QBE Insurance Group Limited
ABN 28 008 485 014
Head Office
82 Pitt Street
SYDNEY NSW 2000
Australia
Postal Address
Box 82 GPO SYDNEY 2001
Telephone: +61 (2) 9375 4444
Facsimile: +61 (2) 9231 6104
DX 10171, Sydney Stock Exchange

17 August 2012

The Manager
Company Announcements
ASX Limited
Level 6
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Report on results and financial statements for the half year ended 30 June 2012

The Directors of QBE Insurance Group Limited announce the financial results for the half year ended 30 June 2012.

The following documents are attached:

1. Appendix 4D – half year report; and

2. QBE's half year report including financial statements for the half year ended 30 June 2012.

Yours faithfully

D Ramsay

Duncan Ramsay
Company Secretary

Encls.

QBE Insurance Group Limited

ABN 28 008 485 014

Appendix 4D – Half year report to 30 June 2012

Contents

QBE Insurance Group Limited

Results for announcement to the market

Half year ended 30 June				2012 US$M
Revenue from ordinary activities	Down	2%	to	8,929
Profit after income tax attributable to ordinary equity holders of the company	Up	13%	to	760
Net profit for the period attributable to ordinary equity holders of the company	Up	13%	to	760

Dividends	Amount per security (Australian cents)	Franked amount per security (Australian cents)
Interim dividend	40.0	6.0
Record date for determining entitlements	30 August 2012	

The interim dividend will be paid on 24 September 2012.
The dividend reinvestment plans (DRP) will continue but at a 1.5% discount compared with 2.5% for the 2011 final dividend.
The DRP issue price will be based on a volume weighted average share price over a ten day trading period from 24 August to 6 September 2012, inclusive.
Shareholders will receive conduit foreign income credits for the unfranked portion of the dividend.

Brief explanation of any of the figures reported above:

The results for the period to 30 June 2012 are presented in US dollars reflecting the fact that a significant proportion of QBE's underwriting activity is denominated in US dollars and because the US dollar is widely understood by international investors and analysts.

Profit after tax was US$760 million for the period to 30 June 2012 compared with $673 million for the same period last year, an increase of 13%. Underwriting profit increased by 79% compared with the same period last year mainly due to a significantly lower cost for large individual risk and catastrophe claims in the period. Net profit after tax benefited from an increase in investment income due to an increase in realised and unrealised gains on our fixed interest and equity portfolios. It was also was impacted by a net increase of $33m in the amortisation of identifiable intangibles following the integration of brand names and distribution, particularly in North America.

Other information

During the period, QBE Insurance Group Limited held an interest in the following associates: Pacific Re Limited (30.97%); QBE Del Istmo Reinsurance Company Inc (38.37%) and Raheja QBE General Insurance Company (26%). The Group's aggregate share of profits of these entities is not material.

QBE Insurance Group Limited

Appendix 4D requirements within the half year report

Requirement	Page number	Note number/reference
1. Details of the reporting period and the previous corresponding period	All statement and note headings	
2. Net tangible assets per security (incl. comparatives)	54	Historical review
3. Details of entities over which control has been gained or lost during the period	50	12
4. Details of dividend payments and dividend plans	49	8

Attachment A

QBE Insurance Group Limited

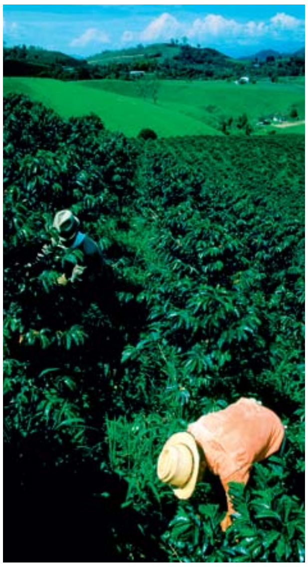
Half year report to 30 June 2012

QBE INSURANCE GROUP

HALF YEAR REPORT TO 30 JUNE 2012










CONTENTS

QBE Insurance Group is Australia's largest international general insurance and reinsurance group and one of the top 20 insurers and reinsurers worldwide as measured by net earned premium, with operations in 50 countries and in all key insurance markets.

The cover of the half year report depicts images from the various countries in Latin America in which QBE has operations. QBE's Latin American operations now comprise seven countries across Central and South America, with a focus on specialised classes of business. We are the third largest insurer in Argentina, the largest insurer in Ecuador, the largest underwriter of personal injury insurance in Colombia, a developer of select micro insurance products in Brazil and one of the most profitable underwriters of small to medium enterprise business in Mexico. The Latin American division has grown significantly over the past 10 years through organic growth in targeted segments and acquisitions. We believe that access to our broad customer base through a variety of distribution models and the expansion of our product lines are key to our success in these competitive and fast growing markets. In May 2012, we progressed our objective of accessing established distribution channels through a 10-year bancassurance agreement wherein QBE will become the exclusive provider and underwriter of general insurance products to HSBC Group customers in Argentina. The Latin American division is expected to write gross premium of $1.2 billion in 2012.

PERFORMANCE AT A GLANCE

The increased insurance profit before tax of $958 million, up 26% compared with the same period last year, reflects the reduced level of large individual risk and catastrophe claims, a fall in the attritional claims ratio and a strong investment performance. Net profit after tax was up 13% to $760 million compared with $673 million for the same period last year.

KEY FINANCIAL HIGHLIGHTS

- Net profit after tax up 13% to $760M
- Insurance profit up 26% to $958M with an insurance margin of 13.0% (2011 11.2%)
- COR of 92.9% (2011 95.7%)
- Current accident year attritional claims ratio of 48.5% (2011 49.3%)
- Cost of large risk and catastrophe claims for 2012 significantly lower than the same period last year
- GWP growth in line with target, up 3% to $9,223M
- Interim dividend payout of A$473M or 64% of NPAT

PROFIT AND DIVIDEND

for the half year ended 30 June		2012	2011	% CHANGE
Net profit after income tax	US$M	**760**	673	13
Return on average shareholders' funds	%	**13.9**	12.5	
Basic earnings per share(1)	US cents	**67.5**	62.8	7
Diluted earnings per share	US cents	**63.1**	59.9	5
Interim dividend per share	Australian cents	**40.0**	62.0	(35)
Dividend payout	A$M	**473**	677	(30)

GROUP OPERATING PERFORMANCE

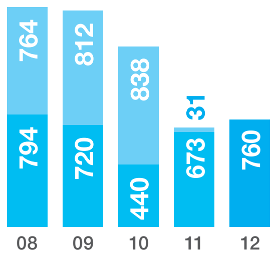
for the half year ended 30 June		2012	2011	% CHANGE
Gross written premium	US$M	**9,223**	8,942	3
Net earned premium	US$M	**7,359**	6,778	9
Underwriting profit	US$M	**522**	291	79
Combined operating ratio (COR)	%	**92.9**	95.7	
Insurance profit	US$M	**958**	762	26
Insurance profit margin	%	**13.0**	11.2	
Cash flow from operations	US$M	**842**	1,121	(25)

(1) Reflects shares notified to the Australian Securities Exchange. Refer to note 7 to the financial statements.

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

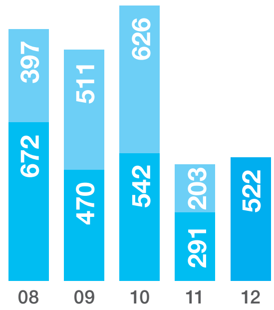
NET PROFIT AFTER INCOME TAX

$**760** million
up **13**%



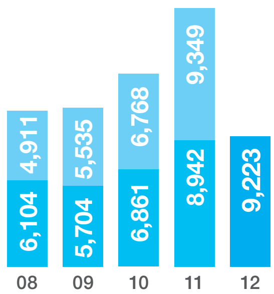
UNDERWRITING PROFIT

$**522** million
up **79**%



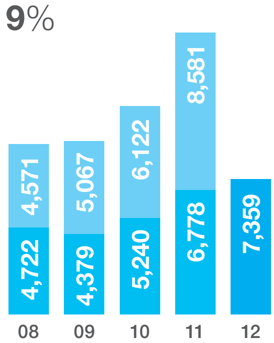
GROSS WRITTEN PREMIUM

$**9,223** million
up **3**%



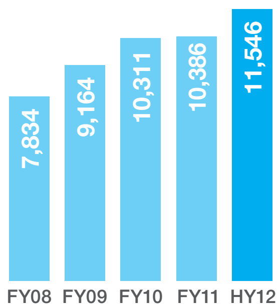
NET EARNED PREMIUM

$**7,359** million
up **9**%



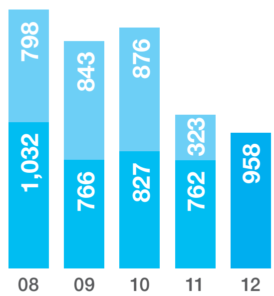
SHAREHOLDERS' FUNDS

$**11,546** million
up **11**%



INSURANCE PROFIT

$**958** million
up **26**%



2nd half year results

OPERATING AND FINANCIAL PERFORMANCE

A solid insurance profit of $958 million benefited from the reduced level of natural catastrophes and a lower attritional claims ratio as the impact of premium rate increases begin to emerge. Claims provisions were upgraded for underperforming and run-off portfolios and crop business in North America and to offset the adverse impact of the widening gap between inflation assumptions and lower risk-free interest rates used to discount outstanding claims, particularly for long-tail classes of business.

Premium growth was on target, benefiting from the acquisitions completed last year and a higher than expected increase in premium rates. The underwriting results for our operating divisions reflected the benefit of a lower level of catastrophe claims, in part due to a reduced frequency and severity of catastrophe losses compared with 2011, but also reflecting our actions to reduce exposures in catastrophe-exposed areas.

Investment return for the half year was excellent despite the continuing volatility in investment markets, with investment income ahead of target and yields exceeding benchmarks. The cautious management of our many investment portfolios enabled us to take advantage of opportunities to lock in gains and reposition the portfolios to reduce our exposure to market volatility.

Our underwriting improvement plans are focused on eliminating underperforming business and reducing exposure to some catastrophe-exposed portfolios. These portfolio improvement initiatives combined with average premium rate increases of 5% on renewed business, the significant allowance of 10.5% of net earned premium in our projections for large individual risk and catastrophe claims and improved market conditions will benefit the full year underwriting result.

RESULTS

Summary income statement

	HALF YEAR ENDED		YEAR ENDED
	30 JUNE 2012 US$M	30 JUNE 2011 US$M	31 DECEMBER 2011 US$M
Gross written premium	**9,223**	8,942	18,291
Gross earned premium	**8,404**	7,834	17,840
Net earned premium	**7,359**	6,778	15,359
Net claims incurred	**(4,528)**	(4,470)	(10,466)
Net commission	**(1,235)**	(1,069)	(2,291)
Underwriting and other expenses	**(1,074)**	(948)	(2,108)
Underwriting profit	**522**	291	494
Net investment income on policyholders' funds	**436**	471	591
Insurance profit	**958**	762	1,085
Net investment income on shareholders' funds	**247**	186	185
Financing and other costs	**(166)**	(114)	(275)
Share of net profits of associates	**3**	2	6
Amortisation of intangibles and impairment of goodwill/intangibles	**(128)**	(60)	(133)
Profit before income tax	**914**	776	868
Income tax expense	**(148)**	(95)	(149)
Profit after income tax	**766**	681	719
Net profit attributable to non-controlling interests	**(6)**	(8)	(15)
Net profit after income tax	**760**	673	704

NET PROFIT AFTER TAX

Net profit after tax was $760 million compared with $673 million for the same period last year, an increase of 13%. The higher profit was largely due to strong net investment income before foreign exchange gains and losses and a lower cost for natural catastrophe claims. These were partly offset by further costs from 2011 catastrophes. Amortisation of identifiable intangibles was up $68 million to $128 million. The increase reflected the impact of our 2011 and 2012 acquisitions and a $50 million accelerated amortisation of brand and distribution assets following changes to our North American business, particularly initiatives to promote the QBE name and changes in distribution. Details of significant items affecting the half year results before tax are set out in the following table.

Significant items in profit before tax

for the half year ended 30 June	2012 US$M	2011 US$M
Realised and unrealised gains on cash and interest bearing investments	**259**	93
Cost of large individual risk and catastrophe claims (current accident year)	**(592)**	(1,080)
Foreign exchange (losses) gains	**(3)**	150
Amortisation of identifiable intangibles	**(128)**	(60)
Deterioration of prior accident year claims provisions	**(117)**	9

INTERIM DIVIDEND

In line with our dividend policy designed to preserve capital and allow for future growth, the interim dividend will be 40 Australian cents per share compared with 62 Australian cents for the 2011 interim dividend, representing a payout of 64% of the 2012 half year net profit after tax. The dividend reinvestment programs continue, however, at a lower discount of 1.5%. The dividend will be franked at the rate of 15% and is due for payment on 24 September 2012.

UNDERWRITING PERFORMANCE

Key ratios – Group

for the half year ended 30 June		2012	2011
Claims ratio	%	**61.5**	65.9
Commission ratio	%	**16.8**	15.8
Expense ratio	%	**14.6**	14.0
Combined operating ratio	%	**92.9**	95.7
Insurance profit margin	%	**13.0**	11.2

Historical overview

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	US$M	**9,223**	8,942	18,291	13,629	11,239
Net earned premium	US$M	**7,359**	6,778	15,359	11,362	9,446
Combined operating ratio	%	**92.9**	95.7	96.8	89.7	89.6
Insurance profit	US$M	**958**	762	1,085	1,703	1,609
Insurance profit margin	%	**13.0**	11.2	7.1	15.0	17.0

Underwriting profit

Underwriting profit was $522 million and the combined operating ratio was 92.9%. This compares with $291 million and a combined operating ratio of 95.7% for the same period last year. The combined operating ratio was higher than our target of less than 90% due to the significant items identified in the table on page 4 and, in part, due to increased commission and expenses. Due to the pattern of recognition of premium, the Group's combined commission and expense ratio will typically be higher in the first half of the year.

The divisions' combined operating ratios and insurance profits are set out in the table below.

Divisional performance

Contributions by region

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
for the half year ended 30 June	2012 US$M	2011 US$M	2012 US$M	2011 US$M	2012 %	2011 %	2012 US$M	2011 US$M
North American operations	**3,228**	3,144	**1,609**	1,572	**94.3**	88.3	**129**	264
Latin American operations	**512**	380	**422**	302	**92.7**	92.1	**59**	39
European operations	**2,748**	2,824	**1,557**	1,529	**95.0**	95.4	**175**	199
Australian and New Zealand operations	**2,470**	2,360	**2,027**	1,815	**91.4**	103.2	**374**	102
Asia Pacific operations	**265**	234	**182**	183	**91.2**	79.8	**19**	47
Equator Re	**2,093**	2,021	**1,562**	1,377	**91.5**	97.5	**202**	111
Elimination – internal reinsurance	**(2,093)**	(2,021)	**–**	–	**–**	–	**–**	–
Group	**9,223**	8,942	**7,359**	6,778	**92.9**	95.7	**958**	762
Direct and facultative	**8,115**	7,750	**6,709**	6,178	**93.4**	94.4	**823**	750
Inward reinsurance	**1,108**	1,192	**650**	600	**87.7**	108.2	**135**	12
Group	**9,223**	8,942	**7,359**	6,778	**92.9**	95.7	**958**	762

Detail on divisional insurance profitability is provided in the reports on pages 16 to 32.

