QBE Insurance Group Half year report to 30 June 2014

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QBE is providing expert advice to customers globally, helping them manage their risks across all elements of property insurance from design through construction to the finished build.

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ABN 28 008 485 014

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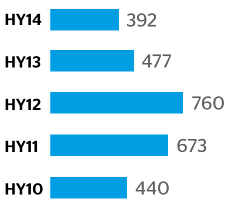
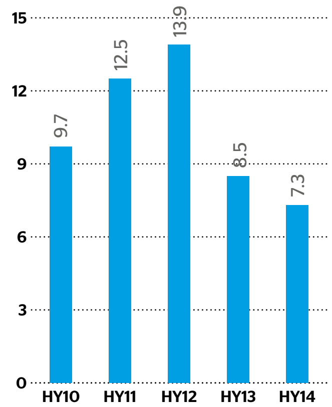
Performance

Interim net profit after tax (US$M)

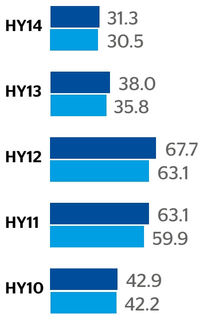


↓ 18%

Return on average shareholders' funds (%)



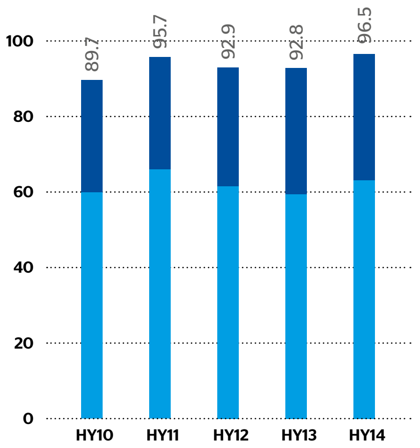
Interim earnings per share (EPS) (US¢)



Basic EPS ↓ 18%

Diluted EPS ↓ 15%

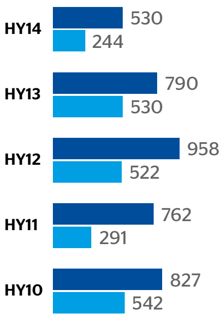
Combined operating ratio (COR) (%)



Combined commission and expense ratio

Net claims ratio

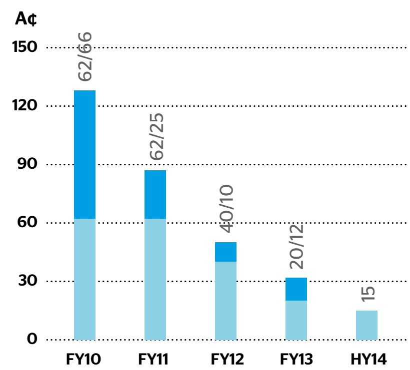
Insurance profit and underwriting result (US$M)



Insurance profit ↓ 33%

Underwriting result ↓ 54%

Dividend per share (A¢)



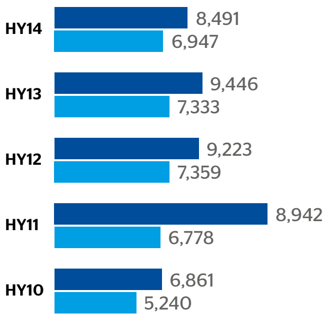
↓ 25% on 1H 2013

Dividend per share (A¢) final

Dividend per share (A¢) interim

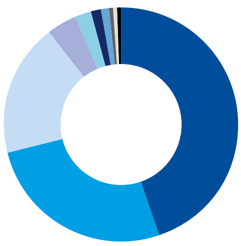
Profile

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



- Gross written premium ↓ 10%
- Net earned premium ↓ 5%

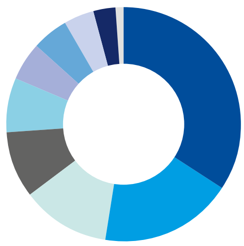
Investments and cash



US$31.4 billion

	HY14 %	FY13 %
Corporate bonds	44.9	47.3
Short-term money	26.3	21.3
Government bonds	18.4	24.6
Cash	4.2	4.0
Property trusts	2.2	1.0
Emerging markets debt and equities	1.4	–
Equities	1.0	0.9
Infrastructure debt	0.7	0.5
High yield debt	0.6	–
Unit trusts	0.3	0.3
Properties	–	0.1

Gross earned premium by class of business



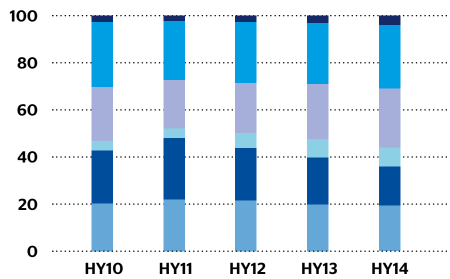
	HY14 %	HY13 %
Commercial & domestic property	34.3	36.6
Motor & motor casualty	18.3	17.2
Public/product liability	12.2	11.4
Workers' compensation	9.3	9.0
Marine energy & aviation	7.4	7.2
Agriculture & bloodstock	5.2	5.0
Professional indemnity	5.0	4.3
Financial & credit	4.3	4.8
Accident & health	3.1	3.4
Other	0.9	1.1

Net earned premium by type

93% direct and facultative insurance

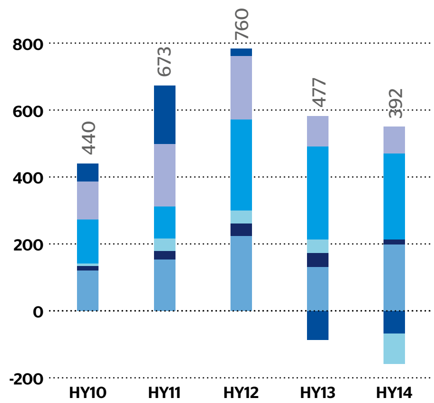
7% inward reinsurance

Divisional analysis of net earned premium (%)



- Equator Re
- North America
- Latin America
- Europe
- Australia & New Zealand
- Asia Pacific

Net profit after tax by division (US$M)



- Equator Re
- North America
- Latin America
- Europe
- Australia & New Zealand
- Asia Pacific

First half 2014 in review

In the first half of 2014, we continued to build our business upon the foundations of the QBE value creation model. Notwithstanding the issue we encountered in our Argentine workers' compensation business, we made significant progress during the period across our three agendas – performance, change and people. Our focus on these clear priorities has enabled us to reshape our business for the future and to ensure that all necessary elements are now in place to deliver consistent results and earnings predictability for our shareholders.

Performance agenda

Market conditions became slightly more challenging as the first half of 2014 progressed, with gross written premium for the half of $8.5 billion, below our budget of $8.9 billion. Competition and overcapacity kept premium rate increases low in many of the markets in which we operate. Against this backdrop, it is essential that we remain focused on our core businesses and maintain our strict underwriting discipline. We continue to prioritise portfolios where we believe we can earn a fair return for our shareholders. Our commitment to this approach is unrelenting and this was reflected in the aforementioned top line reduction.

Strengthening claims reserves in Argentina

On 29 July 2014, we announced a $169 million strengthening of our prior accident year claims reserves in Latin America, the majority of which pertained to the Argentine workers' compensation portfolio. The increase followed a thorough review of our claims reserves which was instigated in response to an increase in litigated workers' compensation claims following legislative changes in 2012 and 2013, and partly in response to deteriorating economic conditions in Argentina.

The review also afforded us the opportunity to adopt new and more sophisticated actuarial models not normally used in Argentina that utilise explicit and significantly upgraded claims inflation factors as well as upgrading our claims frequency and severity assumptions.

Whilst painful, we responded quickly and decisively to put this issue behind us and our actions were endorsed by the key ratings agencies maintaining our financial strength ratings following the announcement. Although undoubtedly a frustrating development, we are pleased that our investors recognised the appropriateness of resolving this issue in a decisive manner.

Excluding the strengthening of reserves in Argentina and an adverse discount rate impact, the underlying performance of our insurance business was sound. While the headline insurance profit margin was 7.6%, the adjusted 1H 2014 margin was closer to 10.0%. Our adjusted combined operating ratio (COR) of around 93.0% was in line with the target we have set ourselves and reflective of the level at which we believe our business should ultimately perform following the initiatives we have undertaken in the last 18 months.

Full details of the performance of each of our divisions and our achievements in the first half of the year can be found on pages 20 to 43.

Australian & New Zealand Operations has again delivered a strong underwriting result for the half with a COR of 86.9% and an insurance profit margin of 18.6%. The fact that the team has been able to consistently deliver such strong results is a reflection of the focus, determination and discipline that make QBE a leading insurer in Australia and New Zealand. Notwithstanding heightened price competition expected in the second half of the year, the team is looking for growth opportunities across their portfolio of businesses.

European Operations is feeling the impact of increasingly competitive market conditions. Despite these challenges, the business maintained a COR of 95.6% and delivered a slightly improved insurance profit margin of 6.4%. We have seen a reduction in gross written premium as we exited a number of non-core and poorly performing businesses, consistent with our stated strategy. In the first half of the year, we further strengthened our European Operations executive team with experienced and well respected market professionals.

Our strategy in North American Operations to refocus as a commercial and speciality insurer is beginning to deliver results, as a reinvigorated senior executive team reshapes the business across the US. The statutory COR improved materially to 103.0% from 115.8% in FY13. Before the internal quota share reinsurance arrangements with the Group's captive, Equator Re, our North American Operations generated an underwriting profit with a COR of 99.3%. Whilst there is still a great deal of work to be done, we are pleased the business has returned to underwriting profit.

The prior accident year reserve strengthening in our Latin American Operations of $158 million ($169 million before the Equator Re quota share) has pushed the division into loss with a COR of 136.3%. Excluding this development, the COR was still disappointing at 107.7% reflecting adverse large individual risk claims experience. It should be noted that the COR of our Latin American Operations will likely remain structurally higher relative to past experience, reflecting greatly increased inflation and interest rates in Argentina. Nevertheless, the current accident year return on allocated capital for our business in Argentina is estimated to be in the vicinity of 30%.

Our Asia Pacific profitable growth strategy has contributed to a COR of 91.7% and underlying gross written premium growth of 21% through improved leadership and better sharing of our global knowledge base and cross business opportunities.

Notwithstanding pleasing results in most areas of our global portfolio, the result in Argentina is most disappointing and has impacted our overall profitability and the efforts of our people around the world. Absent that development and the material impact of lower risk-free rates, our results are showing tangible signs of returning to levels consistent with shareholders' expectations. While premium income fell during the first half, our refocused business will provide a strong platform for future profitable growth when the pricing/rate environment becomes more supportive.

Change agenda

Leadership in our core businesses

"We will focus on core businesses where we are widely recognised as world class and can lead the market."

The strategic asset review commenced in 2012 has continued, focusing on investment in our key strengths and encouraging our exit from businesses and business lines we no longer believe to be core to our strategy.

European Operations has disposed of numerous underperforming and non-core businesses, including some businesses in Central and Eastern Europe, rebasing its property account and ceasing to underwrite in UK aviation and bloodstock lines. Australian & New Zealand Operations continues to drive the intermediated market from its position of true leadership.

In the US, our strategy is to focus on commercial and speciality lines and we have recruited renowned industry experts to deliver on this ambition. Having completed a review of our North American portfolio, we are satisfied that our middle markets business can achieve an appropriate return for our shareholders as we look to:

- improve relationships with our distribution partners;
- introduce smarter point of sale technology; and
- significantly reduce the cost of doing business.

We have decided to partially and fully divest agency businesses in Australia and North America respectively. This decision reflects our strong belief that these distribution businesses will offer enhanced revenue growth prospects for QBE under specialist external distribution ownership, whilst we will continue to underwrite the premiums generated by these agencies.

At the same time, we have decided to partially IPO our highly profitable and well positioned Australian lenders' mortgage insurance business. While allowing QBE to retain a material exposure to our mortgage insurer, the IPO will provide QBE LMI with a broader shareholder base and funding flexibility more suitable for a business with ongoing and strong growth ambitions.

When executed, these initiatives (which are discussed in greater detail in the Group CFO's report) deliver significant cash and capital that will substantially improve the Group's key capital metrics and financial flexibility.

Operational excellence

"By collaborating across our worldwide businesses and skill sets, we will achieve economies of scale and share best practice to ensure we operate more efficiently and effectively and are better placed to compete with our peers."

Our operational transformation program is on track to deliver annual expense savings in excess of $250 million as well as $90 million of annual procurement savings.

Based on the successful launch of our Group Shared Service Centre (GSSC) in Manila, we have opened a second site in Cebu in the Philippines. Operating in a different part of the Philippines with a discrete weather pattern, this ensures business continuity in our shared service operations.

An important aspect of our strategy is to use our international reach to achieve synergies. We have implemented a global approach to procurement to achieve purchasing economies of scale which has delivered $34 million in savings during the first six months of the year. We have also implemented a global approach to technology to ensure we standardise our IT solutions across our worldwide operations.

This half year has also seen greater global collaboration across product lines and distribution channels to share best practice and develop solutions for our clients. Our global distribution team is focused on working closely with major trading partners to understand and deliver on the needs of joint clients. This will result in stronger relationships as well as greater opportunities for collaborative product and service design for specific classes of cover.

Financial strength and flexibility

"We will manage our balance sheet to minimise risk and maintain improved financial strength to meet or exceed all our stakeholder requirements and to provide flexibility for our future needs."

We have worked hard over the past two years to improve each of the key capital metrics against which we are measured by regulators and rating agencies. In this respect, it was pleasing that our financial strength ratings were unchanged following our results update to the market in July.

In determining those businesses that are core to us and in which we should invest capital for growth, we have also identified those businesses that are non-core and from which we should exit. As summarised in the Group CFO's report on pages 8 to 9, we have outlined our plans to strengthen QBE's balance sheet including asset disposals and capital and debt restructuring that will further strengthen our key capital metrics. Our plans include the retention of a capital buffer enabling us to better withstand a reasonable range of downside scenarios.

Profitable growth and diversification

"We will pursue our ambition for further growth and profitability by expanding into new products, markets and territories where we believe we can build leadership positions."

During 2013, we announced our Asia Pacific profitable growth strategy. We have recruited a strong management team to drive this business, resulting in an excellent performance in the period. We now intend replicating this approach in Latin America, and have asked David Fried to lead both Latin America and Asia Pacific in a single combined Emerging Markets division.

Under the Emerging Markets banner, we are now refining our Latin America strategy to identify and implement new opportunities for profitable growth, leveraging our regional and global strengths to take advantage of local opportunities. We believe that a combination of technology, trading relationships with international brokers and the ability to invest uniformly in improved underwriting tools across emerging markets will allow this enlarged division to replicate the top and bottom line success we have achieved in our Asia Pacific Operations.

People agenda

"Our value creation model is underpinned by one absolute belief – our ultimate key differentiator has to be our people."

As we continue to develop our ONE QBE model, we have further strengthened our leadership capability with several important external appointments. In Group Head Office, we welcomed the very experienced insurance industry executive Pat Regan as our Group CFO. In the few short months since Pat has been in the business, we have seen a step-change in the way we look at our balance sheet and we welcome his insights as we strive for more consistent results for our shareholders. We have also recruited Peter Horton, one of Australia's most respected legal professionals, as Group General Counsel and Company Secretary.

We are grateful to Neil Drabsch for his 23 years of service with QBE and, in particular, the last 20 years as CFO. We thank him for his contribution during this time and wish him well in his retirement.

The QBE Leadership Academy is designed to develop strong leaders at all levels who can become the future leaders of our business. The initial success of the academy has been rolled out throughout the organisation with over 3,000 leaders expected to have participated in the program by the end of 2016. Pleasingly, we have promoted two internal participants to the Group Executive with Jason Brown stepping in to the role of Group Chief Risk Officer and Mike Emmett taking on the role of Group Executive Officer, Operations.

To complement the QBE Leadership Academy, we are piloting an underwriting academy to further develop the technical expertise required in an evolving industry. This commitment to building the leadership and technical skills of our people is a substantial investment in the future of QBE.

Succession and talent development programs implemented across QBE, combined with initiatives to support our plans for diversity and inclusion, will further ensure we are developing our people to maximise their potential.

Looking ahead

Forecast full year gross written premium remains at the lower end of our previously advised expectation. Net earned premium will fall short of our original 2014 expectation by around $600 million, mainly reflecting the full year impact of challenging market conditions and the remediation activities initiated to address underperforming businesses. Inclusive of the approximately $390 million impact of the agreement we entered into in August to reinsure our Italian and Spanish medical malpractice liabilities to a third party, details of which are included in note 12 to the financial statements, the shortfall increases to approximately $1 billion.

Including the 1H 2014 impact of prior accident year reserve strengthening in Argentina and lower risk-free rates used to discount our claims liabilities, we are now targeting a FY 2014 COR of 95%–96%.

We remain of the view that our full year large individual risk and catastrophe claims allowance of 10.5% of net earned premium is appropriate to cater for claims arising from these events over the longer term; however, our revised FY 2014 margin guidance includes an 11.3% allowance, comprising actual first half experience of 9.9% coupled with our normal 2H allowance of 12.5% (based on net earned premium before the impact of our medical malpractice reinsurance arrangements).

Our underlying attritional claims ratio has improved in each of the last three consecutive half years and we continue to believe that our disciplined underwriting will enable us to match or better this ratio for the full year.

Our underwriting expenses are expected to reduce by around 10% in FY 2014; however, when expressed as a percentage of reduced net earned premium, the combined cost of commissions and expenses is now forecast to be in the region of 33% with the lower net earned premium masking the underlying reduction in expenses. We anticipate further savings in our underwriting expenses which will benefit 2015.

Our budgeted FY 2014 net investment return on policyholders' funds is up slightly from our previous guidance to 2.4%–2.7%, reflecting better than anticipated performance in the first half of the year. This is expected to generate an investment contribution to the insurance profit margin of 3.5%–4%.

Accordingly, our revised target FY 2014 insurance profit margin is 8%–9%.

We remain focused through this year and into the next on maintaining our claims performance and further reducing our cost base.

REVISED 2014 TARGETS	
Gross written premium	US$16.6bn–US$17.0bn
Net earned premium	US$13.9bn–US$14.2bn[1]
Combined operating ratio	95%–96%
Insurance profit margin	8%–9%

1 Net of $390 million one-off impact associated with the reinsurance of Italian and Spanish medical malpractice reserves, which is expected to have a neutral impact on the underwriting result.

Summary

QBE is one of the few insurers with a true global geographic and product reach. The significant decisions and actions we have taken over the past two years have positioned us well for the future and all stakeholders can have renewed confidence in our strategic and operational direction, underpinned by three key considerations:

- Our uncompromising focus on underwriting excellence to drive returns in all market conditions.
- Our demonstrated ability to manage cost in relation to the size of our business.
- Our planned improvements to the Group's capital position which will provide increased flexibility to maximise the investment return we earn on our assets.

We look forward to working with our key stakeholders in the remainder of 2014 and throughout 2015 as we strive to become the most successful insurer in their eyes, and to deliver real value for our shareholders.

John Neal
Group Chief Executive Officer

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

Operating and financial performance overview

I joined QBE because I believe it has a unique global footprint of high quality property & casualty businesses. While the transformation of QBE is still in progress, much work has already been completed and we have announced some important capital initiatives that will substantially improve the financial strength of the Group.

General overview

It is with great pleasure that I write to you for the first time as the Group CFO of QBE.

The first half of 2014 has been a mixed one for QBE with good performances from Australia & New Zealand, Europe, Equator Re and Asia Pacific, and progress in North America in part overshadowed by the increase in prior year reserves in Latin America.

Looking forward, my initial priorities as Group CFO fall into three broad categories:

1. Drive financial performance

I believe the results to 30 June demonstrate improved performances in most of our businesses. This was partly evidenced by the 1.3% improvement in the underlying attritional claims ratio compared with 1H 2013 and also the stable combined commission and expense ratio despite the 10% reduction in gross written premium.

With market conditions becoming increasingly competitive, it is essential that we maintain our focus on consistent underwriting disciplines and expense efficiency.

It is also vital for confidence that we consistently achieve business plans and targets. In this regard, I am pleased that we have successfully reinsured our potentially volatile Italian and Spanish medical malpractice claims reserves, which should provide a greater level of confidence in the central estimate.

