dividend entitlement in the form of QBE ordinary shares.

The last date of receipt of election notices to participate in the DRP or the BSP is 15 March 2016.

Bonus Share Plan dividend forgone

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the BSP and forgoing all or part of their right to dividends. These shareholders were issued ordinary shares under the BSP. During the year 566,966 (2014 410,642) ordinary shares were issued under the BSP.

Franking credits

The franking account balance on a tax paid basis at 31 December 2015 was a surplus of A$391 million (2014 A$404 million). After taking into account the impact of franking on the final dividend recommended by the Board since year end, but not recognised as a liability at year end, the franking account balance will have a surplus of A$171 million (2014 A$271 million).

Following the introduction of the conduit foreign income (CFI) rules, effective for the Group from 1 January 2006, shareholders not resident in Australia will receive CFI credits for any unfranked portion of the dividend. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

5.5 Earnings per share

Overview

Earnings per share (EPS) is the amount of profit after tax attributable to each share. Diluted EPS adjusts the EPS for the impact of shares that are not yet issued but which may be in the future, such as shares potentially issuable from convertible notes, options and employee share-based payments plans.

	2015 US CENTS	2014 US CENTS
Basic earnings per share	**50.3**	57.4
Diluted earnings per share	**49.8**	55.8

5.5.1 Reconciliation of earnings used in calculating earnings per share

	2015 US$M	2014 US$M
Net profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	**687**	742
Add: finance costs of convertible securities	**–**	19
Earnings used in calculating diluted earnings per share	**687**	761

5.5.2 Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	2015 NUMBER OF SHARES MILLIONS	2014 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,368**	1,294
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(1)**	(2)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,367**	1,292
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**13**	12
Convertible securities	**–**	61
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,380**	1,365

How we account for the numbers

Basic earnings per share

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

Diluted earnings per share

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

5.

5.6 Derivatives

Overview

Derivatives may be used as a tool to hedge the Group's foreign exchange exposures. Each controlled entity within the Group manages operational foreign exchange volatility by matching liabilities with assets of the same currency, as far as practicable. Forward foreign exchange contracts are used to hedge residual currency exposures, with both the foreign exchange and derivatives impact reported through profit or loss.

Interest rate swaps are used to hedge exposure to interest rate movements on the Group's borrowings.

The Group's exposure to treasury derivatives at the balance date is set out in the table below:

	2015			2014		
	GROSS EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	GROSS EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**651**	**33**	**(35)**	705	20	(73)
Interest rate swaps	**146**	**–**	**–**	–	–	–

How we account for the numbers

Derivatives are initially recognised at fair value and are subsequently re-measured to fair value through profit or loss. For derivatives traded in an active market, the fair value of derivatives is determined by reference to quoted market prices. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques. The mark-to-market value of futures positions is cash settled on a daily basis.

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

Hedge accounting is discontinued when:

- the hedge no longer meets the criteria for hedge accounting;
- the hedging instrument expires or is sold, terminated or exercised;
- the hedged item matures, is sold or repaid; or
- the entity revokes the designation.

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

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

6. TAX

Overview

Income tax expense is the accounting tax charge for the period and is calculated as the tax payable on the current period taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The relationship between accounting profit and income tax expense is provided in the reconciliation of prima facie tax to income tax expense (note 6.1). Income tax expense does not equate to the amount of tax actually paid to tax authorities around the world, as it is based upon the accrual accounting concept.

Accounting income and expenses do not always have the same recognition pattern as taxable income and expenses, creating a timing difference as to when a tax expense or benefit can be recognised. These differences usually reverse over time but until they do, a deferred tax asset or liability is recognised on the balance sheet. Note 6.2 details the composition and movements in deferred tax balances and the key management assumptions applied in recognising tax losses.

The Group's approach to managing tax risk is disclosed in note 4.1.

6.1 Income tax

Reconciliation of prima facie tax to income tax expense

	NOTE	2015 US$M	2014 US$M
Profit before income tax		**953**	931
Prima facie tax expense at 30%		**286**	279
Tax effect of non-temporary differences:			
Untaxed dividends		**(10)**	(5)
Differences in tax rates		**(40)**	(104)
Other, including non-allowable expenses and non-taxable income		**(5)**	(48)
Prima facie tax adjusted for non-temporary differences		**231**	122
Deferred tax assets no longer recognised		**56**	58
(Over) under provision in prior years		**(27)**	2
Income tax expense		**260**	182
Analysed as follows:			
Current tax		**287**	415
Deferred tax		**–**	(235)
(Over) under provision in prior years		**(27)**	2
		260	182
Deferred tax expense (credit) comprises: [1]			
Deferred tax assets recognised in profit or loss	6.2.1	**(38)**	103
Deferred tax liabilities recognised in profit or loss	6.2.2	**38**	(338)
		–	(235)

1 Consolidated deferred tax expense includes $1 million (2014 $10 million) credited to profit as a result of changes in income tax rates.

How we account for the numbers

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries in which controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

6.2 Deferred income tax

	NOTE	2015 US$M	2014 US$M
Deferred tax assets	6.2.1	**767**	787
Deferred tax liabilities	6.2.2	**176**	183

6.2.1 Deferred tax assets

The balance comprises temporary differences attributable to:

	NOTE	2015 US$M	2014 US$M
Amounts recognised in profit or loss			
Financial assets – fair value movements		**4**	1
Provision for impairment		**20**	20
Employee benefits		**77**	68
Intangible assets		**177**	163
Insurance provisions		**582**	537
Tax losses recognised		**385**	487
Other		**147**	121
		1,392	1,397
Amounts recognised in other comprehensive income			
Capitalised expenses		**2**	3
Defined benefit plans		**50**	57
Other		**2**	1
		54	61
Deferred tax assets before set-off		**1,446**	1,458
Set-off of deferred tax liabilities	6.2.2	**(679)**	(671)
	6.2	**767**	787
Deferred tax assets before set-off analysed as follows:			
Recoverable within 12 months		**64**	57
Recoverable in greater than 12 months		**1,382**	1,401
		1,446	1,458

Movements:

	NOTE	2015 US$M	2014 US$M
At 1 January		**1,458**	1,665
Amounts recognised in profit or loss	6.1	**38**	(103)
Amounts recognised in other comprehensive income		**(7)**	17
Amounts transferred to assets held for sale		**–**	(56)
Foreign exchange		**(43)**	(65)
At 31 December		**1,446**	1,458

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

6.2.2 Deferred tax liabilities

The balance comprises temporary differences attributable to:

	NOTE	2015 US$M	2014 US$M
Amounts recognised in profit or loss			
Intangible assets		**127**	148
Insurance provisions		**565**	541
Financial assets – fair value movements		**9**	5
Other provisions		**37**	54
Other		**107**	95
		845	843
Amounts recognised in other comprehensive income			
Owner occupied property		**3**	3
Defined benefit plans		**7**	8
		10	11
Deferred tax liabilities before set-off		**855**	854
Set-off of deferred tax assets	6.2.1	**(679)**	(671)
	6.2	**176**	183
Deferred tax liabilities before set-off analysed as follows:			
Recoverable within 12 months		**21**	46
Recoverable in greater than 12 months		**834**	808
		855	854

Movements:

	NOTE	2015 US$M	2014 US$M
At 1 January		**854**	1,261
Amounts recognised in profit or loss	6.1	**38**	(338)
Amounts recognised in other comprehensive income		**(1)**	–
Amounts transferred to liabilities held for sale		**–**	(5)
Foreign exchange		**(36)**	(64)
At 31 December		**855**	854

How we account for the numbers

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset in the consolidated financial statements when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

6.2.3 Tax losses

The Group has not brought to account $225 million (2014 $161 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. $147 million of tax losses not brought to account have a life of between 2 and 19 years with the majority expiring in 16 to 19 years, and $78 million have an indefinite life. This benefit will only be brought to account when the directors believe it is probable that it will be realised.

This benefit of tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

Critical accounting judgements and estimates

Recoverability of deferred tax assets

QBE assesses the recoverability of deferred tax assets at each balance date. In making this assessment, QBE considers in particular the controlled entity's future business plans, history of generating taxable profits, whether the unused tax losses resulted from identifiable causes which are unlikely to recur and if any tax planning opportunities exist in the period in which the taxable losses can be utilised.

In North American Operations, a deferred tax asset of $573 million (2014 $573 million) continues to be recognised, comprising $333 million (2014 $362 million) of carry forward tax losses and $240 million (2014 $211 million) of deductible temporary differences, net of applicable offsetting deferred tax liabilities, as a result of insurance technical reserves and the tax deductibility of goodwill and other intangibles. Whilst North American Operations generated a taxable profit in 2015, uncertainty continues to exist in relation to the utilisation of this asset which is subject to there being continued future taxable profits over the period of time in which the losses can be utilised. QBE has made a judgement that North American Operations will be able to generate sufficient taxable profits over the foreseeable future, based upon its future business plans. Key assumptions include a return to taxable profit driven by no material deterioration in the prior accident year central estimate, a sustained return of crop profitability to historical averages, benefits flowing from initiatives to reduce the cost base of the division and future increases in investment yields.

Losses expire over the next 19 years, with the majority expiring between 2030 and 2034. The uncertainty around the recognition of the deferred tax asset will be resolved in future years if taxable profits are generated. Recovery of the asset is sensitive to changes in the combined operating ratio, premium growth and investment yield assumptions, as these items are the key drivers of future taxable income.

