QBE Insurance Group

Annual Report December 2010

Celebrating 125 years of innovation, evolution and growth.

QBE is one of the top 25 insurers and reinsurers worldwide as measured by net earned premium. Operating in 49 countries with our head office in Sydney, Australia, we underwrite most commercial and personal lines of insurance business.

Since our beginnings in North Queensland, Australia in 1886, we have been a pioneer in insurance, demonstrating innovation, evolution and growth through changing times. As we approach our 125th year of operations, our entrepreneurial spirit and culture of striving for excellence are as strong as ever. This has been recognised in the many awards we have won for our range of specialist insurance products, robust risk management framework and new service platforms for intermediaries and partners.

Many of the things we take for granted today are the result of humankind's ingenuity and spirit. Our 2010 annual report explores the background to some of these remarkable and ground-breaking developments throughout history and provides details of related areas in which QBE has achieved recognition for its innovative approach across its insurance operations.

Cover image: Container ship leaving port at sunset.

CARGO TRANSPORTATION

The Industrial Revolution in the late 19th century heralded huge advances in cargo transportation. This included the containerisation of goods and the expansion of road, rail and shipping networks around the world, enabling the carriage of freight over immense distances.

KEY MILESTONES

- **1804: Compound steam engine**
  The compound steam engine was invented by Arthur Woolf and adapted by John Elder for marine use in 1854. Compound marine engines vastly improved the speed, safety and profitability of transcontinental shipping.
- **1855: Bessemer steel**
  Bessemer pioneered the inexpensive mass production of steel from molten pig iron. The Bessemer process enabled easier working of the metal mass and produced a significantly purer, stronger and lighter material.
- **1857: First steel railway**
  Mushet was the first to make durable rails of steel rather than cast iron. This provided the basis for the expansion of rail transportation networks around the world.
- **1955: Intermodal shipping container**
  McLean, a US trucking fleet owner, developed the intermodal container which set the standard for international containerisation. The strong, secure box made of corrugated steel could be lifted easily and stacked by cranes reducing loading costs by more than 90%.

Founded in 1886 to provide insurance for shipping and trading risks, QBE's business quickly expanded. Within four years, more than 36 agencies had been established throughout the Asia Pacific region and in London. 125 years on, QBE is recognised as a worldwide market leader across a diverse range of commercial lines insurance.

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2010 in review

GROSS WRITTEN PREMIUM

Year	US$M
2010	13,629
2009	11,239
2008	11,015
2007	10,391
2006	7,839

US$**13,629** million, up **21**%

NET EARNED PREMIUM

Year	US$M
2010	11,362
2009	9,446
2008	9,293
2007	8,552
2006	6,166

US$**11,362** million, up **20**%

UNDERWRITING PROFIT

Year	US$M
2010	1,168
2009	981
2008	1,069
2007	1,204
2006	907

US$**1,168** million, up **19**%

NET PROFIT AFTER INCOME TAX

Year	US$M
2010	1,278
2009	1,532
2008	1,558
2007	1,612
2006	1,121

US$**1,278** million, down **17**%

DIVIDEND PER SHARE

Year	Interim	Final
2010	62	66
2009	62	66
2008	61	65
2007	57	65
2006	40	55

128 Australian cents, unchanged

SHAREHOLDERS' FUNDS

Year	US$M
2010	10,311
2009	9,164
2008	7,834
2007	7,435
2006	4,962

US$**10,311** million, up **13**%

GROUP OPERATING PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	% CHANGE
Gross written premium	US$M	**13,629**	11,239	21
Net earned premium	US$M	**11,362**	9,446	20
Underwriting profit	US$M	**1,168**	981	19
Combined operating ratio	%	**89.7**	89.6	
Insurance profit	US$M	**1,703**	1,609	6
Insurance profit to net earned premium	%	**15.0**	17.0	
Investment income (including foreign exchange gains)	US$M	**659**	1,159	(43)
Net profit after income tax	US$M	**1,278**	1,532	(17)

Chairman's report

QBE's underwriting profit was up 19% to US$1,168 million from US$981 million last year. This was a very positive result given the difficult global economic conditions and the higher than normal frequency of catastrophe claims suffered by both QBE and the insurance industry generally in 2010.

2010 RESULTS

Net profit after income tax of US$1,278 million, down from US$1,532 million last year, reflected the lower investment yields on policyholders' and shareholders' funds, reduced foreign exchange and other gains and an unusually high number of catastrophic events in the countries where QBE conducts its business.

SHAREHOLDERS' HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER		2010	2009
Underwriting profit	US$M	**1,168**	981
Net profit after income tax	US$M	**1,278**	1,532
Basic earnings per share[1]	US cents	**123.2**	152.1
Diluted earnings per share	US cents	**119.6**	149.9
Dividend payout	A$M	**1,336**	1,306
Dividend per share[1]	Australian cents	**128.0**	128.0
Net tangible assets per share[1]	US$	**4.76**	4.63
Cash flow from operations	US$M	**1,362**	1,344
Total investments and cash[2]	US$M	**25,304**	22,448
Total assets	US$M	**42,188**	36,723
Shareholders' funds	US$M	**10,311**	9,164
Return on average shareholders' funds	%	**13.1**	18.0
Borrowings to shareholders' funds	%	**31.5**	29.1
Capital adequacy multiple[3]		**1.6**	1.6

(1) Reflects shares notified to the Australian Securities Exchange. Refer to note 26(A) to the financial statements.

(2) Includes financial assets, cash and investment properties.

(3) The multiple at 31 December 2010 reflects the underwriting of the 2010 final dividend. Excluding this, the multiple would have been 1.5 times APRA's minimum capital requirement.

US$1,168M

Up **19**% from last year

NET PROFIT AFTER INCOME TAX

US$1,278M

Down **17**% from last year

DIVIDEND PER SHARE

128 Australian cents

Unchanged from last year

2010 was a challenging year for the entire insurance industry due to soft pricing conditions in most sectors, an increased frequency of weather-related and earthquake claims and continued low yields on cash and fixed interest investments. QBE's diversified global portfolios, strict underwriting discipline and focus on profitability enabled the Group to again produce a solid underwriting result. QBE's combined operating ratio was 89.7%, outperforming the great majority of QBE's competitors.

Notwithstanding the strong underwriting performance, the difficult investment markets, particularly the lower interest rates and volatility in credit spreads, affected investment income on our policyholders' funds and was the main reason for a lower insurance margin compared with last year.

QBE holds US$17.1 billion in cash and fixed interest securities to support its obligations to policyholders. Due to our significant operations in the US, the UK and Europe and our consequential large exposure to the US dollar, sterling and euro securities, the gross yield on assets backing our policyholders' funds reduced from 4.5% last year to 3.4% this year. Local regulatory requirements oblige us to maintain a large proportion of our investments in local currencies. To mitigate foreign exchange risk we hold assets in currencies matching our liabilities. The gross investment yield on assets backing our shareholders' funds was 1.9% compared with 4.4% last year, with the reduced yield mainly due to our lower equity returns.

During the year, despite continued market turmoil and credit concerns, particularly in European markets, it was pleasing that QBE's low risk investment strategy again resulted in no permanent write-offs in our cash and fixed interest portfolio.

Due to the lower net profit after income tax, diluted earnings per share fell 20% to US$1.20 per share in 2010 from US$1.50 per share in the previous year.

QBE continued to outperform most of its competitors. QBE's five year average return on shareholders' funds of 19.6% outperformed the majority of the top 50 global insurers and reinsurers (as measured by net earned premium). For the same five years, gross written premium and underwriting profit grew by a compound annual average 14%, clearly demonstrating the success of QBE's strategy of growth by acquisition.