2. Financial strength and flexibility

Notwithstanding the fact that QBE's debt to equity ratio reduced from 44.1% at 31 December 2013 to 38.4% at 30 June 2014 and the Group's APRA PCA multiple is relatively stable at 1.56 times, we believe that all our major stakeholders would benefit from QBE having increased financial strength and flexibility.

To this end, we are now targeting new and more demanding capital ratios:

- debt to equity of 25%–35%; and
- APRA PCA multiple of 1.7x–1.9x.

We are also targeting enhanced free cash flow (measured as the cash remittance to Group head office) and intend to set minimum annual remittance targets as a percentage of divisional post-tax profit for the divisions. Strong and growing free cash flow supports our external dividend-paying capacity and our growth aspirations.

To achieve these robust capital targets, we have announced a comprehensive capital plan in conjunction with the release of our interim result as follows:

- a $600 million (approximately A$650 million) institutional share placement and $150 million (approximately A$160 million) share purchase plan, with the proceeds primarily used to repurchase and cancel the remaining $500 million of convertible subordinated debt with a first call date of 23 December 2014;
- a $700 million issue of qualifying Tier 2 borrowings primarily to replace senior debt;
- asset sales including divestment of our US and certain of our Australian agency businesses and finalisation of the sale of our Central and Eastern European operations;
- the partial IPO of QBE LMI in 2015; and
- the removal of the 1% discount on the Group's dividend reinvestment plans.

I believe that the combined impact of these initiatives will substantially improve the Group's financial flexibility and ability to withstand a reasonable range of downside scenarios.

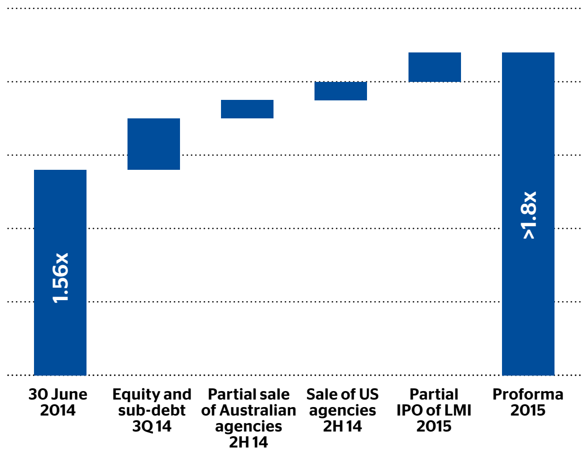
3. Investment performance and strategy

The investment portfolio performed ahead of expectations in the six months to 30 June 2014, generating an annualised net investment yield of 2.8% compared with our previous FY 2014 market guidance of 2.3%. That said, over the next few years I believe there is a significant opportunity to increase our investment yield and achieve an attractive return on incremental capital and, in this context, we intend to:

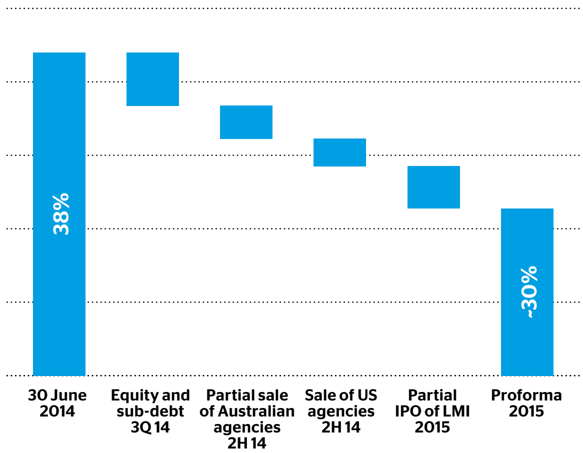
- extend our risk asset exposure from 1.9% of the portfolio at 31 December 2013 to 15% (still conservative compared with our global peers);
- at the right time and with regard to global yield curves, extend the roughly six month duration of our fixed income portfolio closer to the three year duration of our claims liabilities; and
- broaden the range of fixed income securities that we hold – $15 billion of our investment portfolio is currently in cash, money market securities and short-term government bonds.

Capital plan

APRA PCA multiple



Debt to equity



Economic and financial market landscape

Notwithstanding volatility in US GDP data in particular, global economic growth continued to improve at a modest pace in the first half of the year, whilst inflationary pressures remained muted.

Europe continues to disappoint, and the prospect of European Central Bank action to lend more support to the recovery is very real. China appears to have successfully stabilised its economy, and the broader emerging markets have recovered well from the growth and capital flow concerns earlier in the year. The UK has seen a particularly solid recovery of late, and has hinted that rates may need to rise there sooner than previously expected. The US Federal Reserve believes, on balance, that considerable slack remains in their labour market and this assumption underpins their guidance of very low interest rates for a considerable period of time to come. Yield curves globally, therefore, remain anchored at historically low levels, providing support to equity and other risk asset markets.

The Australian dollar has been a beneficiary of the global search for yield, rising 6% against the US dollar in the first six months of the year, as its relatively higher interest rates attract capital and liquidity. The local economy has proved reasonably resilient in the face of the necessary rebalancing away from a strong reliance on capital investment in the resource sector.

Market sentiment is currently contending with a series of geopolitical risks, as well as the possible onset of a tightening cycle in the US. The prospect of higher bond yields, as economic growth continues to gain momentum, warrants a cautious approach to interest rate duration, in order to protect against capital losses. Central banks globally face a challenge in transitioning to a more normal level of cash rates. The prospect of associated market uncertainty and volatility demands a heightened focus on the quality and resilience of investment portfolios.

Summary income statement

FOR THE HALF YEAR ENDED 30 JUNE	2014 US$M	2013 US$M
Gross written premium	**8,491**	9,446
Gross earned premium	**7,819**	8,413
Net earned premium	**6,947**	7,333
Net claims incurred	**(4,378)**	(4,359)
Net commission	**(1,191)**	(1,302)
Underwriting and other expenses	**(1,134)**	(1,142)
Underwriting result	**244**	530
Net investment income on policyholders' funds	**286**	260
Insurance profit	**530**	790
Net investment income on shareholders' funds	**141**	134
Financing and other costs	**(150)**	(168)
Share of net profits of associates	**1**	–
Amortisation/impairment of intangibles	**(35)**	(171)
Profit before tax	**487**	585
Tax expense	**(91)**	(102)
Profit after tax	**396**	483
Profit attributable to non-controlling interests	**(4)**	(6)
Net profit after tax	**392**	477

Operating and financial performance

Overview of the 2014 interim result

Net profit after tax for the half year was $392 million, down 18% from $477 million in the prior corresponding period, generating an annualised return on equity of 7.3% compared with 8.5% in 1H 2013.

Excluding amortisation and impairment of goodwill and intangibles after tax, cash profit for the period was $416 million or 29% lower than $590 million for the same period last year, reflecting reduced underwriting profitability partially offset by improved investment returns.

Cash profit

FOR THE HALF YEAR ENDED 30 JUNE	2014 US$M	2013 US$M
Net profit after tax	392	477
Add back: Amortisation/impairment of intangibles	35	171
Tax on amortisation/impairment of intangibles	(11)	(58)
Cash profit	416	590
Dividend payout ratio (percentage of cash profit)	42%	42%
Basic earnings per share – cash basis (US cents)	33.2	49.3

Headline gross written premium fell 10% to $8,491 million. On a constant currency basis the reduction was 7% and was largely due to reduced premium writings in our European and North American Operations, while our Asia Pacific Operations generated strong underlying growth during the period.

Indicative of the more competitive global pricing environment, Group-wide premium rate increases averaged 0.7% compared with around 5% a year earlier.

The Group's reinsurance expense ratio improved to 11.2% during the half from 12.8% in the prior corresponding period, reflecting reduced reinsurance spend following the restructuring and renegotiation of our outward reinsurance programs effective 1 January 2014.

Net earned premium was down 5% to $6,947 million or down only 2% on a constant currency basis. The lesser decline relative to gross written premium reflected premium earning patterns coupled with the aforementioned reduction in reinsurance spend.

The COR deteriorated to 96.5% from 92.8% a year earlier due to an increase in the net claims ratio to 63.1% from 59.4%, reflecting adverse discount rate movements and higher large individual risk and catastrophe claims, partially offset by a reduction in prior accident year claims development and a net risk margin release. The combined commission and expense ratio was stable at 33.4%, notwithstanding the 10% year on year decline in written premium.

The Group generated an insurance profit of $530 million, down 33% from $790 million in 1H 2013. The insurance profit margin for the half fell to 7.6% compared with 10.8% a year earlier, reflecting the weaker underwriting result partially offset by stronger investment returns. The net investment yield on technical reserves improved to 2.8% from 2.5% last year, contributing 4.1% to the insurance profit margin compared with 3.6% in the first half of 2013.

While investment returns were stronger than the comparative period, overall investment income on shareholders' funds increased only slightly to $141 million from $134 million in the prior corresponding period as a result of the Group's strategic equity holdings underperforming relative to the prior year.

Interest expense fell to $150 million from $168 million a year earlier, reflecting the $456 million or 10% reduction in total borrowings since 30 June 2013.

The effective tax rate increased slightly to 18.7% from 17.4% in the first half of 2013, largely due to the absence of prior year provision releases.

Significant items in 2014 interim result

Realised and unrealised gains on investments increased to $91 million for the half, up from $21 million in the prior corresponding period, largely reflecting gains on fixed interest securities following a tightening of credit spreads coupled with strategic asset allocation decisions.

Large individual risk and catastrophe claims increased modestly on the prior corresponding period, primarily due to UK flood claims which occurred over an extended period through January and February.

The interim underwriting result was adversely impacted by a $118 million discount rate adjustment, excluding Argentina, compared with a benefit of $150 million in the prior year, as risk-free rates fell materially during the six months to 30 June 2014.

Significant items in profit before tax

FOR THE HALF YEAR ENDED 30 JUNE	2014 US$M	2013 US$M
Realised and unrealised gains on investments	**91**	21
Cost of large individual risk and catastrophe claims (current accident year)	**(690)**	(609)
Discount rate (cost) benefit, excluding Argentina	**(118)**	150
Prior accident year central estimate claims development[1]	**(131)**	(178)
Risk margin release (strengthening)	**56**	(63)
Amortisation and impairment of intangibles	**(35)**	(171)
Foreign exchange gain	**–**	35

1 Net of $472 million of discount movement (1H 2013 $44 million) due to long tail classes (dust disease in Australia and workers' compensation in Argentina) where there is an explicit link between the significant movements in inflation and discount rates.

Prior accident year claims development reduced to $131 million from $178 million a year earlier. Absent the disappointing reserve strengthening in Latin America, it was pleasing to record favourable prior accident year development in the aggregate across the rest of the QBE Group and especially pleasing to see only relatively minor adverse development in the North American portfolio. Given its volatile nature, we will continue to closely monitor development of the North American program run-off portfolio.

The interim underwriting result benefited from a $56 million net risk margin release, compared with a net $63 million risk margin charge in the prior period.

The Group's intangibles amortisation charge reduced to $35 million in the first half of 2014 compared with a charge of $171 million in the prior corresponding period, reflecting the very substantial accelerated amortisation charge recognised in the Group's 2013 half and full year results.

Premium income

Gross written premium for the six months to 30 June 2014 was down 10% to $8,491 million from $9,446 million in the prior corresponding period, in part reflecting adverse foreign exchange movements of $264 million.

On a cumulative average basis and compared with the first half of 2013, the Australian dollar and Argentine peso depreciated 10% and 32% respectively against the US dollar, adversely impacting Australian and Latin American gross written premium by $214 million and $175 million respectively. This was partially offset by the firmer GBP and euro which boosted gross written premium in European Operations by $138 million.

On a constant currency basis, gross written premium declined 7% relative to the prior corresponding period due to a reduction of 18% in Europe and an 11% fall in North America. The reduced premium writings in Europe largely reflect our previously advised intention to exit a number of non-core and poorly performing businesses as well as being in response to market conditions. The premium contraction in North America was primarily due to a further significant reduction in the lender-placed portfolio coupled with a reduction in program premium due to the termination of poorly performing program relationships. Equator Re's written premium reduced as a result of increased divisional catastrophe and per risk retentions as well as reduced quota share cessions from North America and Europe.

On a constant currency basis and excluding a one-off adjustment to gross written premium in Argentina, Latin America generated underlying written premium growth of 8% during the first half of 2014.

Excluding the distorting impact of a multi-year contract written in 2013, Asia Pacific generated underlying written premium growth of 21%, including approximately 25% growth in the Asian region. Underlying premium volumes in Australia & New Zealand increased slightly, allowing for the impact of the abolition of the fire service levy in Victoria.

Group-wide premium rate increases averaged 0.7% compared with around 5% in the prior corresponding period and our original full year 2014 expectation for a 2.5% increase. Rate increases averaged 1.7% in Australia & New Zealand with increased competition emerging in the later part of 1H, especially in New Zealand, while rate increases averaged 0.7% in North America and our European Operations saw rate decreases of 0.6%.

The Group's first half reinsurance expense ratio improved to 11.2% from 12.8% last half year reflecting cost savings following the restructuring of the Group's core global reinsurance programs effective 1 January 2014.

Net earned premium for the half fell 5% to $6,947 million from $7,333 million for the same period last year although the reduction was only 2% on a constant currency basis. Mitigated by the impact of reduced reinsurance spend, the net earned premium decrease was primarily driven by North America and Latin America which fell by 10% and 11% respectively while Asia Pacific enjoyed strong year on year growth of 14%.

Despite relatively stable gross written premium, Latin America's net earned premium fell 11% compared with 1H 2013 as a result of the weaker Argentine peso, with the aforementioned one-off Argentine written premium adjustment not impacting earned premium.

Underwriting performance

Key ratios – Group

FOR THE HALF YEAR ENDED 30 JUNE	2014 %	2013 %
Claims ratio	**63.1**	59.4
Commission ratio	**17.1**	17.8
Expense ratio	**16.3**	15.6
Combined operating ratio	**96.5**	92.8
Insurance profit margin	**7.6**	10.8

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	2014 US$M	2013 US$M	2014 US$M	2013 US$M	2014 %	2013 %	2014 US$M	2013 US$M
North American Operations	**2,415**	2,703	**1,159**	1,286	**103.0**	94.5	**(7)**	89
European Operations	**2,694**	3,103	**1,738**	1,731	**95.6**	95.6	**111**	108
Australian & New Zealand Operations	**2,263**	2,507	**1,875**	2,077	**86.9**	89.9	**348**	359
Latin American Operations	**716**	733	**553**	622	**136.3**	95.0	**(136)**	66
Asia Pacific Operations	**403**	400	**278**	244	**91.7**	86.0	**26**	37
Equator Re	**1,686**	1,889	**1,344**	1,373	**89.9**	92.2	**188**	131
Equator Re elimination	**(1,686)**	(1,889)	**–**	–	**–**	–	**–**	–
Group	**8,491**	9,446	**6,947**	7,333	**96.5**	92.8	**530**	790
Direct and facultative	**7,668**	8,521	**6,457**	6,875	**96.9**	93.5	**468**	678
Inward reinsurance	**823**	925	**490**	458	**91.6**	81.7	**62**	112
Group	**8,491**	9,446	**6,947**	7,333	**96.5**	92.8	**530**	790

Incurred claims

The net claims ratio increased to 63.1% in the half to 30 June 2014 compared with 59.4% a year earlier.

The Group's current accident year attritional claims ratio increased slightly to 49.8% in the half year from 49.4% in the prior corresponding period, largely reflecting an increase in the Argentine attritional claims ratio to 106.4% from 71.5% a year earlier. The year on year improvement in Australia & New Zealand becomes even more compelling in light of the estimated 0.5% adverse impact associated with the substantial increase in CTP earned premium which, like most long tail classes, generates a higher attritional claims ratio reflecting negligible catastrophe exposure.

The Argentine portfolio would ordinarily generate an above portfolio average attritional claims ratio reflecting its longer tail workers' compensation bias and relatively low property catastrophe exposure; however, the recent and quite extreme increase in inflation has contributed to a very material uplift in the current accident year attritional claims ratio. In an insurance margin context, significantly increased yields on peso denominated assets backing peso denominated insurance reserves serve to counter the impact of increased inflation.

Excluding noise associated with Argentina as well as the North American crop and lender-placed portfolios, the Group's current accident year attritional claims ratio improved to 46.6% from 47.9% a year earlier, largely reflecting the earning of past premium rate increases and the significant portfolio remediation efforts undertaken over the past 24 months.

Analysis of attritional claims ratio

FOR THE HALF YEAR ENDED 30 JUNE	2014		2013	
	NEP US$M	ATTRITIONAL %	NEP US$M	ATTRITIONAL %
Rest of portfolio	**6,217**	**46.6**	6,359	47.9
US multi-peril crop insurance[1]	**145**	**67.0**	139	67.0
Lender-placed insurance	**269**	**46.9**	455	45.9
Argentina[2]	**316**	**106.4**	380	71.5
QBE Group	**6,947**	**49.8**	7,333	49.4

1 Crop does not lend itself to attritional versus catastrophe analysis so the attritional claims ratio is assumed constant at 67.0%.

2 Argentina's attritional claims ratio is distorted by the heightened level of claims inflation.

The following table provides a summary of the major components of the net claims ratio.

Analysis of net claims ratio

FOR THE HALF YEAR ENDED 30 JUNE	2014 %	2013 %
Attritional claims	**49.8**	49.4
Large individual risk and catastrophe claims	**9.9**	8.3
Claims settlement costs	**2.5**	2.2
Claims discount	**(4.6)**	(3.2)
Net incurred central estimate claims ratio (current accident year)	**57.6**	56.7
Changes in undiscounted prior accident year central estimate[1]	**1.9**	2.4
Other prior year including discount	**4.4**	(0.5)
Net incurred central estimate claims ratio	**63.9**	58.6
Movement in risk margins	**(0.8)**	0.8
Net incurred claims ratio (current financial year)	**63.1**	59.4

1 Net of $472 million of discount movement (1H 2013 $44 million) due to long tail classes (dust disease in Australia and workers' compensation in Argentina) where there is an explicit link between the significant movements in inflation and discount rates.

As summarised in the table below, large individual risk and catastrophe claims for the half amounted to 9.9% of net earned premium, up from 8.3% in the prior corresponding period and above our seasonally adjusted allowance of 8.5%. Although catastrophes during the first half were relatively benign by historical standards, significant and unusual claims stemming from flooding in the UK in January and February, as well as North American winter storms and tornado activity and European storms in June, were partly offset by benign catastrophe experience in Australia.

The $142 million UK flood cost was unusual in that it represented a high frequency of large individual risk claims which occurred over an extended period through January and February. Moreover, none of the claims have or will ultimately exceed the Group's $50 million per risk retention, while the collective value of the claims is well below the Group's revised $300 million catastrophe retention (nor would the event have exceeded the Group's previous $200 million catastrophe retention).

Large individual risk claims cost $417 million or 6.0% of net earned premium during the half compared with $396 million and 5.4% in the same period last year, the modest year on year increase primarily due to adverse experience in Australia & New Zealand, Latin America and Asia Pacific.

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

Large individual risk and catastrophe claims

FOR THE HALF YEAR ENDED 30 JUNE 2014	COST US$M	% OF NEP
UK floods (January and February)	**142**	**2.0**
North American winter storms (5 January)	**31**	**0.4**
European hailstorms (15 June)	**28**	**0.4**
North American tornadoes (3 April)	**14**	**0.2**
Cyclone Ita (13 April)	**13**	**0.2**
Victorian bushfires (8 February)	**10**	**0.1**
Other catastrophe claims including bulk IBNR	**35**	**0.6**
Total catastrophe claims including bulk IBNR	**273**	**3.9**
Forge Group Limited (11 February)	**47**	**0.7**
Bo Kwang Printing (29 May)	**33**	**0.5**
Brian Bell & Co (23 January)	**14**	**0.2**
Shih-Teng Hsu (22 March)	**12**	**0.2**
Atlantic Ltd (4 February)	**12**	**0.2**
Buckby's Coaches (13 April)	**11**	**0.2**
Other individual risk claims including bulk IBNR	**288**	**4.0**
Total large individual risk claims including bulk IBNR	**417**	**6.0**
Total large individual risk & catastrophe claims including bulk IBNR	**690**	**9.9**

Large individual risk and catastrophe claims

FOR THE HALF YEAR ENDED 30 JUNE 2013	COST US$M	% OF NEP
Total catastrophe claims including bulk IBNR	213	2.9
Total large individual risk claims including bulk IBNR	396	5.4
Total large individual risk & catastrophe claims including bulk IBNR	609	8.3

Excluding the Argentine peso, the Group's weighted average discount rate decreased to 1.93% from 2.17% at 31 December 2013. This gave rise to an adverse impact on the half year underwriting result of $118 million that added 1.7% to the net claims ratio, compared with a benefit of $150 million in the prior corresponding period which reduced the net claims ratio by 2.0%.