6.2.4 Tax consolidation legislation

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

Details of franking credits available to shareholders are shown in note 5.4

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

7. GROUP STRUCTURE

Overview

This section provides information to help users understand the QBE Group structure, including the impact of changes in the financial year. This includes acquisitions and disposals of businesses, intangible assets acquired or developed and the results of impairment reviews.

7.1 Asset disposals

During the year, the following non-core businesses were disposed of:

- North American agencies (Community Association Underwriters, Deep South and SIU) were sold on 2 February 2015.
- Australian agencies (CHU, Corporate Underwriting Agencies and Underwriting Agencies of Australia) were sold on 1 April 2015.
- Argentine workers' compensation business was sold on 10 August 2015.
- North American Mortgage & Lender Services business was sold on 1 October 2015.

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

	AUSTRALIAN AGENCIES US$M [1]	US AGENCIES US$M [1]	ARGENTINE WORKERS' COMPENSATION US$M [1]	MORTGAGE & LENDER SERVICES US$M [2]	OTHER [3]	TOTAL
Net assets at date of disposal						
Intangibles	91	198	19	33	–	341
Other net assets	8	17	8	48	3	84
Total net assets	99	215	27	81	3	425
Proceeds						
Cash	220	230	55	51	9	565
Fair value of contingent consideration	14	–	–	–	–	14
Transaction costs	(5)	(3)	(3)	(8)	–	(19)
Total proceeds	229	227	52	43	9	560
FCTR reclassification	–	–	(53)	–	–	(53)
Net gain (loss) on disposal	130	12	(28)	(38)	6	82
Associated expenses						
Write down of deferred acquisition costs	–	–	–	(41)	–	(41)
Other expenses [4]	–	–	(30)	(54)	–	(84)
Net economic gain (loss) on disposal	130	12	(58)	(133)	6	(43)
Analysed as follows:						
Underwriting expenses	–	–	–	(41)	–	(41)
Gain (loss) on sale of entities	130	12	(58)	(92)	6	(2)
	130	12	(58)	(133)	6	(43)

1 These businesses were classified as held for sale at 31 December 2014.

2 QBE will continue to write this business after the date of sale and will reinsure it 100% to the purchaser until such time as all necessary licensing and administration issues associated with the sale of this business are completed. This will have a net nil impact on QBE's result.

3 Other includes various immaterial disposals.

4 Oher expenses include restructuring costs, asset write-downs and financing costs incurred as a result of the disposal.

7.2 Intangible assets

Overview

Intangible assets are assets with no physical substance. The most significant classes of intangible assets are detailed below:

Lloyd's syndicate capacity

The Lloyd's syndicate capacity intangible asset relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. Syndicate capacity is the aggregate of the premium limits of each member of that syndicate at a point in time. An existing capital provider has the first right to participate on the next year of account, giving the indefinite right to participate on all future years of account. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons, Lloyd's syndicate capacity is deemed to have an indefinite useful life.

Customer relationships

Customer relationships comprise the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution networks and agency relationships. Customer relationships are amortised over remaining lives of between 5 and 25 years depending on the classes of business to which the assets relate.

Brand names

These assets reflect the revenue generating ability of acquired brands. In some circumstances, brand names are considered to have an indefinite useful life due to the long-term nature of the asset. When there is a contractual limit on the use of the brand name, the asset is amortised over the remaining period, being in the range of 5 years to 20 years.

Insurance licences

This asset gives the Group the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. It is considered to have an indefinite useful life due to its long-term nature.

Software

This includes both acquired and internally developed software which is not integral or closely related to an item of hardware such as underwriting systems. Capitalised software is amortised over periods ranging from three months to five years, reflecting the period during which the Group is expected to benefit from the use of the software.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill has an indefinite useful life and therefore is not subject to amortisation but is tested for impairment annually, or more often if there is an indication of impairment.

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2015	LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENSES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	85	938	38	50	59	35	3,408	4,613
Additions/reclassifications	–	23	–	–	106	9	6	144
Disposals	–	(10)	(3)	–	(3)	–	(30)	(46)
Impairment	–	(44)	–	–	(2)	–	(1)	(47)
Foreign exchange	(4)	(29)	(4)	–	(8)	(1)	(193)	(239)
At 31 December	81	878	31	50	152	43	3,190	4,425
Amortisation								
At 1 January	–	(667)	(24)	–	(58)	(33)	–	(782)
Amortisation [1]	–	(47)	–	–	(25)	(2)	–	(74)
Disposals	–	8	1	–	3	–	–	12
Foreign exchange	–	14	1	–	7	1	–	23
At 31 December	–	(692)	(22)	–	(73)	(34)	–	(821)
Carrying amount								
At 31 December	81	186	9	50	79	9	3,190	3,604

1 Amortisation of $26 million is included in underwriting expenses as it relates to intangible assets supporting the Group's underwriting activities.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2014	LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENSES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	91	1,441	48	50	87	46	3,901	5,664
Write-off fully written down assets	–	(387)	–	–	(24)	(5)	–	(416)
Transfer to assets held for sale	–	(63)	(4)	–	(4)	–	(291)	(362)
Additions/reclassifications	–	9	–	–	–	–	1	10
Impairment	–	(36)	(4)	–	–	(4)	(11)	(55)
Foreign exchange	(6)	(26)	(2)	–	–	(2)	(192)	(228)
At 31 December	85	938	38	50	59	35	3,408	4,613
Amortisation								
At 1 January	–	(1,040)	(21)	–	(84)	(39)	–	(1,184)
Write-off fully written down assets	–	387	–	–	24	5	–	416
Amortisation for the year	–	(55)	(4)	–	(2)	(1)	–	(62)
Transfer to assets held for sale	–	31	1	–	4	–	–	36
Foreign exchange	–	10	–	–	–	2	–	12
At 31 December	–	(667)	(24)	–	(58)	(33)	–	(782)
Carrying amount								
At 31 December	85	271	14	50	1	2	3,408	3,831

How we account for the numbers

Intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits, with amortisation expense reported in underwriting and other expenses or amortisation and impairment of intangibles depending on the use of the asset. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more frequently if there are indicators of impairment. Intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At 31 December 2015, the Group had $155 million (2014 nil) of commitments for the acquisition of intangible assets.

7.2.1 Impairment testing of intangible assets

Overview

If there are indicators that an intangible asset's recoverable value has fallen below its carrying value (e.g. due to changing market conditions), an impairment test is performed and a loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value. Intangible assets that have an indefinite useful life, such as goodwill, are tested annually for impairment or more frequently where there is an indication that the carrying amount may not be recoverable.

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units or groups of cash generating units reflect the level at which goodwill is monitored for impairment by management. As the Group continues to acquire operations and reorganise the way that operations are managed, reporting structures may change, giving rise to a reassessment of cash generating units and/or the allocation of goodwill to those cash generating units.

The goodwill relating to certain acquisitions is denominated in currencies other than the US dollar and so is subject to foreign exchange movements.

Goodwill is analysed by groups of cash generating units as follows:

	2015 US$M	2014 US$M
North American Operations	**1,544**	1,573
Australian & New Zealand Operations [1]	**1,133**	1,260
European Operations	**463**	502
Other [2]	**50**	73
	3,190	3,408

1 2014 excludes New Zealand Operations.
2 None of the cash generating units is individually significant.

Impairment losses

Identifiable intangibles in North American Operations and Emerging Markets of $47 million (2014 $55 million) were impaired following management's review of future cash flows attributable to these assets.

How we account for the numbers

Impairment testing of identifiable intangible assets

The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts relevant to the initial valuation of the identifiable intangible asset are reviewed and updated (if appropriate) by management. Cash flow forecasts are based on a combination of actual performance to date and management's expectations of future performance based on prevailing and anticipated market factors; and
- discount rates that include a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the risk associated with the intangible asset or the cash generating unit to which the asset is allocated.

Impairment testing of goodwill

The recoverable amount of each cash generating unit or group of cash generating units has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts, including investment returns, based on the latest three year business plan which has been approved by the Group Board. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors and the benefit of committed cost saving measures;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. Growth rates reflect the long-term average of the countries relevant to the cash generating unit or group of cash generating units and are sourced from observable market information. The terminal growth rates used in management's impairment testing are: North American Operations 2.5%, Australia & New Zealand Operations 2.5%, European Operations 2.0%; and
- discount rates that reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit or group of cash generating units. The pre-tax discount rates used were: North American Operations 12.1% (2014 12.8%), Australia & New Zealand Operations 12.1% (2014 12.5%) and European Operations 9.8% (2014 10.0%). The post-tax discount rates used were: North American Operations 9.5% (2014 10.0%), Australia & New Zealand Operations 9.3% (2014 9.4%) and European Operations 8.1% (2014 8.3%).

Critical accounting judgements and estimates

Uncertainty continues to exist in relation to the valuation of goodwill in QBE's North American Operations.

QBE has completed an impairment calculation and has determined that the recoverable amount exceeded the carrying value, albeit only by $196 million. The goodwill impairment valuation continues to be highly sensitive to a range of assumptions, in particular to increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and investment return assumptions.

If the terminal value combined operating ratio used was increased by 1% compared with QBE's estimate (93.7% to 94.7%), the impairment charge would be $112 million. If the post-tax discount rate was increased by 1% (9.5% to 10.5%), the impairment charge would be $358 million. If the long-term investment return was reduced by 1.0% (4.25% to 3.25%), the impairment charge would be $222 million.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

7.3 Controlled entities

Overview

This section lists all of the Group's controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company at 31 December 2015 and the results for the financial year then ended, or for the period during which control existed if the entity was acquired or sold during the financial year.