Worldwide portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2012 %	2011 %
Property	**23.0**	22.2
Motor and motor casualty	**16.0**	16.9
Householders	**12.9**	10.5
Public/product liability	**11.4**	13.5
Workers' compensation	**8.1**	7.9
Marine, energy and aviation	**7.6**	7.7
Financial and credit	**5.8**	5.8
Agriculture and bloodstock	**5.4**	5.4
Accident and health	**4.6**	4.1
Professional indemnity	**4.2**	4.9
Other	**1.0**	1.1

Segmental analysis

GROSS EARNED PREMIUM for the half year ended 30 June	2012 %	2011 %
North American operations	**36.3**	35.4
Australian and New Zealand operations	**27.9**	28.3
European operations	**27.0**	28.6
Latin American operations	**5.9**	4.9
Asia Pacific operations	**2.9**	2.8

Market conditions

The record level of catastrophes in 2011, the lower investment yields currently prevailing and the higher cost of reinsurance protections have resulted in many insurers increasing premium rates, particularly in Australia, New Zealand and the US. QBE Group has averaged an overall increase in premium rates on renewed business of 5% and increased deductibles on property classes of business. We continued to achieve high customer retention rates of around 80% on the business that we offered for renewal. The UK and mainland Europe remain competitive, particularly for property and liability insurance. Long-tail liability portfolios remain resistent to pricing adjustments, despite the lower interest rate environment.

We have undertaken due diligence on a number of growth opportunities during the half year and completed four acquisitions as set out in the table below.

2012 acquisitions

ACQUISITIONS	ANNUALISED GROSS WRITTEN PREMIUM US$M
Optima – Puerto Rico	44
HSBC Insurance La Buenos Aires Seguros SA – Argentina	600
Hang Seng Bank general insurance operations – Hong Kong	75
Brit regional renewal rights – UK	280

Premium income

Gross written premium was up 3% to $9,223 million (or up 5% in local currencies) and net earned premium up 9% to $7,359 million (or up 10% in local currencies). Premium growth was largely achieved from the acquisitions completed in the past 18 months, including the Balboa lender-placed homeowners insurance business in the US, Optima Insurance in Puerto Rico and HSBC Argentina as well as premium rate increases achieved in many markets. Management action on some catastrophe-exposed portfolios resulted in lower premium income, particularly in some property classes of business. Gross written premium for our US crop and lender-placed homeowners business was in line with our lower target in 2012.

Gross written premium benefited from higher average renewal rates with overall premium rate increases on renewed business of 9% in Australia and New Zealand, 1% in Asia Pacific, 3% in Europe and 6% in the US excluding crop insurance. Premium rate increases exclude the benefit of improved terms and conditions and deductibles imposed on some portfolios.

Reinsurance expense

The cost of reinsurance reduced from 13.5% for the same period last year to 12.4% of gross earned premium. The lower expense was mainly due to premium rate increases on inward business more than offsetting the slightly higher cost of reinsurance on covers outside of our worldwide reinsurance programs.

Our maximum event retention from a single catastrophe is currently 4.2% of forecast 2012 net earned premium. This compares with 3.8% at 31 December 2011. The 2012 half year result includes reinsurance written premium of $140 million for aggregate protections against an accumulation of catastrophe claims of $200 million in excess of $1 billion and an accumulation of large individual risk claims of $180 million in excess of around $400 million. The worldwide reinsurance programs entered into in late 2010 for 2011 to 2013 continue to provide substantial benefits for QBE.

Claims experience

Net claims incurred reduced from 65.9% to 61.5% of net earned premium despite a $105 million adverse impact from lower risk-free interest rates used to discount our claims liabilities.

The attritional claims ratio, comprising individual claims of less than $2.5 million for the 2012 accident year, including incurred but not reported losses (IBNR), was 48.5% compared with 49.3% for the first half of 2011. The attritional claims ratio is yet to fully reflect the positive impact from the premium rate increases which are expected to flow through in the second half of 2012 and especially in 2013.

Large individual risk and catastrophe claims for the current accident year, including an allowance for IBNR, were 8.0% of net earned premium compared with 15.9% for the same period last year. Although there was a more normal level of catastrophes in the first half compared with the same period last year, allowances for IBNR are substantially higher than this time last year, being $265 million compared with $68 million at 30 June 2011. Large individual risk and catastrophe claims are defined as claims with a cost of $2.5 million and above.

The net incurred claims ratio includes the impact of $117 million of deterioration in the net claims provision established at 31 December 2011, including additional claims for the Thailand floods, New Zealand earthquakes and Brisbane floods. In addition, we have strengthened claims provisions by $135 million to reflect the widening gap between inflation and risk-free interest rates used to discount our long-tail liability portfolios in Europe; to upgrade provisions for underperforming and run-off portfolios; and to reflect the expected ultimate cost of crop claims in the US. Risk margins have been retained at a level to achieve a probability of adequacy of 86.0% for our outstanding claims provision.

Reconciliation of undiscounted central estimate to discounted net incurred claims

	HALF YEAR ENDED 30 JUNE 2012			HALF YEAR ENDED 30 JUNE 2011		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Undiscounted central estimate	**4,153**	**117**	**4,270**	4,420	(9)	4,411
Movement in discount	**(151)**	**284**	**133**	(228)	228	–
Movement in risk margins	**361**	**(380)**	**(19)**	273	(366)	(93)
Claims settlement costs and other movements	**144**	**–**	**144**	160	(8)	152
Net incurred claims – discounted	**4,507**	**21**	**4,528**	4,625	(155)	4,470

Large catastrophe claims in excess of $10 million in 2012

CATASTROPHE	NET CLAIMS US$M
US tornadoes	**48**
Western Australia storms	**21**
Italian earthquake	**20**
Victoria and NSW floods	**14**

Commission and expenses

The combined commission and expense ratio was 31.4% of net earned premium compared with 29.8% for the same period last year. The increase was largely due to a change in the mix of business from recent acquisitions, the integration costs of Balboa in North America and increased staff and IT costs from systems and change initiatives. The combined commission and expense ratio is expected to improve in the second half of the year due to the seasonality of premium earning, particularly for US crop business where approximately 89% of the forecast net premium for the full year is earned in the second half of the year.

The commission ratio was 16.8% compared with 15.8% for the same period last year, with the increase mainly from higher commissions on broker-placed business for some European and Australian business and the change in business mix.

The expense ratio increased from 14.0% to 14.6% mainly due to costs associated with the Balboa acquisition. As discussed in the outlook section of this report, we expect the expense ratio to reduce in the second half due to higher net earned premium, mainly from US crop premium income which runs at a lower expense ratio.

CASH FLOW

Operating cash flow for the half year was $842 million compared with $1,121 million for the same period in 2011. Cash flow in the period was down from the same period last year mainly due to the timing of settlement of US crop cash flows. Net cash settlements from the Federal Crop Insurance Corporation are now held in escrow until October of the calendar year following the reporting year. In 2011, the equivalent settlement (around $250 million) was made in the first half of the year.

INCOME TAX EXPENSE

Income tax expense increased from 12.2% of profit before tax for the same period last year to 16.2%. The lower income tax expense for the first half of 2011 was due to a one-off saving from prior year capital losses. Whilst the underlying tax expense rate is around 23%, changes to the UK corporate tax rate and savings from prior years had a beneficial impact in the current period.

INVESTMENTS

Investment performance

Net investment income for the half year to 30 June 2012, excluding foreign exchange gains and losses, was well ahead of expectations, up 35% to $686 million compared with $507 million for the same period last year.

The significant widening in credit spreads that occurred in the latter part of 2011 was largely reversed in the first quarter of this year, with unrealised and realised gains on our fixed interest portfolios reversing the unrealised losses recorded at the end of 2011. Some of those unrealised gains were locked in and realised by reallocating our portfolio to increase our holdings of covered bonds of major Australian banks and reduce holdings of higher beta European bonds. This repositioning also generated additional returns and, as a consequence, our portfolios were better able to withstand the reversal of sentiment during the second quarter. Further gains have been locked in subsequent to 30 June.

The gross annualised yield on cash and fixed interest securities was 4.7%, up from 3.6% in the previous half year.

Equity investments were targeted towards non-financial, lower risk stocks, with the overall equity exposure increasing from 1.2% of the portfolio at the end of 2011 to 2.2% or $623 million at 30 June 2012. Equity returns outperformed all market benchmarks with an annualised gross yield of 21.1% compared with 13.4% for the same period last year.

Realised and unrealised gains on fixed interest securities and equities were $292 million compared with $113 million for the same period last year.

Net investment income after expenses and including foreign exchange gains and losses was $683 million compared with $657 million for the same period last year.

Investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL INVESTMENT INCOME	
for the half year ended 30 June	2012 US$M	2011 US$M	2012 US$M	2011 US$M	2012 US$M	2011 US$M
Equity income	**–**	–	**50**	31	**50**	31
Income on fixed interest securities, short-term money and cash	**450**	328	**208**	153	**658**	481
Foreign exchange (losses) gains	**(3)**	150	**–**	–	**(3)**	150
Property income	**–**	–	**1**	2	**1**	2
Other income	**1**	2	**–**	10	**1**	12
Gross investment income	**448**	480	**259**	196	**707**	676
Gain on repurchase of debt securities	**–**	–	**–**	2	**–**	2
Investment expenses	**(12)**	(9)	**(12)**	(12)	**(24)**	(21)
Net investment income	**436**	471	**247**	186	**683**	657

Gross and net yield

	YIELD ON POLICYHOLDERS' FUNDS		YIELD ON SHAREHOLDERS' FUNDS		TOTAL	
for the half year ended 30 June	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Gross(1)	**4.7**	5.3	**5.5**	4.4	**5.0**	5.0
Net(2)	**4.6**	5.2	**5.3**	4.1	**4.8**	4.8
Gross excluding foreign exchange (losses) gains	**4.7**	3.6	**5.5**	4.4	**5.0**	3.9
Net excluding foreign exchange (losses) gains	**4.6**	3.5	**5.3**	4.1	**4.8**	3.7

(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 as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

The allocation of investment income between policyholders' and shareholders' funds is based on the matching of net policyholders' liabilities with cash and fixed interest securities. The remaining investments, including all equities, are allocated to shareholders' funds.

Our insurance businesses which operate in multiple currencies aim to match currency liabilities with assets of the same currency. Due to the nature of our business, small mismatches may occur and foreign exchange gains and losses on these operational transactions are recorded in investment income in accordance with our accounting policy and the requirements of Australian accounting standards. Due to foreign exchange volatility in the prior period, we generated foreign exchange gains of $150 million from managing our budgeted profits in various currencies by locking in profits at times when rates were favourable compared with our budgeted rates.

Investment strategy

The fixed income portfolio continues to be managed within conservative risk parameters to meet our 3.1% target yield for 2012. At a time when market bond yields for the developed economies are near historical lows, the portfolio has short interest rate duration and is designed to provide stable absolute returns. Interest rate and some inflation risk are also managed through exposure to quality corporate floating rate instruments, which comprise the largest sector within the fixed income portfolio. These provide an attractive return over cash yields whilst the maturity profile assists in matching the expected term to settlement of our insurance liabilities.

Given the prevailing volatility and risk in investment markets, a rally in risk assets during the first quarter was used as an opportunity to reduce the sensitivity of the portfolio to movements in credit spreads, especially in our European holdings. The sensitivity of our investment portfolio to a 25 basis points movement in credit spreads is currently equivalent to a gain or loss of investment income of around $80 million.

We retain only a modest holding in equities of 2.2% and are unlikely to increase our equity weighting above 2.5% of the total portfolio given current market volatility and uncertainty, and the expected higher capital charges by regulators. Our equity portfolio strategy remains defensive, with a deliberate overweighting to companies with high and sustainable dividends.

Currency mix – market value of total investments and cash

as at	30 JUN 2012 %	31 DEC 2011 %
US dollar	**33**	36
Australian dollar	**33**	33
Sterling	**16**	15
Euro	**8**	8
Other	**10**	8

Total investments and cash

as at	30 JUNE 2012			31 DECEMBER 2011		
	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS US$M	TOTAL US$M	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS US$M	TOTAL US$M
Cash	**1,092**	**502**	**1,594**	1,001	456	1,457
Short-term money	**4,643**	**2,139**	**6,782**	4,918	2,240	7,158
Fixed interest securities and other	**13,522**	**6,230**	**19,752**	13,041	5,941	18,982
Equities	**–**	**623**	**623**	–	326	326
Investment properties(1)	**–**	**100**	**100**	–	101	101
Total investments and cash	**19,257**	**9,594**	**28,851**	18,960	9,064	28,024

(1) Includes $73 million (2011 $73 million) of property classified as assets held for sale.

Cash and interest bearing investments – security grading

as at	30 JUN 2012 %	31 DEC 2011 %
Moody's rating		
Aaa	**38**	23
Aa	**38**	56
A	**20**	17
<A	**4**	4

Currency mix – market value of equities

as at	30 JUN 2012 %	31 DEC 2011 %
US dollar	**39**	30
Australian dollar	**37**	46
Sterling	**13**	11
Euro	**11**	12
Other	**–**	1

FOREIGN EXCHANGE

The relevant exchange rates used in the preparation of the financial statements are set out in the table below.

Key foreign exchange rates and movements against the US dollar

	CUMULATIVE AVERAGE RATE OF EXCHANGE			CLOSING RATE OF EXCHANGE		
	PERIOD TO 30 JUNE 2012	PERIOD TO 30 JUNE 2011	MOVEMENT %	AS AT 30 JUNE 2012	AS AT 31 DECEMBER 2011	MOVEMENT %
Australian dollar	**1.032**	1.043	(1.1)	**1.024**	1.022	0.2
Sterling	**1.579**	1.615	(2.2)	**1.571**	1.554	1.1
Euro	**1.299**	1.409	(7.8)	**1.267**	1.294	(2.1)

The table below demonstrates the impact of foreign exchange on the profit and loss and balance sheet items.

Impact of exchange rate movements

	2012 ACTUAL US$M	2012 AT 2011 EXCHANGE RATES(1) US$M	EXCHANGE RATE IMPACT US$M	EXCHANGE RATE IMPACT %
Gross written premium	**9,223**	**9,357**	(134)	(1)
Gross earned premium	**8,404**	**8,530**	(126)	(1)
Net earned premium	**7,359**	**7,464**	(105)	(1)
Net profit after income tax	**760**	**773**	(13)	(2)
Total investments and cash	**28,851**	**28,976**	(125)	–
Total assets	**48,852**	**50,145**	(1,293)	(3)
Gross outstanding claims provision	**20,835**	**21,387**	(552)	(3)
Total liabilities	**37,250**	**38,123**	(873)	(2)

(1) Income statement items are restated to 30 June 2011 cumulative average rates of exchange and balance sheet items to 31 December 2011 closing rates of exchange.

BALANCE SHEET

Summary balance sheet

as at	30 JUNE 2012 US$M	31 DECEMBER 2011 US$M
Investments and cash[1]	**28,851**	28,024
Trade and other receivables	**6,021**	5,514
Reinsurance recoveries – outstanding claims	**2,318**	2,407
Reinsurance recoveries – IBNR	**1,263**	1,286
Deferred insurance costs	**3,399**	2,432
Intangibles	**6,235**	6,065
Other assets	**765**	1,009
Total assets	**48,852**	46,737
Outstanding claims	**20,835**	20,677
Unearned premium	**9,139**	8,069
Borrowings	**4,289**	4,757
Other liabilities	**2,987**	2,796
Total liabilities	**37,250**	36,299
Net assets	**11,602**	10,438
Non-controlling interests	**56**	52
Shareholders' funds	**11,546**	10,386

(1) Includes $73 million (2011 $73 million) of property classified as held for sale.