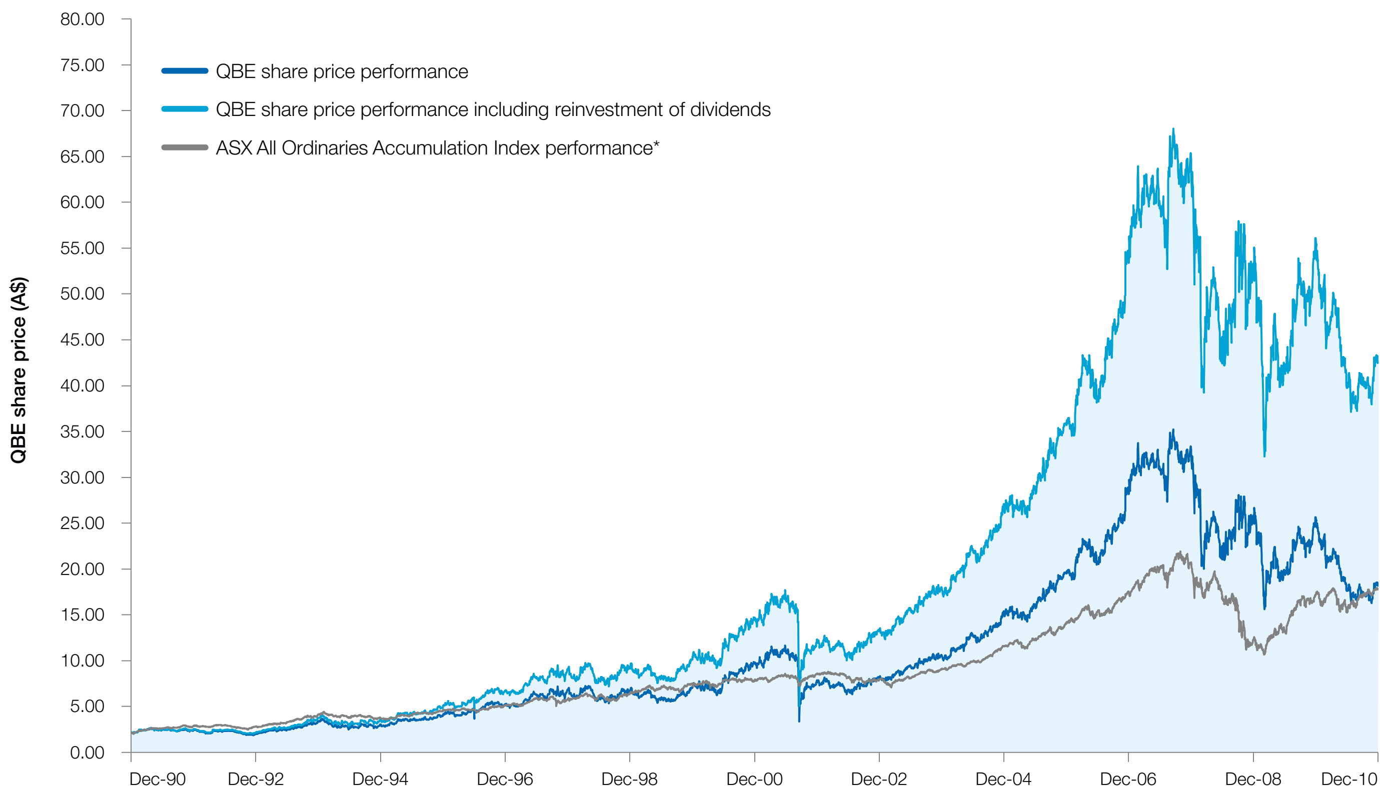
DIVIDEND MAINTAINED

In recognition of the sound underlying performance of the Group and as a sign of our confidence in the future, the directors have declared a final dividend of 66.0 Australian cents per share, unchanged from 66.0 Australian cents last year. The final dividend will be franked at a rate of 10%.

The total dividend for the year is 128.0 Australian cents per share consistent with last year. The total dividend payout is A$1,336 million, up 2% from A$1,306 million last year. The number of shares issued to the Australian Securities Exchange (ASX) increased by 27 million to 1,052 million, mainly as a result of the dividend reinvestment plans which continue to receive strong support.

Chairman's report continued

QBE HISTORICAL SHARE PRICE AND TOTAL RETURN PERFORMANCE – LAST 20 YEARS



* All Ordinaries Accumulation Index includes the reinvestment of dividends.

QBE SHARE PRICE PERFORMANCE

Despite our continued strong growth in underwriting profit, it has been a disappointing year in terms of QBE's share price performance. The company's share price underperformed the market. Including reinvestment of dividends, QBE shares recorded a decrease in value for the year of 24.3% compared with the Australian All Ordinaries Accumulation Index which recorded an increase in 2010 of 3.3%. Over the longer term, QBE shares have outperformed the index with a compound annual average growth rate of 11.2% over 10 years and 16.1% over 20 years compared with 8.7% and 11.2% respectively for the index.

CHANGE OF PRESENTATION CURRENCY

The past two years have seen significant volatility in foreign exchange markets, particularly with the movement of the Australian dollar against the US dollar, sterling and other major currencies. With over 70% of the Group's premium written in currencies other than the Australian dollar, the impact of this volatility was to distort the results when reported in Australian dollars and to reduce the transparency of the Group's financial performance. In 2010, the board decided to change to a US dollar presentation currency. This change has enabled QBE to achieve greater clarity and consistency of information provided to the market and we have seen market commentary return to a focus on the fundamentals of the business rather than the distracting impacts of currency movements.

It is important to note that the parent company's functional currency and our dividends remain denominated in Australian dollars and that QBE's shares remain listed in Australia. We continue to manage our operational foreign currency exposures in each territory by matching liabilities with assets in the same currency. Currently, we do not use derivatives to hedge our currency exposure in relation to our investment in foreign operations. In accordance with Australian accounting standards, the impact of foreign exchange movements on the translation of the significant investment in our foreign operations is reflected in the Group's balance sheet through the foreign currency translation reserve (FCTR).

ACQUISITIONS AND GROWTH

QBE is well known for its successful and disciplined long-term strategy of growth by acquisition. The Group's executive constantly reviews the market for opportunities to expand and diversify the business within strict parameters around financial returns. In particular, potential acquisitions must be earnings per share accretive in year one. The skills required for the negotiation of deals, due diligence and the efficient completion and integration of acquisitions are core competencies and are embedded within each business unit with appropriate supervision from Group head office. QBE's diligent approach of incrementally adding to the business is expected to continue to generate rewards in the future as stability returns to the insurance markets.

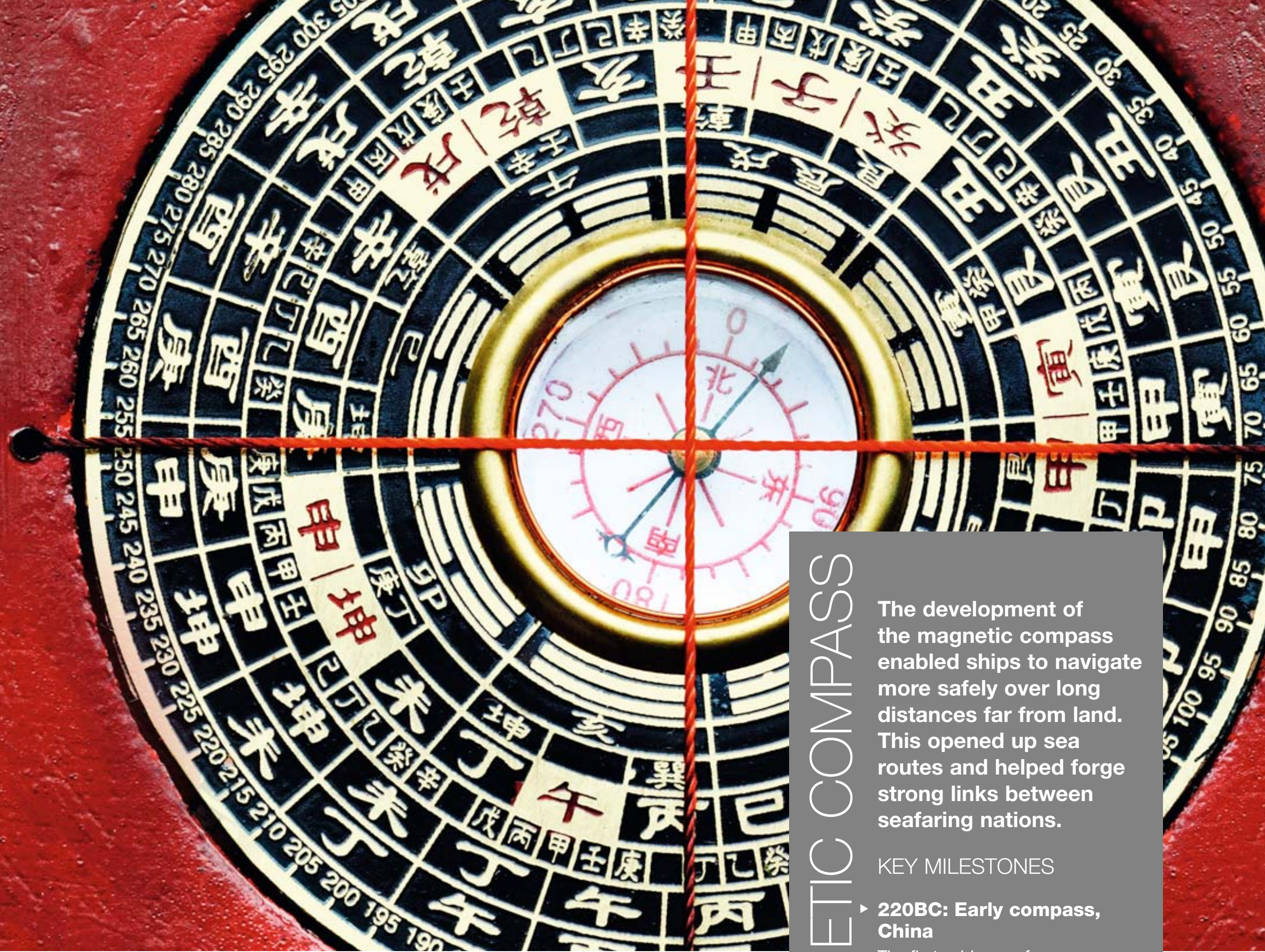


Image: Ancient compass.

In a year of sluggish insurance markets, it is commendable that the QBE team has maintained a forward momentum in growing the business. During 2010, QBE negotiated seven acquisitions in North America, Latin America and Europe adding US$1,825 million of annualised gross written premium and creating further diversity and scale to the Group's operations. The total cost of these acquisitions will be around US$1.4 billion, funded mainly from existing resources and additional borrowings with some assistance from the dividend reinvestment plans. Since year end, QBE has announced the acquisition of the Australian operations of CUNA Mutual, together with a long-term distribution agreement with Bank of America and the assumption of the insurance liabilities of the Balboa Insurance Company and its affiliates in the US. These initiatives will assist growth and profitability in 2011 and beyond. Further details are included in the chief executive officer's report.

LOWER AVERAGE COST OF BORROWINGS

In May 2010, the company issued 20 year zero coupon convertible securities raising US$850 million. These funds were used to repay £310 million from a previous convertible securities issue in 2007 and for general corporate funding. In June, QBE issued US$500 million of lower Tier 2 subordinated debt securities with the proceeds being used principally to pay for the redemption of the Eurobonds in August 2010.