7.3.1 Controlled entities

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2015 %	EQUITY HOLDING 2014 %
Ultimate parent entity			
QBE Insurance Group Limited	Australia		
Controlled entities			
AFA Limited (dissolved on 19 March 2015)	Vanuatu	**–**	100.00
AIS Green Slip Group Pty Limited (deregistered 15 April 2015)	Australia	**–**	100.00
Anex Jenni & Partner SA (formerly Anex Jenni & Partner AG)	Switzerland	**100.00**	100.00
Austral Mercantile Collections Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
Aviation Insurance Direct Pty Limited	Australia	**100.00**	100.00
Aviation Underwriters of Asia Pacific Pty Limited	Australia	**100.00**	100.00
Blue Ridge Indemnity Company	US	**100.00**	100.00
Burnett & Company Inc	US	**100.00**	100.00
C&C Cornejo & Cornejo CIA LTDA	Ecuador	**99.50**	99.50
CHU Residentsline Limited	UK	**100.00**	100.00
CHU Underwriting Agencies (UK) Limited	UK	**100.00**	100.00
CHU Underwriting Agencies Pty Ltd (sold 1 April 2015)	Australia	**–**	100.00
Colonial Insurance Agency Inc	Puerto Rico	**100.00**	100.00
Community Association Underwriters of America Inc (sold 2 Feb 2015)	US	**–**	100.00
Confoeta SA (in liquidation)	Ecuador	**99.75**	99.75
Corporate Underwriting Agencies Pty Limited (sold 1 April 2015)	Australia	**–**	100.00
Deep South Surplus Inc (sold 2 February 2015)	US	**–**	100.00
DSCM Inc (sold 2 February 2015)	US	**–**	100.00
Elders Insurance (Underwriting Agency) Pty Limited	Australia	**100.00**	100.00
Elders Insurance Agencies Pty Ltd (deregistered 15 April 2015)	Australia	**–**	100.00
Elders Insurance Pty Limited (deregistered 20 July 2015)	Australia	**–**	100.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
FAI Insurances (Fiji) Limited (dormant)	Fiji	**100.00**	100.00
General Casualty Company of Wisconsin	US	**100.00**	100.00
General Casualty Insurance Company	US	**100.00**	100.00
Greenhill Baia Underwriting GmbH	Germany	**100.00**	100.00
Greenhill International Insurance Holdings Limited	UK	**100.00**	100.00
Greenhill Sturge Underwriting Limited	UK	**100.00**	100.00
Greenhill Underwriting Espana Limited	UK	**100.00**	100.00
Hoosier Insurance Company	US	**100.00**	100.00
Insurance Box Holdings Pty Limited	Australia	**78.19**	100.00
Insurance Box Pty Limited	Australia	**78.19**	70.98
Lantana Insurance Limited	Bermuda	**100.00**	100.00
Lifeco Re Limited (applied for strikeoff)	UK	**100.00**	100.00
Lifeco s.r.o.(dormant)	Czech Republic	**100.00**	100.00
Limit No 2 Limited (sold 7 April 2015)	UK	**–**	100.00
MMWC Pty Limited	Australia	**100.00**	100.00
Mortgage & Auto Solutions Inc (sold 1 October 2015)	US	**–**	100.00
National Farmers Union Property and Casualty Company	US	**100.00**	100.00
NAU Country Insurance Company	US	**100.00**	100.00

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2015 %	EQUITY HOLDING 2014 %
NAU Holding Company LLC (merged into NAU Country Insurance Company on 31 March 2015)	US	–	100.00
New Century Finance Corporation	Puerto Rico	**100.00**	100.00
Newport Management Corporation (sold 1 October 2015)	US	–	100.00
NIA Underwriting Agency Pty Limited	Australia	**78.19**	50.37
North Pointe Insurance Company	US	**100.00**	100.00
Operador Logistico de Soat-Ols SA (in liquidation)	Ecuador	**99.98**	99.98
Pitt Nominees Pty Limited	Australia	**100.00**	100.00
Praetorian Insurance Company	US	**100.00**	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	**55.00**	55.00
QBE (Jersey) GP Limited	Jersey	**100.00**	100.00
QBE (Jersey) GP II Limited	Jersey	**100.00**	100.00
QBE (PNG) Limited	PNG	**100.00**	100.00
QBE Administration Services Inc	US	**100.00**	100.00
QBE Agencies Australia Holdings Pty Limited	Australia	**100.00**	100.00
QBE Agencies Holdings Pty Limited	Australia	**100.00**	100.00
QBE Americas Inc.	US	**100.00**	100.00
QBE Argentina Aseguradora de Riesgos del Trabajo SA (sold 10 August 2015)	Argentina	–	100.00
QBE Asegurando LTDA (in liquidation)	Colombia	**100.00**	100.00
QBE Asia Pacific Holdings Limited	Hong Kong	**100.00**	100.00
QBE Atlantic LLC	US	**100.00**	100.00
QBE Atlasz Ingatlankezelo zrt	Hungary	**100.00**	100.00
QBE Brazil Seguros SA	Brazil	**99.99**	99.99
QBE Capital Funding LP [1]	Jersey	–	–
QBE Capital Funding II LP [1]	Jersey	–	–
QBE Capital Funding III Limited	Jersey	**100.00**	100.00
QBE Capital Funding IV Limited	Jersey	**100.00**	100.00
QBE Chile Seguros Generales	Chile	**100.00**	100.00
QBE Compania Argentina de Reaseguros SA	Argentina	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE de Mexico Compania de Seguros SA de CV	Mexico	**99.99**	99.99
QBE Denmark A/S	Denmark	**100.00**	100.00
QBE Emerging Markets Holdings Pty Limited (formerly QBE Holdings (Americas) Pty Limited)	Australia	**100.00**	100.00
QBE Employee Share Trust [1]	Australia	–	–
QBE Europe Holdings Services Agent de Asigurare SRL (dissolved 17 February 2015)	Romania	–	100.00
QBE European Operations plc	UK	**100.00**	100.00
QBE European Services Limited	UK	**100.00**	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Finance Holdings (EO) Limited	UK	**100.00**	100.00
QBE Financial Institution Risk Services Inc (sold 1 October 2015)	US	–	100.00
QBE FIRST Enterprises LLC	US	**100.00**	100.00
QBE FIRST Insurance Agency Inc (sold 1 October 2015)	US	–	100.00
QBE FIRST Property Tax Solutions LLC	US	**100.00**	100.00
QBE Funding V Limited (dissolved 11 December 2015)	Jersey	–	100.00
QBE General Insurance (Hong Kong) Limited	Hong Kong	**100.00**	100.00
QBE Group Services Pty Ltd	Australia	**100.00**	–
QBE Group Shared Services Limited	UK	**100.00**	100.00
QBE Holdings (AAP) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (EO) Limited	UK	**100.00**	100.00
QBE Holdings (Europe) Limited	UK	**100.00**	100.00
QBE Holdings (LMI) Limited	Australia	**100.00**	–
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Holdings Inc	US	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance (Europe) Limited	UK	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2015 %	2014 %
QBE Insurance (International) Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**100.00**	100.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Singapore) Pte Ltd (formerly QBE (Singapore) Pte Ltd)	Singapore	**100.00**	100.00
QBE Insurance (Thailand) Public Company Limited [2]	Thailand		
Thai resident entities		**24.85**	24.83
Non-Thai resident entities		**47.47**	46.29
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE Insurance (Vietnam) Company Limited	Vietnam	**100.00**	100.00
QBE Insurance Corporation	US	**100.00**	100.00
QBE Insurance Group of Puerto Rico Inc	Puerto Rico	**100.00**	100.00
QBE Insurance Holdings Pty Limited	Australia	**100.00**	100.00
QBE Insurance Services (Regional) Limited	UK	**100.00**	100.00
QBE Investment Management Pty Limited (deregistered 9 March 2015)	Australia	**–**	100.00
QBE Investments (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	US	**100.00**	100.00
QBE Irish Share Incentive Plan [1]	Ireland	**–**	–
QBE Jersey Finance Limited	Jersey	**100.00**	100.00
QBE Latin America Insurance Holdings SL	Spain	**100.00**	100.00
QBE Lenders' Mortgage Insurance Limited	Australia	**100.00**	100.00
QBE Life (Australia) Limited	Australia	**100.00**	100.00
QBE Management (Ireland) Limited	Ireland	**100.00**	100.00
QBE Management Inc	US	**100.00**	100.00
QBE Management Services (Philippines) Pty Limited	Australia	**100.00**	100.00
QBE Management Services (UK) Limited	UK	**100.00**	100.00
QBE Management Services Pty Limited	Australia	**100.00**	100.00
QBE Marine and Energy Services Pte Limited	Singapore	**100.00**	100.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	**100.00**	100.00
QBE of California Insurance Services Inc (sold 2 February 2015)	US	**–**	100.00
QBE Partner Services (Europe) LLP	UK	**100.00**	100.00
QBE Re (Europe) Limited	UK	**100.00**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Regional Companies (NA) Inc	US	**100.00**	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Reinsurance Corporation	US	**100.00**	100.00
QBE Seaboard Insurance Philippines Inc	Philippines	**59.50**	59.50
QBE Seguros (formerly QBE Optima Insurance Company)	Puerto Rico	**100.00**	100.00
QBE Seguros Colonial SA	Ecuador	**100.00**	100.00
QBE Seguros La Buenos Aires SA	Argentina	**99.85**	99.85
QBE Seguros SA	Colombia	**98.79**	98.37
QBE Services (Europe) Limited	UK	**100.00**	100.00
QBE Services Inc	Canada	**100.00**	100.00
QBE SK s.r.o.	Slovakia	**100.00**	100.00
QBE Specialty Insurance Company	US	**100.00**	100.00
QBE s.r.o.	Czech Republic	**100.00**	100.00
QBE Stonington Insurance Holdings Inc	US	**100.00**	100.00
QBE UK Finance GP [1]	UK	**–**	–
QBE UK Finance III Limited	UK	**100.00**	100.00
QBE UK Finance IV Limited	UK	**100.00**	100.00
QBE UK Share Incentive Plan [1]	UK	**–**	–
QBE Ukraine (sold 30 October 2015)	Ukraine	**–**	50.00
QBE Underwriting Limited	UK	**100.00**	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	**100.00**	100.00
QBE Underwriting Services (UK) Limited	UK	**100.00**	100.00
QBE Underwriting Services Limited	UK	**100.00**	100.00
QBE US Agencies Inc (sold 2 February 2015)	US	**–**	100.00
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (SA) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (VIC) Limited	Australia	**100.00**	100.00