SHAREHOLDERS' FUNDS

Shareholders' funds at 30 June 2012 were $11,546 million, up from $10,386 million at 31 December 2011. Details of the movements in the period are set out in the table below.

Reconciliation of the movement in shareholders' funds

	US$M
Shareholders' funds at 31 December 2011	**10,386**
Net profit after income tax	**760**
2011 final dividend (net of dividend reinvestment)	**(163)**
Share placement	**635**
Foreign exchange movements	**(44)**
Other reserve movements	**(28)**
Shareholders' funds at 30 June 2012	**11,546**

CAPITAL ADEQUACY

Our capital for regulatory and rating agency purposes is strong, with all of our regulated entities around the world operating well in excess of minimum capital requirements. QBE's financial strength rating for its main operating subsidiaries was recently reaffirmed at A+ stable with an A credit rating for the parent company.

During the half year, QBE's capital was strengthened by $635 million through a share placement. $500 million of the proceeds of the placement were used to redeem subordinated debt securities due 2020. Refer to note 11 of the financial statements.

MINIMUM CAPITAL REQUIREMENT

Applying the Australian Prudential Regulation Authority's (APRA) risk-based criteria for determining the Group's capital adequacy, we calculate that we held 1.54 times the minimum capital requirement (MCR) at 30 June 2012.

The following table sets out details of our assessment of QBE's regulatory capital base.

Minimum capital requirement

as at	30 JUNE 2012 US$M	31 DECEMBER 2011 US$M
Tier 1		
Share capital and reserves	**11,286**	10,248
Perpetual securities	**165**	164
Excess risk margins (net of tax)	**1,049**	967
Deductions	**(6,238)**	(6,072)
	6,262	5,307
Tier 2		
Subordinated debt and hybrid securities	**1,732**	2,218
Total capital base	**7,994**	7,525
Insurance risk charge	**3,223**	3,180
Concentration risk charge	**661**	610
Investment risk charge	**1,103**	1,017
Reinsurance risk charge	**202**	177
Minimum capital requirement	**5,189**	4,984
Excess capital	**2,805**	2,541
Capital adequacy multiple	**1.54**	1.51

RECEIVABLES AND REINSURANCE RECOVERIES

Trade and other receivables have increased since 31 December 2011 due to the impact of the 2012 acquisitions and the seasonality of our business. Premium and reinsurance receivables over 90 days remain low, with prudent provisions for potential non-payment. Receivables and outstanding reinsurance recoveries are reported net of provisions for doubtful debts of $155 million compared with $158 million at 31 December 2011.

Reinsurance recoveries are down slightly to $3,581 million compared with $3,693 million at 31 December 2011. The credit ratings of our reinsurance counterparties at the balance date are set out in the table below.

Outstanding reinsurance recoveries – S&P rating

as at	30 JUN 2012 %	31 DEC 2011 %
AAA	**1**	1
AA	**56**	58
A	**36**	35
BBB or lower	**3**	2
Non-rated	**4**	4

INTANGIBLES

Intangible assets increased from $6,065 million at 31 December 2011 to $6,235 million at 30 June 2012 mainly due to the impact of the acquisitions of Optima Insurance Group and HSBC Argentina Holdings SA in the period as well as the purchase of the UK commercial lines business of Brit Insurance. Details of acquisitions in the period are set out in note 12 of the financial statements. The amortisation charge was $128 million compared with $60 million for the same period last year. The increase reflects the impact of our 2011 and 2012 acquisitions and a $50 million accelerated amortisation of brand and distribution assets following changes in our North American business, particularly initiatives to promote the QBE name and changes in distribution.

BORROWINGS

The ratio of borrowings to shareholders' funds was 37.1% compared with 45.8% at 31 December 2011. The reduction in borrowings from $4,757 million to $4,289 million was mainly due to the redemption of $500 million of subordinated debt due 2020.

Financing and other costs in the period were $166 million compared with $114 million for the same period last year. The weighted average interest rate was 6.2% compared with 5.9% at 31 December 2011.

Borrowings maturity(1)

as at	30 JUN 2012 %	31 DEC 2011 %
Less than one year	**24**	11
One to five years	**41**	52
More than five years	**35**	37

Borrowings profile

as at	30 JUN 2012 %	31 DEC 2011 %
Subordinated debt	**43**	49
Senior debt	**32**	28
Hybrid securities	**20**	18
Capital securities	**4**	4
Bank loans	**1**	1

(1) Reflects date of first call or date of QBE's right to settle in cash or convert to equity.

INSURANCE LIABILITIES

Insurance liabilities as at	30 JUNE 2012 US$M	31 DECEMBER 2011 US$M	31 DECEMBER 2010 US$M	31 DECEMBER 2009 US$M
Outstanding claims	**17,254**	16,984	15,017	12,864
Unearned premium net of deferred insurance costs[1]	**5,866**	5,929	4,785	4,374
	23,120	22,913	19,802	17,238
Central estimate – outstanding claims	**16,034**	15,783	13,747	11,847
Central estimate – unearned premium	**4,922**	5,062	3,901	3,487
Risk margin – outstanding claims	**1,220**	1,201	1,270	1,017
Risk margin – unearned premium	**944**	867	884	887
	23,120	22,913	19,802	17,238
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,246**	1,152	1,353	1,198

(1) Net unearned premium was grossed up by $126 million (December 2011 $292 million) to adjust for future costs associated with multi-year outward reinsurance contracts.

As required under Australian accounting standards, insurance liabilities are discounted applying sovereign bond rates as a proxy for risk-free interest rates, and not the actual earning rate of our investments.

At 30 June 2012, the probability of adequacy of the outstanding claims provision was 86.0% compared with 86.3% at 31 December 2011. During the period, our discounted central estimate was impacted by lower risk-free rates and higher inflation assumptions for some portfolios. Risk margins in outstanding claims have increased slightly compared with the level at 31 December 2011 and are deemed appropriate to cover the inherent uncertainty in the central estimate.

The probability of adequacy of total insurance liabilities was 93.1% compared with 92.6% at 31 December 2011.

OUTLOOK

We are pleased with the premium rate increases being achieved (albeit disappointed with the slightly slower traction for rate increases on some of our long-tail classes) and the lower catastrophe claims experience from the actions taken to improve the reward for the risks we write in some catastrophe-prone areas.

We expect to achieve low single digit growth in gross and net earned premium for the full year 2012, mainly due to lower premium on some property portfolios from actions taken to reduce exposures and lower premium from US crop and lender-placed homeowners insurance. Premium growth is expected to benefit from the solid premium rate increases that we are currently achieving, together with continued high retention of customers and the acquisitions made in the first half.

Including allowances for prior accident year claims development, our underlying insurance margin for the full year 2012 is targeted to be better than 12%, with a combined operating ratio of 92%, subject to the usual caveats. This target includes a full allowance for large individual risk and catastrophe claims, and is subject to a sensitivity of plus or minus 1.5%.

Typically, the second half year is more exposed to catastrophe risk than the first half, particularly for US hurricane losses. Large individual risk and catastrophe claims returned to more normal levels in the first half of 2012 and we hold significant allowances and reinsurance protections in our projections for the full year. As a result, we remain confident with our allowance of 10.5% of net earned premium for large individual risk and catastrophe claims of $2.5 million and above for the full year.

We have revised our 2012 North American business plan in two specific areas. Lower levels of property foreclosures and voluntary business and a reduced premium pool for crop business due to market conditions are driving a reduction in gross written premium of around $360 million. In addition, we anticipate that the US drought conditions could increase the combined operating ratio on our crop business to 99% (above which reinsurance protections will prevent any further significant deterioration). Both of these specialist businesses remain profitable across the underwriting cycle.

Our commission and expense ratio is expected to reduce in the second half due to the seasonality of premium earnings and a lower acquisition cost ratio for US crop business. We expect the ratio will be higher than previous years due to increased costs for various projects and initiatives. We are pleased with the progress of our global initiatives to improve efficiency and these initiatives are designed to deliver gains of not less than $200 million per annum by 2014 as previously advised to the market. These longer term targets have not changed, with the benefits of these initiatives expected to commence in 2013.

The lower yields currently available on our cash and fixed interest investments will result in a lower investment return in the second half unless credit spreads reduce. Due to the repositioning of our portfolio in the first quarter to reduce the impact of market volatility, the movement in credit spreads will have less impact going forward. A 25 basis points movement in credit spreads is currently estimated to impact investment income by around $80 million. Our current projections are for a gross yield of slightly over 3.1% for the full year. We do not expect our investment strategy to change from our current prudent approach given the uncertainties that currently exist, particularly in Europe and the US. However, we are looking at opportunities to further spread the risk profile of the portfolios to reduce volatility and protect yield.

Based on our profit targets, we expect capital adequacy levels for regulatory and rating agencies to strengthen by year end with our capital base to increase to around 1.6 times APRA's MCR. Whilst we anticipate only a relatively minor adverse impact on our capital position with the introduction of APRA's new capital standards for life and general insurance (LAGIC) from 1 January 2013, it is too early for us to accurately quantify the impact. We remain active and productive in discussions with APRA regarding the detailed application of the standards.

QBE has operations in 50 countries around the world, with the substantial majority of those operations producing underwriting profits and returns above our minimum requirements. We will continue to focus on those products and segments which will deliver the best returns on the capital employed for our shareholders.

Our teams of professionals around the world should be very satisfied with the solid underwriting and investment result for the first half. All of our QBE employees are well aware of the need to meet or exceed our minimum 15% return on allocated capital requirement and to provide our brokers and customers with quality service and promote high levels of customer retention.

This half year report marks the end of Frank O'Halloran's 36 years with QBE, notably the last 14 and a half years as chief executive officer. We recognise his outstanding performance and record of achievement over this time, and wish him well in his retirement.

NORTH AMERICAN OPERATIONS REVIEW

The underlying underwriting result in North America remains solid. The result was impacted by a strengthening of claims provisions for underperforming and run-off portfolios and crop business. During the period, we focused on portfolio improvement, systems and process integration and leveraging our increased scale for cost and capital efficiencies. US economic conditions continue to be difficult, although improving, and interest rates remain at record lows.

KEY HIGHLIGHTS

- GWP up 3% to $3,228M
- COR of 94.3% (2011 88.3%)
- Insurance margin of 8.0% (2011 16.8%)
- Expense ratio 23.4% (2011 18.8%), up due to acquisition costs and timing of earnings

MARKET CONDITIONS

North American insurance pricing is beginning to harden after a prolonged soft cycle and increased claims from storm activity in the mid-west region. There is now acceptance that the low interest rate environment will remain the norm, at least over the medium term, and recognition that current industry return on equity is unsustainably low. During the half year, QBE achieved an average premium rate increase across its entire portfolio of around 6%, with quarterly price momentum indicating a likely higher level of increase by year end. Demonstrating the robustness of the pricing upswing, premium rate increases across many of our regional, intermediated and reinsurance portfolios averaged well in excess of the 6% portfolio-wide average.

Notwithstanding an improving pricing environment, we continue to take an uncompromising approach to underperforming business, particularly in some segments of the program and intermediary portfolios exposed to tornado and hail claims.

North American operations is well positioned and ready to benefit from a hardening market and improved performance due to the actions taken to increase portfolio profitability.

COMBINED OPERATING RATIO AND INSURANCE PROFIT

The combined operating ratio of 94.3% was up from 88.3% in the prior period. The result included additional costs for the integration of acquisitions, as well as an $80 million cost to upgrade claims provisions on underperforming and run-off portfolios and to address the uncertainty around crop insurance. These were offset by a lower level of catastrophe claims.

The insurance profit margin fell to 8.0% from 16.8% in the prior period largely reflecting prior year claims development and reduced investment returns on policyholders' funds. Whilst investment returns benefited from favourable credit spread movements relative to the prior period, these gains were largely offset by reduced operational foreign exchange gains.

Historical overview in US dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	US$M	**3,228**	3,144	7,529	4,606	3,648
Net earned premium	US$M	**1,609**	1,572	4,018	2,555	2,211
Combined operating ratio	%	**94.3**	88.3	90.6	89.1	89.0
Insurance profit	US$M	**129**	264	440	356	326
Insurance profit margin	%	**8.0**	16.8	11.0	13.9	14.7

PREMIUM INCOME

Gross written premium was up 3% to $3,228 million compared with $3,144 million for the same period last year. The benefits of the hardening premium pricing cycle were offset by lower crop prices coupled with reduced income from lender-placed homeowners insurance due to higher cancellation rates, the loss of a major customer account and business declined as a result of portfolio improvement initiatives.

The reinsurance expense ratio increased to 47.3% from 43.2% of gross earned premium reflecting an increase in premium ceded to our captive, Equator Re.

Effective from 1 January 2012, the inter-company reinsurance pooling arrangements within the US have been expanded to include our 17 licensed companies under a single reinsurance pool led by QBE Insurance Corporation. In addition to reducing administrative costs, the expanded pooling arrangement will facilitate capital management and produce more stable and consistent statutory underwriting results.

Net earned premium increased 2% to $1,609 million compared with $1,572 million for the same period last year, consistent with the growth in gross premium offset by higher reinsurance expense.

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2012 %	2011 %
Property	**25.8**	27.2
Householders	**23.1**	15.9
Motor and motor casualty	**14.9**	17.1
Agriculture and bloodstock	**10.6**	11.6
Casualty	**8.6**	11.7

	2012 %	2011 %
Workers' compensation	**7.3**	6.1
Financial and credit	**5.7**	6.4
Accident and health	**3.9**	3.8
Other	**0.1**	0.2

CLAIMS EXPERIENCE

The net claims ratio rose to 63.6% from 59.9% in the prior period reflecting an upgrade to provisions for run-off and underperforming portfolios, particularly for the regional and program businesses, and our crop business. Claims costs also benefited from portfolio improvement initiatives undertaken over the past 18 months.

COMMISSION AND EXPENSES

The combined commission and expense ratio increased to 30.7% compared with 28.4% in the prior period.

The commission ratio improved to 7.3% of net earned premium compared with 9.6% in the prior period as a result of increased proportional reinsurance to Equator Re where the exchange commission received on premium ceded exceeds the combined commission and expense ratio on the inward business written.

The expense ratio was 23.4% compared with 18.8% in the prior period, mainly due to costs associated with the Balboa acquisition and integration, which exceeded cost savings from the North American business systems transformation initiatives. Seasonality of premium earning, particularly for crop insurance, and increased reinsurance to Equator Re also contributed to the higher expense ratio.

Underwriting result

for the half year ended 30 June		2012	2011
Gross written premium	US$M	**3,228**	3,144
Gross earned premium	US$M	**3,053**	2,770
Net earned premium	US$M	**1,609**	1,572
Net incurred claims	US$M	**1,023**	941
Net commission	US$M	**117**	151
Expenses	US$M	**377**	296
Underwriting profit	US$M	**92**	184
Claims ratio	%	**63.6**	59.9
Commission ratio	%	**7.3**	9.6
Expense ratio	%	**23.4**	18.8
Combined operating ratio	%	**94.3**	88.3
Insurance profit margin	%	**8.0**	16.8

ACQUISITIONS

After several years of growth from a number of large and medium sized acquisitions, 2012 is a year of consolidation for the North American operations. Our immediate focus remains on the consolidation and integration of the Balboa acquisition into QBE FIRST and delivering a significantly improved underwriting performance from our program and intermediary portfolios, including maximising synergies and cross-selling opportunities within our existing business.