The weighted average Argentine peso discount rate increased to 27.0% at 30 June 2014 from 19.1% at 31 December 2013. Although this movement technically gave rise to $46 million of favourable discount rate impact, following the introduction of a new actuarial model that explicitly links inflation with discount rates, the benefit of higher discount rates in Argentina was offset by higher projected claims inflation.

In this context, it is worth noting that while claims inflation is currently challenging the underwriting profitability of our Argentine operations and especially our Argentine workers' compensation portfolio, lower underwriting profitability is being supplemented by significantly higher investment returns. Indeed, the significantly higher investment yields currently being earned in Argentina are contributing to a higher overall Group return on investment assets.

The half year result was adversely impacted by $131 million of prior accident year claims development which increased the net claims ratio by 1.9%.

Adverse prior accident year claims development of $158 million in Latin America ($169 million before quota share with Equator Re) was partially offset by positive prior accident year claims development across the remainder of QBE's global operations in the aggregate, including favourable development in Europe and Australia & New Zealand of $38 million and $24 million respectively. North American Operations recorded $39 million of adverse prior accident year claims development, roughly half of which was due to industry-wide late claims notifications in the crop portfolio.

The majority of the $169 million of adverse prior accident year claims development in Latin America related to the Argentine workers' compensation portfolio and followed a thorough review of our claims reserves. The review was instigated in response to an observed increase in litigated workers' compensation claims costs following legislative changes in 2012 and 2013, and partly in response to recent deterioration of economic conditions in Argentina.

Net claims incurred benefited from a $56 million risk margin release that reduced the net claims ratio by 0.8% during the current half compared with a $63 million charge that increased the net claims ratio by 0.8% in the prior corresponding period. The net reduction reflects the decreased uncertainty in the net discounted central estimate due to more robust actuarial models in our Argentine operations and (excluding the impact of prior year claims development in Latin America) a more normal level of prior accident year claims development across the rest of the Group.

Commission and expenses

Notwithstanding a 10% fall in gross written premium, the combined commission and expense ratio was stable year on year at 33.4%.

The commission ratio fell to 17.1% during the half from 17.8% in the prior corresponding period. This primarily reflected an absolute reduction in the commission ratios in Australia & New Zealand as well as Equator Re, partially offset by a 0.2% adverse impact from a change in the divisional portfolio mix due to lower relative premium contributions from the lower commission paying portfolios of North America and Australia & New Zealand.

The commission ratio in Australia & New Zealand reduced due to increased direct CTP premium income and a misallocation of a component of fire service levy expense from underwriting expenses to commission in the prior year. Equator Re's commission ratio fell as a result of changes in business mix and reduced costs following renegotiation of the North American proportional treaties, with their relatively higher commission ratio.

The expense ratio increased to 16.3% during the half from 15.6% in the prior corresponding period but compared favourably with our 16.8% budget expectation. This was primarily due to an absolute increase in the underwriting expense ratios in Europe, North America and Latin America, partially offset by a 0.2% favourable impact from a change in the divisional portfolio mix largely due to a lower relative premium contribution from North America, with its relatively higher expense ratio.

The expense ratio in Australia & New Zealand improved primarily as a result of the Group Shared Services Centre (GSSC) initiative, although the extent of improvement is masked by the aforementioned prior year expense misallocation. European Operations' expense ratio increased 2.0% due to a combination of currency (net earned premium adversely impacted by a stronger GBP relative to a predominantly GBP cost base), costs associated with operational transformation and a refinement of the expense deferral calculation. The North American underwriting expense ratio increased 1.9% as a result of the 10% decline in net earned premium which was primarily driven by reduced lender-placed premium.

Income tax expense

The income tax expense for the period was $91 million, representing an effective tax rate of 19% compared with a tax expense of $102 million and an effective tax rate of 17% in the prior corresponding period.

The tax rate benefited from a profit uplift in the Group's captive reinsurer, Equator Re, as well as the mix of profits in jurisdictions with a lower corporate tax rate such as the UK at 21.5%. Nevertheless, the overall tax rate increased relative to the prior year reflecting the significant provision releases in our European Operations in 1H 2013.

The franking account balance at 30 June 2014 on a tax paid basis was a surplus of $347 million after the payment of the final 2013 dividend franked at 100%.

Foreign exchange

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

During the first half of 2014 we experienced considerable volatility in currency markets, particularly in relation to the value of the US dollar against the Group's major currencies. As at 30 June 2014, the USD had depreciated 6% against the AUD and 3% against the GBP while appreciating 20% against the Argentine peso compared with closing rates at 31 December 2013. When comparing cumulative average rates, the USD depreciated 8% against GBP while appreciating 10% against the AUD and 32% against the Argentine peso compared with rates at 30 June 2013.

The table below shows the impact of foreign exchange on the first half result and balance sheet at 30 June 2014.

Impact of exchange rate movements

	2014 ACTUAL US$M	2014 AT 2013 EXCHANGE RATES[1] US$M	EXCHANGE RATE IMPACT	
			US$M	%
Gross written premium	8,491	8,755	(264)	(3)
Gross earned premium	7,819	8,092	(273)	(3)
Net earned premium	6,947	7,212	(265)	(4)
Net profit after tax	392	395	(3)	(1)
Total investments and cash	31,359	30,813	546	2
Total assets	48,990	48,171	819	2
Gross outstanding claims provision	21,904	21,558	346	2
Total liabilities	37,713	37,094	619	2

1 Income statement items are restated to 30 June 2013 cumulative average rates of exchange and balance sheet items to 31 December 2013 closing rates of exchange.

Operational foreign exchange gains in the income statement were nil during the current period compared with a $35 million benefit in the previous corresponding period. The net movement in the foreign currency translation reserve and share capital and reserves had a $336 million positive impact on equity, principally due to the 6% strengthening of the AUD against the USD.

Balance sheet

Capital management summary

We converted $250 million of subordinated debt into equity on 11 June 2014, resulting in the issue of 23.7 million ordinary shares at A$11.32 per share. This, coupled with the continued high reinvestment of the Group's dividends and profits retained during the half, reduced the Group's debt to equity ratio during the period to 38.4% from 44.1% at December 2013.

Capital summary

AS AT	30 JUNE 2014 US$M	31 DEC 2013 US$M
Net assets	11,277	10,403
Less: intangible assets	(4,525)	(4,480)
Net tangible assets	6,752	5,923
Add: borrowings	4,306	4,571
Total capitalisation	11,058	10,494

AS AT	30 JUNE 2014 US$M	31 DEC 2013 US$M
APRA Prescribed Capital Amount (PCA)	6,227	5,624
QBE's regulatory capital base	9,690	8,955
PCA multiple	1.56x	1.59x

The Group premium solvency ratio at 30 June 2014, calculated as the ratio of net tangible assets to annualised net earned premium, was 45.0% compared with 38.5% as at 31 December 2013 and 35.5% as at 30 June 2013.

The Group's rating agency capital levels remain at or above minimum benchmark levels. The indicative APRA PCA multiple of 1.56 times at 30 June 2014, down from 1.59 times at 31 December 2013, is below our revised target range of 1.7x–1.9x.

The beneficial impact on regulatory capital of cash profits retained during the half and the $250 million hybrid conversion, net of a reduction in additional Tier 1 and Tier 2 capital due to reducing transitional relief, has been more than offset by incremental capital demands associated with a growing allocation to investment risk assets and a seasonal uplift in the insurance concentration risk charge due to Northern Hemisphere wind exposure.

As at 30 June 2014, our indicative CET1 ratio was 119%, up from 114% at 31 December 2013 and nearly double APRA's 60% minimum requirement.

Key financial strength ratios

AS AT	BENCHMARK	30 JUNE 2014	31 DEC 2013
Debt to equity	25%–35%	**38.4%**	44.1%
Debt to tangible equity		**63.8%**	77.2%
PCA multiple	1.7x–1.9x	**1.56x**	1.59x
Premium solvency		**45.0%**	38.5%

The substantial capital management initiatives referred to earlier and announced in conjunction with the interim result (see page 8) will favourably impact the Group's regulatory and ratings agency capital levels, as well as gearing.

Borrowings

Total borrowings at 30 June 2014 were $4,306 million, down $265 million from $4,571 million at 31 December 2013, largely reflecting the conversion of $250 million of subordinated debt in June.

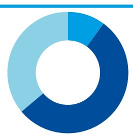
During the half, we utilised short-term banking facilities to draw down $410 million to assist with repayment of the $478 million of senior debt that matured on 14 March 2014.

Interest costs for the half were $150 million, down from $168 million for the same period last year, mainly due to the repayment of the senior convertible debt on 24 December 2013 and the senior debt on 14 March 2014.

The weighted average annual interest rate in respect of borrowings outstanding at the balance date was 5.8%, down from 6.5% at 31 December 2013, reflecting an interest cost of around 10% per annum on senior debt settled in March 2014 compared with short-term bank debt currently bearing an annual interest cost of only 3.6%.

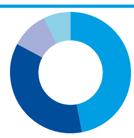
Borrowings maturity [1]

AS AT	30 JUNE 2014 %	31 DEC 2013 %
Less than one year	**10**	10
One to five years	**54**	51
More than five years	**36**	39



Borrowings profile

AS AT	30 JUNE 2014 %	31 DEC 2013 %
Subordinated debt	**47**	50
Senior debt	**36**	43
Bank loans	**10**	-
Capital securities	**7**	7



1 Based on first call date.

Further details of borrowings are set out in note 9 to the financial statements.

As part of the capital management initiatives announced in conjunction with the interim result, the Group has announced its intention to raise qualifying Tier 2 subordinated debt, some of the proceeds of which will be used to repay bank loans and senior debt.

Insurance liabilities

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

AS AT	30 JUNE 2014 US$M	31 DEC 2013 US$M	31 DEC 2012 US$M	31 DEC 2011 US$M	31 DEC 2010 US$M
Net outstanding claims	**18,647**	18,208	18,412	16,984	15,017
Unearned premium net of deferred insurance costs[1]	**6,360**	5,968	6,023	5,929	4,785
	25,007	24,176	24,435	22,913	19,802
Central estimate – outstanding claims	**17,128**	16,643	17,079	15,783	13,747
Central estimate – unearned premium	**5,207**	4,956	5,024	5,062	3,901
Risk margin – outstanding claims	**1,519**	1,565	1,333	1,201	1,270
Risk margin – unearned premium[1]	**1,153**	1,012	999	867	884
	25,007	24,176	24,435	22,913	19,802
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,677**	1,606	1,374	1,152	1,353
	%	%	%	%	%
Probability of adequacy – outstanding claims	**89.4**	90.7	87.5	86.3	89.8
Probability of adequacy – total insurance liabilities	**95.5**	95.3	93.9	92.6	95.5
Weighted average discount rate	**3.4**	2.8	2.2	2.1	3.2
Weighted average term to settlement	**3.0**	3.0	2.9	2.9	3.0

1 Includes deferred reinsurance expense for future business not yet written of $199 million (31 December 2013 $5 million).

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

As at 30 June 2014, risk margins in outstanding claims were $1,519 million or 8.9% of the net discounted central estimate. This was down slightly from $1,565 million or 9.4% of the net discounted central estimate at 31 December 2013, following an explicit $56 million risk margin release partly offset by a beneficial $10 million foreign exchange rate impact.

Reflecting the release of risk margins and the seasonal impact of uncorrelated multi-peril crop business (which has a dampening impact on outstanding claims variability at calendar year end), the probability of adequacy of the outstanding claims provision reduced to 89.4% from 90.7% at 31 December 2013. The higher crop reserves in the second half and the recently completed reinsurance of our Italian and Spanish medical malpractice claims liabilities are expected to result in a reduction in the coefficient of variance of the net discounted central estimate of claims liabilities such that, all other things being equal, the probability of adequacy will be closer to 90% at year end.

Details of the medical malpractice reinsurance transaction are included in note 12 to the financial statements.

Identifiable intangibles

As at 30 June 2014, the carrying value of intangible assets (identifiable intangibles and goodwill) was $4,525 million, up slightly from $4,480 million at 31 December 2013.

The movement in the carrying value during the period was due to a positive currency translation of $80 million, partially offset by $35 million of amortisation of identifiable intangibles. The amortisation expense reduced significantly from the $171 million charge incurred in the prior corresponding period reflecting the very substantial accelerated amortisation charge recognised in the Group's 2013 half and full year results.

QBE monitors goodwill and other intangibles for indicators of impairment at each reporting date.

At December 2013, the carrying amount of the North American Operations cash generating unit was greater than its recoverable amount (based on a value in use calculation) and a $600 million impairment of goodwill was recognised. At June 2014, QBE again reviewed the carrying value of the cash generating unit. Although the recent impairment test indicated that the recoverable amount exceeded the carrying value, there remains limited headroom and the impairment calculation is sensitive to changes in the discount rate and the terminal value assumptions with respect to future expected COR and investment yield. Details of the sensitivities associated with this valuation are included in note 2 to the financial statements.

As at 30 June 2014, total identifiable intangibles and goodwill pertaining to our North American Operations were $2,038 million compared with $2,053 million at 31 December 2013.

Reconciliation of movement in intangible assets

	30 JUNE 2014			31 DECEMBER 2013		
	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M	IDENTIFIABLE INTANGIBLES US$M	GOODWILL US$M	TOTAL US$M
Opening balance	**579**	**3,901**	**4,480**	1,240	4,814	6,054
Acquisitions	**–**	**–**	**–**	5	(3)	2
Disposals	**–**	**–**	**–**	(3)	(8)	(11)
Additions/reclassifications	**–**	**–**	**–**	8	(2)	6
Amortisation/impairment	**(35)**	**–**	**(35)**	(645)	(600)	(1,245)
Foreign exchange	**(7)**	**87**	**80**	(26)	(300)	(326)
Closing balance	**537**	**3,988**	**4,525**	579	3,901	4,480

Investment performance and strategy

Net investment income for the half year to 30 June 2014 was $427 million, up 8% compared with $394 million for the same period last year, reflecting unrealised capital gains on fixed income securities as credit spreads narrowed significantly as well as returns in newly invested asset classes such as property and emerging markets.

Excluding non-recurring foreign exchange gains in the prior period, net investment income for the half increased 19% compared with the same period last year.

QBE's fixed income portfolio is positioned with a short duration profile of approximately 0.5 years. The Group's exposure to corporate bonds is around 45% of total investments and cash, is focused on highly rated counterparties and predominantly takes the form of floating rate instruments primarily maturing within the next one to three years.

Our Argentine investment portfolio continues to generate high nominal returns, as the short duration profile we have favoured allowed reinvestment of maturities into steadily rising short-term rates in the first half. We hold no exposure to foreign law bonds and thus have seen no meaningful impact on portfolio returns or quality due to recent events and rating actions.

The overall running yield of the portfolio was 2.01% at 30 June 2014, up from 1.88% at 31 December 2013.

Equity exposure was 1.0% of the portfolio as at 30 June 2014, with our allocation varying over the past six months in response to geopolitical concerns and associated market volatility. Consistent with the Group's conservative investment approach, our equity strategy is characterised by a bias towards low beta, high dividend stocks which favour capital stability and recurring income.

We continue to pursue opportunities to further diversify the portfolio and, in this regard, have increased our allocation to infrastructure debt and property trusts to 0.7% and 2.2% respectively. We have also added modest allocations to high yield debt, emerging market debt and emerging market equities. These three risk asset classes together comprise around 2% of total investments and cash with allocations expected to increase modestly, subject to market opportunities. The year to date returns achieved in these asset classes have contributed positively to overall portfolio return.

Our very short duration profile offers us an opportunity to reinvest maturities into longer dated securities as and when yield curves globally recommence their upward trajectory and we anticipate a gradual extension of our duration as this normalisation occurs.

Total net investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL INVESTMENT INCOME	
FOR THE HALF YEAR ENDED 30 JUNE	2014 US$M	2013 US$M	2014 US$M	2013 US$M	2014 US$M	2013 US$M
Income on fixed interest securities, short-term money and cash	**245**	211	**129**	111	**374**	322
Risk asset income	**53**	28	**16**	25	**69**	53
Foreign exchange gains	**–**	35	**–**	–	**–**	35
Realised (losses) gains on sale of related entities	**–**	–	**(2)**	6	**(2)**	6
Other income	**–**	3	**4**	1	**4**	4
Gross investment income	**298**	277	**147**	143	**445**	420
Investment expenses	**(12)**	(17)	**(6)**	(9)	**(18)**	(26)
Net investment income	**286**	260	**141**	134	**427**	394

Our annualised net investment yield was 2.8% compared with 2.6% in the previous half year and places us in a strong position to exceed our previous FY 2014 guidance for a net investment yield of 2.3%. In this regard, our revised full year 2014 guidance now anticipates a net investment yield of 2.4% to 2.7%.

From an exposure of approximately 1.9% to risk assets at 31 December 2013, we envisage increasing our allocation to around 10% of the portfolio by the end of 2014, with a further move to 15% exposure anticipated during 2015.

Gross and net yield

FOR THE HALF YEAR ENDED 30 JUNE	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 2014 %	2013 %	YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 2014 %	2013 %	TOTAL 2014 %	2013 %
Gross[1]	**2.9**	2.7	**2.8**	2.8	**2.9**	2.7
Net[2]	**2.8**	2.5	**2.7**	2.6	**2.8**	2.6
Gross excluding foreign exchange gain/loss	**2.9**	2.3	**2.8**	2.8	**2.9**	2.5
Net excluding foreign exchange gain/loss	**2.8**	2.2	**2.7**	2.6	**2.8**	2.3

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

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

Total investments and cash

AS AT	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS JUNE 2014 US$M	DEC 2013 US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS JUNE 2014 US$M	DEC 2013 US$M	TOTAL JUNE 2014 US$M	DEC 2013 US$M
Cash and cash equivalents	**854**	826	**454**	412	**1,308**	1,238
Short-term money	**5,376**	4,352	**2,860**	2,173	**8,236**	6,525
Government bonds	**3,763**	5,030	**2,003**	2,514	**5,766**	7,544
Corporate bonds	**9,187**	9,635	**4,889**	4,812	**14,076**	14,447
Infrastructure debt	**146**	107	**78**	53	**224**	160
Unit trusts	**60**	57	**31**	28	**91**	85
Equities – listed and unlisted	**186**	103	**142**	185	**328**	288
Emerging market debt	**110**	–	**84**	–	**194**	–
Emerging market equity	**134**	–	**103**	–	**237**	–
High yield debt	**103**	–	**78**	–	**181**	–
Property trusts	**459**	213	**245**	106	**704**	319
Investment properties	**9**	9	**5**	4	**14**	13
Total investments and cash	**20,387**	20,332	**10,972**	10,287	**31,359**	30,619

Cash and fixed interest investments – security grading

AS AT	30 JUNE 2014 %	31 DEC 2013 %
Moody's rating		
Aaa	**25**	31
Aa	**38**	36
A	**32**	28
<A	**5**	5

Currency mix

AS AT	MARKET VALUE OF RISK ASSETS 30 JUNE 2014 %	31 DEC 2013 %	MARKET VALUE OF TOTAL INVESTMENTS AND CASH 30 JUNE 2014 %	31 DEC 2013 %
US dollar	**57**	22	**29**	31
Australian dollar	**23**	58	**32**	31
Sterling	**18**	12	**20**	19
Euro	**2**	8	**9**	9
Other	**–**	–	**10**	10

Dividend

Excluding amortisation and impairment of goodwill and intangibles after tax, the Group's cash profit was $416 million, down 29% compared with $590 million for the same period last year.