7.

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2015 %	2014 %
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Regent Insurance Company	US	**100.00**	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
Seattle Specialty Insurance Services Inc (sold 1 October 2015)	US	**–**	100.00
Sinkaonamahasarn Company Limited [3]	Thailand	**49.00**	49.00
SIU LLC (sold 2 February 2015)	US	**–**	100.00
Southern Fire & Casualty Company	US	**100.00**	100.00
Southern Guaranty Insurance Company	US	**100.00**	100.00
Southern National Risk Management Corporation	US	**100.00**	100.00
Southern Pilot Insurance Company	US	**100.00**	100.00
Standfast Corporate Underwriters Limited	UK	**100.00**	100.00
Stonington Insurance Company	US	**100.00**	100.00
Strakh-Consult (in liquidation)	Ukraine	**100.00**	100.00
Trade Credit Underwriting Agency NZ Limited	NZ	**100.00**	100.00
Trade Credit Underwriting Agency Pty Limited	Australia	**100.00**	100.00
Travelon Pty Limited (deregistered 9 March 2015)	Australia	**–**	100.00
Underwriting Agencies of Australia (Holdings) Pty Ltd (deregistered 20 July 2015)	Australia	**–**	100.00
Underwriting Agencies of Australia Pty Ltd (sold 1 April 2015)	Australia	**–**	100.00
Underwriting Agencies of New Zealand Limited (sold 1 April 2015)	NZ	**–**	100.00
Unigard Indemnity Company	US	**100.00**	100.00
Unigard Insurance Company	US	**100.00**	100.00
Universal Underwriting Agencies Pty Limited (deregistered 15 April 2015)	Australia	**–**	100.00
Westwood Insurance Agency	US	**100.00**	100.00

1 QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Share Incentive Plan, QBE Capital Funding LP, QBE Capital Funding LP II and QBE UK Finance GP have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.

2 For accounting purposes, the Group has management control of QBE Insurance (Thailand) Public Company Limited by reference to management agreements.

3 Although the Group has less than a 50% equity interest in Sinkaonamahasarn Company Limited, controlled entities have the right to acquire the remaining share capital.

All equity in controlled entities is held in the form of shares or through contractual arrangements.

How we account for the numbers

Controlled entities

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over it. All transactions between controlled entities are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income and balance sheet.

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

A change in ownership of a controlled entity without the gain or loss of control is accounted for as an equity transaction.

8. OTHER

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards or the *Corporations Act 2001*, but which is not deemed critical to an understanding of the Group's results or balance sheet.

8.1 Other accounting policies

8.1.1 New and amended standards adopted by the Group

The Group mandatorily adopted the following accounting policies which became effective for the annual reporting period commencing on 1 January 2015. These standards have introduced new measurement and disclosure requirements but did not materially change the amounts recognised in the financial statements.

TITLE	
AASB 2014–1	Part A – Annual improvements to Australian Accounting Standards 2010 – 2012 and 2011 – 2013
AASB 2014–1	Part B – Amendments to Australian Accounting Standards [Part B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)]

8.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2018
AASB 15	Revenue from Contracts with Customers	1 January 2018
AASB 2015–1	Annual improvements to Australian Accounting Standards 2012 – 2014 Cycle	1 January 2016
AASB 2015–2	Disclosure Initiative: Amendments to AASB 101	1 January 2016
AASB 2015–3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 January 2016
AASB 2015–5	Investment Entities: Applying the Consolidation Exception	1 January 2016
AASB 2014–3	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
AASB 2014–4	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
AASB 2014–9	Equity Method in Separate Financial Statements	1 January 2016
AASB 2014–10	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	1 January 2016

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is permitted.

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

AASB 9 was issued during 2014 and will replace existing accounting requirements for financial instruments. Currently, the Group's investments are designated as at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is not expected to result in significant changes to accounting for investments, with the exception of certain equity investments which are held by the Group for strategic purposes. The Group expects to utilise an election within AASB 9 that allows changes in the fair value of such strategic equity investments to be recognised in other comprehensive income rather than profit or loss. Any changes to the Group's investment business model prior to the adoption of AASB 9 will require the impact of adoption to be reassessed and could result in a different outcome for accounting for investments. Other changes to the accounting for the Group's financial instruments arising from the application of AASB 9 are currently expected to be minimal.

Due to the interaction between AASB 9 and a new standard on insurance accounting which is expected to be issued by the IASB during 2016 or 2017, and because the full nature and extent of the impact of AASB 9 is still being assessed, the Group does not currently intend to early adopt AASB 9. AASB 9 is expected to be adopted for the year ending 31 December 2018.

8.2 Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

In the normal course of business, the Group is exposed to contingent liabilities in relation to claims litigation arising out of its insurance and reinsurance transactions and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation. Provisions are made for obligations that are probable and quantifiable. There are no individually significant amounts not provided for and such transactions are not considered likely to have a material impact on the net assets of the Group.

On 9 September 2015, QBE was served with a statement of claim alleging breaches of continuous disclosure and conduct obligations in relation to profit guidance issued for the year ended 31 December 2013. QBE rejects the allegations and is defending the claim. As at the date of this report, it is not possible to produce a reliable estimate of the potential financial effect arising from the claim, if any.

On 1 October 2015, QBE sold its Mortgage & Lender Services business in the US. Whilst the purchaser assumed responsibility for all potential future litigation in relation to this business, the sale contract specifically excludes liabilities associated with class action litigation or regulatory examinations that are currently underway. This business is subject to litigation and regulatory examinations in the normal course of business. We do not believe that the outcome of class action litigation currently underway will be material. We do not have sufficiently reliable information to assess potential liability for current regulatory examinations.

QBE is required to support the underwriting activities of the Group's controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's are those funds of the Group which are subject to the terms of the Lloyd's Deposit Trust Deed and are required to support underwriting for the following year and the open years of account, determined by a formula prescribed by Lloyd's each year. Letters of credit of $1,463 million (2014 $1,702 million) were issued in support of the Group's participation in Lloyd's, along with cash and investments of $93 million (2014 $164 million). In addition, a controlled entity has entered into various trust and security deeds with Lloyd's in respect of assets lodged to support its underwriting activities. These deeds contain covenants that require the entity to meet financial obligations should they arise in relation to cash calls from syndicate participations. A cash call would be made first on the assets held in syndicate trust funds and would only call on funds at Lloyd's after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit and other assets lodged with Lloyd's.

8.3 Reconciliation of profit after income tax to cash flows from operating activities

Overview

AASB 1054 Australian Additional Disclosures requires a reconciliation of profit after income tax to cash flows from operating activities.

	2015 US$M	2014 US$M
Profit after income tax	**693**	749
Depreciation/impairment of property, plant and equipment	**70**	103
Amortisation and impairment of intangibles	**121**	117
Losses on sale of entities	**2**	17
Losses on repurchase of debt securities	**–**	18
Losses (gains) on sale of plant and equipment	**15**	(38)
Net foreign exchange losses (gains)	**20**	(17)
Other gains on financial assets	**(128)**	(137)
Decrease in net outstanding claims	**(577)**	(389)
Increase (decrease) in unearned premium	**170**	(189)
(Increase) decrease in deferred insurance costs	**(723)**	90
Decrease in trade debtors	**315**	407
Increase in net operating assets	**(187)**	(185)
Share of net profit of associates	**–**	(1)
Increase (decrease) in trade payables	**252**	(67)
Decrease in net tax assets	**(87)**	(188)
Increase in share-based payments	**59**	54
Decrease in net defined benefit obligation	**(31)**	(12)
Cash flows from operating activities	**(16)**	332

8.4 Share-based payments

Overview

Share-based payments are equity based compensation schemes provided to employees and executives. The company issues shares from time to time under an Employee Share and Option Plan (the Plan). Any full-time or part-time employee of the Group or any equally-owned joint venture who is offered shares or options is eligible to participate in the Plan.

8.4.1 Share schemes

A summary of the current deferred equity award plans together with the legacy deferred equity award plans is set out below.