OUTLOOK

The impact of several years of volatile natural catastrophe events combined with the continuing low interest rate environment have challenged US insurers to more effectively manage their pricing and reinsurance purchasing. This has contributed to a firming of premium rates across most property and casualty classes in the US. We expect our regional and intermediated portfolios to continue to benefit from these conditions.

Gross written premium for 2012 for our North America division is forecast to be around $6.6 billion, which is down $360 million from our previous forecast. This mainly reflects a lower crop premium pool, with premium on this business down an estimated $170 million. Lender-placed homeowners business is expected to be $100 million lower, with banks limiting actions on foreclosures with a consequent reduction in premium. Intermediary business is also expected to be lower. We will maintain a disciplined approach to ensure insurance risks are priced according to our benchmarks and to reduce exposure to some catastrophe-prone areas where pricing is not sufficient.

We have achieved average premium rate increases across the entire North American portfolio of around 6% during the half year and quarterly price momentum indicates a likely higher level of rate increase by year end which will assist future underwriting margins.

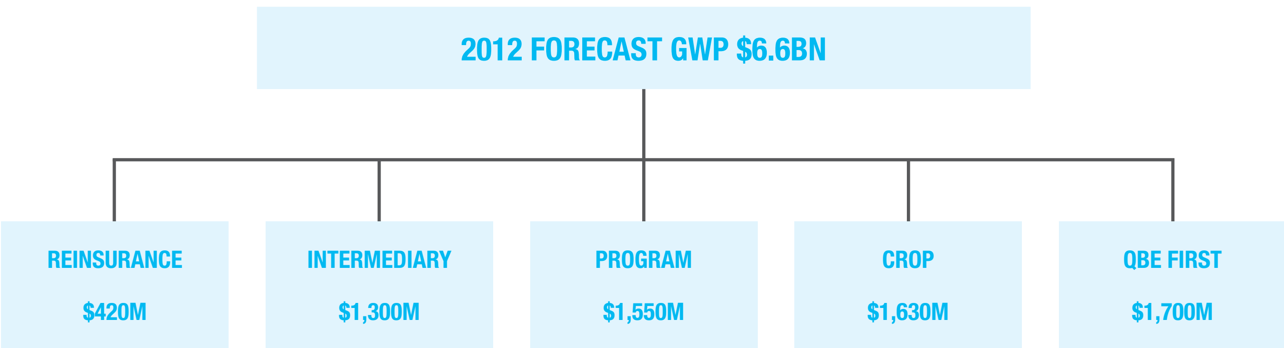
Premium rate increases coupled with portfolio improvement initiatives in our underperforming program and intermediated portfolios are starting to positively impact underwriting margins; however, most of the benefits will emerge in 2013. In addition, initiatives are in place to achieve reductions in the combined operating ratio by 2013 from more efficient claims handling and claims cost leakage management, process and product management, and systems consolidation.

Agricultural commodity pricing volatility in late 2011 continues in 2012 but market pricing is expected to remain high relative to historical norms. Changes to our crop hail pricing and stop loss reinsurance protection, coupled with a return to more normal weather patterns, give us confidence in the outlook (both short term and long term) for our large and profitable crop insurance portfolio.

There has been widespread coverage of the US drought over the past few months which will be of relevance to the second half result. Our analysis of portfolio writings in the worst affected areas, our particular state by state spread, crop mix and comprehensive reinsurance arrangements indicate the full year result for the crop portfolio will be a combined operating ratio of around 99%. Claims provisions have been strengthened in the first half, taking into account these conditions.

Based on our projections at the time of the acquisition of our lender-placed homeowners business, we expect reduced premium income and a return to more normal claims experience, with underwriting margins lower in 2012 and gradually reducing to a more steady cross-cycle level.

We are encouraged by the recent and increasingly broad-based upturn in the insurance pricing cycle which, combined with recent portfolio initiatives, provides a solid foundation for improved insurance margins in the future.



LATIN AMERICAN OPERATIONS REVIEW

Our Latin American division operates in seven countries with a focus on specialised classes of business to achieve market leading positions which can consistently exceed the Group's targets.

Premium growth was strong during the period due to acquisitions, premium rate increases and increased market share in some markets. Underwriting margins remain stable, and are tracking well against our targets. Management's focus is on integration of the recent acquisitions in Puerto Rico and Argentina.

KEY HIGHLIGHTS

- GWP up 35% to $512M
- NEP up 40% to $422M
- COR of 92.7% (2011 92.1%)
- Insurance margin of 14.0% (2011 12.9%)
- Completed acquisitions in Puerto Rico and Argentina

MARKET CONDITIONS

GDP growth in Latin America slowed markedly to 4% in 2011 due to the global economic downturn; however, sustained exports to China and strong domestic demand are expected to reduce the impact on the region from more recent European credit market related fears. Regional GDP growth for 2012 is forecast at 3.5%. Inflation remains a problem for some central banks and is forecast at 5.9% in 2012, down marginally from 6.5% in 2011, hence the maintenance of relatively tight monetary policy.

Following relatively benign catastrophe experience in 2011 and again in the recent half year, Latin American markets remain competitive in catastrophe-exposed classes of business. Competition also remains strong in non-catastrophe-exposed classes of business. Premium rate increases remain generally in-line with high inflation rates prevalent across the region, with the exception of Argentina where we achieved increases above the rate of inflation in our workers' compensation portfolio.

Our Latin America operation is very well positioned in its selected areas and we remain confident in our ability to maintain solid growth and consistently outperform for our shareholders over the longer term.

COMBINED OPERATING RATIO AND INSURANCE PROFIT

The combined operating ratio was 92.7% compared with 92.1% in the same period last year reflecting the higher net claims ratios of our Colombian SOAT (mandatory car insurance) business and our DPVAT participation (mandatory automobile personal accident coverage) in Brazil. This deterioration was largely offset by the continued strong performance of Argentina. The combined operating ratio was also adversely affected by the recent acquisitions in Puerto Rico and Argentina that will run initially at higher ratios than the existing QBE businesses.

The insurance profit margin improved slightly to 14.0% from 12.9% in the same period last year, benefiting from strong investment returns on policyholders' funds, particularly in Argentina.

Historical overview in US dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	US$M	**512**	380	768	559	353
Net earned premium	US$M	**422**	302	620	454	316
Combined operating ratio	%	**92.7**	92.1	89.7	93.4	94.6
Insurance profit	US$M	**59**	39	101	56	41
Insurance profit margin	%	**14.0**	12.9	16.3	12.3	13.0

PREMIUM INCOME

Gross written premium increased by 35% to $512 million from $380 million in the same period last year. Premium growth was largely driven by strong premium rate increases in Argentina, organic growth in Mexico, the participation in DPVAT business in Brazil and the acquisitions of Optima Insurance Group in February 2012 and HSBC Argentina Holdings SA in May 2012. The acquisitions contributed additional gross written premium of $18 million and $87 million respectively.

Net earned premium was up 40% from the same period last year, mainly due to the acquisitions and changes in the nature of the outward reinsurance program.

Portfolio mix

GROSS EARNED PREMIUM

for the half year ended 30 June	2012 %	2011 %
Workers' compensation	**28.9**	35.1
Accident and health	**21.6**	23.2
Motor and motor casualty	**16.2**	6.2
Property	**12.3**	12.2
Life insurance	**9.6**	12.9
Casualty	**6.1**	6.5
Other	**3.7**	0.8
Marine and energy	**1.6**	3.1

CLAIMS EXPERIENCE

The net claims ratio reduced to 55.8% compared with 57.3% for the same period last year largely reflecting improvements in Argentina and Mexico. These were partially offset by a higher net claims ratio in Colombian SOAT business and our participation in Brazil's DPVAT business.

As a consequence of continuing volatility in inflation and interest rates, we restated our assumptions for claims inflation and discount rates used for our Argentina workers' compensation portfolio, increasing the central estimate by around $50 million.

Risk margins have increased slightly from 31 December 2011, benefiting from the acquisition of the general insurance business of HSBC Argentina Holdings SA.

COMMISSION AND EXPENSES

The combined commission and expense ratio increased to 36.9% compared with 34.8% in the prior period largely due to changes in business mix from acquisitions. This was offset by strong growth and economies of scale in the relatively low cost Argentine workers' compensation business, and the growth in the Brazilian DPVAT business which runs a high claims ratio but a lower commission ratio.

Underwriting result

for the half year ended 30 June		2012	2011
Gross written premium	US$M	**512**	380
Gross earned premium	US$M	**493**	384
Net earned premium	US$M	**422**	302
Net incurred claims	US$M	**235**	172
Net commission	US$M	**90**	62
Expenses	US$M	**66**	44
Underwriting profit	US$M	**31**	24
Claims ratio	%	**55.8**	57.3
Commission ratio	%	**21.3**	20.2
Expense ratio	%	**15.6**	14.6
Combined operating ratio	%	**92.7**	92.1
Insurance profit margin	%	**14.0**	12.9

ACQUISITIONS

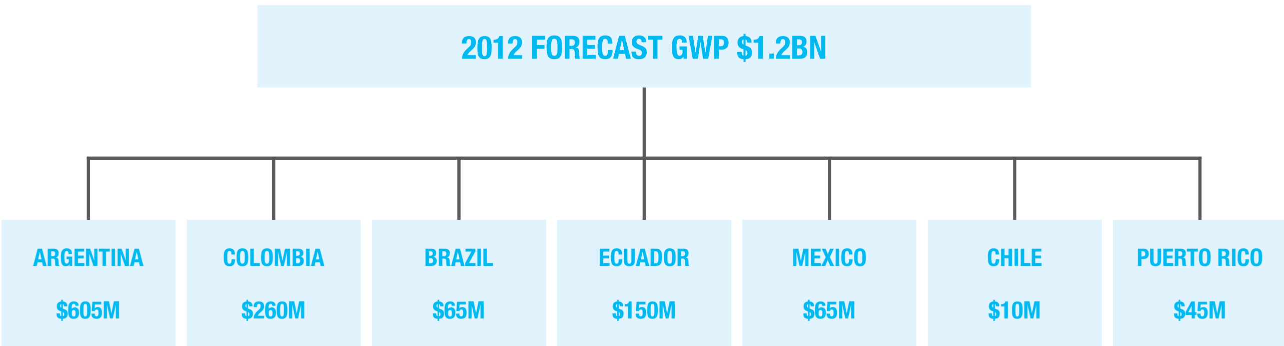
In February 2012, we completed the acquisition of Optima Insurance Group in Puerto Rico, which is expected to deliver $44 million of gross written premium in its first full year, with total agency premium, including third party business, of around $100 million.

In May 2012, we completed the acquisition of the general insurance business of HSBC Argentina Holdings SA. In addition to strong existing agency and broker networks, the acquisition includes an exclusive 10-year bancassurance agreement with HSBC Argentina. The acquisition contributed $87 million to GWP during the half year and is expected to deliver around $600 million of gross written premium in its first full year, more than doubling the size of the existing operations in Argentina and diversifying the portfolio away from its present concentration in the workers' compensation sector.

OUTLOOK

We have several business development initiatives underway that should assist us in achieving 10% organic premium growth. Coupled with the recently completed acquisitions, 2012 gross written premium for Latin America is forecast to reach approximately $1.2 billion, an overall growth rate in excess of 50%.

Competition is expected to remain strong and the economic environment will likely remain challenging and volatile in some parts of our region. We will maintain our strategy of being selective and writing business in only those segments of the market where we believe we can achieve superior returns. Our continued aim is to exceed the Group's minimum targets for each of our products and businesses.



EUROPEAN OPERATIONS REVIEW

Our European operations has started the year well, aided by a reduced frequency of catastrophe claims. We continue to hold strong IBNR provisions and have strengthened provisions to offset the widening gap between inflation assumptions and lower risk-free rates used to discount claims liabilities. We are encouraged by rate increases on our specialist classes but continue to push for higher prices on our UK and European property and casualty lines.

KEY HIGHLIGHTS

- GWP down 3% to $2,748M
- NEP up 2% to $1,557M
- COR of 95.0% (2011 95.4%) due to more normal catastrophe experience
- Insurance margin of 11.2% (2011 13.0%)

MARKET CONDITIONS

Consistent with 2011, further rate increases were achieved on the renewal of energy and catastrophe impacted classes, particularly for Australian and Japanese reinsurance and worldwide energy clients. UK commercial motor rates continued to increase by around 5% in response to poor market results and bodily injury claims inflation. Other classes, however, remained competitive, particularly UK and European property and casualty markets. Our overall average rate increase for European operations was around 3% on renewed business.

Renewed fears of a Eurozone credit crisis together with concerns around the US economic recovery and Chinese growth saw further volatility in markets during the half year. Against this backdrop, we achieved excellent investment returns using the first quarter rally in credit markets to reposition into lower risk securities, thereby avoiding much of the second quarter turmoil.

COMBINED OPERATING RATIO AND INSURANCE PROFIT

The combined operating ratio was 95.0%, down from 95.4% in the prior period. While the underwriting result reflected the benefit of a relatively low level of catastrophe claims, we have strengthened claims provisions by $55 million for our casualty, marine and aviation and some run-off portfolios, particularly to offset the expected impact of continuing low interest yields and claims inflation assumptions. The underlying underwriting performance was stable and as expected at the half year.

The insurance profit margin of 11.2% was down compared with 13.0% for the same period last year. The strong gains on corporate bonds were more than offset by a reduction in foreign exchange gains compared with the prior period.

Historical overview in pounds sterling

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	£M	**1,740**	1,748	3,009	2,686	2,552
Net earned premium	£M	**986**	946	1,963	1,676	1,633
Combined operating ratio	%	**95.0**	95.4	95.5	90.5	91.3
Insurance profit	£M	**111**	123	186	243	257
Insurance profit margin	%	**11.2**	13.0	9.5	14.5	15.7

PREMIUM INCOME

Gross written premium for the half year was down 3% to $2,748 million from $2,824 million in the prior period. Premium was materially unchanged in local currency, at £1,740 million compared with £1,748 million for the same period last year, with premium income in the prior period boosted by inward reinstatement premiums which did not recur. Overall premium rate increases on renewed business averaged 3% while retention rates on renewal business were maintained at in excess of 80%. This was a very pleasing result considering the competitive market conditions.

Net earned premium increased 2% to $1,557 million, or up 4% in local currency to £986 million. Reinsurance expense reduced slightly to 31.3% of gross earned premium from 31.8% in the prior period.

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2012 %	2011 %		2012 %	2011 %
Marine, energy and aviation	**21.7**	20.5	Property treaty	**8.9**	10.3
Public/product liability	**18.5**	19.6	Workers' compensation	**5.0**	5.2
Property facultative and direct	**14.3**	11.2	Financial and credit	**3.6**	3.5
Motor and motor casualty	**13.1**	13.5	Accident and health	**2.3**	2.5
Professional indemnity	**11.6**	12.6	Other	**1.0**	1.1

CLAIMS EXPERIENCE

The net claims ratio improved to 64.1% compared with 66.2% in the same period last year, largely reflecting benign catastrophe incidence relative to the record level of catastrophes in 2011. The net claims ratio was impacted by adverse development on prior accident year catastrophe claim provisions, largely from deterioration on the Thai flood loss offset in part by a reduction in the level of incurred claims from the Japanese tsunami. The claims ratio was impacted by our decision to strengthen claims provisions on older accident years in marine and aviation classes of business and long-tail liability classes.