The Board has stated publicly that the Group's dividend policy is to pay out up to 50% of the annual cash profit by way of dividends to shareholders. With a significantly greater exposure to catastrophes in the second half coinciding with the Northern Hemisphere summer windstorm season, the Board adopts a conservative position and elects to retain more profit and capital at the interim result. This is expected to result in a seasonally adjusted payout ratio of approximately 40% with respect to the interim dividend and 60% with respect to the final dividend.

The interim dividend will be 15 Australian cents per share, fully franked, representing a payout ratio of 42% of the half year cash profit.

Closing remarks

I believe that the capital initiatives announced in conjunction with the release of the interim result will substantially improve QBE's balance sheet strength and flexibility. As we successfully complete the capital initiatives program, it is also critical that we demonstrate stable reserving and deliver results in line with internal plans and consistent with market expectations. Looking forward, I believe that QBE has a relatively unique opportunity to sensibly increase asset yields over the medium-term with positive implications for profit growth and return on equity.

Pat Regan
Group Chief Financial Officer

North American Operations business review

> North American Operations is in the midst of a transformation that will drive material improvements in performance across all areas of the business. Underlying trends are improving and we believe that future results will benefit from the changes that are underway.

David Duclos Chief Executive Officer • North American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
2,415	1,159	(35)	(7)
↓ 11% from 2013	↓ 10% from 2013	↓ US$106M from 2013	↓ US$96M from 2013
		Combined operating ratio 103.0% (2013 94.5%)	Insurance profit margin (0.6)% (2013 6.9%)

Competitive landscape

North American Operations consists of five major business segments.

Property & casualty (P&C) includes our middle market and risk management businesses, writing multi-line commercial and personal lines business produced through managing general agents, independent agents and brokers. Financial Partner Services (FPS) includes lender-placed insurance (LPI) and voluntary property insurance (consumer), and generates business through partnerships with banks, mortgage servicers, home builders, realtors and other intermediaries. Specialty is focused on management liability and professional lines, accident & health, aviation and trade credit & surety sourced through brokers and managing general agents. Crop includes multi-peril crop insurance (MPCI) and hail, and is largely produced through independent agents. Assumed reinsurance produces business primarily through reinsurance brokers and is part of our global reinsurance business managed out of London.

Competition in P&C and specialty has increased over the past six months, contributing to a premium rate increase of less than 2% in these businesses. Specific lines of business are seeing intense competition and rate decreases, while other lines have been able to sustain stronger rate increases.

Underwriting performance

North American Operations recorded a COR of 103.0% for the first half compared with 94.5% in the previous corresponding period.

The Equator Re quota share (which excludes certain portfolios and unusually adverse claims experience) resulted in a disproportionately adverse impact on the North American statutory result in the half. Overall, the North American quota share treaty to Equator Re adversely impacted the COR by 3.7% compared with a beneficial impact of 1.4% in the previous corresponding period.

Excluding the impact of quota share ceded to Equator, North American Operations generated a COR of 99.3% compared with 95.9% in the first half of 2013.

Although benign by historical standards, large individual risk and catastrophe claims before the quota shares to Equator Re of $88 million were higher than the $65 million attributable to the first half of 2013.

The result was also impacted by $39 million of adverse prior accident year claims development ($51 million before Equator Re quota share), including $19 million ($32 million before quota share) pertaining to late crop claim notifications which impacted the entire industry. Assumed reinsurance and program experienced adverse prior accident year claims development during the period.

The underwriting result was also adversely impacted by lower risk-free rates ($10 million) and non-recurring costs associated with the operational transformation program ($22 million).

The team remains focused on profitable growth, remediation of underperforming businesses and operational excellence. Whilst LPI remains challenged by falling premium volumes and the related impact on the expense ratio, significant progress has been made within program and middle markets. Corrective pricing and underwriting actions have been implemented within program and the COR is performing well ahead of the same period last year. Underwriting and distribution changes within middle markets have stabilised premium and contributed to an attractive underlying claims ratio. Specialty performed ahead of plan in the first half of 2014.

The insurance profit margin was a loss of 0.6% compared with a positive 6.9% in the prior period, reflecting the deterioration in the COR, offset by slightly improved investment yields.

Premium income

Gross written premium was down 11% to $2,415 million, primarily driven by the significant reduction of Bank of America business in the LPI portfolio, coupled with a reduction in program premium reflecting corrective underwriting measures, including the termination of poorly performing program relationships.

Premium contraction in LPI and program was partially offset by 14% growth in consumer. Pleasingly, premium income in middle market has stabilised with significant improvements in commercial line retentions. Written premium through the first half of 2014 exceeded target and the double-digit volume declines have recently plateaued as a result of re-engagement with the agency platform and enhancements to technical pricing tools that have strengthened our capabilities around targeted pricing.

Crop premium is historically very low in the first half as acreage reporting accelerates late in the second and early in the third quarters. Our two largest crops, corn and soybeans, are in good condition thus far, although it is too early to form any firm conclusions on underwriting margins and commodity prices have fallen materially in recent months. Although crop premium is up 9% relative to the prior period, this reflects earlier acreage reporting in the current period, with full year crop premium still expected to be down on the prior year due to commodity prices.

Gross written premium benefited from continued organic growth in the risk management and specialty portfolios. The risk management business has shown low double-digit growth driven by continued traction in the casualty market. The launch of the management liability and professional lines business, combined with the strong organic growth in the aviation portfolio, contributed to the growth in specialty where gross written premium is up 5% compared with the same period last year. Further growth is anticipated through expansion into additional specialty lines.

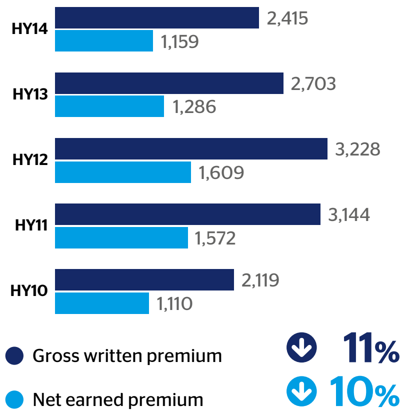
Claims expense

The net claims ratio was 62.7% compared with 57.5% in the first half of 2013.

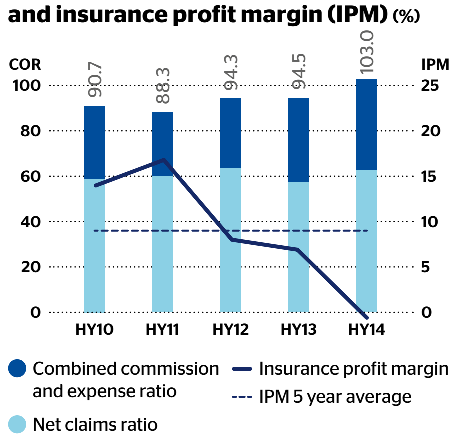
As previously noted, the net claims ratio was adversely impacted by $39 million of prior year claims development and a $10 million impact of lower risk-free rates used to discount our claims liabilities.

Similar to 2013, North American weather patterns have so far been generally favourable, with a benign catastrophe season in the second quarter, despite a particularly harsh winter.

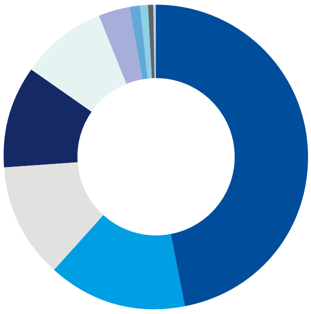
Gross written premium and net earned premium (US$M)



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



Gross earned premium by class of business HY14



	HY14 %	HY13 %
Commercial & domestic property	47.1	49.8
Motor & motor casualty	14.8	13.8
Agriculture & bloodstock	12.1	10.5
Workers' compensation	10.9	9.0
Public/product liability	9.2	9.5
Accident & health	3.3	3.8
Professional indemnity	1.0	0.2
Marine energy & aviation	0.9	0.5
Financial & credit	0.6	2.8
Other	0.1	0.1

Commission and expenses

The commission ratio increased to 8.0% from 6.6% in the prior period, largely due to business mix and commission rate changes on the renegotiated quota share arrangements with Equator Re.

The expense ratio was 32.3% compared with 30.4% in the same period last year, largely due to reduced premium volume in LPI. Relative to a 10% decline in net earned premium, expenses are down 4.3% compared with last year.

Other results impacts

We successfully launched a management liability and professional lines practice with a full suite of excess and primary products introduced at different intervals in 2014. This supports our ambition to expand our specialty segment, to add to our already strong positions in accident & health, aviation and trade credit insurance.

Our operational transformation initiative continues, with significant progress made in the first half of 2014. Efforts include the greater utilisation of QBE's Group Shared Services Centre, outsourcing of certain functions, centralising and streamlining processes and consolidating our real estate footprint.

Remediation efforts continue for underperforming businesses, namely program, middle market and LPI. Efforts within program include new leadership, reorganisation to a product-focused structure, termination of underperforming programs and actions to enhance data and analytics. Pricing and underwriting actions have been implemented with a focus on leveraging the new product-focused structure to drive underwriting excellence. Better rate management and improved policy retention have stabilised premium within middle market. Our LPI business is focused on generating new premium through alternative distribution options and becoming more cost competitive.

The North American executive management team has been transformed through numerous new appointments. In February 2014, the team was strengthened further with the appointment of Robert James as President, Property & Casualty. Other key leadership changes include a new Chief Legal Officer and Chief Actuary. Despite challenging results, our ability to attract key talent, especially in critical underwriting roles, has been strong.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**2,415**	2,703	3,228	3,144	2,119
Gross earned premium	US$M	**2,213**	2,536	3,053	2,770	1,852
Net earned premium	US$M	**1,159**	1,286	1,609	1,572	1,110
Net incurred claims	US$M	**727**	739	1,023	941	654
Net commission	US$M	**93**	85	117	151	124
Expenses	US$M	**374**	391	377	296	229
Underwriting result	US$M	**(35)**	71	92	184	103
Claims ratio	%	**62.7**	57.5	63.6	59.9	58.9
Commission ratio	%	**8.0**	6.6	7.3	9.6	11.2
Expense ratio	%	**32.3**	30.4	23.4	18.8	20.6
Combined operating ratio	%	**103.0**	94.5	94.3	88.3	90.7
Insurance profit margin	%	**(0.6)**	6.9	8.0	16.8	14.0

> Transformational efforts are well underway to return North American Operations to profitability in the medium term. We are making the necessary changes to our business portfolio, operating processes and organisational structure to ensure we are able to achieve steadily improved results over time.

North American Operations

Outlook for full year 2014

2014 forecast full year GWP US$5.3billion

Mortgage and lender services US$ billion	Consumer and Affiliated agencies US$ billion	Crop US$ billion	Program US$ billion
0.5	0.3	1.5	1.4

Reinsurance US$ billion	Specialty US$ billion	Risk management US$ billion	US Middle market US$ billion
0.2	0.3	0.2	0.9

2014 forecast full year NEP US$2.6billion

North America's transformation is well underway and we expect improved underwriting profitability for 2014. Whilst underlying trends are improving, the market continues to be competitive. Profitable growth will be achieved through expansion into new profitable lines and targeted growth in existing businesses.

Expanding our specialty platform is a key management priority. Repeating the model used to introduce management liability and professional lines, we plan to introduce surety and healthcare lines in 2014. Underwriting expertise, risk selection and aligned marketing and distribution efforts will support this growth. Opportunities for growth also exist within consumer, risk management, casualty and middle market.

Remediation efforts continue for underperforming businesses with progress made in program and middle market. LPI will become more challenging due to loan reductions and lower penetration rates.

Despite the recent decline in commodity prices, we remain optimistic about our crop segment, assuming favourable weather in 2H 2014 contributes to strong yields.

An improved cost structure and operating model are being driven through the global operational transformation initiative, right-sizing and streamlining operations. With continued focus on profitable growth, remediation of underperforming businesses and operational excellence, we expect to deliver steadily improved results over time.

I wish to thank my team for their hard work and perseverance during this challenging period.

European Operations business review

> Despite difficult trading conditions in most areas, our underwriting result is very similar to last year and the insurance profit has improved slightly. Our commitment to maintaining underwriting discipline and profitability has impacted gross written premium, particularly with respect to QBE Re and international markets where market conditions are more challenging than expected.

Richard Pryce Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
2,694	1,738	76	111
↓ 13% from 2013	Flat on 2013	↓ 1% from 2013	↑ 3% from 2013
		Combined operating ratio	Insurance profit margin
		95.6% (2013 95.6%)	6.4% (2013 6.2%)

Competitive landscape

New market entrants, combined with the increased appetite of existing carriers, are perpetuating an oversupply of capacity resulting in intense competition, especially in the global reinsurance and London specialty markets. This competition has become more pronounced as the year has progressed.

These prevailing market trends, combined with our commitment to disciplined and technical underwriting, have resulted in a reduction in gross written premium in both QBE Re and international markets. With respect to QBE Re, the premium impact has been exacerbated by larger cedents retaining more risk at the lower end of their programs and/or consolidating existing placements.

Elsewhere in the retail sectors, competition is less aggressive and our breadth of product and diversified distribution platform have enabled us to protect and selectively expand our market position.

Our strong broker and client relationships continue to ensure that European Operations is well positioned to retain core accounts as well as pursue selective growth opportunities.

Underwriting performance

The first half COR was 95.6%, in line with the corresponding period in 2013.

As a result of catastrophe losses in the UK in January and February and continental Europe in June, we exceeded our catastrophe allowance for the period, although, encouragingly, many areas of the business are performing at or better than budget. Large individual risk claims activity was comfortably within our allowance and markedly lower than in 2013.

Rate increases for our retail portfolio renewals were in line with expectations at slightly in excess of 2%; however, both QBE Re and international markets are experiencing premium rate reductions averaging around 3% on their renewal portfolios and we have started to see some erosion in terms and conditions.

Although disappointing, our renewal outcomes are pleasing in the context of the broader market where double-digit premium rate reductions are increasingly common, particularly in the reinsurance and specialty market segments.

Premium income

Gross written premium reduced 13% to $2,694 million from $3,103 million in the prior corresponding period.

On a local currency basis, gross written premium fell by 18%, reflecting our previously advised intention to exit a number of non-core and/or poorly performing businesses as well as in response to market conditions. This was particularly the case with respect to QBE Re, where pricing pressure is currently most acute and where writings reduced materially due to cedents restructuring their programs and retaining more risk.

Ongoing portfolio remediation initiatives contributed to a reduction in gross written premium during the half of around $170 million relative to the same period in 2013, and included the sale of renewal rights in respect of our UK aviation, Bulgarian and Romanian businesses, the exit from bloodstock as well as the re-engineering of a number of other books of business.

Although these remediation initiatives are now virtually complete, our revised full year 2014 outlook contemplates the shedding of a further $75 million of gross written premium, mainly as a result of the full year impact of exiting the aviation and bloodstock portfolios.

Net earned premium was largely unchanged at $1,738 million.

On a local currency basis, net earned premium fell by 6%, less than the reduction in gross written premium, reflecting the earning pattern coupled with lower outward reinsurance spend associated with structural changes to the reinsurance program and cost savings secured during the January reinsurance renewals.

Claims expense

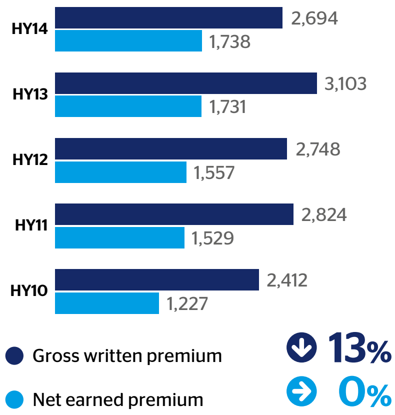
The claims ratio of 61.4% improved from the 63.0% recorded in the same period last year. While catastrophe experience was slightly above budget, the improvement in large individual risk claims frequency across the business contributed significantly to the first half result, and ongoing active remediation of poorer performing portfolios contributed to a relatively stable attritional claims ratio notwithstanding the aforementioned competitive market dynamics.

The result includes significant claims due to the storms and extensive flooding in the UK during January and February as well as the more recent weather losses across continental Europe in June.

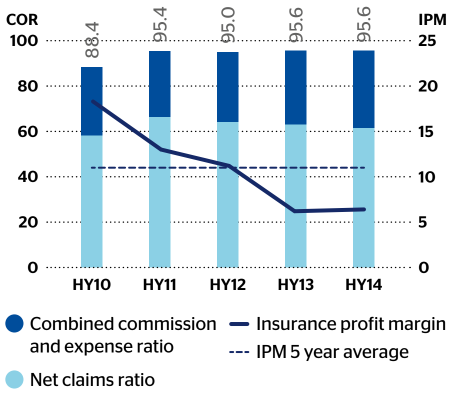
Claims reserves remain adequate, with the result including $38 million or 2.2% of favourable prior accident year development.

Lower risk-free rates adversely impacted the underwriting result by $68 million, or 3.9%.

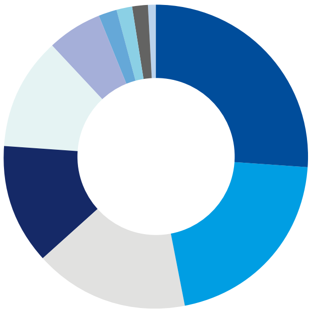
Gross written premium and net earned premium (US$M)



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



Gross earned premium by class of business HY14



	HY14 %	HY13 %
Commercial & domestic property	26.2	28.2
Public/product liability	21.0	19.0
Marine energy & aviation	16.2	17.3
Motor & motor casualty	12.8	12.1
Professional indemnity	12.0	11.1
Workers' compensation	5.8	5.7
Financial & credit	1.9	2.3
Other	1.8	1.9
Accident & health	1.6	1.7
Agriculture & bloodstock	0.7	0.7

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**2,694**	3,103	2,748	2,824	2,412
Gross earned premium	US$M	**2,451**	2,480	2,267	2,242	1,935
Net earned premium	US$M	**1,738**	1,731	1,557	1,529	1,227
Net incurred claims	US$M	**1,067**	1,091	998	1,013	715
Net commission	US$M	**318**	323	273	257	191
Expenses	US$M	**277**	240	210	189	179
Underwriting result	US$M	**76**	77	76	70	142
Claims ratio	%	**61.4**	63.0	64.1	66.2	58.2
Commission ratio	%	**18.3**	18.7	17.5	16.8	15.6
Expense ratio	%	**15.9**	13.9	13.4	12.4	14.6
Combined operating ratio	%	**95.6**	95.6	95.0	95.4	88.4
Insurance profit margin	%	**6.4**	6.2	11.2	13.0	18.3

Commission and expenses

The improved commission ratio of 18.3% compared with 18.7% in the prior period was largely business mix related, partly due to exiting from poorly performing businesses which carried above average commission rates.

The increase in the underwriting expense ratio to 15.9% from 13.9% in the prior period largely reflected the negative impact of a predominantly GBP cost base compared with multi-currency net earned premium which is depressed by the impact of the relatively stronger GBP. The ratio was also impacted by costs associated with the operational transformation program and a lower deferral of acquisition costs based on an improved deferral methodology which avoids undue 1H distortions.

We remain focused on our underlying operating expenses as we actively manage our expenditure in response to market conditions and reduced premium volumes. Headcount reduction, combined with the rationalisation of premises, is contributing to an overall improvement in underlying efficiency; however, further expense control and operating efficiencies are central to improving our profitability. European Operations is well progressed with operational transformation; we already have our first colleagues in the Philippines and expect a substantial presence there before the end of the year.

Other results impacts

We have completed our executive team with the appointment of David Hall as Managing Director, Retail. David has over 30 years insurance industry experience, joining QBE from Aviva where he was responsible for creating and managing Aviva's Corporate and Specialty Risk (CSR) operations and for leading their broker and client engagement capabilities.

We have also invested in specialty underwriting skills in financial and cyber liability as well as enhancing our country leadership team across continental Europe. As we build our client and risk management proposition, we have made important leadership appointments to deliver this strategic priority.

In recognition of the depth of talent residing within the business, there have been several internal promotions to underwriting and technical leadership positions. Working with the talent team and our leadership program, we will offer exciting and challenging career opportunities across the organisation.