Current deferred equity plans

PLAN	AVAILABLE TO	NATURE OF AWARD	VESTING CONDITIONS
Short-term incentive (STI) (2014-2015)	Executives and other key senior employees	• 67% delivered in cash (50% in the case of the Group CEO). • 33% deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO).	The conditional rights are deferred in two equal tranches. The first tranche vests two years and the second tranche vests three years after the original grant date. STI outcomes are subject to the achievement of: • the Group's ROE target; • individual performance ratings; and • for divisional staff, divisional return on allocated capital targets.
Long-term incentive (LTI) (2014-2015)	Executives	Conditional rights to fully paid ordinary QBE shares	The conditional rights are deferred in three equal tranches, vesting after three years (on achievement of performance conditions) and then one and two years after that date. Vesting is subject to performance conditions as follows: • 50% of each tranche is subject to the achievement of Group ROE performance targets over a three year performance period. • 50% of each tranche is subject to the performance of the Group's relative total shareholder return over a three year performance period.

Additionally, for current QBE deferred equity plans:

- Plan rules provide suitable discretion for the Remuneration Committee to adjust any formulaic outcome to ensure that awards made under the STI and LTI plans appropriately reflect performance.
- During the period from the grant date to the vesting date, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.
- Recipients must remain in the Group's service throughout the service period in order for the awards to vest, except in cases where good leaver provisions apply. Vesting is also subject to malus provisions.
- Good leaver provisions (e.g. retirement, redundancy, ill health, injury) apply and a pro-rata amount of conditional rights remain subject to the performance and vesting conditions.
- Once vested, conditional rights can be exercised for no consideration.

Legacy deferred equity plans

PLAN	AVAILABLE TO	NATURE OF AWARD	VESTING CONDITIONS
QBE Incentive Scheme (2010-2013)	Executives and other key senior employees	Conditional rights to fully paid ordinary QBE shares. The maximum deferred equity award was the lesser of 80% for executives and 66.67% for other key senior employees of the cash award earned or 100% of fixed remuneration for the financial year.	The conditional rights are deferred in two equal tranches, with the first tranche vesting over a three year service period from the grant date and the second over five years.
Deferred Compensation Plan (2009)	Executives and other key senior employees	Conditional rights to fully paid ordinary QBE shares, with the award based on the formula applicable to the QBE Incentive Scheme described above.	The vesting conditions were the same as the QBE Incentive Scheme described above.
Deferred Compensation Plan (2008 and prior)	Executives and other key senior employees	Conditional rights to fully paid ordinary QBE shares and options for ordinary QBE shares. The maximum deferred equity award was the lesser of 66.67% of the STI cash award or 100% of the fixed remuneration for the financial year. For option awards made up to and including 20 June 2005, interest-free loans were available to employees to subscribe for shares under relevant option awards. From 20 June 2005, only personal recourse loans were granted. From March 2009, the award of options and interest-free loans was discontinued.	Conditional rights vested over a three year service period. Options issued in 2004 and prior were exercisable after three years. Options issued in 2005 and thereafter were exercisable after five years. All options were exercisable for a period of 12 months.
Long-term Incentive plan legacy scheme (2013)	Executives	Conditional rights to fully paid ordinary shares	Conditional rights vested over a five year service period. Vesting is also subject to performance conditions as follows: • 50% of the award is subject to the Group's average diluted EPS increasing by a compound average of 7.5% per annum over the five year period. • 50% of the award is subject to the Group's average ROE and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium over the five year period.

Additionally, for legacy QBE deferred equity plans:

- The Remuneration Committee may exercise discretion when determining the vesting of awards.
- During the period from the grant date to the vesting date, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.
- Recipients must remain in the Group's service throughout the service period in order for the awards to vest. Vesting is also subject to malus provisions.
- Once vested, conditional rights can be exercised for no consideration.
- The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. This does not apply to the Deferred Compensation Plan (2008 and prior) and, in relation to the QBE Incentive Scheme, this only applies to awards made prior to 2012.

8.4.2 Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the year are as follows:

	2015 NUMBER OF RIGHTS	2014 NUMBER OF RIGHTS
At 1 January	**15,168,840**	8,547,007
Granted in the year	**7,327,623**	8,438,215
Dividends attaching in the year	**627,473**	289,266
Vested and transferred to employees in the year	**(1,884,686)**	(1,332,300)
Cancelled in the year	**(1,504,603)**	(773,348)
At 31 December	**19,734,647**	15,168,840
Weighted average share price at date of vesting of conditional rights during the year	**A$13.13**	A$12.29
Weighted average fair value of conditional rights granted during the year	**A$12.63**	A$11.23

8.4.3 Fair value of conditional rights

The fair value of conditional rights is determined using a binomial model. The fair value is recognised evenly over the service period ending at vesting date. For conditional rights granted during the year to 31 December 2015 and 31 December 2014, the following significant assumptions are used:

		2015	2014
Share price at grant date	A$	**10.35 – 14.44**	10.66 – 12.68
Fair value of instrument at grant date	A$	**10.38 – 14.60**	6.08 – 12.68
Expected life of instrument	Years	**0.1 – 5.0**	0.1 – 5.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

8.4.4 Employee Options

The market value of all shares underlying the options at the balance date is A$0.2 million (2014 A$21 million). During 2015, 1,865,979 options were cancelled or forfeited. At 31 December 2015, 17,000 remained (excluding notional dividends). The options were issued to employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

8.4.5 Share-based payment expense

Total expenses arising from share-based payment awards under the Plan amounted to $59 million (2014 $54 million). These amounts are included in underwriting and other expenses.

How we account for the numbers

The fair value of the employee services received in exchange for the grant of equity settled instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the conditional rights is calculated using a binomial model. The fair value of each instrument is recognised evenly over the service period ending at the vesting date. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance date, the Group revises its estimates of the number of instruments that are expected to become exercisable due to the achievement of vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity.

8.5 Key management personnel

Overview

AASB 124 Related Party Disclosures requires disclosure of the compensation of directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. This group is collectively defined as key management personnel. Details of key management personnel and their remuneration are shown in the Remuneration Report.

	2015 US$M	2014 US$M
Short-term employee benefits	**16,985**	19,442
Post-employment benefits	**173**	212
Other long-term employment benefits	**103**	20
Share-based payments	**7,637**	7,332
Termination benefits	**–**	2,040
	24,898	29,046

How we account for the numbers

Short-term employee benefits – profit sharing and bonus plans

A provision is recognised for profit sharing and bonus plans where there is a contractual obligation or where past practice has created a constructive obligation at the end of each reporting period. Bonus or profit sharing obligations are settled within 12 months from the balance date.

Post-employment benefits – defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays a fixed contribution into a fund during the course of employment and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are expensed as incurred.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using government bond yields with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the date:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of AASB 137 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

8.6 Defined benefit plans

Overview

Defined benefit plans are post-employment plans which provide benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS 2015 US$M	FAIR VALUE OF PLAN ASSETS 2014 US$M	PRESENT VALUE OF PLAN OBLIGATIONS 2015 US$M	PRESENT VALUE OF PLAN OBLIGATIONS 2014 US$M	NET RECOGNISED SURPLUSES (DEFICITS) 2015 US$M	NET RECOGNISED SURPLUSES (DEFICITS) 2014 US$M
Defined benefit plan surpluses							
Iron Trades insurance staff trust	31 Dec 15	**308**	320	**(264)**	(276)	**44**	44
Defined benefit plan deficits [1]							
Janson Green final salary superannuation scheme	31 Dec 15	**193**	205	**(196)**	(209)	**(3)**	(4)
QBE the Americas plan	31 Dec 15	**217**	215	**(258)**	(296)	**(41)**	(81)
Other plans [2]	31 Dec 15	**37**	44	**(60)**	(76)	**(23)**	(32)
		447	464	**(514)**	(581)	**(67)**	(117)

1 Defined benefit plan obligations are funded.

2 Other includes $10 million (2014 $10 million) of defined benefit post-employment healthcare plan obligations that are not funded.

The measurement of assets and liabilities in defined benefit plans makes it necessary to use assumptions about discount rates, expected future salary increases, investment returns, inflation and life expectancy. If actuarial assumptions differ materially from actual outcomes, this could result in a significant change in employee benefit expense recognised in profit or loss or in actuarial remeasurements recognised in other comprehensive income, together with the defined benefit assets and liabilities recognised in the balance sheet.

The Group does not control its defined benefit investment plans; they are managed by independent trustees. Nonetheless, the Group has agreed, as part of ongoing funding arrangements, that the trustees should manage their strategic asset allocation in order to minimise the risk of material adverse impact. In particular, the Group has agreed with the trustee to reduce the level of investment risk by investing in assets that match, where possible, the profile of the liabilities. This involves holding a mixture of government and corporate bonds. The Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is also appropriate.

The Group has not changed the processes used to manage its risks from previous periods. Investments are well diversified such that the failure of any single investment would not have a material impact on the overall level of assets.

The charge recognised in profit or loss in the year of $5 million (2014 $3 million) is included in underwriting expenses. Total employer contributions expected to be paid to the various plans in 2016 amount to $19 million.

How we account for the numbers

The surplus or deficit recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related superannuation liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, and are shown in other comprehensive income. Past service costs are recognised immediately in profit or loss.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

8.7 Remuneration of auditors

Overview

QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, the external auditor cannot provide the excluded services of preparing accounting records or financial reports or acting in a management capacity.