COMMISSION AND EXPENSE RATIO

The combined commission and expense ratio was 30.9% compared with 29.2% for the same period last year. The commission ratio was 17.5% compared with 16.8% for the same period last year, the slight increase reflecting changes in business mix and generally increased demands by brokers on commissions. The expense ratio increased to 13.4%, up from 12.4% in the same period last year reflecting costs associated with the completion of our major transformational systems project and timing of premium earnings.

Underwriting result

for the half year ended 30 June		2012	2011
Gross written premium	US$M	**2,748**	2,824
Gross earned premium	US$M	**2,267**	2,242
Net earned premium	US$M	**1,557**	1,529
Net incurred claims	US$M	**998**	1,013
Net commission	US$M	**273**	257
Expenses	US$M	**209**	189
Underwriting profit	US$M	**77**	70
Claims ratio	%	**64.1**	66.2
Commission ratio	%	**17.5**	16.8
Expense ratio	%	**13.4**	12.4
Combined operating ratio	%	**95.0**	95.4
Insurance profit margin	%	**11.2**	13.0

ACQUISITIONS

During the period, QBE acquired the renewal rights and associated trading assets and personnel of Brit Insurance's UK regional operations. The acquisition was effective on 13 April and is expected to deliver an additional £175 million of gross written premium in its first full year. Policies have been renewed since 1 May, thereby boosting gross written premium during the half year by £8 million.

Brit's UK regional book is roughly half that of QBE's regional business with the expanded portfolio's combined gross written premium expected to be around £500 million, affording QBE potential operational and reinsurance scale efficiencies. The Brit portfolio specialises in the SME/micro sector of the regional market where QBE previously had no significant presence and includes a property bias, which complements our casualty and motor focus thereby offering a sound strategic fit over and above the obvious integration synergies.

We continue to monitor market consolidation, particularly in the Lloyd's market. Mainland European opportunities are also of interest; however, those reviewed of late have not met our strict acquisition criteria. We continue to expect an increase in opportunities in mainland Europe in the years ahead as the full impact of regulatory changes, particularly Solvency II criteria, are better understood and adopted. In the nearer term, fallout from the Eurozone credit crisis could accelerate the consolidation of mainland European insurance markets, noting that asset valuation issues are an added complexity in the assessment of acquisition value.

OUTLOOK

Gross written premium for 2012 is expected to be on target and up 6% to £3.2 billion. Organic growth and new business will be limited whilst competitive markets prevail.

We expect to benefit from improved market pricing with overall premium rate increases on renewed business expected to average closer to 4% by year end. Premium rate movements will be influenced by any major US windstorm or other catastrophe activity in the second half of the year, with casualty pricing expected to firm in 2013 in response to further reductions in investment yields. We retain significant allowances and reinsurance arrangements in our full year projections to protect our portfolios from exposure to catastrophes in the second half of the year, particularly the northern hemisphere windstorm season.

Following completion of the first phase of our major transformational project to create a market-leading operational support model to deliver improved functionality for our underwriters and claims operating staff, we expect to achieve expense and claims cost savings of over 1% of net earned premium from 2014.

We maintain focus on ensuring that all portfolios meet the Group's minimum return on allocated capital hurdle. Attritional claims frequency in European property and some marine and aviation classes remains our main concern. Whilst actions taken on some segments of these portfolios have had a beneficial impact, further portfolio improvement is required. Subject to the usual caveats, we expect the actions taken on some underperforming portfolios will improve our underwriting results in the second half.

2012 FORECAST GWP £3.2BN

PROPERTY, CASUALTY AND MOTOR
£1.8BN

MARINE, ENERGY AND AVIATION
£0.7BN

REINSURANCE & CREDIT
£0.7BN

AUSTRALIAN AND NEW ZEALAND OPERATIONS REVIEW

From 1 January 2012, QBE New Zealand is reported as part of our combined Australian and New Zealand operations. A more favourable claims environment in Australia and New Zealand, together with portfolio improvement initiatives in catastrophe-prone regions and premium rate increases across many classes of business, have facilitated a positive turnaround in underwriting and insurance profitability despite higher underlying catastrophe reinsurance costs and deductibles.

KEY HIGHLIGHTS

- GWP up 5% to $2,470M
- Premium rate increases of around 9%
- NEP up 12% to $2,027M
- COR of 91.4% (2011 103.2%) reflecting more normal catastrophe frequency
- Insurance margin of 18.5% (2011 5.6%)

MARKET CONDITIONS

Economic conditions have been uncertain throughout the first half of the year with increasingly cautious consumer sentiment, renewed global credit fears and concerns of a slowing Chinese economy. Despite this less than favourable economic climate, significant premium rate increases were achieved across a broad range of portfolios and averaged around 8% in Australia and 15% in New Zealand. Competition overall remains strong, particularly in long-tail classes with market pricing yet to respond to the recent further falls in investment yields and claims inflation. Strong premium rate increases and considerable increases in deductibles were achieved in short-tail and catastrophe-exposed classes, reflecting recent claims experience and the consequent significant increases in reinsurance costs. The market price and/or risk exposure in some segments have seen us decline business as we continue to improve the property and homeowners portfolios and adjust pricing to reflect recent falls in investment yields. Indications are that our actions have produced positive results, with exposure to recent catastrophe events well below our broader market share.

INSURANCE PROFIT

The insurance profit margin of 18.5% represents a strong rebound from 5.6% for the same period last year and largely reflects an improvement in attritional claims ratios and a relatively lower incidence of catastrophe claims compared with the extremely adverse experience of 2011. The margin uplift also reflects the premium rate increases across most classes of business, lower claims costs arising from various portfolio improvement initiatives and investment income buoyed by gains on corporate bonds. The insurance profit margin was adversely impacted by the emerging gap between inflation and risk-free rates used to discount claims liabilities and higher underlying catastrophe reinsurance costs. Risk margins in outstanding claims were maintained at previous levels.

Historical overview in Australian dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	A$M	**2,393**	2,263	4,515	4,237	3,698
Net earned premium	A$M	**1,964**	1,741	3,717	3,421	2,864
Combined operating ratio	%	**91.4**	103.2	99.6	89.3	88.9
Insurance profit	A$M	**362**	98	233	576	616
Insurance profit margin	%	**18.5**	5.6	6.3	16.8	21.5

PREMIUM INCOME

Gross written premium increased by 5% to $2,470 million and was up 6% to A$2,393 million in local currency. Premium growth was largely driven by the increase in premium rates coupled with the first full six months of earnings from the CUNA Mutual acquisition. Despite increased premium rates and deductibles, customer retention remains strong with most portfolios averaging retention rates in the low to mid 80% range. Premium growth was stronger in property classes, with rate increases in liability classes still lagging despite the pressure of a low investment yield environment.

Net earned premium increased by 12% due to strong premium rate increases and lower overall costs of reinsurance. The number of insurance policies written in the heavily catastrophe-prone areas of Queensland, Northern NSW and Victoria decreased in line with expectations.

Portfolio mix

GROSS EARNED PREMIUM

for the half year ended 30 June	2012 %	2011 %
Property	**21.6**	18.8
Householders	**15.7**	16.6
Motor and motor casualty	**11.8**	14.0
General liability	**9.8**	11.5
Financial and credit	**9.3**	8.7
Compulsory third party (CTP)	**7.9**	8.0
Workers' compensation	**7.4**	7.7
Agriculture and bloodstock	**4.7**	3.9
Marine, energy and aviation	**3.4**	3.6
Professional indemnity	**3.2**	3.8
Accident and health	**2.2**	2.3
Travel	**2.1**	0.9
Other	**0.9**	0.2

REINSURANCE

The reinsurance expense ratio was 13.7% compared with 18.0% for the same period last year. Overall reinsurance costs were lower than the prior period when additional reinstatement premiums and back-up covers were required in response to severe catastrophe experience. The Group's multi-year worldwide reinsurance program helped limit the extent of price increases on external catastrophe and per risk reinsurance. However, the cost of catastrophe covers, both from the Group's captive insurer and externally, with respect to the unplaced component of our multi-year worldwide reinsurance, increased in line with market rates and in response to particularly adverse catastrophe experience during 2011.

CLAIMS EXPERIENCE

The net claims ratio was 61.8% compared with 73.2% for the same period last year, largely reflecting an improved attritional claims ratio and benign catastrophe experience. Attritional claims ratios were generally lower due to premium rate increases, deductible increases and the lower frequency and severity of small storm and flood claims.

Claims costs were adversely impacted by approximately $51 million due to lower risk-free rates used to discount claims liabilities with the weighted average risk-free rate falling from 3.6% at 31 December 2011 to 2.9% at 30 June 2012, resulting in a 2.5% impact on the net claims ratio for the period.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 29.6% compared with 30.0% for the same period last year, with an increase in commissions driven by changes in business mix more than offset by a reduction in the expense ratio. The impact of higher net earned premium, higher managed fund fee income and gains from recent efficiency initiatives were partially offset by increased fire service levy expenses and increased staff incentives due to the improved underwriting result.

Underwriting result		AUSTRALIAN OPERATIONS		NEW ZEALAND OPERATIONS		AUSTRALIAN AND NEW ZEALAND OPERATIONS	
for the half year ended 30 June		2012	2011	2012	2011	2012	2011
Gross written premium	US$M	**2,356**	2,268	**114**	92	**2,470**	2,360
Gross earned premium	US$M	**2,238**	2,123	**110**	91	**2,348**	2,214
Net earned premium	US$M	**1,967**	1,780	**60**	35	**2,027**	1,815
Net incurred claims	US$M	**1,233**	1,299	**19**	30	**1,252**	1,329
Net commission	US$M	**253**	216	**13**	13	**266**	229
Expenses	US$M	**322**	304	**13**	11	**335**	315
Underwriting profit (loss)	US$M	**159**	(39)	**15**	(19)	**174**	(58)
Claims ratio	%	**62.6**	73.0	**31.6**	85.7	**61.8**	73.2
Commission ratio	%	**12.9**	12.1	**21.7**	37.1	**13.1**	12.6
Expense ratio	%	**16.4**	17.1	**21.7**	31.5	**16.5**	17.4
Combined operating ratio	%	**91.9**	102.2	**75.0**	154.3	**91.4**	103.2
Insurance profit margin	%	**18.1**	6.6	**30.0**	(42.9)	**18.5**	5.6

OUTLOOK

Gross written premium growth for the full year is expected to be assisted by the premium rate increases currently being achieved. We intend to either increase premium rates or cancel business in those portfolios which do not meet our minimum profit benchmarks. Furthermore, premium rate increases may be necessary in some portfolios to offset the impact of rising reinsurance costs and further reductions in investment yields.

Although it is still early days, recent initiatives designed to limit property exposures in some highly catastrophe-prone regions of Australia including Queensland, Northern NSW and Victoria have been beneficial to our results. Our share of recent catastrophe losses in these regions has been significantly below our broader Australia-wide premium market share.

Previously announced operational cost reduction initiatives, including systems integration and consolidation as well as the restructuring of our IT function, were completed in the fourth quarter of 2011 with a further round of efficiency initiatives undertaken in the first quarter 2012.

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

Due to similarities in the markets as well as geographic proximity to Sydney, the management of our New Zealand business has been transferred from Asia Pacific operations into the expanded Australian and New Zealand operations, with prior year figures restated accordingly.

2012 FORECAST GWP A$4.9BN

INTERMEDIARY DISTRIBUTION	CORPORATE PARTNERS AND DIRECT	LMI	CREDIT AND SURETY	NEW ZEALAND
A$2,330M	A$1,845M	A$300M	A$150M	A$230M

ASIA PACIFIC OPERATIONS REVIEW

The majority of our operations in the 16 countries across the Asia Pacific region performed well and produced underwriting profits supported by disciplined underwriting and modest catastrophe incidence compared with the prior period.

Premium growth benefited from positive economic conditions, particularly in Asia, and new business initiatives.

New Zealand operations which has, in the past, been included in this division now forms part of the Australian and New Zealand operations.

KEY HIGHLIGHTS

- GWP up 13% to $265M
- NEP down 1% to $182M
- COR of 91.2% (2011 79.8%) reflecting higher catastrophe reinsurance costs
- Insurance profit margin of 10.4% (2011 25.7%)
- Acquired Hang Seng's general insurance business in Hong Kong in July 2012

MARKET CONDITIONS

Premium rates remain generally flat in the Asia Pacific region with strong competition prevailing, especially for larger accounts. The major exception is Thailand where we are seeing significant rate increases in response to the massive flood losses incurred in late 2011. We are either excluding or substantially reducing flood coverage in Thailand through a combination of higher deductibles and policy sub-limits and, consistent with this approach, we have reviewed and reduced our potential flood exposures across the rest of the Asia Pacific operations.

According to Munich Re, insured natural catastrophe losses across the wider Asia Pacific region in 2011 contributed 44% of worldwide insured natural catastrophe losses compared with a 30 year average of 13%. Reflecting this abnormal concentration of losses, we expect premium rates will start to firm in response to escalating reinsurance costs and deductibles.

Economic growth across the region remains generally positive.

COMBINED OPERATING RATIO AND INSURANCE PROFIT

The combined operating ratio was 91.2% compared with 79.8% for the same period last year, reflecting higher catastrophe reinsurance costs and deductibles. The underwriting result for the half year in 2011 reflected a low level of large individual risk and catastrophe claims.

The insurance profit margin fell to 10.4% from 25.7% in the same period last year reflecting the lower underwriting profit, with investment returns on this largely short-tail portfolio lower than the prior period.

Historical overview in US dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2012	2011	2011	2010	2009
Gross written premium	US$M	**265**	234	467	431	402
Net earned premium	US$M	**182**	183	341	322	283
Combined operating ratio	%	**91.2**	79.8	87.4	84.5	88.3
Insurance profit	US$M	**19**	47	60	66	38
Insurance profit margin	%	**10.4**	25.7	17.6	20.5	13.4

PREMIUM INCOME

Gross written premium increased 13% to $265 million, with growth recorded in most countries in local currencies. Growth was particularly driven by new business generated in Hong Kong and the Philippines and substantial premium rate increases in Thailand. Overall premium rate increases on renewed business were modest at around 1%, with strong competition in most markets.

Higher catastrophe reinsurance costs were reflected in the reinsurance expense ratio which increased to 25.1% of gross earned premium from 18.3% for the same period last year. Net earned premium reduced by 1% to $182 million.

Portfolio mix

GROSS EARNED PREMIUM

for the half year ended 30 June	2012 %	2011 %		2012 %	2011 %
Marine	**22.8**	21.1	Professional indemnity	**5.6**	5.6
Property	**18.5**	17.4	Engineering	**4.4**	4.5
Motor and motor casualty	**14.9**	15.9	Other	**3.0**	2.7
Workers' compensation	**12.9**	12.5	Householders	**2.6**	2.7
Accident and health	**7.2**	7.2	Financial and credit	**1.4**	3.6
Liability	**6.4**	6.5	Travel	**0.3**	0.3

CLAIMS EXPERIENCE

The net claims ratio increased to 46.7% compared with 40.5% for the same period last year, due to higher catastrophe reinsurance costs which reduced net earned premium and a minor impact from lower risk-free rates used to discount claims liabilities.