> We will not be distracted from our focus on disciplined underwriting and performance management. The changes we have made to the business structure and operational platform mean that we are prepared to withstand the current market environment but, just as importantly, we are well positioned for profitable growth at the appropriate time.

European Operations

Outlook for full year 2014

2014 forecast full year GWP **US$4.6billion**

Retail distribution	International markets	Global Re	Corporate and legacy business management
US$ billion **2.4**	US$ billion **1.4**	US$ billion **0.7**	US$ billion **0.1**

2014 forecast full year NEP **US$3.0billion**

Gross written premium for 2014 is estimated to be $4.6 billion or £2.7 billion in local currency. As occurred during the first half of the year, the relative strength of the GBP is expected to continue to adversely impact local currency gross written premium as a significant proportion of our premium is denominated in foreign currencies. Whilst the economic landscape in most of our region is showing some signs of improvement, we do not anticipate any material business benefits in the second half of the year.

Net earned premium is forecast to be $3.0 billion, with the reduction in gross written premium expected to have a more significant impact on net earned premium during the second half of the year.

Whilst the operational transformation program will be substantially complete by year end, we will continue to be vigilant in the pursuit of operational efficiencies and cost savings. We have identified several strategic growth initiatives (product and distribution) that will be developed during the second half of the year.

I am extremely fortunate to have a skilled, experienced and dedicated team in European Operations and I am very appreciative of their commitment and application, which remain central to our success.

Australian & New Zealand Operations business review

"The first half of 2014 delivered a strong result with a combined operating ratio of 86.9% and an insurance profit margin of 18.6%. We achieved modest underlying premium rate growth in market conditions that are becoming more challenging, and the comprehensive change program undertaken in recent years ensures our business is well placed for the future.

Colin Fagen Chief Executive Officer • Australian & New Zealand Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
2,263	1,875	245	348
↓ 10% from 2013	↓ 10% from 2013	↑ 17% from 2013	↓ 3% from 2013
		Combined operating ratio 86.9% (2013 89.9%)	Insurance profit margin 18.6% (2013 17.3%)

Competitive landscape

The Australian and New Zealand economies continue to perform strongly compared with our major trading nations; however, confidence remains low as a result of political and global economic uncertainty. This has kept interest rates and investment returns at record low levels, which directly impacts profitability and pricing of all insurance products, particularly in the long tail classes.

The insurance industry has benefited from minor levels of catastrophe activity, with the first half of 2014 having one of the lowest levels of catastrophe-related claims in many years. Favourable catastrophe experience, combined with the earning of rate increases from previous years and improved industry underwriting standards, has put most major insurers in a strong position, delivering solid profits and capital ratios. This has contributed to heightened competition in the market with insurers determined to retain and win business. As a result, annual average rate increases on renewal business have reduced from more than 5% over the past three years to just below 2% in the first half of 2014. An overall profitable market has seen discounting of rates, with increasing competitive pressure from most insurers in order to retain business likely to see pricing remain under pressure in the second half of the year.

Underwriting performance

Our operations have performed strongly in the first half of 2014, achieving a COR of 86.9% and an insurance profit margin of 18.6% compared with 89.9% and 17.3% respectively in the same period in 2013. Virtually all major lines of business are profitable and delivered results in line with expectations, despite lower discount rates, particularly for long tail portfolios.

At 81.9%, our policy retention rate is an excellent outcome given the increasingly competitive market dynamics. We remain focused on retaining high quality business at profitable rates. During the half, we developed new and targeted sales initiatives designed to maximise retention and deliver profitable new business across various products and sectors. These initiatives are already delivering new and promising business opportunities, and will continue to be developed and implemented in the second half.

Premium income

In local currency and allowing for a $24 million impact from the abolition of fire service levy (FSL) in Victoria, underlying gross written premium grew by 1%. Reflecting the generally weaker Australian dollar and the aforementioned FSL impact, headline US dollar premium income reduced by 10% to $2,263 million. Rate increases were limited to just below 2% on average during the half. New business growth was strongest in CTP and across most lines of business in New Zealand. Our lenders' mortgage insurance (LMI) business grew strongly in the first four months of the year but has subsequently slowed in line with the banks' response to APRA's desire to restrict lending where the loan-to-value ratio is greater than 90%.

Local currency net earned premium increased 2% on 2013 levels, allowing for the impact of FSL, while in US dollars it fell by 10% to $1,875 million.

Reflecting an increasingly competitive reinsurance market, net earned premium benefited from lower reinsurance costs and improved terms and conditions, combined with marginally increased per risk retention across most classes. Notwithstanding these developments, the reinsurance expense ratio increased to 14.1% of gross earned premium compared with 13.2% in 2013 as the division's 2014 catastrophe reinsurance treaties were purchased on a prepaid reinstatement basis and QBE LMI increased external quota share reinsurance from 12% to 25% following very substantial growth over the past three years, as part of a broader capital management plan. We continue to manage accumulations across the portfolio in order to optimise reinsurance spend.

Claims expense

Despite an adverse discount rate impact, the net claims ratio improved slightly to 58.7% compared with 59.3% in 1H 2013. Risk-free rates used to discount outstanding claims fell materially during 2014, adversely impacting the net claims ratio by approximately $23 million or 1.2%, compared with a positive impact of $14 million or 0.7% in 2013.

Catastrophe claims were the lowest in a number of years totalling $24 million or 1.3% of net earned premium compared with $83 million or 4.0% in 2013. Large individual risk claims across both long and short tail classes were higher than expected and higher than prior years, driven by a small number of large claims including the Forge surety claim.

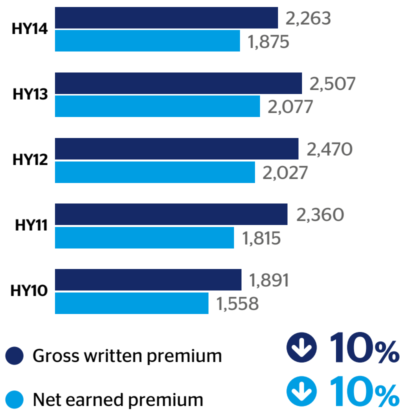
The most pleasing aspect of the result was the attritional claims ratio which improved to 51.0% from 51.7% in the prior corresponding period, despite a material increase in CTP which naturally generates a significantly higher attritional claims ratio. The material improvement in the underlying attritional claims ratio reflected the impact of cumulative premium rate increases, portfolio remediation, maintenance of strict underwriting discipline and claims management initiatives.

The beneficial impact of the Group Shared Services Centre (GSSC) is evident as claims settlement times, particularly on short tail classes, have fallen significantly and open claim numbers have reduced materially as a consequence.

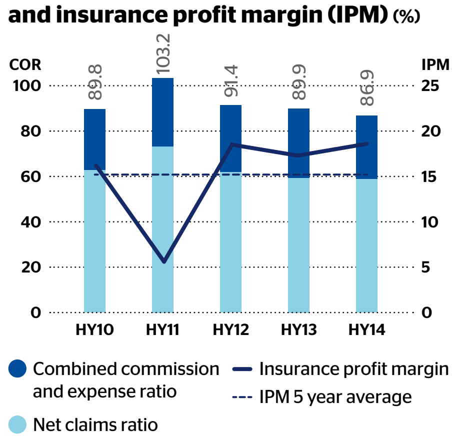
Commission and expenses

The combined commission and expense ratio of 28.2% represents a significant improvement on 30.6% for the same period in 2013 and is primarily a result of the GSSC initiative. Implemented in 2013 with the aim of optimising back office operations and simplifying and streamlining processes, this initiative has been successful in reducing overheads. The benefits are clearly evident in our 2014

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



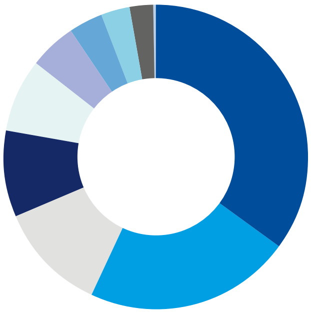
Combined operating ratio (COR) and insurance profit margin (IPM) (%)



interim result with further gains expected to accrue with the final stages of implementation across the business. In addition to reduced costs, we are experiencing significant productivity gains driven by improved monitoring and measurement in all areas. This has resulted in a material reduction in processing times. The separate project to deliver administration and claims procurement savings continues and is on target.

The rationalisation of our office accommodation requirements in the major centres will be completed later this year when the consolidation of our two existing Sydney CBD premises into new premises is finalised. Overall, the floor space under lease has been reduced and will contribute to further expense reduction in 2015.

Gross earned premium by class of business HY14



	HY14 %	HY13 %
Commercial & domestic property	35.1	37.4
Motor & motor casualty	21.9	19.7
Financial & credit	11.7	10.7
Public/product liability	9.3	8.9
Workers' compensation	7.8	8.0
Agriculture & bloodstock	5.0	5.2
Accident & health	3.4	3.8
Marine energy & aviation	3.1	3.2
Professional indemnity	2.5	2.8
Other	0.2	0.3

Other results impacts

The work undertaken in the past few years has underpinned our positive results as well as our ability to meet expectations for both changing market conditions and achieving ongoing organic growth.

The GSSC is meeting expectations in the delivery of both efficiency gains and improved service, with further incremental benefits expected as the GSSC matures. Concurrently, the GSSC provides QBE with scalability for future growth and will ensure consistency of process and service across QBE's global operations.

The pursuit of operational excellence across the business is creating a rigorous culture of collaboration, monitoring and measurement, with ongoing improvements to productivity anticipated. This should provide significant value to our customers, particularly in our intermediated channels.

We have recently undertaken a number of small acquisitions consistent with our strategy. In May, we acquired the remaining 10% share of Elders Insurance Underwriting Agency Pty Ltd (EIUA) from Elders Rural Services. This will contribute positively to profitability. In July, QBE purchased JUA Underwriting Agency's trucking solutions portfolio which presents an excellent opportunity to add scale to our existing presence in the Australian heavy motor market and allows us to continue to provide a competitive heavy motor offering to our customers.

The global expansion of Underwriting Agencies of Australia, our mobile plant and equipment specialist agency, continues through the QBE network. This development represents an outstanding example of sharing expertise and innovation across QBE's global divisions and is assisting with penetration into new markets in Asia, Latin America and Oceania.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**2,263**	2,507	2,470	2,360	1,891
Gross earned premium	US$M	**2,184**	2,392	2,348	2,214	1,900
Net earned premium	US$M	**1,875**	2,077	2,027	1,815	1,558
Net incurred claims	US$M	**1,100**	1,231	1,252	1,329	978
Net commission	US$M	**250**	314	266	229	160
Expenses	US$M	**280**	322	335	315	261
Underwriting result	US$M	**245**	210	174	(58)	159
Claims ratio	%	**58.7**	59.3	61.8	73.2	62.7
Commission ratio	%	**13.3**	15.1	13.1	12.6	10.3
Expense ratio	%	**14.9**	15.5	16.5	17.4	16.8
Combined operating ratio	%	**86.9**	89.9	91.4	103.2	89.8
Insurance profit margin	%	**18.6**	17.3	18.5	5.6	16.2

> I am particularly proud to have worked so closely with our team in positioning QBE to be able to compete strongly through the next stages of the insurance cycle. We continue to work with our partners in developing opportunities for mutual profitable growth.

Australian & New Zealand Operations

Outlook for full year 2014

2014 forecast full year GWP US$**4.7**billion

Intermediary distribution US$ billion	Corporate partners & direct US$ billion	Financial institutions US$ billion	Credit & Surety US$ billion	New Zealand US$ billion
2.0	1.7	0.6	0.1	0.3

2014 forecast full year NEP US$**3.8**billion

The market is expected to remain competitive, with rates under pressure. As a consequence, local currency premium growth for the full year is now only expected to be 2%-3%. Our especially low attritional claims ratio and significantly improved efficiency place us in a strong position to be able to compete and, at the same time, continue to deliver exceptional returns.

We expect the profitability of virtually all major products to remain strong in the months ahead, subject to the usual caveats with respect to catastrophe activity and any major change in macro-economic factors.

Our strong performance enables QBE to continue to invest in systems development to better service our customers and improve our ability to achieve top-line growth.

All levels of government remain concerned about consumer protection and, as a consequence, there have been a significant number of government inquiries. QBE has been actively involved in industry discussions making a number of submissions where appropriate, including the Financial Systems Inquiry which has the potential to assist Australia in preparing for the financial future.

The South Australian Government's recent announcement of its intent to privatise the Compulsory Third Party scheme provides an opportunity to create a leading system and QBE, as a major global personal injury insurer, hopes to be able to assist with its implementation. We will continue to assess any opportunities that arise from privatisation of insurance schemes by governments in all states and territories.

Finally, the Australian & New Zealand Operations team has worked incredibly hard to achieve these results and I thank all of our people for their efforts and commend them on their considerable achievements.

Latin American Operations business review

> In the first half, we have significantly increased our claims reserves for long tail business lines in Argentina. As a result, our Latin American Operations will run at a loss in 2014 as we position our balance sheet for the long term to allow our seven-country regional business to evolve profitably as part of our recently announced Emerging Markets division.

John Neal Group Chief Executive Officer

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
716[1]	553	(201)	(136)
↓ 2% from 2013	↓ 11% from 2013	↓ US$232M from 2013	↓ US$202M from 2013
		Combined operating ratio	Insurance profit margin
		136.3% (2013 95.0%)	(24.6)% (2013 10.6%)

Competitive landscape

Market conditions in Latin America, particularly in Argentina, are challenging and the economic and political landscape remains uncertain.

Economic conditions in Argentina have deteriorated, with inflation rising sharply following the sudden devaluation of the peso by more than 20% in January 2014. With unofficial estimates placing inflation at 39% at the end of June, and with emerging concerns surrounding possible default on sovereign bonds issued under foreign law, the economic outlook for Argentina remains particularly volatile.

Following 1 July reinsurance renewals, general market commentary indicates that primary market pricing continues to soften, particularly in catastrophe-exposed markets such as Mexico, Colombia and Chile.

Underwriting performance

The underwriting performance for 1H 2014 was disappointing with the COR increasing to 136.3% from 95.0% in the previous corresponding period.

The deterioration in underwriting profitability largely reflects $158 million of adverse prior year claims development ($169 million before quota share to Equator Re) primarily due to a material upgrade to our Argentine workers' compensation claims reserves. This follows the introduction of a new actuarial model which we believe more appropriately captures recent trends in the claims environment and the extreme inflationary conditions.

The worse than expected underwriting result also reflects significantly heightened large individual risk claims activity, a business mix driven increase in the commission ratio and inflationary pressure contributing to a higher expense ratio.

Underwriting profitability was strong in Ecuador, Brazil and Chile. Puerto Rico and Mexico reported underwriting losses for the half, with higher reinsurance costs leading to the underperformance in Puerto Rico and the large individual risk claims activity mentioned above driving the Mexican result.

Following two years of substantial remediation, Ecuador's COR of 94.2% was particularly pleasing, representing a significant improvement on 96.1%

1 Includes $99 million one-off gross-up of Argentine workers' compensation premium written on an annual policy basis but previously reported as written on a monthly policy basis.

in the prior corresponding period. QBE Brazil continues to grow and the COR for the first half was 95.1%.

Premium income

Gross written premium was $716 million, down 2% from $733 million in the same period last year. A $175 million currency impact due to the substantial devaluation of the Argentine peso more than offset underlying premium growth of around 8% and a $99 million one-off adjustment to reflect the expected annual premium on Argentine workers' compensation policies written during the period which were previously reported as written on a monthly policy basis.

QBE had previously recognised Argentine workers' compensation written premium on a monthly basis to align with the practice of monthly premium adjustments intended to assist in countering inflation. The aforementioned one-off adjustment more appropriately recognises written premium in line with the annual policy nature of the business and had no impact on earned premium during the period.

We continue to see better than budgeted premium in Colombia through expansion of the broker and intermediary channels in casualty business and in the SOAT portfolio through careful expansion of the agency network in particular regions. Despite the prior accident year claims development in worker's compensation, our Argentine business has seen pleasing results in motor portfolio renewals as well as new business won in the fire portfolio.

Premium growth has been significant in Chile (particularly in non-property), Brazil and Puerto Rico, three territories where we currently only have small market shares.

Net earned premium was $553 million, down from $622 million last year, largely due to the aforementioned currency impact.

Claims expense

The net claims ratio of 97.7% represented a significant deterioration from 59.1% in the same period last year, largely reflecting $158 million of adverse prior accident year claims development including $138 million in Argentina.

In response to recent spikes in workers' compensation claims frequency following legislative changes in 2012 and 2013 and the challenging economic conditions mentioned above, we performed an additional in-depth review of the claims reserves pertaining to all of our businesses in Argentina. The result of this review, combined with a change in the actuarial approach to reserving to better reflect the claims environment and the extreme inflationary conditions, led to a $138 million increase in claims reserves, the majority of which related to our Argentine workers' compensation portfolio.

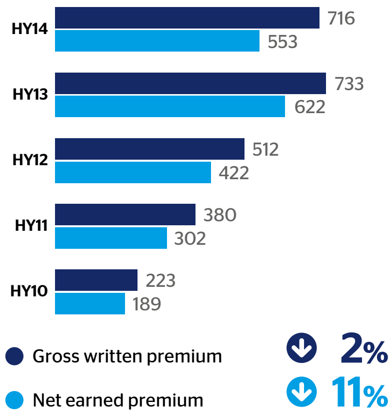
At the same time, we recognised a further $20 million of adverse claims development in our Colombian SOAT portfolio which is relatively short tailed motor bodily injury business. Significantly improved underwriting protocols, including a change in the regional bias of the portfolio away from the Atlantic Coast, coupled with anticipated regulatory changes, are expected to lead to improved underwriting profitability.

The net claims ratio was also adversely impacted by significant large individual risk claims activity, including a major fire claim in Mexico.

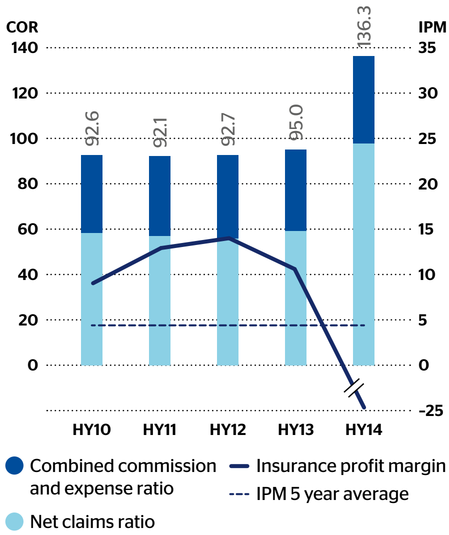
Commission and expenses

The commission ratio increased to 22.1% from 21.4% in the prior corresponding period, reflecting a change in business mix, with a relative increase in premium contribution from the higher commission paying Brazilian portfolio and increased commission rates in Colombia, Ecuador and Mexico. This was partially offset by reduced commissions in

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



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



Argentine workers' compensation due to new government regulations which limit commissions to 5% plus VAT.

The underwriting expense ratio increased to 16.5% from 14.5% in the same period last year as a result of increased ratios in Argentina, Colombia, Ecuador and Puerto Rico, partially offset by increased efficiency in Brazil, Mexico and Chile. Argentina's expense ratio was adversely impacted by inflationary pressures and an improved allocation of transaction costs between underwriting and investment expense. Colombia's expense ratio was also adversely impacted by this improved allocation.

Other results impacts

On 30 July 2014, Standard and Poor's (S&P) downgraded Argentine sovereign bonds issued under foreign law to selective default status. The default is selective in that it relates only to specific foreign-denominated liabilities/bonds, presuming that all other obligations (including sovereign obligations) will continue to be settled.

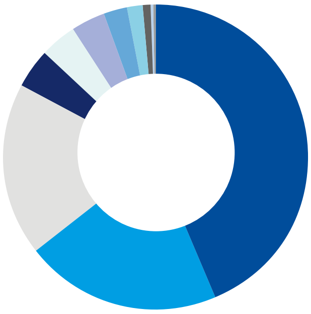
QBE's Argentine investment portfolio is approximately $640 million and comprises around 40% in short duration local law Argentine sovereign and central bank bonds. These bonds do not have cross default clauses with foreign law bonds. They have therefore retained their S&P CCC+ rating and are not expected to be materially impacted by developments relating to sovereign bonds issued under foreign law.