	2015 US$000	2014 US$000
PricewaterhouseCoopers (PwC) Australian firm		
Audit or review of financial reports of the ultimate parent entity	**1,244**	1,443
Audit of financial reports of controlled entities	**2,119**	2,630
Audit of statutory returns	**569**	694
Other assurance services	**305**	156
Taxation services	**190**	187
Actuarial services	**–**	18
Advisory services	**2,365**	2,458
	6,792	7,586
Related practices of PwC Australian firm (including overseas PwC firms)		
Audit of financial reports of controlled entities	**9,826**	9,611
Audit of statutory returns	**2,328**	2,343
Other assurance services	**200**	628
Taxation services	**1,881**	3,291
Advisory services	**705**	316
	14,940	16,189
	21,732	23,775
Audit and assurance services	**16,591**	17,505
Other services	**5,141**	6,270
	21,732	23,775
Other auditors		
Audit of financial reports of controlled entities	**238**	249

8.8 Ultimate parent entity information

Overview

The *Corporations Act 2001* requires the disclosure of summarised financial information for the ultimate parent entity, QBE Insurance Group Limited.

8.8.1 Summarised financial data of QBE Insurance Group Limited (the company)

	COMPANY 2015 US$M	COMPANY 2014 US$M
Profit after income tax for the year	**738**	791
Other comprehensive income for the year	**45**	42
Total comprehensive income	**783**	833
Assets due within 12 months [1]	**1,297**	730
Shares in controlled entities	**13,521**	14,315
Total assets	**14,818**	15,045
Liabilities payable within 12 months [2]	**2,291**	1,653
Borrowings	**1,739**	1,760
Total liabilities	**4,030**	3,413
Net assets	**10,788**	11,632
Share capital	**8,440**	9,391
Options reserve	**159**	129
Foreign currency translation reserve	**105**	351
Retained profits	**2,084**	1,761
Total equity	**10,788**	11,632

1 Includes amounts due from QBE Group companies of $349 million (2014 $244 million).
2 Includes amounts due to QBE Group companies of $2,192 million (2014 $1,589 million).

8.8.2 Guarantees and contingent liabilities

The company had the following contingent liabilities:

	COMPANY 2015 US$M	COMPANY 2014 US$M
Letters of credit issued in support of the Group's participation in Lloyd's of London	**1,463**	1,702
Letters of credit issued in support of insurance provisions of controlled entities	**1,088**	1,043
Guarantees to investors in capital securities [1]	**757**	1,018
Guarantees to investors in subordinated debt	**1,479**	1,506

1 Excludes capital securities owned by the ultimate parent entity.

Details of the guarantees to investors in capital securities and security arrangements in respect of borrowings are provided in note 5.1.

On 9 September 2015, QBE was served with a statement of claim alleging breaches of continuous disclosure and conduct obligations in relation to profit guidance issued for the year ended 31 December 2013. QBE rejects the allegations and is defending the claim. As at the date of this report, it is not possible to produce a reliable estimate of the potential financial effect arising from the claim, if any.

8.8.3 Tax consolidation legislation

The accounting policy in relation to the legislation is set out in note 6.2.4. On adoption of the tax consolidation legislation, the directors of the company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity.

Details of franking credits available to shareholders are shown in note 5.4

How we account for the numbers

The financial information of the ultimate parent entity of the Group has been prepared on the same basis as the consolidated financial report except for shares in controlled entities which are recorded at cost less a provision for impairment in the ultimate parent entity balance sheet.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 92 to 161 are in accordance with the *Corporations Act 2001*, including:

(i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

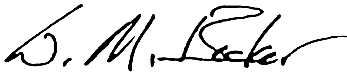
(ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

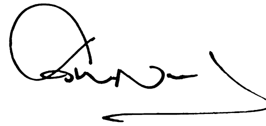
Note 1.2.1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in SYDNEY this 23rd day of February 2016 in accordance with a resolution of the directors.



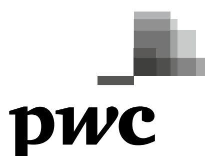
W. Marston Becker
Director



John Neal
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED



Report on the audit of the Financial Report

Our opinion

In our opinion:

The accompanying Financial Report of QBE Insurance Group Limited (the Company) and its subsidiaries (together the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's Financial Report comprises:

- the consolidated balance sheet as at 31 December 2015;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include summaries of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

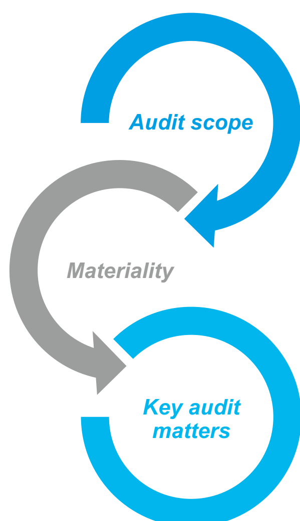
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

Overview



Audit scope

We conducted:

- An audit of the most significant operations being the North American Operations, European Operations, Equator Re and the material insurance operations within the Australian & New Zealand Operations
- Specific audit procedures in Emerging Markets and on other account balances to ensure we obtained sufficient appropriate audit evidence to express an opinion on the Group Financial Report as a whole

Materiality

- For the purposes of our audit, we used a threshold for overall Group materiality of $62 million which represents 0.5% of net earned premium

Key audit matters

- Valuation of net outstanding claims
- Valuation of goodwill in North America
- Recoverability of deferred tax assets in North America
- Valuation of investments

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Report. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Report as a whole, taking into account the structure of the Group, the significance and risk profile of each operation, the accounting processes and controls, and the industry in which the Group operates. We also ensured that the audit teams both at Group and at operational levels included the appropriate skills and competencies which are needed for the audit of a complex global insurer. This included industry expertise in insurance, as well as specialists and experts including IT auditors, actuarial, tax, treasury and valuation specialists.

We conducted an audit of the most significant operations being the North American Operations, European Operations, Equator Re and the material insurance operations within Australian & New Zealand Operations. These operations represent 86% of the Group by net earned premium, 89% of profit before tax and 89% of net assets. In addition, we performed specified audit procedures on certain account balances for a further five entities.

For the work performed by local auditors within PwC Australia or from other PwC network firms operating under our instructions, we determined the level of involvement we needed to have in the audit work at those locations to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. We kept in regular communication with audit teams throughout the year with phone calls, discussions and written instructions, where appropriate. Further, we visit the significant operations on a rotational basis and this year met with management and our local audit teams in New York, London and Sydney.

Further audit procedures were performed by the Group engagement team, including substantive and review procedures over the remaining balances and the consolidation process. The work carried out in the operations, together with these additional procedures performed at the Group level, provided us with sufficient evidence to express an opinion on the Group Financial Report as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the Financial Report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the Financial Report as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Report as a whole.

Overall group materiality	$62 million
How we determined it	0.5% of net earned premium
Rationale for the materiality benchmark applied	We chose net earned premium as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit and loss measures. We selected 0.5% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report for the current period. We have communicated the key audit matters to the Audit Committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Committee. In the table below we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

The key audit matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on each of these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter

Valuation of net outstanding claims – $15.4b

(Refer to Note 2.3)

We focused on this balance because of the complexity involved in the estimation process, and the significant judgements that management and the directors make in determining the balance.

Note 2.3 to the financial statements describes the elements that make up the net outstanding claims balance. We comment on the most judgemental aspects of these elements below.

a) Gross discounted central estimate – $17.3b

(Refer to Note 2.3.1)

Key audit matter	How our audit addressed the key audit matter
The estimation of outstanding claims involves significant judgement given the size of the liability and inherent uncertainty in estimating the expected future payments for claims incurred. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Group. There is generally less information available in relation to these claims. Classes of business where there is a greater length of time between the initial claim event and settlement (such as workers' compensation, professional indemnity and other liability classes) also tend to display greater variability between initial estimates and final settlement. The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate. The estimate of expected future payments is discounted to present value using a risk-free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle.	Our audit procedures included, amongst others, evaluating the design effectiveness and implementation of key actuarial controls, including key data reconciliations and management's review of the estimates. In addition, because historical claims data is a key input to the actuarial estimates, we tested controls and performed detailed substantive testing over claims case estimates and settlements. No significant issues arose in this area and so, in the context of our audit materiality, we were satisfied with the adequacy of the data used in the actuarial estimates. We performed a risk-based assessment to determine those classes of business where claims reserve estimates are higher risk. These included classes which inherently involve greater levels of judgement and have historically shown greater year on year variation over previous estimates. In order to challenge management's methodologies and assumptions, with particular focus on the higher risk areas, we: • Evaluated whether the Group's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. • Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Group's historical experience, current trends and our own industry knowledge. For some classes of business, we also performed our own independent actuarial projections and compared the results with management's estimates. Based on this work, we concluded that the methodologies and assumptions were materially consistent with our independent expectations and analysis. • Tested the discount applied for classes of business where there is a greater length of time between the initial claim event and settlement by territory and line of business. We were assisted by our own actuarial experts to understand and evaluate the Group's actuarial practices and the provisions established. We also considered the work and findings of external actuarial experts engaged by management to corroborate our own findings.

b) Reinsurance and other recoveries – $3.2b

(Refer to Note 2.3.2)