The refinancing provided additional funds to support our growth whilst reducing our borrowing costs. The weighted average cost of our total borrowings at 31 December 2010 reduced to 5.3% compared with 6.8% at 31 December 2009. The ratio of borrowings to shareholders' funds was 31.5% compared with 29.1% last year, providing QBE with ample capacity to issue further debt to fund growth as opportunities present themselves. The Group has a policy that borrowings should not exceed 50% of shareholders' funds. The Group's strategy is to take advantage of the current lower interest rates on offer in the global markets and lock in lower cost, longer-term debt.

MAGNETIC COMPASS

The development of the magnetic compass enabled ships to navigate more safely over long distances far from land. This opened up sea routes and helped forge strong links between seafaring nations.

KEY MILESTONES

- **220BC: Early compass, China**
  The first evidence of a 'south-pointer' dates from the Qin dynasty.
- **1100s: Magnetised needle compass – Asia, Europe and Middle East**
  By the 11th century, ships were navigating using magnetised needles.
- **1300: Dry mariner's compass, Europe**
  A freely pivoting magnetised needle was suspended over a compass card in a form that we would recognise as a compass.
- **1690 onwards: Liquid compass, England**
  The liquid dampened excessive needle swing while a gimlet mounting overcame the pitching and rolling of the ship.

QBE's strong links to the shipping industry go right back to our earliest days when our founding company, Burns Philp, established shipping links throughout Asia Pacific, the Middle East, Europe and the Americas. This maritime network provided the foundation for a steady expansion into the insurance of shipping and merchant activities throughout the world. By 1892, QBE had established over 26 insurance branches in many key global shipping ports.

The funding of the Bank of America distribution agreement will be assisted by new short-term bank facilities which will be replaced in due course by Tier 2 debt securities acceptable to regulatory and ratings agencies. Capital adequacy will be maintained by reinvestment of the 2010 final dividend through the dividend reinvestment plans, a dividend underwriting arrangement and expected profits in 2011.

REGULATORY AND RATING AGENCY DEVELOPMENTS AND RISK MANAGEMENT

2010 has seen extensive activity by global regulators to assess risk management practices and the capital adequacy of financial institutions around the world. There are major legislative changes underway in Europe affecting insurers such as Solvency II and changes to international financial reporting standards. Whilst QBE is well prepared for these changes, some of our competitors in Europe and parts of the Americas will be required to make significant changes to their capital structures and risk profiles in order to meet more stringent minimum risk and capital criteria.

Our regulatory capital and solvency levels are considered stable and strong for our various regulated insurance entities around the world and the consolidated Group at 31 December 2010. QBE calculates its minimum capital requirement using the Australian Prudential Regulation Authority's (APRA's) risk-based capital approach for Australian insurance groups. On this basis, the Group capital adequacy multiple at 31 December 2010, after allowing for reinvestment and underwriting of the final dividend, was around 1.6 times or $2.7 billion in excess of the minimum capital requirement of $4.3 billion. The QBE board considers the excess to be healthy given the low debt levels and the Group's proven ability to raise funds.

The directors continue to ensure that the financial strength of all of QBE's operating entities is maintained at levels adequate to meet the requirements of our policyholders, business counterparties, regulatory authorities and rating agencies. The financial strength rating for our major insurance entities has been confirmed by Standard & Poor's at A+ or equivalent with an A credit rating for the parent company.

QBE Group's geographic and product diversity, scale of operations, financial flexibility and level of capital at entity and Group level are expected to provide us with a competitive advantage in a changing environment.

OUR PEOPLE STRATEGY

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

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

GLOBAL WORKFORCE DIVERSITY

The board has established a global workforce diversity policy in early adoption of the amendments to the ASX Corporate Governance Council's recommendations. The policy outlines guiding principles for management practices throughout the organisation with the aim of progressing a balanced representation of women in senior leadership roles. Details of the policy are set out in the statement of corporate governance on page 55.

EXECUTIVE REMUNERATION

QBE's remuneration and reward frameworks were revised at the end of 2009 to align with global best practice, APRA guidelines on executive remuneration and to maintain an appropriate balance between risk and reward.

The guiding principles that the board adopts are based on a transparent, simple and easy to understand performance and reward strategy; performance-based targets linking individual outcomes to the achievement of financial targets, objectives and business strategies; and the alignment of reward to shareholder interests through the achievement of short-term and long-term financial targets based on risk adjusted return on equity, insurance profit and investment performance.

Details of remuneration for key executives and the directors are set out in the remuneration report on pages 64 to 88 of the annual report.

OUTLOOK FOR 2011

We are optimistic about our future prospects. Our outlook is positive with expected net earned premium growth of 22% to 25% in 2011 from acquisitions already announced and an expectation that insurance profit will grow by at least a similar percentage. We expect continuing low yields, albeit slightly improving, on fixed interest and cash investments, and general market uncertainty from time to time as economies emerge from the difficulties of recent years. QBE is poised to take advantage of opportunities as they may arise from these conditions and we are confident about our capacity to manage the business through this cycle.

The Group's targets for 2011 are set out on page 25. The achievement of these targets is subject to no material movement in budgeted foreign exchange rates; large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans; and stable debt and equity markets. Our targets are based on our proven strategy for growth through acquisition and product and geographic diversification. This strategy has been successful over many years and has consistently added to the wealth of QBE shareholders. Management has in place an efficient and effective business planning process, clearly focused on minimising risk relating to our insurance and investment operations and designed to protect the interests of all our stakeholders.

Our prospects for the future have been, and will continue to be, influenced by changes in global economic and environmental conditions. Your directors and management will maintain a careful watch on markets and matters affecting our industry and we will adjust our strategies and plans as appropriate.

Image: Nautilus shell.

CONCLUSION

Since I assumed the role of chairman in July 2010, it has been my focus to maintain and build upon the strong working relationship between QBE management and the board. I acknowledge the significant contribution and support of each of my fellow directors to the development and supervision of the Group during the year. I particularly acknowledge the enormous contribution of our previous chairman, John Cloney, who retired on 4 July 2010. John was chief executive officer from 1981 to the end of 1997 and chairman from 1998 to 2010.

On behalf of the board, I acknowledge the significant achievements and hard work of all staff around the world. In particular, I congratulate the chief executive officer, Frank O'Halloran, and his management team. It is a tribute to the diligence and strong leadership of QBE's management team that it has been able to maintain a strong balance sheet, excellent underwriting profitability and grow the business despite another year of tough economic conditions. The board recognises the dedication of the QBE staff and their commitment to customer service and upholding the values associated with the unique QBE culture, which have been such an important part of the company's history, growth and success over many years.

I would also like to acknowledge the suffering and hardship of our policyholders resulting from the weather and earthquake related catastrophes in the past 12 months. QBE has sought to do its part in the face of these disasters and, on behalf of the board, I want to recognise the hard work and dedication of our claims teams, particularly in Australia and New Zealand. They have excelled in responding to the numerous claims from our policyholders following the Melbourne storm, Perth storm, Christchurch earthquake, Queensland floods and cyclone and other catastrophes.

Belinda Hutchinson AM
Chairman

MATHEMATICAL MODELLING

The chambers of a nautilus shell increase in size according to a ratio closely related to the Fibonacci series. In recent times, such mathematical sequences have been applied to modelling many natural and man-made systems.

KEY MILESTONES

- **200BC: Early development by Pingala**
  Pingala was the first of a number of Indian mathematicians to work on the Fibonacci number series.
- **1202: Publication of Liber Abaci by Fibonacci**
  Fibonacci's book introduced the number series later named after him and popularised the use of Hindu-Arabic numerals in Europe.
- **1713: Bernoulli's theorem by Jacob Bernoulli**
  Bernoulli's theorem of 'the law of large numbers' forms the basis of modern probability theory and statistical analysis.
- **1975: Fractal geometry by Benoit Mandelbrot**
  Mandelbrot, 'the father of fractal geometry', coined the term fractals and went on to apply fractals to many areas including economics and the financial markets.

Mathematical modelling is fundamental to managing an insurance business. QBE has developed very effective risk assessment methodologies and realistic disaster scenarios for its catastrophe loss models and assessment tools. QBE is also recognised for the development of a market leading economic capital model, now an essential component of any successful insurer's business model.

Celebrating 125 years

In October 2011, QBE will celebrate its 125th anniversary. We have come a long way from our modest beginnings as a one-man business in Queensland, Australia in 1886. With operations in 49 countries and over 14,000 employees, QBE is now one of the top 25 global insurers and reinsurers by net earned premium and an acknowledged leader in the commercial insurance market.

In early 1883, James Burns and Robert Philp were business partners in the shipping company Burns Philp & Co when Burns suggested that they bear part of the underwriting risks involved in the insurance of their own fleet. The North Queensland Insurance Company Ltd thus began business in 1886, employing just one person.

The company's entrepreneurial spirit soon became evident when it capitalised on an industry-wide economic slump in 1889 to diversify. During this period, the company expanded from marine risks into the fire insurance market, whilst the number of domestic fire and marine insurers halved in size. Similarly, during World War I, Queensland Insurance continued to prosper, expanding into Thailand, Vietnam and Malaysia.