The Argentine local currency bond market has not seen significant volatility in the lead up to this event, with the outcome largely anticipated and not considered meaningful to local financial institutions' liquidity or solvency. In the short-term, economic conditions and the currency may continue to soften, adversely impacting the US dollar value of our investment portfolio. However, our matching peso denominated claims liabilities would similarly fall in value with the overall balance sheet currency impact limited to the Group's $255 million net investment in Argentina.

While the first half of 2014 has been a headwind for Argentina, over the longer term we expect that a new administration will enact positive structural changes that help the economy move to a more sustainable path of growth and inflation.

Implementation of a new actuarial model in our Argentine workers' compensation business means that inflation and discount rates are now explicitly linked on around 70% of outstanding claims. This explicit link largely immunises the underwriting result against interest rate volatility. The remaining Argentine insurance liabilities are relatively short tailed and the undiscounted claims liabilities will remain relatively predictable.

Gross earned premium by class of business HY14



	HY14 %	HY13 %
Motor & motor casualty	43.8	40.5
Commercial & domestic property	20.7	19.1
Workers' compensation	18.4	21.1
Marine energy & aviation	4.1	4.3
Accident & health	4.1	4.3
Life	3.5	5.4
Public/product liability	2.4	1.9
Agriculture & bloodstock	1.7	2.0
Financial & credit	0.9	1.1
Other	0.3	0.1
Professional indemnity	0.1	0.2

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**716**	733	512	380	223
Gross earned premium	US$M	**624**	694	493	384	221
Net earned premium	US$M	**553**	622	422	302	189
Net incurred claims	US$M	**541**	368	235	172	110
Net commission	US$M	**122**	133	90	62	45
Expenses	US$M	**91**	90	66	44	20
Underwriting result	US$M	**(201)**	31	31	24	14
Claims ratio	%	**97.7**	59.1	55.8	57.0	58.2
Commission ratio	%	**22.1**	21.4	21.3	20.5	23.8
Expense ratio	%	**16.5**	14.5	15.6	14.6	10.6
Combined operating ratio	%	**136.3**	95.0	92.7	92.1	92.6
Insurance profit margin	%	**(24.6)**	10.6	14.0	12.9	9.0

> Our strategic reset for the important Latin American non-life insurance market as part of the broader Emerging Markets division will allow us to build on the strong franchises we have in Argentina, Colombia, Ecuador and Mexico as well as leverage divisional distribution and technology solutions to support our ambitions in Brazil, Chile and Puerto Rico.

Latin American Operations

Outlook for full year 2014

2014 forecast full year GWP US$1.35billion

Argentina US$ million	Brazil US$ million	Chile US$ million	Colombia US$ million
700	85	25	230

Ecuador US$ million	Mexico US$ million	Puerto Rico US$ million
165	75	70

2014 forecast full year NEP US$1.1billion

The outlook for Latin American Operations relies heavily on the ongoing performance of the Argentine business and thus the macro-economic issues facing the country.

Subject to a relatively stable Argentine economy for the remainder of the year, we expect our Latin American Operations will report 2014 full year gross written and net earned premium of around $1.35 billion and $1.1 billion respectively.

In Argentina, our full year gross written premium expectations have increased due to the combined impact of high inflation and a significant one-off premium adjustment which should more than offset the impact of the significantly weaker peso. Elsewhere within Latin America, premium growth expectations have been upgraded slightly in Brazil, Ecuador and Puerto Rico while tempered slightly in Colombia, Chile and Mexico.

Although we anticipate no further material adverse claims reserve adjustments, the COR of our Latin American Operations is expected to remain high over the medium term largely reflecting the underwriting and interest rate dynamic currently impacting our Argentine operations and especially our Argentine workers' compensation portfolio. Moreover, margins in our Colombian operations will likely remain below our target in the near term until the full impact of the change in the territorial bias of the SOAT portfolio and expected regulatory changes emerge.

We look forward to close collaboration with our colleagues in Asia Pacific Operations to enhance our overall growth prospects as we merge to create QBE's Emerging Markets division in the second half.

Asia Pacific Operations business review

> Successful delivery of the Asia Pacific profitable growth strategy is critical to our aspirations across the region. In the first six months, we saw strong underwriting growth in gross written and net earned premium whilst delivering a solid profit for the region. The success of our growth strategy is evident in our strengthening position in the markets in which we operate.

David Fried Chief Executive Officer • Asia Pacific Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
403	278	23	26
↑ 1%[1] from 2013	↑ 14% from 2013	↓ 32% from 2013	↓ 30% from 2013
		Combined operating ratio 91.7% (2013 86.0%)	Insurance profit margin 9.4% (2013 15.2%)

Competitive landscape

Amidst an improving global macro-economic environment, growth in Asia continued to outpace the developed world despite some short-term challenges in individual Asian countries.

As the US economy continues its path to recovery, China embarks on a journey towards a more sustainable growth model and Asia stands to reap the benefits of stronger exports to key trading partners. The commercial sector is also gaining from the marked increase in intra-regional trade flows between Asian economies, which have now overtaken trade activity with the Western world. The overall business environment is also generating a strong pipeline of infrastructure projects.

In Asia, QBE is well positioned to capture the corresponding rise in demand for construction & engineering, marine and trade credit insurance, as well as commercial specialty lines. Meanwhile, the retail sector is profiting from rising affluence, which in turn translates into growing demand for general insurance products such as travel and home contents insurance.

While premium rate competition is likely to intensify further as insurers embrace the overall positive picture in Asia, QBE's underwriting prowess enables us to carefully select risks and price business appropriately, at the same time offering world class customer service and insurance solutions.

Underwriting performance

Successful implementation of our growth strategy remains the key to future profitability. During the first half of 2014, Asia Pacific recorded a strong underlying increase in gross written and net earned premium. Our underwriting result was lower than budget and prior year, with a COR of 91.7% compared with 86.0% in the previous period. The COR was impacted by a combination of business mix and higher than anticipated attritional and large individual risk claims, coupled with continued investment in our growth strategy.

1 In 1H 2013, GWP included $66 million related to a multi-year contract with the Mass Transit Railway Corporation (MTRC) in Hong Kong. If the MTRC premiums were excluded, GWP for Asia Pacific would have grown 21% from 2013.

The success of our growth strategy is well evidenced by strengthened market positions in our priority markets. QBE is now ranked as the second largest[1] general insurer in Hong Kong, a crowded market with over 110 competitors, and the largest workers' compensation business with a market share of 12%. In Singapore, QBE is second in hull & liability with a market share of 28% and third in professional liability with a market share of 14%[2]. QBE also remains the number one general insurer in the Pacific markets of Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

Our underwriting profit decreased to $23 million from $34 million in the same period last year, while the insurance profit margin decreased to 9.4% from 15.2%, reflecting the aforementioned increase in the COR.

Premium income

Excluding $66 million of premium associated with the multi-year MTRC contract in 2013, Asia Pacific's $403 million of gross written premium represented an underlying growth rate of 21%. All operations recorded underlying growth on a local currency basis. Among the nine Asian countries in which QBE operates, seven countries recorded year on year growth ranging between 18%–34%.

Net earned premium rose 14% to $278 million, with the aforementioned multi-year MTRC contract not materially impacting 1H 2013 net earned premium. We have a strong focus on organic growth, which was achieved in the workers' compensation, engineering, accident & health and fire portfolios.

The Asian region (excluding the Pacific) recorded gross written premium of $340 million, an underlying increase of 25% on the prior corresponding period excluding the multi-year MTRC premium booked in 2013. Hong Kong, Malaysia and Singapore remain our top three priority markets and accounted for 84% of Asian gross written premium. Malaysia and Singapore recorded especially strong growth of 20% and 19% respectively.

The Pacific region generated gross written premium of $63 million, an increase of 5% over the previous year. Fiji, New Caledonia, French Polynesia and Solomon Islands were the main contributors to growth in the region.

Claims expense

The net claims ratio increased to 49.6% in the first half of 2014 compared with 44.6% in the same period last year.

Benign natural catastrophe experience and favourable prior year claims development were more than offset by an increase in the attritional claims ratio and adverse large individual risk claims experience.

The increase in the attritional claims ratio largely reflects portfolio mix, with an increased portfolio weighting towards Hong Kong workers' compensation business following significant growth in recent periods. At the same time, the result was impacted by higher than usual frequency and severity of claims from our fire, motor and marine portfolios, particularly in Singapore.

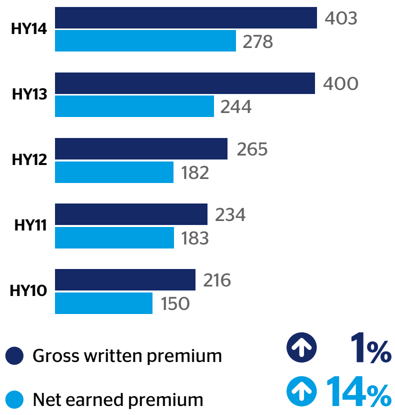
Commission and expenses

The commission ratio remained relatively stable at 21.2% compared with 21.3% in the previous corresponding period, with the commission impact of the extension of our distribution network to bancassurance in Hong Kong largely offset by an increased portfolio mix to marine business in Singapore.

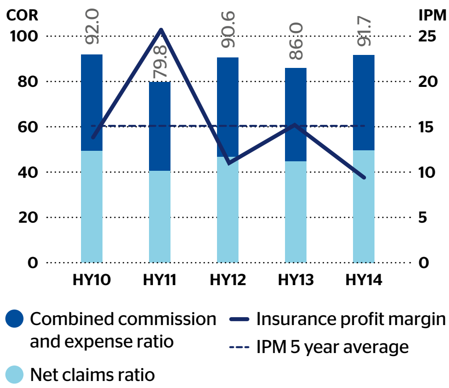
1 Source: second largest in terms of net written premium based on the 2013 full year figures released by the Office of the Commissioner of Insurance in March 2014. Next release of market figures will be in March 2015.

2 Source: Monetary Authority of Singapore.

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



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



The expense ratio increased slightly to 20.9% from 20.1% in 1H 2013 reflecting our continued investment in our divisional growth strategy, including a significant increase in regional management and underwriting technical expertise. We also incurred additional technology spend, including costs associated with the construction of a new and market leading electronic business platform, due for a market-wide release in September after a soft launch to key distribution partners in July.

Gross earned premium by class of business HY14

	HY14 %	HY13 %
Commercial & domestic property	28.0	29.7
Marine energy & aviation	19.3	18.6
Workers' compensation	16.4	15.5
Motor & motor casualty	12.0	13.2
Accident & health	8.5	8.7
Professional indemnity	6.8	4.4
Public/product liability	6.3	6.7
Financial & credit	2.6	3.1
Other	0.1	0.1

Other results impacts

The very substantial customer records of Hang Seng Bank's general insurance operations were successfully migrated to QBE's stand alone policy administration system in the first half of 2014. The successful migration not only provides a foundation for us to further grow the QBE General Insurance business in Hong Kong but will also enable us to expand our bancassurance business from Hong Kong into other Asian markets. In addition, the acquisition of the Seaboard renewal rights last year has delivered a platform for accelerated business growth in the Philippines.

In the first half of 2014, QBE entered into a managed service arrangement with an external provider for technology application management and maintenance. This support enables the Asia Pacific team to focus on its core business of providing quality insurance solutions in the region.

We have strengthened our management teams in Singapore, Malaysia and the Philippines to ensure enhanced collaboration, consistency and efficiency in the further roll out of our strategy and the achievement of our demanding growth ambitions.

Asia Pacific Operations continues to leverage the Group's global underwriting strength and capabilities. Through the combined efforts of global distribution, regional and local teams, QBE in Papua New Guinea was successfully appointed as the preferred insurer for a major trading partner across its medical, travel, personal accident, professional indemnity and marine cargo portfolios, and as one of four panel insurers for property, liability and motor.

Our investment in technology will start to bear fruit in the second half of 2014 with the full launch of our commercial lines business-to-business platform, initially in Singapore and Hong Kong. This will be beneficial in delivering improved access, automation and operational efficiency for our distribution partners.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**403**	400	265	234	216
Gross earned premium	US$M	**347**	311	243	224	202
Net earned premium	US$M	**278**	244	182	183	150
Net incurred claims	US$M	**138**	109	85	74	74
Net commission	US$M	**59**	52	41	35	31
Expenses	US$M	**58**	49	39	37	33
Underwriting result	US$M	**23**	34	17	37	12
Claims ratio	%	**49.6**	44.6	46.7	40.5	49.3
Commission ratio	%	**21.2**	21.3	22.5	19.1	20.7
Expense ratio	%	**20.9**	20.1	21.4	20.2	22.0
Combined operating ratio	%	**91.7**	86.0	90.6	79.8	92.0
Insurance profit margin	%	**9.4**	15.2	11.0	25.7	14.0

> Backed by favourable GDP forecasts and continued economic growth in Asia, the outlook for the remainder of 2014 remains positive. With our enhanced distribution strategy and improved operational efficiency across the region, we are confident that we can grow our business through delivery of quality services and consistent experience to our partners and customers.

Asia Pacific Operations

Outlook for full year 2014

2014 forecast full year GWP US$840million

Asia	Pacific
US$ million	US$ million
710	130

2014 forecast full year NEP US$600million

Backed by favourable GDP forecasts and continued economic growth in the region, the outlook for QBE's Asia Pacific Operations remains positive for the remainder of 2014. International trade tends to grow faster than GDP in the long term and the intra-regional trade flows between Asian economies are greater than those to the Western world today. These trends provide additional opportunities for QBE to utilise our expertise to help customers with the growing marine and trade credit insurance needs in the region.

With the abundance of capacity coupled with aggressive pursuit of market share by competitors, markets are expected to remain competitive and premium rates for most lines of business will remain soft in the region; however, with our strengthened distribution strategy, aligned focus and improved operational consistency across the region, we are confident in maintaining our high retention rate and growing our business through the delivery of quality services and a consistent experience to our distribution partners. We will also further leverage the Group's underwriting strength and capabilities through cross-geographical and functional collaboration to capture business opportunities.

We are developing an Asia Pacific bancassurance model to sustain one of our strategic pillars of becoming a niche personal lines insurer with strategic partners. Once set, the strategy will take our bancassurance success from Hong Kong to other countries in the region and even other divisions in the Group.

My thanks go to our business partners for their continued support and our dedicated staff for their commitment. Without their dedication and commitment, we would not have made such great strides in our business growth.

Equator Re business review

As QBE's captive reinsurer, Equator Re continues to play a key role in the overall reinsurance strategy of the Group, optimising the retentions of the divisions. We have achieved a much improved result although premium income was lower than expected.

Jim Fiore Group Chief Reinsurance Officer • Equator Re

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
1,686	1,344	136	188
↓ 11% from 2013	↓ 2% from 2013	↑ 27% from 2013	↑ 44% from 2013
		Combined operating ratio	Insurance profit margin
		89.9% (2013 92.2%)	14.0% (2013 9.5%)

Competitive landscape

Equator Re provides excess of loss protection to each of the five operating divisions in conjunction with the Group's global reinsurance programs and proportional cover to our North American, Latin American, European and Asia Pacific Operations.

Premium rates on the excess of loss business were generally lower across most lines of business in line with general market pricing trends, but particularly in the case of US property business. We have continued to de-risk the portfolio by increasing the retentions on a number of the larger catastrophe and per risk programs, which contributed to the lower than expected premium volume on the excess of loss book.

The premium income on the proportional book reduced marginally, reflecting the competitive premium rate environment in various markets as well as the ongoing restructuring in our North American Operations.

Investment returns benefited from a reduction in the weighting given to fixed interest securities and an increase in the strategic risk asset weighting which resulted in a substantial improvement in the insurance profit margin compared with the same period last year.

Underwriting performance

The COR of 89.9% was an improvement on the 92.2% reported last year. The excess of loss book benefited from lower than expected catastrophe claims activity; however, the per risk portfolio was impacted by a number of weather-related losses in the UK, large fire losses in Asia Pacific and Latin America and a surety claim in Australia following Forge Group being placed into voluntary administration.

There was a marked improvement in the COR for the proportional book due to lower than expected catastrophe claims and also following the re-engineering work that has been undertaken in our North American division, which contributed to a significant improvement in both the claims and the commission ratios. The proportional results from our European and Asia Pacific businesses continue to deliver positive results.

Equator Re benefits from the Group's catastrophe and per risk reinsurance programs and is also protected by a standalone catastrophe aggregate treaty. These reinsurance programs collectively provide Equator Re with a substantial amount of cover for the remainder of the year.

Premium income

Gross written premium income fell by 11% to $1,686 million compared with $1,889 million for the same period last year, whilst net earned premium reduced by only 2% to $1,344 million from $1,373 million in the previous corresponding period. The disparity between gross written and net earned reflects a change in the business mix with less non-proportional risks attaching business being underwritten in 2014 compared with 2013. In addition, reinsurance costs reduced by approximately 18%, partially due to softer market conditions.

Written premium on the excess of loss book reduced following increases in retentions on a number of divisional catastrophe and per risk programs, the introduction of aggregate deductibles on certain per risk covers and also an overall modest reduction in premium rates consistent with external market conditions. This has particularly been the case in European Operations, and to a lesser extent, in North America. This was partially mitigated due to the QBE Group retentions also increasing and with Equator Re writing the extra layers up to the increased Group retention.

The overall proportional book also reduced slightly with some significant reductions in the LPI and reinsurance portfolios in North America reflecting difficult market conditions and rate pressure in the reinsurance market. In addition, cessions from the Lloyd's syndicates in European Operations were down 7% year on year, again reflecting challenging market conditions. Partially offsetting some of these reductions were increases in premium in specialty lines of business in North America following the hiring of a number of new underwriting teams. Moreover, we increased our participations in New Zealand business and significantly increased the proportional premium income from Latin America, reflecting QBE's expansion in that market.

Claims expense

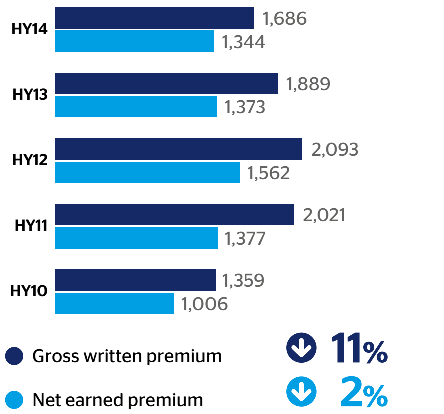
The net claims ratio of 59.9% was broadly unchanged from the corresponding period last year.

Whilst the various QBE divisions were impacted by natural catastrophes to varying degrees, the first six months of the year for Equator Re was a benign period in terms of catastrophe claims activity due, in part, to the higher divisional catastrophe retentions. In addition, there was an overall savings in prior accident year catastrophe claims including Typhoon Haiyan, Thai Floods and Superstorm Sandy despite a small deterioration in the New Zealand 2011 earthquake claims. Equator Re's result, however, was impacted by a further high frequency and severity of large individual risk claims plus a number of other property, liability and aviation claims.

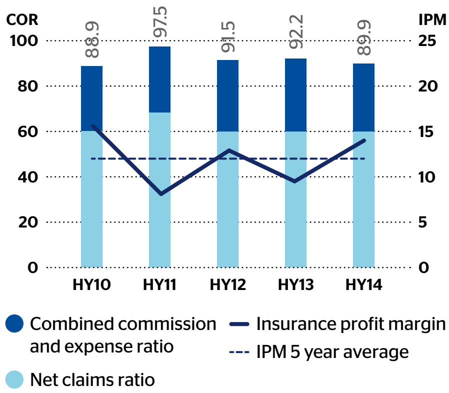
The overall result was adversely impacted by an $18 million movement in the claims discount due to lower risk-free rates used to discount claims liabilities.

The impact of upgrades to workers' compensation reserves in Argentina was not significant, adding less than 1% to Equator Re's COR, while the industry-wide late 2013 claim notifications on the North America crop account added close to 1% to the net COR.