Key audit matter	How our audit addressed the key audit matter
The valuation of reinsurance assets requires a significant level of judgement, given its inherent dependence on underlying estimates of gross outstanding claims. In addition, significant management judgement may be required to ensure contractual terms on the most material contracts are correctly accounted for (such as the Group's aggregate large risk and catastrophe reinsurance program (GLRC)).	We obtained audit evidence over the data and actuarial processes for estimating reinsurance recoveries on outstanding claims by performing the same audit procedures as those outlined above for gross claims estimates. With regards to the GLRC contract, we gave particular focus to assessing and challenging management's estimate of claims that will be subject to recovery under the contract. We reviewed the work of management's actuarial experts, as well as directly testing some relevant claims.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Key audit matter	How our audit addressed the key audit matter
c) Risk margins and Probability of Adequacy (PoA) – $1.3b *(Refer to Note 2.3.3)*	
The net outstanding claims provision includes, in addition to the central estimate of the present value of the expected future payments, a risk margin which relates to the inherent uncertainty in that estimate. In determining the risk margin, management must make judgements about the variability of each class of business underwritten and the extent of correlation within each division and between different geographical locations. PoA is a measure of the estimated overall sufficiency of reserves including a risk margin in light of that variability.	We assessed the Board's approach to setting the risk margin, with a particular focus on the assessed level of uncertainty in the net central estimate leading to a change in the margin year on year. We have challenged these factors by considering the findings from our work performed on the net central estimate. We tested the Group's actuarial calculation of the PoA for reasonableness and consistency with previous valuations. This included understanding and testing the actuarial techniques applied by management, and comparing the results with industry benchmarks. We found the variability assumptions to be aligned with industry benchmarks and prior year.
Valuation of goodwill in North America – $1.5b *(Refer to Note 7.2.1)*	
We focused on goodwill in North America because the level of headroom between the valuation and the balance sheet carrying value remains limited following impairment in 2013. The carrying value is material, and the impairment test remains sensitive to a reasonably possible change in assumptions. The valuation is based on the Board approved business plan for North America. The most significant judgements relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular the terminal growth rate and the forecast combined operating ratios in the projection period and investment return assumptions.	We evaluated management's cash flow forecasts for North America and the process by which they were developed. We compared these forecasts to Board approved business plans and also compared previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We confirmed that the three year forecast used in the valuation model was consistent with the Board approved North America business plan, and that the key assumptions were subject to oversight from the directors. We tested the assumptions and methodologies used, in particular those relating to the discount rate and growth rates. To do this: • Our valuation experts evaluated these assumptions with reference to valuations of similar companies. • We compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates. • We applied sensitivities in evaluating the directors' assessment of the planned growth rate in cash flows, including forecast premium growth and combined operating ratios. We concluded that the growth rate assumptions were reasonable given historic results, economic outlook and industry forecasts. Further, the discount rate used by management was consistent with market data and industry research. In testing the valuation model: • We checked the calculations for mathematical accuracy, noting no exceptions. • We considered the sensitivity of the calculation by varying the assumptions and applying other values within a reasonably possible range for North America. We also used the work and findings of external valuation experts engaged by management to corroborate our own findings. As indicated in note 7.2.1 the impairment assessment remains sensitive to a range of assumptions, in particular to changes in the discount rate and achievement of forecast investment returns and combined operating ratios.

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets in North America – $0.6b *(Refer to Note 6.2.3)*	
We have focused on this balance because there has been a history of losses in North America, and as such, the recoverability of the deferred tax asset in North America is particularly sensitive to expectations about the future profitability of this business. This in turn depends on the achievement of underlying business plans. Significant judgement is required over the recoverability of deferred tax assets arising from past losses because the realisation of tax benefits is often dependent on future taxable profits and there are inherent uncertainties involved in forecasting such profits.	The ultimate recoverability of the tax losses depends upon both continued improvement in the profitability of the North American business, and the period over which the losses will be available for recovery. We focused on whether convincing evidence was available with regard to these two elements, as follows: • Evaluated the progress made by management in improving the profitability of the business to date, which includes the remediation of the causes of past losses through, amongst other things, business disposals, implementation of a revised capital structure to reduce funding costs and other expense reduction initiatives. We noted that progress has been made against each of these. • Assessed the credibility of the business plans used in the deferred tax asset recoverability assessment. These were based on the same three year forecast used in the goodwill valuation model, and were therefore assessed as part of our goodwill testing as outlined above. • Used our tax experts, who confirmed that the tax losses are legally available for up to 19 years.
Valuation of investments - $26.0b *(Refer to Note 3.2)*	
This is the largest asset on the balance sheet, representing 62% of total assets. Our audit effort has increased in this area as the Group's investment portfolio has become more diversified in recent years, with further strategic asset allocations to growth assets in 2015. In particular, there is significant focus in ensuring the underlying investments are valued appropriately. The valuation of financial investments held at fair value is based on a range of inputs. Many of the inputs required can be obtained from readily available liquid market prices and rates. Where observable market data is not available, for example, when determining the valuation of certain infrastructure debt, estimates must be developed based on the most appropriate source data and are subject to a higher level of judgement.	We performed the following audit procedures over the valuation of investments held by the Group: • We assessed the design and tested the implementation and operating effectiveness of the key controls over the investment function carried out by Group Investments, which is responsible for managing the majority of investments for the Group. • We assessed the Group's valuation of individual investment holdings. Where readily observable data was available, we sourced that independently. For investments where there was less or little observable market data, including level 3 holdings as disclosed in note 3.2.1, we obtained and assessed other relevant valuation data or carried out our own independent valuations. No material variances arose from performing this work.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Responsibilities of the directors for the Financial Report

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

In preparing the Financial Report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Financial Report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information

The other information comprises the information included in the Group's Annual Report for the year ended 31 December 2015, other than the Financial Report and our Auditor's Report thereon. The directors are responsible for the other information.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 58 to 88 of the Directors' Report for the year ended 31 December 2015.

In our opinion, the Remuneration Report of QBE Insurance Group Limited, for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

RJ Clark
Partner

SJ Hadfield
Partner

Sydney
23 February 2016

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange (ASX) and trades under the code "QBE".

Registered office

QBE Insurance Group Limited
Level 27, 8 Chifley Square
Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444
Facsimile: +61 2 9231 6104

Website: www.qbe.com

QBE website

QBE's website provides investors with information about QBE including the annual report, annual review, corporate governance statement, sustainability report, half yearly report and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a history of QBE's dividend and online access to your shareholding details via the share registry.

Shareholder information and enquiries

Enquiries and correspondence regarding shareholdings can be directed to QBE's share registrar:

Computershare Investor Services Pty Limited (Computershare)
GPO Box 2975
Melbourne VIC 3001 Australia

452 Johnston Street
Abbotsford VIC 3067 Australia

Telephone: 1300 723 487 (Australia)
Telephone: +61 3 9415 4840 (International)

Web: www.computershare.com.au
Email: qbe.queries@computershare.com.au

For security purposes, please quote your Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Computershare cannot assist you with these changes.

Shareholding details online

Manage your shareholding online by visiting QBE's share registrar, Computershare. Log onto www.investorcentre.com.au to view your holding balance and dividend statements, to update your address (if you are registered with an SRN) or direct credit instructions, provide DRP or BSP instructions or change/add your TFN/ABN details.

You may also register to receive shareholder documentation electronically including dividend statements, notices of meetings, annual reports and major company announcements.

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Computershare's website.

Relevant interests register

Nasdaq OMX Pty Ltd of Level 8, 155 George Street, Sydney NSW 2000 Australia maintains QBE's register of information about relevant interests. Shareholders and other parties can telephone Nasdaq OMX on +61 2 8076 2600 or facsimile on +61 2 8076 2601 if they wish to inspect this register.

American Depository Receipts (ADRs)

BNY Mellon sponsors QBE's level 1 American Depository Receipts Program (ADR) in the United States of America. QBE's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol QBIEY and CUSIP: 74728G605. One ADR represents one ordinary share in QBE. US OTC market information is available at: www.otcmarkets.com/stock/QBIEY/quote.

QBE's ADR information with BNY Mellon can also be viewed at: http://www.adrbnymellon.com/dr_profile.jsp?cusip=74728G605#

ADR holders seeking information on their shareholding should contact:

BNY Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516 USA

Telephone number (toll free): 1 888 BNY ADRS (1 888 269 2377) (within the USA)
Telephone: +1 201 680 6825 (outside the USA)

Email: shrrelations@bnymellon.com

Dividends

QBE pays cash dividends to shareholders resident in Australia, New Zealand, the UK and the US by direct credit. The benefit to shareholders of the direct credit facility is access to cleared funds quickly and securely – reducing the risk of cheques being lost or stolen. Shareholders in other countries will receive cheque payments in Australian dollars. Shareholders receive a dividend statement for tax records, either by post or by email depending on the selected communications option.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) when the plans are active. The DRP enables you to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, you must have a minimum shareholding of 100 shares.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Tax File Number (TFN), Australian Business Number (ABN) or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting Computershare's Investor Centre. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Computershare of their resident status. TFN forms are available from Computershare's Investor Centre.

Conduit foreign income (CFI)

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Unpresented cheques/unclaimed money

Under the *Unclaimed Moneys Act*, unclaimed dividends must be given to the New South Wales state treasury. It is very important that shareholders bank outstanding dividend cheques promptly and advise Computershare immediately of changes of address or bank account details.