The Black Tuesday stock market crash in October 1929 brought about the most widespread economic depression of the 20th century. Through sound business practices, Queensland Insurance was able to weather the storm. Prescient to the recent global financial crisis, an article in a business magazine of the 1930s featured a quote from James Burns saying "while it is easy to tell a boom after it has broken, it is not easy to tell one while it is still sound." The company's business acumen was later acknowledged by this magazine when they wrote that, despite the economic climate, "Queensland Insurance policyholders can sleep soundly; they are not only very well protected, but can get prompt assurance on the point if ever a doubt should assail them… the company's financials rank high among the investment securities in the market."

In 1973, QBE was formed through the merger of Queensland Insurance, Bankers & Traders and Equitable Life. The *Australian Financial Review* reported this at the time as "one of the largest mergers in Australian corporate history". The merger enabled greater efficiencies, economies of scale and the implementation of centralised operating procedures. It also led to the development of the current logo. Unveiled in 1980, the new logo was made up of three links coordinated sharply and clearly with the company name. The triangle is a traditional symbol for strength and unity. The solidity of the chain shows that there is no weak link, the chain is equally strong and self-supportive in every direction.

In 1995, the QBE manager program was launched under the acronym of OPENUPQBE, representing the nine essential behaviours that continue to be the foundation supporting the unique QBE culture. Opportunities for networking, the importance of succession planning and early identification and development of leaders were highlighted as 'musts' to foster the continuing growth of QBE. This commitment to strong leadership and a culture focused on high

performance with integrity enabled the company to grow and maintain its credibility and financial strength through some of the most extreme circumstances impacting the insurance industry and global economy.

QBE Group's strategy of diversification by product and geographical exposure has been fundamental to managing its insurance and reinsurance risks and has been a vital ingredient in its success. The growth of QBE's Australian operations accelerated significantly with the 1992 purchase of Australian Eagle Insurance which doubled the company's gross written premium and added 20% to its bottom line. Also transformational to Australian operations were the 1999 QBE Mercantile Mutual joint venture and the 2004 acquisition of ING Australia's 50% share of the general insurance joint venture.

Whilst having a long established footprint in the London market, QBE's purchase of Iron Trades in 1999 was a pivotal entry into the London company market and this was followed in 2000 with the purchase of Limit plc enabling access to Lloyd's of London. QBE's European operations now span 16 countries across Europe and QBE is in the top five managers and providers of capacity at Lloyd's.

The most significant expansion of QBE the Americas' operations came with the 2007 acquisitions of the Winterthur and Praetorian entities, which doubled the size of QBE's North American operations. QBE's Agri business commenced with the acquisition of National Farmers Union in 2005 and has grown steadily since then. The 2010 acquisitions of NAU Country and Renaissance Re's agricultural business have established QBE as the third largest multi-peril crop insurer in the US. Latin America has also contributed to diversity and profitability of the Americas' operations with acquisitions in Argentina, Brazil, Colombia, Mexico and Ecuador over the last decade.

QBE has proven time and again that business is not just about the bottom line. Our claims staff are on the front line in any catastrophe, be it a natural or man-made disaster, and QBE has demonstrated strong catastrophe planning and disaster response efforts. To many, this is the public face of QBE.

QBE's clear strategic focus and strong and consistent track record of market leading financial performance stands it in good stead to deliver quality results for its shareholders, policyholders and its people in the years to come.

KEY MILESTONES

1886 NQI formed by James Burns & Robert Philp

The North Queensland Insurance Company is formed by shipping partners, James Burns & Robert Philp.

1973 QBE formed and listed on ASX

QBE is listed on the Australian Securities Exchange and QBE is formed by the merger of Queensland Insurance, Bankers & Traders and Equitable Life.

1980 QBE unveils new logo

QBE unveils its new logo, three chain links melded to a triangular shape representing the traditional symbol for strength and unity.

1991 QBE unwinds cross-shareholding

QBE Group unwinds cross-shareholding with Burns Philp & Co Limited after a 105 year relationship.

1995 QBE manager program launched

QBE manager program launched. First use of the term OPENUPQBE and the nine essential behaviours.

2000 QBE purchases Limit plc

QBE purchases Limit plc, enabling major expansion into the Lloyd's market.

2007 QBE acquires Winterthur and Praetorian

These acquisitions doubled the size of QBE's North American operations.

2011 QBE celebrates 125 year anniversary

In October, QBE will celebrate 125 years since incorporation.

Chief executive officer's report

QBE's diversified insurance portfolios in 49 countries around the world have again produced a solid underwriting result with underwriting profit up 19% to US$1,168 million and insurance profit up 6% to US$1,703 million despite a year of increased frequency of catastrophe claims and continuing lower investment yields.

For the sixth year in succession, QBE has been able to report a combined operating ratio of less than 90% and at the same time grow net earned premium by a compound annual average 15%. Our insurance divisions in Australia, Asia Pacific, Europe, the US, Latin America and Bermuda all produced a return on equity (ROE) above our minimum target of 15%. Refer to ROE definition on page 85. This is a commendable achievement when compared with our global competitors and given current market conditions and the frequency of catastrophe claims. For 2010, QBE's ratio of insurance profit to net earned premium was 15.0% compared with our target range of 16.0% to 18.0%. This lower margin was due to an increase in the frequency of catastrophe claims, particularly in the second half of the year, and a less than anticipated gross investment yield on policyholders' funds of 3.4% compared with 4.5% in 2009.

SUMMARY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	2010 US$M	2009 US$M
Gross written premium	**13,629**	11,239
Gross earned premium	**13,432**	10,943
Net earned premium	**11,362**	9,446
Net claims incurred	**(6,807)**	(5,698)
Net commission	**(1,759)**	(1,533)
Underwriting and other expenses	**(1,628)**	(1,234)
Underwriting profit	**1,168**	981
Investment income on policyholders' funds	**535**	628
Insurance profit	**1,703**	1,609
Investment income on shareholders' funds	**124**	531
Share of net profits of associates	**5**	(6)
Financing and other costs	**(222)**	(191)
Amortisation of intangibles	**(59)**	(52)
Profit before income tax	**1,551**	1,891
Income tax expense	**(257)**	(348)
Profit after income tax	**1,294**	1,543
Non-controlling interests	**(16)**	(11)
Net profit after income tax and non-controlling interests	**1,278**	1,532

GROSS WRITTEN PREMIUM

US$13,629M

Up **21**% from last year

UNDERWRITING PROFIT

US$1,168M

Up **19**% from last year

INSURANCE PROFIT

US$1,703M

Up **6**% from last year

Our gross written premium growth of 21% was ahead of our original target of 18%, reflecting a positive outcome from our strategy of growth by acquisition during a period of difficult economic conditions.

Net profit after income tax grew strongly in the second half of the year, mainly as a result of improved equity and fixed interest performance and growth from acquisitions. Full year net profit was down 17% to US$1,278 million. The result included a number of significant items that affected reported profit when compared with last year. Details are set out in the table below.

SIGNIFICANT ITEMS IN PROFIT BEFORE TAX

FOR THE YEAR ENDED 31 DECEMBER	US$M 2010	US$M 2009
Realised/unrealised equity (losses) gains	**(48)**	78
Lower cash and fixed interest yields (1.3% on US$25 billion)	**(325)**	–
Increased cost of large individual risk and catastrophe claims	**(381)**	–
Savings on prior year central estimates	**49**	61
Global financial crisis credit related claims	**–**	(112)
Operational FX gains	**141**	96
FX gains on cessation of capital hedging	**–**	191
Profit on repurchase of QBE debt securities	**–**	54

During the year, we achieved an overall increase of 2.5% in premium rates which was above market averages. Competition remains strong in all markets with reduced premium pools and lower average sums insured, particularly in the US and Europe.

The overall weighted average yield on sovereign bonds which are used as a proxy for risk-free rates in determining the discount of our outstanding claims had a slight negative impact on profit. The probability of adequacy for our total insurance liabilities (i.e. outstanding claims and unearned premium) was 95.5%, unchanged from 95.5% at the end of 2009.

Cash flow from our operations was US$1,362 million compared with US$1,344 million in 2009. Our cash flow was impacted by higher payments for catastrophe claims and increased operating expenses.

The income tax expense reduced from 18% in 2009 to 17% of profit before tax due to increased profits in lower tax paying countries, reduced tax rates in some countries and one-off benefits from the resolution of prior year tax matters.

MARKET CONDITIONS

The global insurance markets continue to be influenced by the difficult economic conditions with increased competition for new business in the key markets. Overall soft market conditions prevail mainly on larger accounts and property products. QBE's retention ratio on renewed business remains high with terms and conditions generally holding for the majority of our products. Our business benefited from rate increases in those products that were impacted by significant claims events. Property and homeowners insurance pricing needs adjustment to cover the increased frequency of weather-related and other catastrophe claims. We will reduce our exposures if required prices are not achievable.

ACQUISITIONS

During the year, in line with our strategy of growth through acquisitions, we successfully negotiated seven acquisitions which are expected to produce over US$1,825 million of new gross written premium in a full year. Details are set out in the following table.