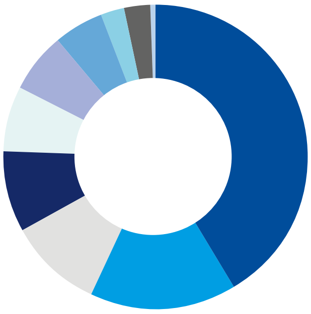
Gross written premium and net earned premium (US$M)



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



Gross earned premium by class of business HY14



	HY14 %	HY13 %
Commercial & domestic property	41.4	42.9
Public/product liability	15.7	17.3
Motor & motor casualty	10.1	11.0
Workers' compensation	8.4	6.7
Marine energy & aviation	7.0	6.9
Professional indemnity	6.5	3.8
Agriculture & bloodstock	5.1	4.7
Financial & credit	2.7	3.2
Accident & health	2.6	2.6
Other	0.5	0.9

Commission and expenses

The overall combined commission and expense ratio fell to 30.0% of net earned premium compared with 32.4% reported for the same period last year.

The commission ratio reduced materially to 26.0% from 28.8% in the prior corresponding period, largely due to a change in the business mix on the North American proportional book and also due to a reduction in the original costs under these treaties.

Underwriting and administration expenses increased by 8% reflecting the full impact of expanding the underwriting, claims and risk management capabilities in our head office in Bermuda. Coupled with the slight decrease in net earned premium, Equator Re's expense ratio increased to 4.0% from 3.6% in the prior corresponding period.

Other results impacts

Equator Re continues to upgrade its operating model, particularly in relation to its underwriting, catastrophe modelling, claims and risk management activities. We expanded our pricing capability following the acquisition of external pricing tools and all contracts are benchmarked against open market rates. Equator Re has implemented an extensive internal review program covering both underwriting and claims and is in the process of upgrading a number of core IT systems which will improve data quality and deliver long-term cost savings. In addition, Equator Re is strengthening its overall governance framework and expects to be in a position to meet any Bermuda Monetary Authority equivalence requirements under Solvency II within the next 12 months.

Premium income

Gross written premium by source – local currency

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
North American Operations	US$M	**849**	914	1,137	875	576
European Operations	£M	**246**	403	374	395	347
Australian & New Zealand Operations	A$M	**281**	230	261	388	178
Latin American Operations	US$M	**45**	23	9	17	18
Asia Pacific Operations	US$M	**125**	97	88	86	75

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2014	2013	2012	2011	2010
Gross written premium	US$M	**1,686**	1,889	2,093	2,021	1,359
Gross earned premium	US$M	**1,476**	1,533	1,682	1,545	1,032
Net earned premium	US$M	**1,344**	1,373	1,562	1,377	1,006
Net incurred claims	US$M	**805**	821	935	941	605
Net commission	US$M	**349**	395	448	335	250
Expenses	US$M	**54**	50	47	67	39
Underwriting result	US$M	**136**	107	132	34	112
Claims ratio	%	**59.9**	59.8	59.8	68.3	60.1
Commission ratio	%	**26.0**	28.8	28.7	24.3	24.9
Expense ratio	%	**4.0**	3.6	3.0	4.9	3.9
Combined operating ratio	%	**89.9**	92.2	91.5	97.5	88.9
Insurance profit margin	%	**14.0**	9.5	12.9	8.1	15.6

> Our focus is on delivering underwriting results in line with plan while providing the divisions with reinsurance solutions to meet their business plans and allowing the Group to manage risk and optimise its overall capital.

Equator Re
Outlook for full year 2014

2014 forecast full year GWP	US$3.0billion
2014 forecast full year NEP	US$2.9billion

FY 2014 gross written and net earned premium is expected to be marginally lower at US$3.0 billion and US$2.9 billion respectively, compared with our original budget of US$3.2 billion and US$3.0 billion respectively. Despite this, our profit expectation remains higher than in the previous corresponding period, in line with the re-underwriting of certain treaties and increased retentions. The excess of loss account is predominantly renewed in the first quarter and premium is therefore not expected to materially change, while the premium forecast on the proportional book has been updated with a shortfall to budget of around 10% as moderating volumes in Europe and North America, in particular, result in less premium ceded to Equator Re. Equator Re continues to upgrade its underwriting and pricing capability and the quality of its exposure data.

I would like to thank all the employees of Equator Re for their support and commitment in meeting the challenges that we face as we continue to strive to be even more successful in the future. I am extremely grateful to each and every member of the team. I would also like to thank our customers, the QBE divisions. We value the trust you have put in us and will do our best to meet and exceed your expectations.

Directors' report

FOR THE HALF YEAR ENDED 30 JUNE 2014

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 2014.

Directors

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

WM Becker (Chairman)
DM Boyle
JA Graf
JM Green
IF Hudson
MMY Leung
JD Neal

Ms BJ Hutchinson AM was a director from the beginning of the financial year until her retirement on 31 March 2014.

Mr WM Becker was appointed Chairman of the Board on 1 April 2014.

Sir Brian Pomeroy was appointed to the Board as a director on 1 June 2014.

Consolidated results

FOR THE HALF YEAR ENDED 30 JUNE	2014 US$M	2013 US$M
Gross written premium	**8,491**	9,446
Unearned premium movement	**(672)**	(1,033)
Gross earned premium revenue	**7,819**	8,413
Outward reinsurance premium	**(1,485)**	(1,679)
Deferred reinsurance premium movement	**613**	599
Outward reinsurance premium expense	**(872)**	(1,080)
Net earned premium	**6,947**	7,333
Net claims incurred	**(4,378)**	(4,359)
Net commission	**(1,191)**	(1,302)
Underwriting and other expenses	**(1,134)**	(1,142)
Underwriting result	**244**	530
Net investment income on policyholders' funds	**286**	260
Insurance profit	**530**	790
Net investment income on shareholders' funds	**141**	134
Financing and other costs	**(150)**	(168)
Share of net profits of associates	**1**	-
Amortisation and impairment of intangibles	**(35)**	(171)
Profit before income tax	**487**	585
Income tax expense	**(91)**	(102)
Profit after income tax	**396**	483
Net profit attributable to non-controlling interests	**(4)**	(6)
Net profit after income tax	**392**	477

Result

Net profit after tax for the period to 30 June 2014 was $392 million, down from a profit of $477 million for the same period last year. The first half result was impacted by prior accident year reserve strengthening of $169 million in Latin America (the majority of which related to litigated Argentine workers' compensation claims), higher than expected large individual risk claims which contributed to a large individual risk and catastrophe claims charge of around 10% of net earned premium and an adverse discount rate impact of $118 million (excluding the impact of increased risk-free rates in Argentina). Excluding the strengthening of reserves in Argentina, the underlying underwriting performance was sound, with the result reflecting some of the early benefits of the expense management and portfolio remediation activities that we have put in place over the last 18 months.

Net investment income of $427 million was up slightly compared with $394 million for the same period last year. The result benefited from unrealised gains on fixed interest securities due to narrowing credit spreads and strong returns in our emerging markets portfolio.

Dividends

The directors are pleased to announce an interim dividend of 15 Australian cents per share for the period ended 30 June 2014 compared with 20 Australian cents per share for the period ended 30 June 2013. The interim dividend will be franked at 100%. The total dividend payout is A$192 million compared with an interim dividend payout of A$244 million in 2013. In recognition of the capital initiatives announced today, the Board has elected to remove the 1% discount on the Group's dividend reinvestment plans.

Presentation currency

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

Operating and financial review

Information on the Group's business strategies and prospects (including the results of those operations) and financial position of the Group is set out on pages 4 to 43 of this half year report. These pages also deal with the Group's business strategies and prospects for future financial years.

Outstanding claims provision

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

As in previous years, the directors consider that substantial risk margins are required over the actuarial central estimate to mitigate the potential for uncertainty in the central estimate. The probability of adequacy of the outstanding claims provision at 30 June 2014 was 89.4% compared with 90.7% at 31 December 2013. APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on pages 20 to 43 of this half year report.

Material business risks

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

Some of the material business risks that QBE faces include strategic risk, insurance risk, credit risk, market risk, liquidity risk and operational risk. Explanations of these risks and their mitigations are set out in more detail in note 5 of the annual report for the financial year ended 31 December 2013 which we urge you to read. Further details of how QBE manages risk are set out in pages 70 to 73 of that annual report and that part of the Corporate Governance Statement in respect of ASX CGC Principle 7: Recognise and Manage Risk on pages 82 to 83 of the annual report.

Commentary on significant judgments and estimates affecting the 30 June results and balance sheet is included in note 2 to the financial statements for the half year ended 30 June 2014.

Events occurring after the balance date

In August 2014, a controlled entity in our European Operations entered into a transaction whereby, in return for a reinsurance premium of approximately $390 million, it will benefit from a 100% ground-up reinsurance of its Italian and Spanish medical malpractice liabilities.

The impact of this transaction on the full year financial statements will be to reduce net earned premium by approximately $390 million, with a corresponding reduction in net incurred claims.

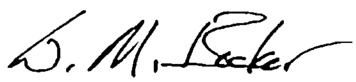
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 46.

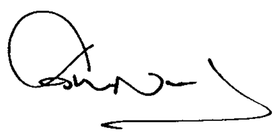
Rounding of amounts

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 19th day of August 2014 in accordance with a resolution of the directors.



WM Becker
Director



JD Neal
Director

Auditor’s independence declaration

FOR THE HALF YEAR ENDED 30 JUNE 2014

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2014, 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.

PricewaterhouseCoopers

SJ Hadfield
Partner

Sydney
19 August 2014

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Notes to the financial statements

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2014

	NOTE	2014 US$M	2013 US$M
Gross written premium		**8,491**	9,446
Unearned premium movement		**(672)**	(1,033)
Gross earned premium revenue	4(A)	**7,819**	8,413
Outward reinsurance premium		**(1,485)**	(1,679)
Deferred reinsurance premium movement		**613**	599
Outward reinsurance premium expense	4(B)	**(872)**	(1,080)
Net earned premium (a)		**6,947**	7,333
Gross claims incurred	4(B)	**(4,879)**	(4,958)
Reinsurance and other recoveries revenue	4(A)	**501**	599
Net claims incurred (b)		**(4,378)**	(4,359)
Gross commission expense	4(B)	**(1,262)**	(1,401)
Reinsurance commission revenue	4(A)	**71**	99
Net commission (c)		**(1,191)**	(1,302)
Other acquisition costs (d)	4(B)	**(542)**	(440)
Underwriting and other expenses (e)	4(B)	**(592)**	(702)
Underwriting result (a)+(b)+(c)+(d)+(e)		**244**	530
Investment and other income – policyholders' funds		**298**	277
Investment expenses – policyholders' funds		**(12)**	(17)
Insurance profit		**530**	790
Investment and other income – shareholders' funds		**147**	143
Investment expenses – shareholders' funds		**(6)**	(9)
Financing and other costs		**(150)**	(168)
Share of net profits of associates		**1**	–
Amortisation and impairment of intangibles		**(35)**	(171)
Profit before income tax		**487**	585
Income tax expense		**(91)**	(102)
Profit after income tax		**396**	483
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**(187)**	306
Associates' share of other comprehensive income		**–**	(7)
Income tax relating to these components of other comprehensive income		**(15)**	45
Items that will not be reclassified to profit or loss			
(Losses) gains on remeasurement of defined benefit superannuation plans		**(8)**	52
Losses on revaluation of owner occupied properties		**–**	(15)
Income tax relating to these components of other comprehensive income		**1**	(10)
Other comprehensive income after income tax		**(209)**	371
Total comprehensive income after income tax		**187**	854
Profit after income tax attributable to:			
Ordinary equity holders of the company		**392**	477
Non-controlling interests		**4**	6
		396	483
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**183**	848
Non-controlling interests		**4**	6
		187	854

Earnings per share for profit after income tax attributable to ordinary equity holders of the company	NOTE	2014 US CENTS	2013 US CENTS
Basic earnings per share	5	**31.3**	38.0
Diluted earnings per share	5	**30.5**	35.8

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

Consolidated balance sheet

AS AT 30 JUNE 2014

	NOTE	30 JUNE 2014 US$M	31 DECEMBER 2013 US$M
Assets			
Cash and cash equivalents		**1,308**	1,238
Investments	6	**30,037**	29,368
Derivative financial instruments	7	**26**	33
Trade and other receivables		**5,718**	5,119
Current tax assets		**6**	16
Deferred insurance costs		**2,903**	2,221
Reinsurance and other recoveries on outstanding claims	8	**3,257**	3,461
Other assets		**10**	11
Assets held for sale		**6**	50
Defined benefit plan surpluses		**44**	39
Property, plant and equipment		**395**	408
Deferred tax assets		**727**	801
Investment properties		**14**	13
Investment in associates		**14**	13
Intangible assets		**4,525**	4,480
Total assets		**48,990**	47,271
Liabilities			
Derivative financial instruments	7	**31**	20
Trade and other payables		**1,793**	1,614
Current tax liabilities		**238**	219
Unearned premium		**9,064**	8,184
Outstanding claims	8	**21,904**	21,669
Provisions		**127**	114
Defined benefit plan deficits		**91**	80
Deferred tax liabilities		**159**	397
Borrowings	9	**4,306**	4,571
Total liabilities		**37,713**	36,868
Net assets		**11,277**	10,403
Equity			
Share capital	10	**10,020**	9,195
Treasury shares held in trust		**(1)**	–
Reserves		**(1,672)**	(1,470)
Retained profits		**2,881**	2,631
Shareholders' funds		**11,228**	10,356
Non-controlling interests		**49**	47
Total equity		**11,277**	10,403

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

Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2014

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

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

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

Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2014

	2014 US$M	2013 US$M
Operating activities		
Premium received	**7,336**	9,996
Reinsurance and other recoveries received	**845**	2,961
Outward reinsurance paid	**(1,384)**	(3,135)
Claims paid	**(4,422)**	(6,779)
Acquisition and other underwriting costs paid	**(2,052)**	(2,206)
Interest received	**361**	360
Dividends received	**22**	8
Other operating income	**19**	19
Other operating payments	**(192)**	(182)
Interest paid	**(129)**	(142)
Income taxes paid	**(236)**	(250)
Net cash flows from operating activities[1]	**168**	650
Investing activities		
Proceeds on sale of risk assets	**848**	638
Purchase of risk assets	**(1,808)**	(746)
Proceeds from forward foreign exchange contracts	**37**	41
Proceeds on sale (payment for purchase) of other investments	**992**	(585)
Payments for controlled entities and businesses acquired[2]	**(15)**	(6)
Proceeds on disposal of controlled entities	**–**	9
Proceeds on sale of investment property	**1**	1
Proceeds on sale of property, plant and equipment	**42**	1
Payments for property, plant and equipment	**(34)**	(74)
Net cash flows from investing activities	**63**	(721)
Financing activities		
Purchase of treasury shares	**(12)**	(15)
Proceeds from settlement of staff share loans	**1**	2
Proceeds from borrowings	**629**	596
Repayment of borrowings	**(714)**	(395)
Dividends paid	**(80)**	(81)
Net cash flows from financing activities	**(176)**	107
Net movement in cash and cash equivalents	**55**	36
Cash and cash equivalents at the beginning of the half year	**1,238**	2,025
Effect of exchange rate changes	**15**	(123)
Cash and cash equivalents at the end of the half year	**1,308**	1,938

1 Included within the prior period net cash flows from operating activities are premiums received of $1,504 million, reinsurance recoveries received of $1,867 million, outward reinsurance paid of $1,340 million and claims paid of $2,193 million that were paid into or out of a specified account on a net basis as required by government authorities. Settlement for the current financial year has not yet occurred.

2 Net of cash acquired.

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

Notes to the financial statements

1. Basis of preparation of half year financial report

This general purpose consolidated financial report for the half year ended 30 June 2014 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 2014 does not include all the notes normally included in an annual report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 31 December 2013 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group) during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

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

Changes in accounting policy

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2014.

TITLE	
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
AASB 2013-9	Amendments to Australian Accounting Standards – conceptual framework, materiality and financial instruments: Part B
Interpretation 21	Levies

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

Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).

2. Significant judgments and estimates

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

Noted below are the most material judgments and estimates that should be considered in conjunction with note 4 to the financial statements for the year ended 31 December 2013.

There has been no material change to the areas of significant judgment and estimation since year end.

(A) Outstanding claims provision

The Group's net outstanding claims provision comprises:

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

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the Group requires a higher probability that estimates will be adequate over time, a risk margin is added to the net discounted central estimate to determine the outstanding claims provision.

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

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- the existence of complex underlying exposures often at high attachment points (e.g. program business in the US);
- incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages (e.g. European medical malpractice and UK bodily injury claims); and
- changing social, political and economic environments, (e.g. workers' compensation in Argentina).

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the central estimate on the Group's profit or loss are summarised in note 4(A)(v) to the financial statements for the year ended 31 December 2013.

(B) Intangible assets

QBE monitors goodwill and identifiable intangible assets for indicators of impairment at each reporting date in accordance with the Group's policy which is set out in note 1(T) of the 2013 annual report.

At 31 December 2013, QBE recognised a $600 million impairment of goodwill in relation to the North American Operations, details of which were provided in note 18 of our 2013 annual report. At 30 June 2014, QBE has updated this impairment calculation and has determined that the recoverable amount exceeded the carrying value, albeit by less than 10%. The key assumptions and estimates used in this valuation are:

- cash flow forecasts based on the latest three year business plan which have been approved by the Board, updated for management's current expectations of future performance based on prevailing and anticipated market factors;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. A growth rate of 2.5% (December 2013: 2.5%) has been applied reflecting the long-term average inflation expectation of a number of market commentators; and
- a pre-tax discount rate of 12.5% which reflects a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the North American Operations (December 2013 12.1%).

The goodwill impairment valuation continues to be highly sensitive to a range of assumptions and, in particular, to increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and investment return assumptions.

At 30 June 2014, a 1% increase in the terminal value combined operating ratio assumption would have reduced the recoverable amount by $410 million. If the discount rate was increased by 1%, the recoverable amount would have decreased by $608 million. If the terminal value investment return assumption was reduced by 1.0%, the recoverable amount would have reduced by $536 million.

(C) Recoverability of future tax losses

In North American Operations, a deferred tax asset (DTA) of $573 million has been recognised. Uncertainty exists in relation to the recoverability of this DTA, which is subject to there being sufficient future taxable profits over the period of time in which the losses can be utilised. QBE has made a judgment that North American Operations will be able to generate sufficient taxable profits over the next several years, based on its future business plans. Losses expire over the next 19 years, with the majority expiring between 2030 and 2033. The uncertainty around the recognition of the DTA will be resolved in future years assuming that taxable profits are generated. Recovery of the DTA is sensitive to changes in the forecast combined operating ratio, premium growth and investment yield as these items are the key drivers of future taxable income.

3. Segment information

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

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal line classes of business through operations in 42 countries. The business is managed as follows:

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

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

On 16 June 2014, the Group announced the bringing together of Asia Pacific Operations and Latin American Operations into an Emerging Markets division to take effect on 15 August 2014. The segment note in the financial statements for the year ended 31 December 2014 will be restated accordingly.