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
28 March 2013	Final	8 March 2013	10	100
23 September 2013	Interim	2 September 2013	20	100
31 March 2014	Final	13 March 2014	12	100
23 September 2014	Interim	29 August 2014	15	100
13 April 2015	Final	6 March 2015	22	100
2 October 2015	Interim	28 August 2015	20	100
14 April 2016	Final	11 March 2016	30	100

Annual General Meeting (AGM)

The Annual General Meeting of QBE Insurance Group Limited will be held at 10.00am on Wednesday, 4 May 2016 in the James Cook Ballroom, Hotel Intercontinental, 117 Macquarie Street, Sydney, NSW 2000.

The AGM will be webcast live on the internet at www.qbe.com/investorcentre/annualgeneralmeeting and an archive copy uploaded for later viewing.

Voting rights of ordinary shares

The constitution provides for votes to be cast:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

Annual Report mailing list

Amendments to the *Corporations Act 2001* have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, the Annual Report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the Annual Report, please update your Communication preferences at the Computershare Investor Centre.

QBE does not produce a concise financial report.

Shareholder information CONTINUED

Top 20 shareholders as at 31 January 2016

NAME	NUMBER OF SHARES	% OF TOTAL[1]
HSBC Custody Nominees (Australia) Limited	382,964,287	27.93
JP Morgan Nominees Australia Limited	226,876,441	16.54
National Nominees Limited	166,827,117	12.17
Citicorp Nominees Pty Limited	95,623,469	6.97
BNP Paribas Nominees Pty Ltd (DRP)	68,471,148	4.99
RBC Investor Services Australia Nominees Pty Limited (PI Pooled A/C)	22,757,652	1.66
Citicorp Nominees Pty Limited (Colonial First State Investment A/C)	22,382,122	1.63
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	16,966,102	1.24
AMP Life Limited	10,278,833	0.75
HSBC Custody Nominees (Australia) Limited (Commonwealth Super Corp A/C)	8,470,723	0.62
Australian Foundation Investment Company Limited	7,612,851	0.56
Argo Investments Limited	5,020,491	0.37
UBS Nominees Pty Ltd	4,894,482	0.36
UBS Wealth Management Australia Nominees Pty Ltd	3,672,887	0.27
RBC Investor Services Australia Nominees Pty Limited (PIIC A/C)	3,441,771	0.25
Milton Corporation Limited	2,618,375	0.19
RBC Investor Services Australia Nominees Pty Limited (MBA A/C)	2,515,202	0.18
Navigator Australia Ltd (MLC Investment Settlement A/C)	2,439,165	0.18
BNP Paribas Nominees Pty Ltd (Agency Lending Collateral)	2,174,000	0.16
Nulis Nominees (Australia) Limited (Navigator Master Plan Settlement A/C)	1,992,051	0.15
	1,057,999,169	77.17

1 Percentage of total at date of notice.

QBE substantial shareholders as at 31 January 2016

At 31 January 2016, QBE Insurance Group Limited had no substantial shareholders.

Distribution of shareholders and shareholdings as at 31 January 2016

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 1,000	71,959	53.89	31,559,827	2.30
1,001 to 5,000	50,884	38.11	111,324,240	8.12
5,001 to 10,000	6,859	5.14	47,675,086	3.48
10,001 to 100,000	3,678	2.75	74,510,580	5.43
100,001 and over	147	0.11	1,106,200,606	80.67
Total	133,527	100.00	1,371,270,339	100.00

Shareholdings of less than a marketable parcel as at 31 January 2016

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 40 or fewer shares	5,126	3.84%	112,166	0.01%

Financial calendar

YEAR	MONTH	DAY	ANNOUNCEMENT
2016	February	23	Profit and dividend announcement for the year ended 31 December 2015
	March	10	Shares begin trading ex dividend
		11	Record date for determining shareholders' entitlement to 2015 final dividend
	April	14	2015 final dividend paid
	May	4	Annual General Meeting
	June	30	Half year end
	August	17 [1]	Profit and dividend announcement for the six months ending 30 June 2016
		25 [1]	Shares begin trading ex dividend
		26 [1]	Record date for determining shareholders' entitlement to 2016 interim dividend
	September	28 [1]	2016 interim dividend paid
	December	31	Year end

1 Dates shown may be subject to change.

10 year history

FOR THE YEAR ENDED 31 DECEMBER

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross written premium	US$M	**15,092**	16,332	17,975	18,434	18,291	13,629	11,239	11,015	10,391	7,839
Gross earned premium	US$M	**14,922**	16,521	17,889	18,341	17,840	13,432	10,943	10,773	10,353	7,610
Net earned premium	US$M	**12,314**	14,084	15,396	15,798	15,359	11,362	9,446	9,293	8,552	6,166
Claims ratio	%	**60.3**	63.2	64.5	66.0	68.2	59.9	60.3	57.6	54.3	55.8
Commission ratio	%	**17.2**	16.8	16.8	16.2	14.9	15.5	16.2	17.2	18.5	17.0
Expense ratio	%	**17.3**	16.1	16.5	14.9	13.7	14.3	13.1	13.7	13.1	12.5
Combined operating ratio	%	**94.9**	96.1	97.8	97.1	96.8	89.7	89.6	88.5	85.9	85.3
Investment income											
before investment gains/losses	US$M	**541**	676	691	723	948	658	832	1,237	837	576
after investment gains/losses	US$M	**665**	814	772	1,227	767	657	1,153	1,199	1,130	733
Insurance profit	US$M	**1,031**	1,074	841	1,262	1,085	1,703	1,609	1,830	1,895	1,351
Insurance profit to net earned premium	%	**8.4**	7.6	5.5	8.0	7.1	15.0	17.0	19.7	22.2	21.9
Financing and other costs	US$M	**244**	297	345	324	275	222	191	223	189	115
Operating profit (loss)											
before income tax	US$M	**953**	931	(448)	941	868	1,551	1,891	2,028	2,135	1,521
after income tax and non-controlling interests	US$M	**687**	742	(254)	761	704	1,278	1,532	1,558	1,612	1,121
Number of shares on issue [1]	millions	**1,370**	1,363	1,247	1,194	1,112	1,048	1,020	982	881	812
Shareholders' funds	US$M	**10,505**	11,030	10,356	11,358	10,386	10,311	9,164	7,834	7,435	4,962
Total assets	US$M	**42,176**	45,000	47,271	50,748	46,737	41,386	36,723	33,967	34,737	25,079
Net tangible assets per share [1]	US$	**5.07**	5.32	4.75	4.49	3.93	4.78	4.64	4.04	6.02	4.74
Borrowings to shareholders' funds	%	**33.6**	32.5	44.1	43.4	45.8	31.5	29.1	32.9	40.8	37.6
Basic earnings per share [1]	US cents	**50.3**	57.4	(22.8)	65.1	64.9	123.7	152.8	175.0	189.0	140.9
Basic earnings per share – cash basis [2]	US cents	**65.3**	63.5	62.9	89.1	73.0	127.7	156.4	177.2	190.5	141.8
Diluted earnings per share	US cents	**49.8**	55.8	(22.8)	61.6	61.3	119.6	149.9	172.2	181.8	131.1
Return on average shareholders' funds	%	**6.4**	6.9	(2.3)	7.0	6.8	13.1	18.0	22.3	26.0	25.8
Dividend per share	Australian cents	**50**	37	32	50	87	128	128	126	122	95
Dividend payout	A$M	**685**	492	394	593	956	1,336	1,306	1,187	1,068	774
Total investment and cash [3]	US$M	**26,708**	28,583	30,619	31,525	28,024	25,328	22,448	19,995	21,552	15,755

1 Reflects shares on an accounting basis.

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

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

Glossary of insurance terms

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Attritional claims ratio	Total of all claims with a net cost of less than $2.5 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Cash profit	Net profit after tax attributable to QBE shareholders, adjusted for the post-tax effect of amortisation and impairment of intangibles and other non-cash items. This definition is used for the purpose of the Group's dividend policy.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Coefficient of variation	The measure of variability in the net discounted central estimate used in the determination of the probability of adequacy.
Combined operating ratio	The sum of the net claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.
Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.

Glossary of insurance terms CONTINUED

Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium (GEP)	The proportion of gross written premium recognised as income in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	See Reinsurance.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of $2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on the part of the borrower on a residential property loan.
Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Lender-placed insurance (LPI)	Coverage obtained by the lender when the customer's voluntary home building insurance has lapsed, been cancelled or proof of the customer's insurance has not been received. Coverage is required by the mortgage contract to protect the lender's interest in the property if damage was to occur and the customer had not maintained adequate coverage.
Letters of credit (LoC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Maximum event retention (MER)	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
Modified duration	The weighted average term of cash flows in a bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.
Multi-peril crop scheme	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.

Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium.
Net investment income	Gross investment income including foreign exchange gains and losses and net of investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
Policyholders' funds	Those financial assets held to fund the net insurance liabilities of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Premium 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.
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.
RoAC	Return on allocated capital.
ROE	Group statutory net profit after tax as a percentage of average shareholders' funds.
RTSR	Relative total shareholder return.
Short tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.

Glossary of insurance terms CONTINUED

Surplus (or excess) lines insurers	In contrast to “admitted insurers”, every US state also allows non-admitted (or “surplus lines” 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.
Syndicate	A member or group of members underwriting insurance business at Lloyd’s through the agency of a managing agent.
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.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
VWAP	Volume weighted average price.
Written premium	Premiums written, whether or not earned, during a given period.

Designed and produced by ArmstrongQ

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