Risk margins in outstanding claims increased and overall there was little change in the central estimate claims provision from prior years.

COMMISSION AND EXPENSES

The combined commission and expense ratio increased to 44.5% compared with 39.3% in the prior period. The increase in the commission ratio from 19.1% to 22.5% was due to increased commissions on additional premium from broker-led business.

The expense ratio of 22.0% was up compared with 20.2% for the same period last year, mainly due to the higher reinsurance costs.

Underwriting result

for the half year ended 30 June		2012	2011
Gross written premium	US$M	**265**	234
Gross earned premium	US$M	**243**	224
Net earned premium	US$M	**182**	183
Net incurred claims	US$M	**85**	74
Net commission	US$M	**41**	35
Expenses	US$M	**40**	37
Underwriting profit	US$M	**16**	37
Claims ratio	%	**46.7**	40.5
Commission ratio	%	**22.5**	19.1
Expense ratio	%	**22.0**	20.2
Combined operating ratio	%	**91.2**	79.8
Insurance profit margin	%	**10.4**	25.7

ACQUISITIONS

In July 2012, we completed the acquisition of Hang Seng Bank's general insurance operations in Hong Kong, including an exclusive 10-year bancassurance agreement wherein QBE will have access to Hang Seng Bank's customers in Hong Kong and mainland China. The acquisition is expected to deliver $75 million in gross written premium in its first full year.

OUTLOOK

We will continue to maintain a strong focus on underwriting fundamentals and target increased market penetration through our intermediary networks to further build our successful businesses. Our ongoing research into the Asian markets is targeted at developing a strategy that meets our longer term strategic objective of profitable growth through maintaining underwriting control. In this regard, our recently acquired and exclusive bancassurance agreement with Hang Seng Bank could potentially offer longer term distribution opportunities via the bank's branch network in mainland China as regulations are reviewed. Our Indian joint venture is expected to continue to write new business on a very selective basis given the ultra-competitive conditions in that market.

We expect markets to remain competitive in the near term with premium rates expected to remain stable. The exception is Thailand, where rates are expected to firm over the medium term as insurers and reinsurers re-evaluate their exposures in response to the severe floods in 2011. For the full year, we project that gross written premium will increase by 22% to $570 million.

Due to similarities in the markets and geographic proximity to Sydney, the management of and performance reporting for the New Zealand business was transferred from Asia Pacific operations into the expanded Australian and New Zealand operations, with prior period figures updated accordingly.

As announced on 2 May, the previous CEO of Asia Pacific, Mike Goodwin, completed his secondment to Asia on 27 July. We thank Mike for his contribution to the QBE Group and particularly his leadership of the Asia Pacific operations over the past five years.

2012 FORECAST GWP $570M

ASIA	PACIFIC
$460M	$110M

EQUATOR RE REVIEW

Equator Re is QBE's wholly-owned captive reinsurer providing excess of loss and proportional reinsurance protections to all QBE divisions. Business written by the captive is designed to support the management of aggregate exposures to any one large individual risk or catastrophe claim and optimise the levels of capital held within the Group. Risks written by Equator Re are within the Group's maximum event limits and tolerance for risk, and are priced based on market benchmark rates.

KEY HIGHLIGHTS

- GWP up 4% to $2,093M
- NEP up 13% to $1,562M
- COR of 91.5% (2011 97.5%) reflecting more normal catastrophe frequency
- Insurance margin of 12.9% (2011 8.1%)

MARKET CONDITIONS

In response to extreme catastrophe experience in 2011 and consistent with conditions in the broader property catastrophe reinsurance market, the deductibles and premium rates on the catastrophe protections for the divisions were significantly increased to ensure an improved underwriting result in 2012.

Increased catastrophe retentions within each operating division together with the increased cost of catastrophe reinsurance protection offered by the captive have, in turn, meant that the divisions have increased premium rates and deductibles for their own customers to ensure they achieve the Group's minimum return on allocated capital requirements.

A large proportion of Equator Re's investment funds are US dollar denominated which continue to be impacted by low yields.

COMBINED OPERATING RATIO AND INSURANCE PROFIT

Higher excess of loss premium rates and deductibles experienced by the divisions, coupled with a return to more normal catastrophe incidence, have seen a significant increase in the insurance profit to $202 million, up from $111 million in the prior period. Consistent with this trend, the insurance profit margin increased to 12.9% from 8.1% previously, largely underpinned by an improved net claims ratio. The combined operating ratio was 91.5%, down from 97.5% in the prior period. The improvement in the combined operating ratio was particularly pleasing given that Equator Re experienced a deterioration of 2011 catastrophe claims provisions from the Thai floods, Christchurch earthquakes and Brisbane floods and lower risk-free rates used to discount insurance liabilities.

Investment income on policyholders' funds was marginally down on the prior period with gains on corporate bonds largely offset by the absence of material prior period foreign exchange gains on operational exposures.

Historical overview in local currency

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
Gross written premium by source		2012	2011	2011	2010	2009
North American operations	US$M	**1,137**	875	2,218	1,335	979
Latin American operations	US$M	**9**	17	39	36	–
European operations	£M	**374**	395	607	540	517
Australian and New Zealand operations	A$M	**261**	388	454	214	200
Asia Pacific operations	US$M	**88**	86	105	76	57
Total	US$M	**2,093**	2,021	3,807	2,479	1,994

PREMIUM INCOME

Gross written premium rose 4% to $2,093 million compared with $2,021 million for the same period last year.

Premium income benefited from rate increases and the impact of prior year acquisitions by the divisions, which assisted premium growth through proportional reinsurance ceded to Equator Re, most notably from North America. Premium sourced from Australia and New Zealand, however, was adversely impacted relative to the prior period by the absence of reinstatement premiums and backup covers given the more normal catastrophe experience.

Net earned premium increased by 13% to $1,562 million from $1,377 million in the prior period reflecting a lower external reinsurance expense due to the reduced level of catastrophes.

Portfolio mix

GROSS EARNED PREMIUM

for the half year ended 30 June	2012 %	2011 %
Property	**27.4**	40.3
Public/product liability	**15.5**	14.4
Motor and motor casualty	**12.9**	6.8
Householders	**12.0**	6.4
Marine, energy and aviation	**8.8**	9.3
Workers' compensation	**6.7**	3.8
Agriculture and bloodstock	**5.1**	4.7
Financial and credit	**4.4**	5.5
Professional indemnity	**3.6**	3.7
Accident and health	**2.4**	4.1
Other	**1.2**	1.0

CLAIMS

The captive's net claims ratio improved to 59.8% from 68.3% in the prior period reflecting increases in premium rates and catastrophe deductibles coupled with a return to more normal catastrophe experience, partially offset by the cost of upgrades for prior year catastrophe claims provisions. Claims costs were also adversely impacted by lower risk-free rates used to discount claims liabilities.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 31.7% compared with 29.2% for the same period last year. The increase largely reflects higher commission payable on the additional quota share reinsurance from the North American operations and profit commissions on proportional treaties.

UNDERWRITING RESULT

for the half year ended 30 June		2012	2011
Gross written premium	US$M	**2,093**	2,021
Gross earned premium	US$M	**1,682**	1,545
Net earned premium	US$M	**1,562**	1,377
Net incurred claims	US$M	**935**	941
Net commission	US$M	**448**	335
Expenses	US$M	**47**	67
Underwriting profit	US$M	**132**	34
Claims ratio	%	**59.8**	68.3
Commission ratio	%	**28.7**	24.3
Expense ratio	%	**3.0**	4.9
Combined operating ratio	%	**91.5**	97.5
Insurance profit margin	%	**12.9**	8.1

OUTLOOK

Gross written premium for the full year 2012 is targeted to be around $3.7 billion.

Equator Re will continue to provide protection to the Group operating divisions below the Group's appetite for risk on a carefully selected basis with pricing and exposures comprehensively modelled and externally benchmarked to ensure risks are within Group tolerances.

In light of the strong first half result and previously noted changes to the pricing and attachment points of divisional catastrophe covers, underwriting profit for the full year is likely to be at a more normal level, subject to the usual caveats.

As part of the Group's executive management restructure announced on 2 May 2012, Jim Fiore (previously chief underwriting officer, North American operations) was appointed to the newly established role of Group chief reinsurance officer. Jim will manage QBE's outwards reinsurance programs, including external reinsurance placements of the Group and will have oversight of QBE's captive reinsurer, Equator Re. Des Fogarty will continue in his role as President, Equator Re.

Equator Re's net assets exceed $1.5 billion and its A+ stable insurer financial strength rating remains in place.

DIRECTORS' REPORT

for the half year ended 30 June 2012

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2012.

DIRECTORS

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

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

Mr O'Halloran retired on 17 August 2012.

Mr Neal was appointed as a director on 17 August 2012.

CONSOLIDATED RESULTS

for the half year ended 30 June	2012 US$M	2011 US$M
Gross written premium	**9,223**	8,942
Unearned premium movement	**(819)**	(1,108)
Gross earned premium revenue	**8,404**	7,834
Outward reinsurance premium	**(1,714)**	(1,720)
Deferred reinsurance premium movement	**669**	664
Outward reinsurance premium expense	**(1,045)**	(1,056)
Net earned premium	**7,359**	6,778
Net claims incurred	**(4,528)**	(4,470)
Net commission	**(1,235)**	(1,069)
Underwriting and other expenses	**(1,074)**	(948)
Underwriting profit	**522**	291
Net investment income – policyholders' funds	**436**	471
Insurance profit	**958**	762
Net investment income – shareholders' funds	**247**	186
Financing and other costs	**(166)**	(114)
Share of net profits of associates	**3**	2
Amortisation of intangibles and impairment of goodwill/intangibles	**(128)**	(60)
Profit before income tax	**914**	776
Income tax expense	**(148)**	(95)
Profit after income tax	**766**	681
Net profit attributable to non-controlling interests	**(6)**	(8)
Net profit after income tax	**760**	673

PROFIT

Net profit after income tax for the period ended 30 June 2012 was up 13% from $673 million for the same period last year to $760 million. Underwriting profit increased by 79%, mainly due to the significantly lower level of large individual risk and catastrophe claims in the period. Net profit after tax also benefited from an increase in investment income due to an increase in realised and unrealised gains on our fixed interest and equity portfolios. Net profit after tax was impacted by a net increase of $33 million in the amortisation of identifiable intangibles following the integration of brand names and distribution, particularly in North America.

DIVIDENDS

The directors are pleased to announce an interim dividend of 40 Australian cents per share for the period ended 30 June 2012. The dividend will be franked at 15% due to lower Australian tax credits as the majority of our profits are generated from non-Australian sources. The total dividend payout is A$473 million compared with an interim dividend of A$677 million in 2011. The bonus share and dividend reinvestment plans continue although the discount will be reduced from 2.5% to 1.5%.

Following the introduction of the conduit foreign income (CFI) rules effective for the Group from 1 January 2006, shareholders will receive CFI credits for the unfranked portion of the 2012 interim dividend. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

SHAREHOLDERS' FUNDS

Shareholders' funds were $11,546 million compared with $10,386 million at 31 December 2011. The movement was principally due to the profit for the half year and the additional capital of $635 million raised through the share placement completed in the half year. The number of shares advised to the Australian Securities Exchange increased from 1,116 million at 31 December 2011 to 1,182 million at 30 June 2012.

PRESENTATION CURRENCY

The Group has presented this financial report in US dollars, consistent with our reporting in 2011. The US dollar is considered to be more relevant for measuring performance given that over 50% of annualised gross written premium is derived in US dollars.

REVIEW OF OPERATIONS

Gross earned premium was $8,404 million, up 7% from the same period last year. Premium growth was on target and benefited from the acquisitions completed in 2011 and a higher than expected increase in premium rates. Net earned premium increased 9% to $7,359 million, slightly better than the growth in gross earned premium due to a lower reinsurance expense ratio. The lower ratio was mainly due to inward premium rate increases which more than offset the slightly higher cost of reinsurance on covers outside of our worldwide reinsurance programs.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 92.9% compared with 95.7% for the same period last year. The net claims ratio was 61.5% compared with 65.9%, with the decrease mainly reflecting the lower level of catastrophe claims in the current period, partly offset by the impact of prior year claims deterioration of $117 million and lower risk-free rates used to discount outstanding claims. Risk margins of $1,220 million were retained to reflect the inherent uncertainty in the central estimate of outstanding claims, up slightly from $1,201 million at 31 December 2011. The combined commission and expense ratio was 31.4%, up from 29.8% for the same period last year. The increase was largely due to a change in the mix of business from recent acquisitions, the integration costs of Balboa in North America, increased staff and IT costs as a result of systems and change initiatives and the impact of lower net earned premium in the first half due to seasonality.

North American operations

This division reported net earned premium growth of 2% to $1,609 million. The benefit of premium rate increases was offset by lower crop prices and reduced premium from lender-placed homeowners' business due to higher cancellation rates, the loss of a major account and business declined as part of our portfolio improvement activity. The cost of reinsurance increased from 43.2% to 47.3% of gross earned premium mainly due to the impact of an increase in premium ceded to our captive, Equator Re.

The combined operating ratio was 94.3% compared with 88.3% for the same period last year. The net claims ratio increased from 59.9% to 63.6%, reflecting an upgrade to provisions for run-off and underperforming portfolios, particularly regional and program business, and our crop business. Claims benefited from a more normal level of weather related catastrophe claims, and the impact of our portfolio improvement activities. The combined commission and expense ratio increased to 30.7% compared with 28.4%, with the increase mainly due to salary and system costs associated with the Balboa acquisition and the seasonality of premium earnings, partly offset by lower commissions and cost savings resulting from the North American business systems transformation plan.

Latin American operations

Our Latin American operations reported net earned premium growth of 40% to $422 million. Growth was due to strong premium rate increases in Argentina, business growth in Mexico and Brazil and the acquisitions made in the current period. The cost of reinsurance decreased from 21.4% to 14.4% of gross earned premium mainly due to changes in reinsurance programs placed with Equator Re.

The combined operating ratio was 92.7% compared with 92.1% for the same period last year. The net claims ratio was 55.8% compared with 57.3% in 2011, mainly due to improvements in the claims ratios in Argentina and Mexico, partly offset by a higher claims ratio in Colombia and our participation in Brazil's DPVAT business. The combined commission and expense ratio was 36.9%, up from 34.8% for the same period last year, mainly reflecting a change of business mix and the impact of the acquisitions.

European operations

European operations' combined operating ratio was 95.0% compared with 95.4% for the same period last year. Whilst the current period result reflects a lower level of catastrophe claims activity, it includes the impact of strengthening claims provisions to reflect the widening gap between inflation assumptions and risk-free interest rates in our long-tail liability portfolios. Net earned premium increased by 2% to $1,557 million reflecting strong competition and modest premium rate increases. Prior period premium was boosted by inward reinstatement premium as a result of catastrophe claims.

The net claims ratio reduced from 66.2% to 64.1% mainly due to the more benign catastrophe claims activity, partly offset by adverse development on prior accident year claims provisions and the strengthening of provisions in relation to long-tail liability classes. The combined commission and expense ratio increased from 29.2% to 30.9%. The commission ratio was 17.5% compared with 16.8% for the same period last year, reflecting changes in business mix and increased demands by brokers on commissions. The expense ratio was 13.4% compared with 12.4% for the same period last year due to costs associated with the completion of our major transformational system project and the seasonality of premium recognition.