3. Segment information CONTINUED

2014	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	12,140	19,822	13,280	1,853	1,883	7,852	(7,840)	48,990
Total liabilities	9,987	16,777	9,822	1,616	1,309	6,042	(7,840)	37,713
Net assets	2,153	3,045	3,458	237	574	1,810	–	11,277
Gross written premium	2,415	2,694	2,263	716	403	1,686	(1,686)	8,491
Gross earned premium revenue – external	2,213	2,451	2,184	624	347	–	–	7,819
Gross earned premium revenue – internal	–	–	–	–	–	1,476	(1,476)	–
Outward reinsurance premium expense	(1,054)	(713)	(309)	(71)	(69)	(132)	1,476	(872)
Net earned premium	1,159	1,738	1,875	553	278	1,344	–	6,947
Net claims incurred	(727)	(1,067)	(1,100)	(541)	(138)	(805)	–	(4,378)
Net commission	(93)	(318)	(250)	(122)	(59)	(349)	–	(1,191)
Underwriting and other expenses	(374)	(277)	(280)	(91)	(58)	(54)	–	(1,134)
Underwriting result	(35)	76	245	(201)	23	136	–	244
Net investment income on policyholders' funds	28	35	103	65	3	52	–	286
Insurance (loss) profit	(7)	111	348	(136)	26	188	–	530
Net investment income on shareholders' funds	13	23	43	31	2	29	–	141
Financing and other costs	(70)	(24)	(41)	(6)	(1)	(8)	–	(150)
Share of net profits of associates	–	–	1	–	–	–	–	1
Amortisation/impairment of intangible assets	(16)	(6)	(1)	(9)	(3)	–	–	(35)
(Loss) profit before income tax	(80)	104	350	(120)	24	209	–	487
Income tax credit (expense)	12	(21)	(93)	29	(7)	(11)	–	(91)
(Loss) profit after income tax	(68)	83	257	(91)	17	198	–	396
Net profit attributable to non-controlling interests	–	(1)	(1)	–	(2)	–	–	(4)
Net (loss) profit after income tax	(68)	82	256	(91)	15	198	–	392

2013	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	LATIN AMERICAN OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	EQUATOR RE ELIMINATION US$M	TOTAL US$M
Total assets	13,448	18,659	13,061	1,990	1,746	7,584	(7,383)	49,105
Total liabilities	10,469	16,389	9,663	1,567	1,163	6,027	(7,383)	37,895
Net assets	2,979	2,270	3,398	423	583	1,557	–	11,210
Gross written premium	2,703	3,103	2,507	733	400	1,889	(1,889)	9,446
Gross earned premium revenue – external	2,536	2,480	2,392	694	311	–	–	8,413
Gross earned premium revenue – internal	–	–	–	–	–	1,533	(1,533)	–
Outward reinsurance premium expense	(1,250)	(749)	(315)	(72)	(67)	(160)	1,533	(1,080)
Net earned premium	1,286	1,731	2,077	622	244	1,373	–	7,333
Net claims incurred	(739)	(1,091)	(1,231)	(368)	(109)	(821)	–	(4,359)
Net commission	(85)	(323)	(314)	(133)	(52)	(395)	–	(1,302)
Underwriting and other expenses	(391)	(240)	(322)	(90)	(49)	(50)	–	(1,142)
Underwriting result	71	77	210	31	34	107	–	530
Net investment income on policyholders' funds	18	31	149	35	3	24	–	260
Insurance profit	89	108	359	66	37	131	–	790
Net investment income on shareholders' funds	8	21	69	17	2	17	–	134
Financing and other costs	(80)	(26)	(46)	(7)	(2)	(7)	–	(168)
Amortisation/impairment of intangible assets	(147)	(9)	(5)	(8)	(2)	–	–	(171)
(Loss) profit before income tax	(130)	94	377	68	35	141	–	585
Income tax credit (expense)	43	(3)	(96)	(27)	(9)	(10)	–	(102)
(Loss) profit after income tax	(87)	91	281	41	26	131	–	483
Profit after income tax attributable to non-controlling interests	–	–	(3)	–	(3)	–	–	(6)
Net (loss) profit after income tax	(87)	91	278	41	23	131	–	477

4. Income and expense

(A) Income summary

	2014 US$M	2013 US$M
Gross earned premium revenue		
Direct and facultative	**7,243**	7,821
Inward reinsurance	**576**	592
	7,819	8,413
Other revenue		
Reinsurance and other recoveries revenue	**501**	599
Reinsurance commission revenue	**71**	99
	8,391	9,111
Other income		
Dividends received or receivable	**22**	8
Interest received or receivable	**330**	346
Other investment income	**4**	2
Net fair value gains on financial assets	**91**	21
Net fair value gains on owner occupied properties	**2**	–
Realised gains on sale of controlled entities	**–**	12
Gain on repurchase of debt securities	**–**	2
Foreign exchange gains	**–**	35
Share of net profits of associates	**1**	–
	450	426
Income	**8,841**	9,537

4. Income and expense CONTINUED

(B) Expenses

	2014 US$M	2013 US$M
Outward reinsurance premium expenses	**872**	1,080
Gross claims incurred	**4,879**	4,958
Gross commission expense	**1,262**	1,401
Other acquisition costs	**542**	440
Underwriting and other expenses[1]	**592**	702
Net fair value losses on investment properties	**2**	–
Net fair value losses on sale of controlled entities	**2**	–
Net fair value losses on assets held for sale	**–**	6
Investment expenses	**18**	26
Financing and other costs	**150**	168
Amortisation of intangibles and impairment of goodwill/intangibles[2]	**35**	171
Expenses	**8,354**	8,952

1 Includes $67 million (2013 $86 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 nil (2013 $3 million).

5. Earnings per share

	2014 US CENTS	2013 US CENTS
Basic earnings per share	**31.3**	38.0
Diluted earnings per share	**30.5**	35.8

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

	2014 US$M	2013 US$M
Net profit after income tax attributable to ordinary equity holders of the company	**392**	477
Less: extraordinary dividend after income tax on convertible securities	**–**	(22)
Net profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	**392**	455
Add: finance costs of convertible securities	**8**	10
Earnings used in calculating diluted earnings per share	**400**	465

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

	2014 NUMBER OF SHARES MILLIONS	2013 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,254**	1,199
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(2)**	(3)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,252**	1,196
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**9**	3
Convertible securities	**49**	100
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,310**	1,299

6. Investments

	30 JUN 2014 US$M	31 DEC 2013 US$M
Fixed interest rate		
Short-term money	**8,130**	6,430
Government bonds	**4,680**	6,262
Corporate bonds	**3,712**	3,882
	16,522	16,574
Floating interest rate		
Short-term money	**106**	95
Government bonds	**1,086**	1,282
Corporate bonds	**10,364**	10,565
Infrastructure debt	**224**	160
Unit trusts	**91**	85
	11,871	12,187
Risk assets		
Equities – listed	**299**	260
Equities – unlisted	**29**	28
Emerging market debt	**194**	–
Emerging market equity	**237**	–
High yield debt	**181**	–
Property trusts – listed	**20**	5
Property trusts – unlisted	**684**	314
	1,644	607
Total investments	**30,037**	29,368
Amounts maturing within 12 months	**14,866**	14,272
Amounts maturing in greater than 12 months	**15,171**	15,096
Total investments	**30,037**	29,368

(A) Fair value hierarchy

The investments of the Group are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The fair value hierarchy is explained in note 10 to the financial statements for the year ended 31 December 2013.

	30 JUNE 2014				31 DECEMBER 2013			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Assets								
Short-term money	**1,260**	**6,976**	**–**	**8,236**	921	5,604	–	6,525
Government bonds	**2,593**	**3,165**	**8**	**5,766**	4,018	3,518	8	7,544
Corporate bonds	**–**	**14,006**	**70**	**14,076**	–	14,447	–	14,447
Infrastructure debt	**–**	**48**	**176**	**224**	–	–	160	160
Unit trusts	**–**	**91**	**–**	**91**	–	85	–	85
Equities – listed	**298**	**–**	**1**	**299**	259	–	1	260
Equities – unlisted	**–**	**–**	**29**	**29**	–	–	28	28
Emerging market debt	**–**	**194**	**–**	**194**	–	–	–	–
Emerging market equity	**–**	**237**	**–**	**237**	–	–	–	–
High yield debt	**–**	**181**	**–**	**181**	–	–	–	–
Property trusts – listed	**20**	**–**	**–**	**20**	5	–	–	5
Property trusts – unlisted	**–**	**684**	**–**	**684**	–	314	–	314
Total investments	**4,171**	**25,582**	**284**	**30,037**	5,203	23,968	197	29,368

The Group's policy is to recognise transfers into and out of the fair value hierarchy levels at the end of the reporting period. $70 million of government bonds were transferred from level 2 to level 1 due to the availability of quoted prices in active markets at 31 December 2013. There were no transfers between level 2 and level 1 in the half year to 30 June 2014.

6. Investments CONTINUED

(B) Valuation of investments

The Group's approach to measuring the fair value of investments is described below:

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Fixed and floating rate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1. The primary source of valuation data is obtained directly from external pricing vendors. Where an external vendor price is not available, the following alternative valuation sources may be used: broker quotes, comparable prices for similar instruments or pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques.

Listed equities

Listed equities traded in active markets are valued by reference to quoted bid prices.

Unlisted equities

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

Emerging market debt and equity, high yield debt and unlisted property trusts

These asset classes are valued using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

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

(C) Movements in level 3 investments

The following table presents the changes in level 3 instruments for the half year ended 30 June 2014:

LEVEL 3	2014 US$M	2013 US$M
At 1 January	**197**	172
Reclassification from (to) level 2[1]	**20**	(28)
Purchases	**65**	204
Disposals	**(3)**	(9)
Unrealised gains recognised in profit or loss[2]	**3**	-
Foreign exchange	**2**	(3)
At 30 June	**284**	336

1 During the half year ended 30 June 2014, $20 million of asset backed securities were transferred from level 2 to level 3 to reflect stale pricing at the balance date. During the half year ended 30 June 2013, $28 million of asset backed securities were transferred from level 3 to level 2 due to the availability of a more observable pricing source.

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

7. Derivative financial instruments

The Group's derivatives, comprising forward foreign exchange contracts, are classified as level 1 in the fair value hierarchy in the current period and the prior period. All derivative positions entered into by the Group are for economic hedging purposes and do not meet the criteria for hedge accounting.

8. Outstanding claims

	30 JUN 2014 US$M	31 DEC 2013 US$M
Gross discounted central estimate	**20,385**	20,104
Risk margin	**1,519**	1,565
Outstanding claims	**21,904**	21,669
Reinsurance and other recoveries on outstanding claims	**(3,257)**	(3,461)
Net outstanding claims provision	**18,647**	18,208
Analysed as follows:		
Net undiscounted central estimate	**19,044**	18,122
Discount to present value	**(1,916)**	(1,479)
Net discounted central estimate	**17,128**	16,643
Risk margin	**1,519**	1,565
Net outstanding claims provision	**18,647**	18,208
Gross undiscounted central estimate	**22,012**	21,308
Claims settlement costs	**426**	419
	22,438	21,727
Discount to present value	**(2,053)**	(1,623)
Gross discounted central estimate	**20,385**	20,104
Less than 12 months	**7,411**	7,420
Greater than 12 months	**12,974**	12,684
Gross discounted central estimate	**20,385**	20,104
Reinsurance and other recoveries on outstanding claims[1]	**3,394**	3,605
Discount to present value	**(137)**	(144)
Reinsurance and other recoveries on outstanding claims	**3,257**	3,461
Less than 12 months	**1,597**	1,619
Greater than 12 months	**1,660**	1,842
Reinsurance and other recoveries on outstanding claims	**3,257**	3,461

1 Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of $20 million (31 December 2013 $27 million).

(A) Risk margin

The risk margin included in net outstanding claims is 8.9% (31 December 2013 9.4%) of the net discounted central estimate. The reduction in risk margin reflects reduced uncertainty in the net discounted central estimate at 30 June 2014. The probability of adequacy at 30 June 2014 is 89.4% (31 December 2013 90.7%) which is well above APRA's 75% benchmark. Net profit after tax would have decreased by $70 million if the probability of adequacy was maintained at 90.7%.

(B) Prior accident year claims development

Net incurred claims includes prior accident year net central estimate development of $131 million (net of discount of $472 million in relation to long tail workers' compensation claims in Argentina and dust disease claims in Australia). This was primarily in our Latin American Operations ($169 million), and mainly in relation to Argentine workers' compensation business. A review of claims liabilities was undertaken in response to an observed increase in litigated workers' compensation claims following legislative changes in 2012 and 2013, and partially in response to recently deteriorating economic conditions in Argentina. Outside of Latin America, we experienced overall favourable net central estimate claims development of $38 million, with positive development in our European, Australian & New Zealand and Asia Pacific Operations, partially offset by modest adverse development in North American Operations, mainly due to industry-wide late 2013 claims notification on our crop portfolio.

9. Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	30 JUN 2014 US$M	31 DEC 2013 US$M
Bank loans			
25 July 2014	A$20 million	**19**	–
25 July 2014	A$65 million	**61**	–
25 July 2014	A$350 million	**330**	–
		410	–
Senior debt			
14 March 2014	Nil (2013 $175 million)	**–**	174
14 March 2014	Nil (2013 £184 million)	**–**	304
28 September 2015	£550 million	**940**	909
1 May 2018	$600 million	**597**	597
		1,537	1,984
Subordinated debt			
23 December 2038	$500 million	**489**	490
11 December 2039	$250 million	**–**	247
24 May 2041	$1,000 million	**997**	996
24 May 2041	£325 million	**555**	537
		2,041	2,270
Capital securities			
No fixed date	$302 million[1]	**302**	302
No fixed date	£9 million[2]	**16**	15
		318	317
Total borrowings		**4,306**	4,571

1 Between 2008 and 2012, $248 million of capital securities were repurchased by the Group for cash, at a discount. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the statement of comprehensive income. These securities, which are owned by controlled entities, have no fixed redemption date and may not be called for redemption or conversion by the investors. $550 million of capital securities (including the internally owned securities) may be redeemed by QBE on 1 June 2017 and certain specified dates thereafter.

2 Between 2008 and 2012, £291 million of capital securities were repurchased by the Group for cash, at a discount. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the statement of comprehensive income. These securities, which are owned by controlled entities, have no fixed redemption date and may not be called for redemption or conversion by the investors. £300 million of capital securities (including the internally owned securities) may be redeemed by QBE on 18 July 2016 and certain specified dates thereafter.

(A) Changes in borrowings

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

(i) Subordinated debt due 2039

On 11 June 2014, the Group converted $250 million of subordinated debt due 2039 to 24 million ordinary shares in the Company.

(ii) Senior debt

On 14 March 2014, the Group repaid $175 million and £184 million of senior debt from cash reserves.

(B) Fair value of borrowings

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

	30 JUN 2014 US$M	31 DEC 2013 US$M
Bank loans	**410**	–
Senior debt	**1,581**	2,035
Subordinated debt	**2,180**	2,327
Capital securities	**333**	312
Total borrowings	**4,504**	4,674

10. Share capital

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

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

11. Dividends

	2013		2012
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	12	20	10
Franking percentage	100%	100%	100%
Franked amount per share (Australian cents)	12	20	10
Dividend payout (A$M)	150	244	120
Payment date	31 Mar 2014	23 Sep 2013	28 Mar 2013

On 19 August 2014, the directors declared a 100% franked interim dividend of 15 Australian cents per share, payable on 23 September 2014. The interim dividend payout is A$192 million (2013 A$244 million). The record date is 29 August 2014.

	2014 US$M	2013 US$M
Final dividend paid on ordinary shares		
Franked	**139**	125
Unfranked	**–**	–
	139	125
Dividend reinvested under the Bonus Share Plan	**(2)**	(3)
Total dividend paid	**137**	122

12. Events occurring after the balance date

In August 2014, a controlled entity in our European Operations entered into a transaction whereby, in return for a reinsurance premium of approximately $390 million, it will benefit from a 100% ground-up reinsurance of its Italian and Spanish medical malpractice liabilities.

The impact of this transaction on the full year financial statements will be to reduce net earned premium by approximately $390 million, with a corresponding reduction in net incurred claims.

Directors' declaration

FOR THE HALF YEAR ENDED 30 JUNE 2014

In the directors' opinion:

(a) the financial statements and notes set out on pages 47 to 61 are in accordance with the *Corporations Act 2001*, including:

(i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the IASB and Australian Accounting Standards as issued by the AASB.

The directors have been given declarations by the Group Chief Executive Officer and Group Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in SYDNEY this 19th day of August 2014 in accordance with a resolution of the directors.

WM Becker
Director

JD Neal
Director

Independent auditor's review report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the half year financial report

We have reviewed the accompanying half year financial report of QBE Insurance Group Limited, which comprises the consolidated balance sheet as at 30 June 2014, 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 2014 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 2014 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

SJ Hadfield

SJ Hadfield
Partner

RJ Clark
Partner

Sydney
19 August 2014

Liability limited by a scheme approved under Professional Standards Legislation

Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2014

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2014	2013	2012	2011	2010	2013	2012	2011	2010	2009
Gross written premium	US$M	**8,491**	9,446	9,223	8,942	6,861	17,975	18,434	18,291	13,629	11,239
Gross earned premium	US$M	**7,819**	8,413	8,404	7,834	6,110	17,889	18,341	17,840	13,432	10,943
Net earned premium	US$M	**6,947**	7,333	7,359	6,778	5,240	15,396	15,798	15,359	11,362	9,446
Claims ratio	%	**63.1**	59.4	61.5	65.9	59.9	64.5	66.0	68.2	59.9	60.3
Commission ratio	%	**17.1**	17.8	16.8	15.8	15.3	16.8	16.2	14.9	15.5	16.2
Expense ratio	%	**16.3**	15.6	14.6	14.0	14.5	16.5	14.9	13.7	14.3	13.1
Combined operating ratio	%	**96.5**	92.8	92.9	95.7	89.7	97.8	97.1	96.8	89.7	89.6
Investment income											
before investment gains/losses	US$M	**336**	373	391	542	330	720	712	957	660	838
after investment gains/losses	US$M	**427**	394	683	657	116	801	1,216	776	659	1,159
Insurance profit	US$M	**530**	790	958	762	827	841	1,262	1,085	1,703	1,609
Insurance profit to net earned premium	%	**7.6**	10.8	13.0	11.2	15.8	5.5	8.0	7.1	15.0	17.0
Financing and other costs	US$M	**150**	168	166	114	108	345	324	275	222	191
Operating profit (loss)											
before income tax	US$M	**487**	585	914	776	528	(448)	941	868	1,551	1,891
after income tax and non-controlling interest	US$M	**392**	477	760	673	440	(254)	761	704	1,278	1,532
Number of shares on issue[1]	millions	**1,276**	1,218	1,178	1,089	1,031	1,247	1,194	1,112	1,048	1,020
Shareholders' funds	US$M	**11,228**	11,163	11,546	11,209	8,921	10,356	11,358	10,386	10,311	9,164
Total assets	US$M	**48,990**	49,105	48,852	47,781	37,128	47,271	50,748	46,737	41,386	36,723
Net tangible assets per share[1]	US$	**5.29**	4.59	4.56	4.60	4.48	4.75	4.49	3.93	4.78	4.64
Borrowings to shareholders' funds	%	**38.4**	42.7	37.1	43.3	38.9	44.1	43.4	45.8	31.5	29.1
Basic earnings per share[1]	US cents	**31.3**	38.0	67.7	63.1	42.9	(22.8)	65.1	64.9	123.7	152.8
Basic earnings per share - cash basis[2]	US cents	**33.2**	49.3	75.2	66.8	44.6	62.9	89.1	73.0	127.7	156.4
Diluted earnings per share	US cents	**30.5**	35.8	63.1	59.9	42.2	(22.8)	61.6	61.3	119.6	149.9
Return on average shareholders' funds	%	**7.3**	8.5	13.9	12.5	9.7	(2.3)	7.0	6.8	13.1	18.0
Dividend per share	Australian cents	**15**	20	40	62	62	32	50	87	128	128
Dividend payout	A$M	**192**	244	473	677	642	394	593	956	1,336	1,306
Cash flow from operations	US$M	**168**	650	842	1,121	698	850	2,753	2,139	1,362	1,344
Total investment and cash[3]	US$M	**31,359**	29,955	28,851	28,966	22,272	30,619	31,525	28,024	25,328	22,448

1 Reflects shares on an accounting basis.

2 Earnings per share on a cash basis is calculated with reference to profit after tax adjusted for amortisation/impairment of intangible assets net of tax.

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

Glossary of insurance terms

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium. The operating expenses are after the transfer of direct costs for claims settlement expenses which are included in net incurred claims expense.
Attritional claims ratio	Total of all claims with a net cost of less than $2.5 million as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.

Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium (GEP)	The proportion of gross written premium recognised in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	See Reinsurance.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of $2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Lender-placed insurance (LPI)	Coverage obtained by the lender when the customer's voluntary home building insurance has lapsed, been cancelled or proof of the customer's insurance has not been received. Coverage is required by the mortgage contract to protect the lender's interest in the property if damage was to occur and the customer had not maintained adequate coverage.
Letters of credit (LoC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.

Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Maximum event retention (MER)	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
Multi-peril crop scheme	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium for a year.
Net investment income	Gross investment income net of foreign exchange gains and losses and investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners insurance.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudential Capital Requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.

Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
Short tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.
Surplus (or excess) lines insurers	In contrast to "admitted insurers", every US state also allows non-admitted (or "surplus" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
VWAP	Volume weighted average price.
Written premium	Premiums written, whether or not earned, during a given period.

Designed and produced by ArmstrongQ

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