ACQUISITION	BUSINESS	FULL YEAR GWP US$M	COMPLETION DATE
CNA Argentina	Worker's compensation insurer	135	4 June 2010
NAU Country Insurance (NAU Country)	US multi-peril crop insurer	900	1 July 2010
Colonial Compania de Seguros	Largest non-life insurer in Ecuador	65	27 July 2010
RGM Agency	Colombian and Ecuadorian motor and personal accident insurance agency	25	4 August 2010
Seattle Specialty	US lender placed homeowners insurance agency	50	1 September 2010
Secura NV	Belgium based specialist reinsurer	250	2 November 2010
Renaissance Re (US)	US multi-peril crop insurance	400	1 March 2011 (expected)
Total		**1,825**	

These acquisitions have enabled QBE to further build our worldwide business and improve our product diversification and geographic spread. We have maintained our discipline on price to ensure that the acquisitions meet our minimum ROE criteria and are earnings per share accretive in year one. The expected total cost of the seven acquisitions in 2010, including earn-outs, is US$1.4 billion with anticipated net profit after tax in a full year of around US$270 million. Since year end we have announced the acquisition of the Australian operations of CUNA Mutual and a long-term distribution agreement and portfolio transfer with Bank of America in the US. These two transactions are expected to generate a further US$1.6 billion of gross written premium in the first full year and be earnings per share accretive in 2011. Funding of these acquisitions will come initially from short-term bank borrowings to be replaced by appropriate qualifying Tier 2 capital securities. Capital adequacy will be maintained by the 2011 profit, the dividend reinvestment plans and underwriting of the final 2010 dividend.

INSURANCE PROFITABILITY

The underwriting profit and insurance profit for 2010 were up by 19% and 6% respectively. The increase was mainly the result of maintaining underwriting profitability on the growth in net earned premium, offset by lower investment income. Insurance profit comprises the underwriting result plus income on investments set aside to meet our liabilities to policyholders. Insurance profit expressed as a ratio to net earned premium was 15.0% compared with 17.0% in 2009. The underwriting and insurance results have outperformed the majority of our peers and reflect the Group's continued focus on ensuring that each product in each country meets QBE's minimum ROE requirement of 15%. The insurance profit margin was, however, below our target range of 16% to 18% due to the increase in weather-related and earthquake claims and lower than anticipated investment yields on policyholders' funds.

The combined operating ratio, which is the total of claims, commissions and expenses expressed as a percentage of net earned premium, was 89.7% compared with 89.6% last year. The slightly higher combined operating ratio was primarily due to an increase in catastrophe claims from property and homeowners portfolios. All of our insurance divisions produced excellent underwriting profits and the great majority of products and operations in 49 countries continue to meet our minimum profit requirements. Property and homeowners portfolios generated unacceptable underwriting losses, driven by the increase in large individual risk and catastrophe claims.

DIVISIONAL PERFORMANCE

CONTRIBUTIONS BY REGION

FOR THE YEAR ENDED 31 DECEMBER	GROSS WRITTEN PREMIUM 2010 US$M	GROSS WRITTEN PREMIUM 2009 US$M	NET EARNED PREMIUM 2010 US$M	NET EARNED PREMIUM 2009 US$M	COMBINED OPERATING RATIO 2010 %	COMBINED OPERATING RATIO 2009 %	INSURANCE PROFIT BEFORE INCOME TAX 2010 US$M	INSURANCE PROFIT BEFORE INCOME TAX 2009 US$M
the Americas	**5,165**	4,001	**3,009**	2,527	**89.7**	89.7	**412**	367
European operations	**4,156**	3,961	**2,593**	2,534	**90.5**	91.3	**376**	399
Australian operations	**3,707**	2,728	**3,033**	2,138	**89.2**	89.0	**516**	462
Asia Pacific operations	**601**	549	**420**	372	**86.7**	88.1	**77**	55
Equator Re	**2,479**	1,994	**2,307**	1,875	**90.1**	88.2	**322**	326
Elimination – internal reinsurance	**(2,479)**	(1,994)	**–**	–	**–**	–	**–**	–
Group	**13,629**	11,239	**11,362**	9,446	**89.7**	89.6	**1,703**	1,609
Direct and facultative	**12,167**	10,113	**10,188**	8,281	**90.4**	91.6	**1,445**	1,246
Inward reinsurance	**1,462**	1,126	**1,174**	1,165	**84.1**	75.2	**258**	363
Group	**13,629**	11,239	**11,362**	9,446	**89.7**	89.6	**1,703**	1,609

IMPACT OF EXCHANGE RATE MOVEMENTS

	2010 ACTUAL US$M	2010 AT 2009 EXCHANGE RATES[1] US$M	EXCHANGE RATE IMPACT US$M	EXCHANGE RATE IMPACT %
Gross written premium	13,629	12,998	631	5
Gross earned premium	13,432	12,801	631	5
Net earned premium	11,362	10,822	540	5
Net profit after income tax	1,278	1,210	68	5
Total investments and cash	25,304	24,427	877	3
Total assets	42,188	40,726	1,462	3
Gross outstanding claims provision	18,236	17,867	369	2
Total liabilities	31,795	31,259	536	2

(1) Income statement items are restated to 31 December 2009 cumulative average rates of exchange and balance sheet items to 31 December 2009 closing rates of exchange.

KEY FOREIGN EXCHANGE RATES AND MOVEMENTS AGAINST THE US$

	CUMULATIVE AVERAGE RATE OF EXCHANGE			CLOSING RATE OF EXCHANGE		
	YEAR ENDED 31 DECEMBER 2010	YEAR ENDED 31 DECEMBER 2009	MOVEMENT %	AS AT 31 DECEMBER 2010	AS AT 31 DECEMBER 2009	MOVEMENT %
Australian dollar	**0.915**	0.778	17.6	**1.023**	0.896	14.2
Sterling	**1.547**	1.552	(0.3)	**1.561**	1.616	(3.4)
Euro	**1.328**	1.386	(4.2)	**1.338**	1.433	(6.6)

PREMIUM INCOME

Gross written premium increased by 21% to US$13,629 million, with growth mainly from acquisitions completed in 2008, 2009 and 2010 and new distribution channels. In line with one of our core values of quality customer focus, our retention rate remains high. New business written was below target reflecting our discipline on price in the current competitive market conditions. The overall premium rate increase of 2.5% was the result of increases being achieved in all divisions, although increases in the US and Asia Pacific were modest.

Net earned premium increased by 20% in line with the growth in gross written premium. The Group's cost of reinsurance protections as a percentage of gross earned premium was 15.4%, up from 13.7% in 2009 mainly due to proportional reinsurances on the recently acquired Elders and NAU Country businesses and higher reinstatement premiums on catastrophe and large individual risk claims.

The purchase of reinsurance protections is a very important part of our overall risk management to reduce volatility in the income statement and to protect the Group's capital adequacy ratio. Our reinsurance protections include excess of loss and proportional covers for large individual risk and catastrophe claims and aggregate excess of loss protections for an accumulation of claims. QBE has purchased a comprehensive worldwide reinsurance program for large individual risk and catastrophe claims for 2011 to 2013. Benefits to the Group will be an overall lower reinsurance cost, greater risk coverage and an improvement in the combined operating ratio. Further information is included in the outlook section of this report.

CLAIMS RATIO

Our gross claims incurred as a percentage of gross earned premium increased from 58.0% to 58.6% due to an increase in catastrophe claims from property and homeowners portfolios. Net claims incurred, which is after recovery from our reinsurance protections, reduced from 60.3% to 59.9% of net earned premium. The attritional claims ratio (i.e. claims below US$2.3 million) excluding savings on the central estimate of the prior years' claims provision was 50.0% compared with 51.4% last year. Savings on the central estimate on prior years' claim provisions were 0.4% of net earned premium compared with 0.7% last year. Large individual risk and catastrophe claims (i.e. claims of US$2.3 million and above) were 9.5% of net earned premium compared with 7.4% last year, or 8.6% including claims relating to the global financial crisis. The higher ratio was mainly due to the increase in frequency of small and large weather-related and earthquake property claims.

ANALYSIS OF NET INCURRED CLAIMS

	2010			2009		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Undiscounted central estimate	**6,774**	**(49)**	**6,725**	5,635	(61)	5,574
Movement in discount	**(413)**	**318**	**(95)**	(292)	(3)	(295)
Movement in risk margins	**447**	**(569)**	**(122)**	342	(313)	29
Claims settlement costs and other movements	**300**	**(1)**	**299**	276	114	390
Net incurred claims – discounted	**7,108**	**(301)**	**6,807**	5,961	(263)	5,698

Large catastrophe claims in the year, being those greater than US$10 million, are set out in the table below.

CATASTROPHE	NET COST US$M	CATASTROPHE	NET COST US$M
Perth storm	108	Arizona hailstorm	20
Chilean earthquake	83	US Midwest tornado	18
Christchurch earthquake	81	US Midwest tornado/hailstorm	12
Melbourne storm	74	Kalgoorlie earthquake	12
Queensland storm	46	Cyclone Ului	11
US Midwest tornado	20	US Midwest/Southeast tornado/hail storm	10

COMMISSIONS AND EXPENSE RATIO

The combined commission and expense ratio was up from 29.3% to 29.8%, reflecting additional costs for transformational IT projects, Elders integration costs, increased premium taxes in Australia and Lloyd's charges and lower third party income from underwriting agencies as QBE underwrites more of the agency business, particularly for Sterling National in the US. The commission ratio was 15.5% compared with 16.2% last year. The expense ratio increased from 13.1% to 14.3%, with 0.5% of the increase due to the additional costs of premium taxes and Lloyd's charges.

AGENCIES

In line with our strategy of acquiring agencies to lock in distribution networks, reduce overall acquisition costs and secure premium income from specialist niche products, QBE now owns and controls 14 underwriting agencies in Australia and the US. Excluding the profit on premium income generated by the agencies, the agencies contributed underwriting profit of US$245 million or 2.2% of net earned premium compared with US$248 million or 2.6% in 2009. The lower agency net income was due to QBE now writing more of the Sterling National agency business, partly offset by increased income from the Elders agency business acquired in the latter half of 2009. A summary of the agency result is set out in the table below.