Australian and New Zealand operations

Due to similarities in markets and geographic proximity, the management of our New Zealand business was moved into this division in the current period. Comparative information has been restated accordingly. The combined operating ratio was 91.4% compared with 103.2% for the same period last year. The prior period result was significantly impacted by storm activity in Queensland, the Victorian and Northern NSW storms, cyclones Yasi and Anthony, the Western Australian bushfires and the Christchurch earthquake in New Zealand.

Net earned premium of $2,027 million was up 12% from the same period last year. Premium growth was driven by premium rate increases and a full six months earnings from our purchase of CUNA Mutual in 2011. Although underlying reinsurance costs were up, overall reinsurance costs were lower than the prior period when additional reinstatement premium and back-up covers were purchased in response to severe catastrophe claims. The net claims ratio reduced from 73.2% to 61.8% as a result of improved attritional claims ratios and more benign catastrophe claims activity, partly offset by the impact of lower risk-free interest rates used to discount claims provisions. The combined commission and expense ratio was 29.6% compared with 30.0% for the same period last year. An increase in commissions due to changes in business mix was more than offset by a lower expense ratio. The impact of higher net earned premium, higher managed fund fee income and gains from efficiency initiatives were partly offset by increased fire services levies and staff costs.

Asia Pacific operations

As noted above, the results of our New Zealand business are now included as part of our Australian and New Zealand operations division. Comparatives have been restated accordingly. Asia Pacific operations' combined operating ratio was 91.2%, up from 79.8% for the same period last year. Net earned premium was down 1% to $182 million reflecting modest premium rate increases and higher catastrophe reinsurance costs due to the 2011 catastrophes.

The higher catastrophe reinsurance costs also impacted the net claims ratio which increased from 40.5% to 46.7% and the combined commission and expense ratio which increased from 39.3% to 44.5%.

Equator Re

Equator Re is QBE's wholly-owned captive reinsurer based in Bermuda, providing excess of loss and proportional reinsurance protections to QBE entities globally. The division reported net earned premium growth of 13% to $1,562 million due to premium rate increases, the impact of prior year acquisitions by the operating divisions and lower reinsurance costs as a result of the more benign level of catastrophe claims activity. The combined operating ratio was 91.5% compared with 97.5% for the same period last year.

The net claims ratio reduced from 68.3% to 59.8% due to higher premium rates and lower levels of catastrophe claims, partly offset by upgrades to prior accident year claims provisions, and lower risk-free rates used to discount outstanding claims. The combined commission and expense ratio was 31.7% compared with 29.2% in the same period last year. The increase was mainly due to higher commission payable on increased levels of quota share reinsurance from our North American operations.

Investment income

Investment income, net of foreign exchange and investment expenses, was $683 million compared with $657 million for the comparative period last year. Excluding foreign exchange, net investment income was up 35% to $686 million compared with $507 million for the same period last year. Investment income benefited from careful management of our portfolios and the narrowing of credit spreads in the period, largely reversing the unrealised losses that were reported at the end of 2011.

The gross annualised yield on cash and interest bearing investments was 4.7%, up from 3.6% in the same period last year.

Income tax

Income tax expense for the period increased from 12.2% of net profit before tax in the prior period to 16.2%. The tax rate in the prior period benefited from a one-off saving due to capital losses. Whilst the underlying tax rate is around 23%, changes in the UK corporate tax rate and savings from prior years benefited the current period result.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

ROUNDING OF AMOUNTS

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

Signed in SYDNEY this 17th day of August 2012 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

JD Neal
Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

K. G. Smith.

K G Smith
Partner
PricewaterhouseCoopers

Sydney, 17 August 2012

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 30 June 2012

	NOTE	2012 US$M	2011 US$M
Gross written premium		**9,223**	8,942
Unearned premium movement		**(819)**	(1,108)
Gross earned premium revenue	4(A)	**8,404**	7,834
Outward reinsurance premium		**(1,714)**	(1,720)
Deferred reinsurance premium movement		**669**	664
Outward reinsurance premium expense	4(B)	**(1,045)**	(1,056)
Net earned premium (a)		**7,359**	6,778
Gross claims incurred	4(B)	**(4,944)**	(5,647)
Reinsurance and other recoveries revenue	4(A)	**416**	1,177
Net claims incurred (b)		**(4,528)**	(4,470)
Gross commission expense	4(B)	**(1,344)**	(1,132)
Reinsurance commission revenue	4(A)	**109**	63
Net commission (c)		**(1,235)**	(1,069)
Other acquisition costs (d)	4(B)	**(392)**	(340)
Underwriting and other expenses (e)	4(B)	**(682)**	(608)
Underwriting profit (a)+(b)+(c)+(d)+(e)		**522**	291
Investment and other income – policyholders' funds	5	**448**	480
Investment expenses – policyholders' funds	5	**(12)**	(9)
Insurance profit		**958**	762
Investment and other income – shareholders' funds	5	**259**	198
Investment expenses – shareholders' funds	5	**(12)**	(12)
Financing and other costs		**(166)**	(114)
Share of net profits of associates		**3**	2
Amortisation of intangibles and impairment of goodwill/intangibles		**(128)**	(60)
Profit before income tax		**914**	776
Income tax expense		**(148)**	(95)
Profit after income tax		**766**	681
OTHER COMPREHENSIVE INCOME			
Net movement in foreign currency translation reserve		**(38)**	(184)
Actuarial (losses) gains on defined benefit superannuation plans		**(14)**	7
Gains on revaluation of owner occupied properties		**–**	4
Income tax relating to components of other comprehensive income		**(4)**	4
Other comprehensive income (expense) after income tax		**(56)**	(169)
Total comprehensive income after income tax		**710**	512
Profit after income tax attributable to:			
Ordinary equity holders of the company		**760**	673
Non-controlling interests		**6**	8
		766	681
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**704**	504
Non-controlling interests		**6**	8
		710	512

Earnings per share for profit after income tax attributable to ordinary equity holders of the company	NOTE	2012 US CENTS	2011 US CENTS
Basic earnings per share	6	**67.7**	63.1
Diluted earnings per share	6	**63.1**	59.9

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2012

	NOTE	30 JUNE 2012 US$M	31 DECEMBER 2011 US$M	30 JUNE 2011 US$M
ASSETS				
Cash and cash equivalents		**1,594**	1,457	1,617
Investments		**27,157**	26,466	27,280
Derivative financial instruments		**27**	42	42
Trade and other receivables		**6,021**	5,514	5,700
Reinsurance and other recoveries on outstanding claims	9	**3,581**	3,693	4,010
Current tax assets		**37**	347	42
Other assets		**33**	30	38
Deferred insurance costs		**3,399**	2,432	2,062
Assets held for sale		**73**	73	–
Defined benefit plan surpluses		**–**	1	1
Property, plant and equipment		**489**	448	473
Deferred tax assets		**120**	86	136
Investment properties		**27**	28	69
Investment in associates		**59**	55	55
Intangible assets		**6,235**	6,065	6,256
Total assets		**48,852**	46,737	47,781
LIABILITIES				
Derivative financial instruments		**30**	45	37
Trade and other payables		**1,951**	1,817	1,914
Current tax liabilities		**361**	162	230
Unearned premium		**9,139**	8,069	8,172
Outstanding claims	9	**20,835**	20,677	20,610
Provisions		**101**	95	339
Defined benefit plan deficits		**111**	102	86
Deferred tax liabilities		**433**	575	271
Borrowings		**4,289**	4,757	4,856
Total liabilities		**37,250**	36,299	36,515
Net assets		**11,602**	10,438	11,266
EQUITY				
Share capital	7	**9,678**	8,939	9,081
Treasury shares held in trust		**(1)**	(2)	(1)
Equity component of hybrid securities		**132**	132	138
Reserves		**(1,824)**	(1,776)	(1,712)
Retained profits		**3,561**	3,093	3,703
Shareholders' funds		**11,546**	10,386	11,209
Non-controlling interests		**56**	52	57
Total equity		**11,602**	10,438	11,266

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 30 June 2012

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

	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2011	7,972	(1)	132	(1,527)	3,735	10,311	82	10,393
Profit after income tax	–	–	–	–	673	673	8	681
Other comprehensive income	–	–	–	(178)	9	(169)	–	(169)
Total comprehensive income	–	–	–	(178)	682	504	8	512
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	–	(26)	–	–	–	(26)	–	(26)
Share based payment expense	–	–	–	18	–	18	–	18
Shares vested and/or released to participants	–	26	–	(26)	–	–	–	–
Contributions of equity, net of transaction costs and tax	716	–	–	–	–	716	–	716
Purchase of non-controlling interests	–	–	–	(5)	–	(5)	(27)	(32)
Final dividend paid on ordinary shares	–	–	–	–	(729)	(729)	–	(729)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	15	15	–	15
Foreign exchange movement	393	–	6	6	–	405	(6)	399
As at 30 June 2011	9,081	(1)	138	(1,712)	3,703	11,209	57	11,266

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half year ended 30 June 2012

	2012 US$M	2011 US$M
OPERATING ACTIVITIES		
Premium received	**7,993**	8,202
Reinsurance and other recoveries received	**491**	463
Outward reinsurance paid	**(810)**	(999)
Claims paid	**(4,812)**	(4,849)
Acquisition and other underwriting costs paid	**(2,449)**	(1,927)
Interest received	**432**	437
Dividends received	**15**	9
Other operating income	**54**	49
Other operating payments	**(152)**	(162)
Interest paid	**(105)**	(82)
Income taxes received (paid)	**185**	(20)
Net cash flows from operating activities(1)	**842**	1,121
INVESTING ACTIVITIES		
Proceeds on sale of equity investments	**408**	562
Purchase of equity investments	**(679)**	(878)
Proceeds from (payments for) forward foreign exchange contracts	**27**	(28)
Proceeds from sale (payment for purchases) of other investments	**102**	(2,285)
Payments for controlled entities and businesses acquired(2)	**(309)**	(149)
Proceeds on disposal of controlled entities	**–**	41
Proceeds on sale of investment property	**1**	1
Proceeds on sale of property, plant and equipment	**–**	1
Payments for property, plant and equipment	**(129)**	(61)
Net cash flows from investing activities	**(579)**	(2,796)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**635**	396
Share issue expenses	**(9)**	–
Purchase of treasury shares	**(23)**	(26)
Proceeds from settlement of staff share loans	**6**	6
Proceeds from borrowings	**100**	1,626
Repayment of borrowings	**(611)**	(25)
Dividends paid	**(166)**	(405)
Net cash flows from financing activities	**(68)**	1,572
Net movement in cash and cash equivalents	**195**	(103)
Cash and cash equivalents at the beginning of the half year	**1,457**	1,686
Effect of exchange rate changes	**(58)**	34
Cash and cash equivalents at the end of the half year	**1,594**	1,617

(1) Included within 2011 net cash flows from operating activities are premiums received of $811 million, reinsurance recoveries received of $51 million, outward reinsurance paid of $236 million and claims paid of $371 million that were paid in to/out of a specified account as required by government authorities.

(2) Net of cash acquired.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 30 June 2012

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

This general purpose consolidated financial report for the half year ended 30 June 2012 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Standards Board Interpretations and the *Corporations Act 2001*.

The financial report for the half year ended 30 June 2012 does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 31 December 2011 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group) during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. NEW ACCOUNTING STANDARDS AND AMENDMENTS

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2015
AASB 10	Consolidated Financial Statements	1 January 2013
AASB 11	Joint Arrangements	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013
AASB 13	Fair Value Measurement	1 January 2013
AASB 119 (revised)	Employee Benefits	1 January 2013
AASB 127 (revised)	Separate Financial Statements	1 January 2013
AASB 128	Investments in Associates and Joint Ventures	1 January 2013
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2015
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2014
2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013
2011-8	Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013
2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 January 2013
2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013
2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014
2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 cycle	1 January 2013

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

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

3. SEGMENT INFORMATION

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 50 countries. The business is managed as follows:

- North American operations writes general insurance and reinsurance business in the US and Bermuda.
- Latin American operations writes general insurance business in Central and South America.
- European operations comprises QBE Insurance Europe and QBE Underwriting Limited (Lloyd's division). QBE Insurance Europe principally writes insurance business in the UK, Ireland and mainland Europe, and reinsurance business in Ireland and mainland Europe. QBE Underwriting Limited underwrites reinsurance and commercial insurance in the Lloyd's market.
- Australian and New Zealand operations primarily underwrites general insurance risks throughout Australia and New Zealand providing all major lines of insurance cover for personal and commercial risks.
- Asia Pacific operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- Equator Re is based in Bermuda providing reinsurance protection to related entities and participating on reinsurances placed with external reinsurers. All inward premium received by Equator Re is derived from within the QBE Group and is eliminated on consolidation.

The Group has identified its operating segments based on the reports that are used by the Group Executive (being the chief operating decision maker) and the Group board of directors for measuring performance and determining the allocation of capital. The operating segments have been identified by management based on the way that the Group's underwriting products and services are managed within the various markets in which we operate.

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

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

3. SEGMENT INFORMATION CONTINUED

2011	NORTH AMERICAN OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN AND NEW ZEALAND OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	15,111	1,000	18,210	13,343	1,203	7,256	(8,342)	47,781
Total liabilities	(11,422)	(668)	(15,267)	(11,103)	(785)	(5,612)	8,342	(36,515)
Net assets	3,689	332	2,943	2,240	418	1,644	–	11,266
Gross written premium	3,144	380	2,824	2,360	234	2,021	(2,021)	8,942
Gross earned premium revenue – external	2,770	384	2,242	2,214	224	–	–	7,834
Gross earned premium revenue – internal	–	–	–	–	–	1,545	(1,545)	–
Outward reinsurance premium expense	(1,198)	(82)	(713)	(399)	(41)	(168)	1,545	(1,056)
Net earned premium	1,572	302	1,529	1,815	183	1,377	–	6,778
Net claims incurred	(941)	(172)	(1,013)	(1,329)	(74)	(941)	–	(4,470)
Net commission	(151)	(62)	(257)	(229)	(35)	(335)	–	(1,069)
Underwriting and other expenses	(296)	(44)	(189)	(315)	(37)	(67)	–	(948)
Underwriting profit (loss)	184	24	70	(58)	37	34	–	291
Net investment income on policyholders' funds	80	15	129	160	10	77	–	471
Insurance profit	264	39	199	102	47	111	–	762
Net investment income on shareholders' funds	59	6	46	41	6	28	–	186
Financing and other costs	(60)	–	(18)	(30)	–	(6)	–	(114)
Share of net profits of associates	–	–	–	2	–	–	–	2
Amortisation of intangibles and impairment of goodwill/intangibles	(49)	(4)	(1)	(6)	–	–	–	(60)
Profit before income tax	214	41	226	109	53	133	–	776
Income tax (expense) credit	(39)	(14)	(39)	(9)	(14)	20	–	(95)
Profit after income tax	175	27	187	100	39	153	–	681
Profit after income tax attributable to non-controlling interests	–	(1)	–	(4)	(3)	–	–	(8)
Net profit after income tax	175	26	187	96	36	153	–	673

4. INCOME AND EXPENSE

(A) Income summary	2012 US$M	2011 US$M
Gross earned premium revenue		
Direct and facultative	**7,679**	7,087
Inward reinsurance	**725**	747
	8,404	7,834
Other revenue		
Reinsurance and other recoveries revenue	**416**	1,177
Reinsurance commission revenue	**109**	63
	8,929	9,074
Other income		
Interest, dividend and other income	**418**	402
Net fair value gains on financial assets	**292**	113
Realised gains on sale of controlled entities	**–**	11
Gain on repurchase of debt securities	**–**	2
Foreign exchange gains	**–**	150
Share of net profits of associates	**3**	2
	713	680
Income	**9,642**	9,754

(B) Expenses	2012 US$M	2011 US$M
Outward reinsurance premium expenses	**1,045**	1,056
Gross claims incurred	**4,944**	5,647
Gross commission expense	**1,344**	1,132
Other acquisition costs	**392**	340
Underwriting and other expenses[1]	**682**	608
Foreign exchange losses	**3**	–
Investment expenses	**24**	21
Financing and other costs	**166**	114
Amortisation of intangibles and impairment of goodwill/intangibles[2]	**128**	60
Expenses	**8,728**	8,978

(1) Includes $99 million (2011 $60 million) of agency income earned by the Group's agency operations which is treated as a recovery of the Group's underwriting expenses.