AGENCY RESULTS

	UNDERWRITING RESULT		PROFIT BEFORE INCOME TAX	
FOR THE YEAR ENDED 31 DECEMBER	2010 US$M	2009 US$M	2010 US$M	2009 US$M
the Americas	**174**	208	**174**	208
Australian operations	**71**	40	**79**	43
	245	248	**253**	251
Contribution from:				
QBE sources(1)	**167**	126	**172**	127
Third party sources(1)	**78**	122	**81**	124
	245	248	**253**	251

(1) Expenses have been allocated pro rata to gross income from QBE and third party sources.

More detail on insurance profitability for each division is contained on pages 32 to 49.

Image: Wind turbines.

INVESTMENTS

Investment income was affected by continued low investment yields and volatile credit spreads on fixed interest and cash securities, particularly in the US, UK and European markets. Credit spread volatility was prevalent with concerns about sovereign debt, particularly in the European markets, acting as a catalyst for the return of negative sentiment, caution and illiquidity in some markets. Equity markets were extremely volatile, with the indices for the major stock exchanges slightly up on average compared with the beginning of the year. QBE's diverse global equity portfolios were not immune to these conditions, underperforming the markets due to strategic investments and hedges in place in the early part of the year. Gross investment income before foreign exchange gains was US$559 million compared with US$852 million in 2009.

We maintain a relatively low risk exposure for our fixed interest and cash investments and a cautious approach to credit quality. This strategy was rewarded with no write-offs or permanent diminution in value of our fixed interest investments during the global financial crisis. As already mentioned, we manage our investments through a substantial number of portfolios in various currencies which we must maintain for regulatory purposes. Opportunities for securing longer-term higher-yielding investments are sometimes limited as business liquidity requirements result in a large part of our funds being held in the short-term cash markets.

During the year, we were able to take advantage of attractive spreads on good quality credit and increase our exposure to corporate bonds to in excess of 50% of the total fixed interest and cash portfolios compared with around 35% at the beginning of the year.

We have a small long-term exposure to equity investments to achieve yields above those on fixed interest securities. Our equity exposure at 31 December 2009 was 5.8% of the total portfolio; however, this has since been reduced to around 1.1% of total investments due to recent announcements by the Australian Prudential Regulation Authority (APRA) and rating agencies indicating that equities will attract a significantly higher capital charge.

Our policy in relation to operational foreign exchange exposures is to match our insurance liabilities in original currency with investments and other assets of the same currency. In addition, regulators around the world require us to maintain capital and assets in the currency of the liabilities and of the country being regulated. This means that a substantial proportion of our investments and cash must be maintained in many currencies. Refer to the tables on page 17. These factors, together with the need to adopt a prudent approach in managing our investment portfolio to protect our capital adequacy and the interests of our policyholders, mean that our investment yields will only modestly outperform cash rates.

ELECTRICITY

Electricity is the unseen life force of the modern world. The search for new renewable power sources with lower carbon emissions is driving innovation in electricity generation.

KEY MILESTONES

- **1821: Forerunner of the electric motor by Michael Faraday**
  Faraday demonstrated the first conversion of electrical energy into mechanical energy.
- **1880s: 'The War of Currents', Thomas Edison and Nikola Tesla**
  Edison's direct current and Tesla's alternating current systems of power generation competed against each other.
- **1931: Early wind generators, USSR**
  A forerunner of the modern horizontal-axis wind generators.
- **1954: Silicon solar cell by Chapin, Fuller and Pearson**
  The invention of the first solar cell able to power everyday electrical equipment.
- **2000: First commercial wave power station, Scotland**
  The power station at Islay can provide enough electricity for about 400 homes.

Market demand has led QBE to develop insurance solutions for the fast growing alternative energy sector. QBE has developed a specialised third partly liability insurance cover for wind farms and solar and small-scale hydro power producers in anticipation of further growth in these markets.

A summary of investment performance is set out in the following tables indicating the returns for both policyholders' funds and shareholders' funds.

INVESTMENT INCOME

FOR THE YEAR ENDED 31 DECEMBER	POLICYHOLDERS' FUNDS 2010 US$M	POLICYHOLDERS' FUNDS 2009 US$M	SHAREHOLDERS' FUNDS 2010 US$M	SHAREHOLDERS' FUNDS 2009 US$M	TOTAL INVESTMENT INCOME 2010 US$M	TOTAL INVESTMENT INCOME 2009 US$M
Equity income	–	–	(6)	118	(6)	118
Income on fixed interest securities, short-term money and cash	414	549	153	214	567	763
Operational foreign exchange gains	141	96	–	–	141	96
Property income	–	–	(4)	(35)	(4)	(35)
Other income	–	–	2	6	2	6
Gross investment income	555	645	145	303	700	948
Other foreign exchange gains	–	–	–	191	–	191
Realised gain on repurchase of debt securities	–	–	–	54	–	54
Investment expenses	(20)	(17)	(21)	(17)	(41)	(34)
Net investment income	535	628	124	531	659	1,159

GROSS AND NET YIELD

FOR THE YEAR ENDED 31 DECEMBER	POLICYHOLDERS' FUNDS 2010 %	POLICYHOLDERS' FUNDS 2009 %	SHAREHOLDERS' FUNDS 2010 %	SHAREHOLDERS' FUNDS 2009 %	TOTAL INVESTMENT INCOME 2010 %	TOTAL INVESTMENT INCOME 2009 %
Gross[(1)]	3.4	4.5	1.9	4.4	2.9	4.5
Net[(2)]	3.3	4.4	1.6	7.7	2.8	5.5

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

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

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

In order to mitigate interest rate risk, particularly in an environment where we expect interest rates to rise, our cash and fixed interest securities have a relatively short duration of 0.5 years. The maturity of the portfolio is broadly in line with our cash settlement obligations.

The lower investment yield environment has had a detrimental impact on our insurance profit and margins. Management's challenge during the year was to identity suitable investments that met our strict risk criteria. We intend to continue with this strategy and to target securities that will enhance yield without compromising our track record on risk management.

TOTAL INVESTMENTS AND CASH

AS AT 31 DECEMBER	2010			2009		
	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS US$M	TOTAL US$M	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS US$M	TOTAL US$M
Cash	1,157	529	1,686	1,027	408	1,435
Short-term money	4,794	2,189	6,983	7,410	2,942	10,352
Fixed interest securities and other	11,181	5,109	16,290	6,656	2,643	9,299
Equities	–	279	279	–	1,299	1,299
Investment properties	–	66	66	–	63	63
Total investments and cash	17,132	8,172	25,304	15,093	7,355	22,448

CASH AND FIXED INTEREST SECURITIES – MOODY'S SECURITY RATING

AS AT 31 DECEMBER	2010 %	2009 %
Aaa	**22**	31
Aa	**63**	55
A	**12**	11
<A	**3**	3

CURRENCY MIX – MARKET VALUE OF EQUITIES

AS AT 31 DECEMBER	2010 %	2009 %
Australian dollar	**53**	45
US dollar	**34**	35
Sterling	**5**	13
Euro	**5**	7
Other	**3**	–

In managing our profits in various currencies, we lock in future profits at times when foreign exchange rates are favourable compared with our budgeted rates. In addition, due to the global nature of our business, foreign exchange gains and losses arise on operational transactions and are recorded in investment income in accordance with our accounting policy and the requirements of accounting standards. Due to the substantial volatility in foreign exchange rates in the year, we were able to generate operational gains of US$141 million compared with US$96 million last year.

CURRENT AAA CASH RATE – WEIGHTED AVERAGE YIELD

AS AT 31 DECEMBER	2010 %	2009 %
Australian dollar	**4.4**	3.3
US dollar	**0.3**	0.3
Sterling	**0.5**	0.6
Euro	**1.0**	1.3
Other	**1.3**	1.5
Weighted average yield	**1.9**	1.5
Actual yield achieved	**2.5**	3.8

CURRENCY MIX – MARKET VALUE OF TOTAL INVESTMENTS AND CASH

AS AT 31 DECEMBER	2010 %	2009 %
Australian dollar	**35**	33
US dollar	**33**	36
Sterling	**15**	19
Euro	**9**	5
Other	**8**	7

Total investments and cash were US$25.3 billion, up from US$22.4 billion at the end of 2009. The increase was due to acquisitions completed during the year, net cash inflow and profit. Around 85% of our cash and fixed interest investments are rated Aa3 or better by Moody's. Around 98% of investments are considered liquid.

Predominantly due to regulatory requirements, we invest in short-dated sovereign, semi-government and supranational bonds which represent around 15% of the total cash and fixed interest in investment portfolios.

Image: Genetic code, double helix.

DNA

The discovery of deoxyribonucleic acid (DNA) was a major advance in understanding that genetic instructions encoded in cells are the building blocks for the development and function of practically all life on earth. Scientists are applying their understanding of DNA to create breakthroughs in many fields from medicine to agriculture.

KEY MILESTONES

- **1869: DNA isolated by Friedrich Miescher**
  Isolated a material in white blood cells that he called nuclein.
- **1953: DNA double helix by Francis Crick and James Watson**
  Identified the now familiar double helix structure.
- **1960s: Genetic code cracked, by Nirenberg, Khorana, Holley and colleagues**
  Showed how the information in the DNA strand is translated to protein.
- **2003: Human gene map created and Human Genome Project, multiple contributors**
  The mapping of the human gene opens up new possibilities such as treating and even preventing genetic disorders.

As DNA is the common element underlying the function and structure of living beings, the universal thread running through QBE's global operations is its corporate culture built around nine essential behaviours known by the acronym OPENUPQBE. The long-standing OPENUPQBE program is the channel that unifies QBE people and provides strength and cohesion throughout the organisation.

BALANCE SHEET

The summary balance sheet below demonstrates the Group's significant financial strength. Our assets are high quality; insurance liabilities include significant risk margins to provide a probability of adequacy of 95.5%; and our ratio of borrowings to shareholders' funds is currently 31.5% providing flexibility for future funding requirements.

SUMMARY BALANCE SHEET

AS AT 31 DECEMBER	2010 US$M	2009 US$M
Investments and cash	**25,304**	22,448
Trade and other receivables	**5,506**	3,855
Reinsurance recoveries – outstanding claims	**1,741**	1,853
Reinsurance recoveries – IBNR	**1,478**	1,449
Deferred insurance costs	**2,003**	1,753
Intangibles	**5,387**	4,495
Other assets	**769**	870
Total assets	**42,188**	36,723
Outstanding claims	**18,236**	16,166
Unearned premium	**6,788**	6,127
Borrowings	**3,243**	2,663
Other liabilities	**3,528**	2,535
Total liabilities	**31,795**	27,491
Net assets	**10,393**	9,232
Non-controlling interests	**82**	68
Shareholders' funds	**10,311**	9,164

Shareholders' funds at 31 December 2010 were US$10,311 million, up from US$9,164 million at 31 December 2009. Details of the movements in the year are set out in the table below.

RECONCILIATION OF SHAREHOLDER'S FUNDS

	US$M
Shareholders' funds at 31 December 2009	9,164
Net profit after income tax	1,278
2009 final dividend and 2010 interim dividend	(1,236)
Foreign exchange movements	615
Other reserve movements	80
Dividend reinvestment	410
Shareholders' funds at 31 December 2010	10,311

Following our decision in February 2009 to cease using derivatives to hedge our net investment in foreign operations, shareholders' funds and capital adequacy are now more closely aligned with changes in assets and liabilities. This reduced level of hedging ensures greater stability in capital adequacy levels for the Group and reduces liquidity risk in funding derivatives. Foreign currency borrowings may be used to hedge our net investment in foreign operations.

CAPITAL ADEQUACY

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

We have around 60 licensed insurance entities throughout our global network which are subject to local regulations and guidelines. In addition, various rating agencies regularly assess QBE's financial strength and credit rating at both entity and Group level.

MINIMUM CAPITAL REQUIREMENT

Applying APRA's risk-based criteria for determining the Group's capital adequacy and after allowing for the underwriting of the 2010 final dividend, we calculate that at 31 December 2010 we had allowable capital of 1.6 times the minimum capital requirement (MCR). Our excess capital, after allowing for the underwriting of the 2010 final dividend, is US$2.7 billion. Our US$1.7 billion of intangible asset value relating to our wholly-owned agencies is not included as part of QBE's regulatory capital base. We will continue to ensure our regulatory capital is maintained at optimum levels.

Excluding the proposed underwriting of the 2010 final dividend, the MCR multiple would have been 1.5 times.

The following table sets out details of our assessment of QBE's regulatory capital base and the MCR applying APRA's risk-based criteria applicable to Australian and non-operating holding companies.

MINIMUM CAPITAL REQUIREMENT

AS AT 31 DECEMBER	2010 US$M	2009 US$M
Tier 1		
Share capital and reserves[1]	**10,371**	8,760
Perpetual securities	**179**	178
Excess risk margins (net of tax)	**1,129**	977
Deductions[2]	**(5,394)**	(4,428)
	6,285	5,487
Tier 2		
Subordinated debt and hybrid securities	**720**	514
Total capital base	**7,005**	6,001
Insurance risk charge	**2,699**	2,542
Concentration risk charge	**538**	480
Investment risk charge	**1,095**	652
Minimum capital requirement	**4,332**	3,674
Excess capital	**2,673**	2,327
Capital adequacy multiple	**1.6**	1.6

(1) 2010 includes additional capital of US$462 million as a result of the underwriting of the final 2010 dividend.

(2) Includes intangibles of US$5,387 million (US$4,495 million at 31 December 2009) net of nil (US$75 million at 31 December 2009) of contingent consideration.

RECEIVABLES AND REINSURANCE RECOVERIES

Trade and other receivables increased since 31 December 2009 mainly due to the impact of recent acquisitions.

The premium and reinsurance receivables over 90 days remain at acceptable levels, with minimal bad debt experience and prudent provisions retained for potential non-payments. Receivables and outstanding reinsurance recoveries are reported net of a provision for doubtful debts of US$143 million compared with US$152 million in 2009.

Outstanding reinsurance recoveries have reduced from US$3.3 billion at 31 December 2009 to US$3.2 billion, mainly due to currency movements and settlements completed throughout the year. Reinsurance recoveries include US$1.5 billion of recoveries on claims incurred but not reported compared with US$1.4 billion last year. The majority of amounts due from non-rated reinsurers is supported by third party collateral.

Standard & Poor's credit rating of our reinsurance counterparties at 31 December 2010 is set out in the table below.

OUTSTANDING REINSURANCE RECOVERIES – S&P RATING

AS AT 31 DECEMBER	2010 %	2009 %
AAA	**2**	4
AA	**44**	38
A	**46**	50
BBB or lower	**3**	3
Non-rated	**5**	5

INTANGIBLES

Intangibles comprise goodwill and identifiable intangibles from over 130 acquisitions completed in the past 30 years. Intangibles increased from US$4.5 billion in 2009 to US$5.4 billion due to acquisitions completed during 2010, currency movements and higher contingent consideration on a prior year acquisition due to increased profits in 2010.

The table of 2010 acquisitions is included on page 12. Intangibles include future payments of US$450 million in relation to the probable achievement of premium and profit targets over the next two years.

BORROWINGS

The ratio of borrowings to shareholders' funds was 31.5% compared with 29.1% at 31 December 2009. The increase was mainly due to the issue of US$850 million of hybrid securities and US$500 million of lower Tier 2 subordinated debt securities completed during the year. These issues were used to finance the settlement of a previous hybrid issue, to repay the Eurobonds, to lock in a lower borrowing cost and to partly assist the funding of the NAU Country acquisition.

Our borrowing costs in the year were US$193 million compared with US$171 million last year. The weighted annualised interest rate on borrowings at 31 December 2010 was 5.3% compared with 6.8% at 31 December 2009.

BORROWINGS MATURITY[1]

AS AT 31 DECEMBER	2010 %	2009 %
Less than one year	**16**	29
One to five years	**74**	19
More than five years	**10**	52

(1) Reflects date of first call.

BORROWINGS PROFILE

AS AT 31 DECEMBER	2010 %	2009 %
Bank loans	**1**	1
Senior debt	**42**	52
Eurobonds	**–**	11
Hybrid securities	**26**	18
Subordinated debt	**25**	11
Capital securities	**6**	7

INSURANCE LIABILITIES

The table below summarises our provisions for outstanding claims and unearned premium, separately identifying the central estimate and risk margins. Risk margins in excess of a 75% probability of adequacy using APRA's risk-weighted capital adequacy model are allowable for regulatory capital purposes. The probability of adequacy of total insurance liabilities was 95.5%, unchanged from 95.5% at 31 December 2009.

INSURANCE LIABILITIES

AS AT 31 DECEMBER	2010 US$M	2009 US$M	2008 US$M	2007 US$M
Outstanding claims	**15,017**	12,864	11,346	12,163
Unearned premium net of deferred insurance costs	**4,785**	4,374	3,608	3,521
	19,802	17,238	14,954	15,684
Central estimate – outstanding claims	**13,747**	11,847	10,504	10,768
Central estimate – unearned premium	**3,901**	3,487	2,931	2,765
Risk margin – outstanding claims	**1,270**	1,017	842	1,395
Risk margin – unearned premium	**884**	887	677	756
	19,802	17,238	14,954	15,684
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,353**	1,198	816	1,383

PROBABILITY OF ADEQUACY OF OUTSTANDING CLAIMS

The risk margins in outstanding claims increased mainly as a result of acquisitions and the effect of foreign currency, partly offset by the change in discount rates. The probability of adequacy of outstanding claims was 89.8% compared with 88.1% at 31 December 2009.

We expect the probability of adequacy to increase as interest rates rise. A 1% increase in discount rates will add approximately 5% to the Group's probability of adequacy. As required under Australian accounting standards, insurance liabilities are discounted using sovereign bond rates as a proxy for risk-free interest rates rather than the actual earning rate achieved on our quality investment portfolios.

OUTLOOK

Acquisitions announced will help to increase gross earned premium by between 19% and 22% in 2011. Insurance profit is also expected to increase by at least the growth in net earned premium, which is expected to be up by between 22% and 25%. There is also potential for an improved insurance profit margin in 2011 as a result of the 2010 and 2011 acquisitions to date, the new worldwide reinsurance arrangements and potentially higher interest yields than our current running yield of around 3.3% excluding foreign exchange gains.

Our strategy to further diversify our portfolio with acquisitions of specialised businesses is expected to have benefits in the short to medium term, particularly as global economic conditions improve. Acquisitions announced in 2010 and 2011 to date are expected to add over US$3.4 billion of additional gross written premium in the first full year. Organic growth is expected to continue to be low until pricing of our insurance products for new business improves.

Premium growth is dependent on the economic conditions in the markets in which we operate. We expect that overall premium rates on renewed business will increase by around 2% and we anticipate that insurance market conditions will remain difficult during 2011.