(2) Includes an impairment charge of $50 million (2011 nil) following changes in our North American operations, particularly initiatives to promote the QBE name and changes in distribution.

5. INVESTMENT INCOME

	2012 US$M	2011 US$M
Interest, dividend and other income		
Dividends received or receivable	**17**	11
Interest received or receivable	**399**	388
Other investment income	**2**	3
	418	402
Net fair value gains on financial assets		
Equities	**33**	20
Fixed interest and other	**259**	93
	292	113
Realised gains on sale of controlled entities	**–**	11
Gain on purchase of debt securities	**–**	2
Foreign exchange (losses) gains	**(3)**	150
Investment and other income	**707**	678
Investment expenses	**(24)**	(21)
Net investment and other income	**683**	657

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		INVESTMENT INCOME	
	2012 US$M	2011 US$M	2012 US$M	2011 US$M	2012 US$M	2011 US$M
Investment and other income	**448**	480	**259**	198	**707**	678
Investment expenses	**(12)**	(9)	**(12)**	(12)	**(24)**	(21)
Net investment and other income	**436**	471	**247**	186	**683**	657

6. EARNINGS PER SHARE

	2012 US CENTS	2011 US CENTS
Basic earnings per share	**67.7**	63.1
Diluted earnings per share	**63.1**	59.9

	2012 US$M	2011 US$M
(A) Reconciliation of earnings used in calculating earnings per share		
Net profit after income tax attributable to ordinary equity holders of the company, used in calculating basic earnings per share	**760**	673
Add: finance costs of convertible securities	**13**	12
Earnings used in calculating diluted earnings per share	**773**	685

	2012 NUMBER OF SHARES MILLIONS	2011 NUMBER OF SHARES MILLIONS
(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share		
Weighted average number of ordinary shares on issue	**1,126**	1,070
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(3)**	(4)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share(1)	**1,123**	1,066
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**3**	4
Convertible securities	**99**	74
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,225**	1,144

(1) Weighted average number of ordinary shares reflects shares adjusted to derecognise shares subject to non-recourse loan agreements issued under the Plan. Basic earnings per share calculated with reference to issued share capital notified to the Australian Securities Exchange would have been 67.5 cents (2011 62.8 cents).

7. SHARE CAPITAL

	2012 US$M	2011 US$M
Issued ordinary shares, fully paid	**9,678**	9,081

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

	NUMBER OF SHARES MILLIONS	US$M
Issued and fully paid at 1 January 2011	1,048	7,972
Shares issued under the Employee Share and Option Plan	–	2
Employee options exercised	–	2
Shares issued under the Dividend Reinvestment Plan	18	316
Shares issued under the Bonus Share Plan	1	–
Shares issued pursuant to the underwriting of the 2010 final dividend	22	396
Foreign exchange movement	–	393
Issued and fully paid at 30 June 2011	1,089	9,081
Shares notified to the Australian Securities Exchange	1,093	9,114
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(4)	(33)
Issued and fully paid at 30 June 2011	1,089	9,081

8. DIVIDENDS

	2011		2010
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	25.0	62.0	66.0
Franking percentage	25%	10%	10%
Franked amount per share (Australian cents)	6.25	6.20	6.60
Dividend payout (A$M)	279	677	694
Payment date	30 March 2012	23 Sept 2011	11 April 2011

On 17 August 2012, the directors declared a 15% franked interim dividend of 40 Australian cents per share payable on 24 September 2012. The interim dividend payout is A$473 million (2011 A$677 million). The record date is 30 August 2012.

	2012 US$M	2011 US$M
Final dividend paid on ordinary shares		
Franked	**72**	73
Unfranked	**216**	656
	288	729
Dividend reinvested under the Bonus Share Plan	**(10)**	(15)
Total dividend paid	**278**	714

9. CLAIMS

(A) Net outstanding claims	30 JUNE 2012	31 DECEMBER 2011
Gross outstanding claims	**21,618**	21,374
Claims settlement costs	**418**	453
	22,036	21,827
Discount to present value	**(1,201)**	(1,150)
Gross outstanding claims provision	**20,835**	20,677
Less than 12 months	**7,897**	7,869
Greater than 12 months	**12,938**	12,808
Gross outstanding claims provision	**20,835**	20,677
Reinsurance and other recoveries on outstanding claims[(1)]	**3,703**	3,808
Discount to present value	**(122)**	(115)
Reinsurance and other recoveries on outstanding claims	**3,581**	3,693
Less than 12 months	**1,818**	1,874
Greater than 12 months	**1,763**	1,819
Reinsurance and other recoveries on outstanding claims	**3,581**	3,693
Net outstanding claims	**17,254**	16,984
Central estimate	**16,034**	15,783
Risk margin	**1,220**	1,201
Net outstanding claims	**17,254**	16,984

(1) Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of $29 million (31 December 2011 $35 million).

(B) Probability of adequacy

The probability of adequacy at 30 June 2012 was 86.0% (31 December 2011 86.3%) which is well above APRA's 75% benchmark. The risk margin included in net outstanding claims is 7.6% (31 December 2011 7.6%) of the central estimate. A 1% movement in the probability of adequacy would impact net profit before tax by approximately $51 million. Net profit before tax would have decreased by $13 million if the probability of adequacy was maintained at 86.3%.

10. CONTINGENT LIABILITIES

	30 JUNE 2012 US$M	31 DECEMBER 2011 US$M
Letters of credit issued in support of the Group's participation in Lloyd's	**1,416**	1,412

11. BORROWINGS

(A) Subordinated debt due 2020 (principal amount $500 million)

On 1 June 2012, the consolidated entity redeemed the subordinated debt securities for cash.

(B) Hybrid Securities due 2030 (principal amount $850 million)

The Group can redeem these securities at any time on or after three years from the date of issue, which was 12 May 2010.

12. BUSINESS COMBINATIONS

On 31 January 2012, a wholly owned entity acquired Optima Insurance Group Inc, in Puerto Rico. The purchase price was $38 million for net tangible assets of $19 million.

On 31 January 2012, a wholly owned entity acquired AMA Collection Services in Australia. The purchase price was $2 million for net tangible assets of nil.

On 13 April 2012, a wholly owned entity acquired the regional UK commercial lines business of Brit Insurance. The purchase price was $61 million for net tangible liabilities of $12 million.

On 2 May 2012, a wholly owned entity acquired 99.73% of the general insurance business of HSBC Argentina Holdings SA, an indirect subsidiary of HSBC Holdings plc. The purchase price was $215 million for net tangible assets of $28 million.

The fair value of assets and liabilities arising from acquisitions in the half year ended 30 June 2012 were as follows:

	HSBC ARGENTINA US$M	OTHER US$M	TOTAL US$M
Cash and cash equivalents	2	4	6
Investments	240	36	276
Trade and other receivables	127	7	134
Reinsurance and other recoveries on outstanding claims	53	2	55
Deferred insurance costs	150	12	162
Property, plant and equipment	2	6	8
Deferred tax assets	19	–	19
Intangible assets	50	80	130
Total assets	643	147	790
Trade and other payables	61	17	78
Current tax liabilities	9	–	9
Unearned premium	212	24	236
Outstanding claims	280	5	285
Deferred tax liabilities	3	14	17
Total liabilities	565	60	625
Net assets acquired	78	87	165

Trade and other receivables in the table above are shown at fair value. The gross contractual amounts receivable are as follows:

	HSBC ARGENTINA US$M	OTHER US$M	TOTAL US$M
Trade and other receivables	127	7	134

	HSBC ARGENTINA US$M	OTHER US$M	TOTAL US$M
Purchase consideration			
Cash	215	89	304
Deferred consideration	–	12	12
Total purchase consideration	215	101	316
Fair value of net assets acquired	78	87	165
Goodwill and identifiable intangibles acquired	137	14	151

The above information is presented at the exchange rates prevailing at the date of the acquisitions.

The information in the table above is provisional as the valuation of assets acquired is not yet complete.

The goodwill element is attributable to the future profitability of the acquisitions and the synergies expected to arise within the Group.

The acquired businesses contributed gross earned premium of $96 million and net profit after income tax of $2 million to the Group for the period from acquisition to 30 June 2012. If the acquisitions had occurred on 1 January 2012, consolidated gross earned premium and consolidated net profit after income tax for the half year ended 30 June 2012 would have been $8,598 million and $773 million respectively.

The third party costs associated with acquisitions in the half year to 30 June 2012 were $1 million.

13. EVENTS OCCURRING AFTER THE BALANCE DATE

On 9 July 2012, a wholly-owned entity acquired effective control of the general insurance operations of Hang Seng Bank in Hong Kong, a subsidiary of HSBC Holdings plc. The purchase price was $181 million for estimated net tangible assets of $131 million. Given the timing of, and complexities inherent in, this transaction, more detailed disclosures are not available at the date of this report.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 38 to 51:

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

(b) give a true and fair view of the Group's financial position as at 30 June 2012 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

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

Signed in SYDNEY this 17th day of August 2012 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

JD Neal
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of QBE Insurance Group Limited

REPORT ON THE HALF YEAR FINANCIAL REPORT

We have reviewed the accompanying half year financial report of QBE Insurance Group Limited, which comprises the consolidated balance sheet as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for the QBE Insurance Group Limited (the consolidated entity). The consolidated entity comprises both QBE Insurance Group Limited (the company) and the entities it controlled during that half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half year ended on that date; and

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Sydney, 17 August 2012

K.G. Smith.

KG Smith
Partner

Liability limited by a scheme approved under Professional Standards Legislation.

HISTORICAL REVIEW

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2012	2011	2010	2009	2008	2011	2010	2009	2008	2007
Gross written premium	US$M	**9,223**	8,942	6,861	5,704	6,104	18,291	13,629	11,239	11,015	10,391
Gross earned premium	US$M	**8,404**	7,834	6,110	5,039	5,508	17,840	13,432	10,943	10,773	10,353
Net earned premium	US$M	**7,359**	6,778	5,240	4,379	4,722	15,359	11,362	9,446	9,293	8,552
Claims ratio	%	**61.5**	65.9	59.9	60.8	54.7	68.2	59.9	60.3	57.6	54.3
Commission ratio	%	**16.8**	15.8	15.3	17.0	17.2	14.9	15.5	16.2	17.2	18.5
Expense ratio	%	**14.6**	14.0	14.5	11.5	13.9	13.7	14.3	13.1	13.7	13.1
Combined operating ratio	%	**92.9**	95.7	89.7	89.3	85.8	96.8	89.7	89.6	88.5	85.9
Investment income											
before net fair value gains/losses	US$M	**391**	542	330	512	495	955	660	838	1,237	839
after net fair value gains/losses	US$M	**683**	657	116	542	470	776	659	1,159	1,199	1,132
Financing and other costs	US$M	**166**	114	108	90	118	275	222	191	223	189
Insurance profit	US$M	**958**	762	827	766	1,032	1,085	1,703	1,609	1,830	1,895
Insurance profit margin	%	**13.0**	11.2	15.8	17.5	21.8	7.1	15.0	17.0	19.7	22.2
Operating profit											
before income tax	US$M	**914**	776	528	893	1,012	868	1,551	1,891	2,028	2,135
after income tax and non-controlling interests	US$M	**760**	673	440	720	794	704	1,278	1,532	1,558	1,612
Number of shares on issue(1)	millions	**1,182**	1,093	1,035	1,003	888	1,116	1,052	1,025	987	886
Shareholders' funds	US$M	**11,546**	11,209	8,921	8,253	8,447	10,386	10,311	9,164	7,834	7,435
Total assets	US$M	**48,852**	47,781	37,128	36,057	37,503	46,737	41,386	36,723	33,967	34,737
Net tangible assets per share(1)	US$	**4.54**	4.58	4.46	4.17	6.71	3.92	4.76	4.63	4.02	5.99
Borrowings to shareholders' funds(1)	%	**37.1**	43.3	38.9	29.3	37.3	45.8	31.5	29.1	32.9	40.8
Basic earnings per share(1)	US cents	**67.5**	62.8	42.7	72.2	89.5	64.7	123.2	152.1	174.1	187.7
Diluted earnings per share	US cents	**63.1**	59.9	42.2	71.6	88.5	61.3	119.6	149.9	172.2	181.8
Returns on average shareholders' funds	%	**13.9**	12.5	9.7	17.9	20.0	6.8	13.1	18.0	22.3	26.0
Dividend per share	Australian cents	**40.0**	62.0	62.0	62.0	61.0	87.0	128.0	128.0	126.0	122.0
Dividend payout	A$M	**473**	677	642	628	542	956	1,336	1,306	1,187	1,068
Cash flow from operations	US$M	**842**	1,121	698	564	776	2,139	1,362	1,344	1,886	1,988
Total investments and cash(2)	US$M	**28,851**	28,966	22,272	20,644	22,260	28,024	25,328	22,448	19,995	21,552

(1) Reflects shares notified to the Australian Securities Exchange.

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

GLOSSARY OF INSURANCE TERMS

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Attritional claims ratio	Total claims with a net cost of less than US$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.
Capacity	In relation to a Lloyd's member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, it is the aggregate of each member's capacity allocated to that syndicate.
Casualty insurance	Insurance that is primarily concerned with the losses caused by injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A form of excess of loss reinsurance that, subject to specified limits, indemnifies the insured for the amount of loss in excess of a specified retention with respect to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin for the possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commission ratio	Net commission expense as a percentage of net earned premium.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedent (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 total premium on insurance earned by an insurer or reinsurer during a specified period on premiums underwritten in the current and previous underwriting years.
Gross written premium (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 profit (loss) and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Insurance solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Inward reinsurance	The reinsurance or assumption of risks written by another insurer.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of US$2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy which protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.

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.
Maximum event retention (MER)	The largest loss to which an insurer will be exposed (taking into account the probability of that loss at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance assets and inward and outward reinstatement premiums.
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 net change in unearned premium for a year.
Net investment income	Gross investment income net of foreign exchange gains and losses and investment expenses.
Net underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
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.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedent 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.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Syndicate	A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Written premium	Premiums written, whether or not earned, during a given period.

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QBE INSURANCE GROUP LIMITED

82 Pitt Street
Sydney 2000 Australia
Phone +61 2 9375 4444

www.qbe.com