QBE's global and product diversification have enabled management to negotiate a unique global reinsurance program with our major reinsurance partners, combining many of our reinsurance arrangements for various products into global programs. In addition, we have new and extended global aggregate covers designed to protect our portfolios against a frequency of catastrophe and large individual risk claims over US$5 million. These new arrangements are designed to allow us to manage large individual risk and catastrophe claims to around 9% of net earned premium and to reduce our maximum event retention to around 4.0% of net earned premium for 2011, including the acquisitions announced to date.

Overall, our reinsurance expense is expected to be around 12% of gross earned premium based on the expected portfolio mix for 2011. This ratio compares with 15.4% in 2010. The worldwide covers are expected to reduce the cost of annual reinsurance protections by close to US$300 million, with an estimated improvement of 0.5% in the combined operating ratio.

The acquisitions announced to date will increase the combined commission and expense ratio to around 31.0% in 2011, allowing for the accelerated amortisation of the up-front cost of the Bank of America agreements and further costs for transformational IT projects and systems to improve service and interface with our intermediaries. Our existing underwriting agencies are targeted to contribute a similar profit to 2010, equating to around 1.7% of net earned premium. The substantial majority of premium income produced by our wholly-owned underwriting agencies, estimated to be around US$2.4 billion in 2011, will be underwritten by QBE.

Based on our current risk profile and portfolio mix for 2011, including recently announced acquisitions and new reinsurance protections, we are targeting a combined operating ratio in the range of 87% to 90%. The upper end of the range includes an allowance for large individual risk and catastrophe claims of 9% of targeted net earned premium.

We anticipate that the gross investment yield on policyholders' funds will range between 3.3% and 3.5%, and we expect the insurance margin to be in the range of 15% to 18% for 2011. The increase in our exposure to quality corporate bonds should enhance our investment yield on policyholders' funds. In addition, the potential for interest rates to increase from their current low levels in the US, UK and Europe will provide an opportunity to further enhance our insurance profit during 2011.

KEY RATIOS – GROUP

FOR THE YEAR ENDED 31 DECEMBER		2010	2009
Net claims ratio	%	**59.9**	60.3
Commission ratio	%	**15.5**	16.2
Expense ratio	%	**14.3**	13.1
Combined operating ratio	%	**89.7**	89.6
Insurance profit margin	%	**15.0**	17.0

WORLDWIDE PORTFOLIO MIX

GROSS EARNED PREMIUM	2010 %	2009 %
Property	**29.7**	29.5
Motor and motor casualty	**15.6**	19.3
Public/product liability	**13.9**	15.2
Marine, energy and aviation	**8.9**	9.8
Workers' compensation	**7.7**	7.4
Agriculture and bloodstock	**6.9**	1.7
Professional indemnity	**5.3**	6.8
Accident and health	**4.2**	3.5
Financial and credit	**3.7**	3.3
Mortgage insurance	**2.5**	1.8
Other	**1.6**	1.7

SEGMENTAL ANALYSIS

GROSS EARNED PREMIUM	2010 %	2009 %
the Americas	**38.1**	36.0
European operations	**29.8**	35.6
Australian operations	**27.7**	23.6
Asia Pacific operations	**4.4**	4.8

HISTORICAL OVERVIEW

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007	2006	2005	2004
Gross written premium	US$M	**13,629**	11,239	11,015	10,391	7,839	7,171	6,484
Net earned premium	US$M	**11,362**	9,446	9,293	8,552	6,166	5,630	5,016
Combined operating ratio	%	**89.7**	89.6	88.5	85.9	85.3	89.1	91.2
Insurance profit	US$M	**1,703**	1,609	1,830	1,895	1,351	982	686
Insurance profit margin	%	**15.0**	17.0	19.7	22.2	21.9	17.4	13.7

We intend to continue with an investment strategy focusing on high quality, liquid cash and fixed interest securities. Our equity exposures are not expected to increase beyond 2.5% of the total portfolio due to increased capital charges for equities proposed by rating agencies and regulators.

The Group has a strong balance sheet with the capacity for additional borrowings, including the use of debt securities with capital characteristics, to fund acquisitions and growth initiatives. There is an expectation that regulators and rating agencies will adopt a more granular capital model that may increase minimum capital requirements. We are comfortable that the strength and flexibility of our current balance sheet, together with projections for growth and profit, will be more than adequate to meet our benchmark of at least 1.5 times the minimum capital requirement for APRA and our targeted A+ financial strength rating.

We propose to continue with our successful acquisition strategy, based on our desire for further product diversification and geographic spread of risk. Our experienced QBE teams around the world will continue to look for acquisitions of insurance companies and distribution channels using our established criteria. We will continue to target acquisition opportunities that are earnings per share accretive in year one.

Our business plans for 2011 are focused on ensuring that we continue to support our long-standing customers. We will continue to maintain our requirement of a minimum 15% ROE on each product. Our disciplined approach to underwriting in a competitive market is expected to limit organic growth.

QBE continues to lead terms and conditions for most of the businesses written in the countries in which we operate. Our target is to increase the retention of our quality customers above the current high levels.

There will be ongoing focus on our in-house staff development programs, known by the acronym OPENUPQBE. These programs include a number of continuing and proposed business improvement projects designed to enhance our service, develop our people and enhance underwriting profit.

We expect to continue to maintain a low turnover of senior staff and retain a pool of quality individuals capable of filling more senior roles throughout the Group. Our teams around the world have a complete understanding that they must operate within the parameters of our approved business plans and that capital will only be allocated to products capable of achieving our minimum ROE requirements.

Our reported results may be influenced by changes in foreign currency values with around 50% of premium written in US dollars, 25% in Australian dollars and 10% in sterling. Our results are presented in US dollars and, as such, a stronger US dollar against the major currencies will have a negative impact on the reported revenue and profit and conversely a weaker US dollar will increase reported revenue. Refer to the table on page 13 indicating the impact of changes in currency rates.

2011 is likely to be another difficult year for the insurance industry with a continuation of low investment yields, soft market conditions and premium rate increases being less than claims inflation for many products. We are confident that, with the actions we have taken, QBE's prospects for achieving quality underwriting results will be maintained. There are, nonetheless, factors that we cannot control such as interest and currency rates. We will continue our focus on building our business through acquisitions and positioning the business to take advantage of stronger global economic growth and stronger investment returns as interest rates improve.

Our achievement in the 2010 financial year of producing a strong underwriting result should not be understated given the frequency of small and large catastrophes and continued difficult market conditions. We would not have achieved these results without the attention to detail and the hard work and discipline of our professional teams around the globe.

I appreciate the enormous support that I have received from our teams and my executives around the world. I would particularly like to acknowledge the personal support, guidance and encouragement provided by the QBE board of directors.

FM O'Halloran
Group chief executive officer

2011 TARGETS

GROSS EARNED PREMIUM GROWTH

19% to **22%**

NET EARNED PREMIUM GROWTH

22% to **25%**

COMBINED OPERATING RATIO

87% to **90%**

INSURANCE PROFIT MARGIN

Range of **15%** to **18%** of net earned premium

Group financial targets and performance goals

2010 FINANCIAL PERFORMANCE

TARGETS*	ACTUAL
• Insurance profit margin between 16% and 18%	• Insurance profit margin of 15.0%
• Combined operating ratio of less than 89%	• Combined operating ratio of 89.7%
• Gross written and net earned premium growth of 18%	• Gross written premium and net earned premium growth of 21% and 20% respectively
• Reinsurance ratio of less than 13.5% of gross earned premium	• Reinsurance expense ratio of 15.4%
• Combined commission and expense ratio of less than 30%	• Combined commission and expense ratio of 29.8%
• Income tax expense around 20%	• Income tax expense of 16.6%
• Maintain Group capital adequacy multiple of more than 1.5 times APRA's minimum requirement for insurance groups	• MCR multiple of 1.6 times including the underwriting of the final 2010 dividend
• Achieve a gross investment yield of around 3%	• Gross investment yield of 2.9%

2010 OPERATIONAL PERFORMANCE

PERFORMANCE GOALS	ACTUAL
• Target an increase in our customer retention ratio	• Retention remains at an historically high level
• Target overall premium rate increases of 2% on renewed business	• Achieved overall average rate increase of 2.5% on renewed business
• Secure acquisitions that add value, subject to our disciplined approach and acquisition criteria	• During 2010, negotiated or completed seven acquisitions expected to generate GWP of US$1,825 million in a full year
• Maintain flexible balance sheet ratios to take advantage of opportunities	• Relatively low ratio of borrowings to shareholders' funds of 31.5%, providing flexibility for future funding options
• Continue to develop our staff and protect our intellectual capital	• Numerous OPENUPQBE programs were run in 2010
• Target a return on average shareholders' funds in excess of 15%	• Achieved return on average shareholders' funds of 13.1%
• Target increased use of our captive reinsurer, Equator Re, to reduce reinsurance costs and protect divisional operations	• Equator Re GWP increased by 24%
• Maintain our cautious approach to investments	• No impairment of any cash or fixed interest securities

* Targets assume: large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no overall reduction in premium rates; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; and no material change to key inflation and economic growth forecasts. Foreign exchange rates used in the determination of targets are A$/US$0.93, £/US$1.58 and €/US$1.31.

Strategy and planning

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

The framework helps to:

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

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

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

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

2011 FINANCIAL PERFORMANCE

TARGETS*

- An insurance profit margin of between 15% and 18%
- A combined operating ratio of between 87% and 90%
- Gross earned premium growth of around 19% to 22%
- Net earned premium growth of around 22% to 25%
- A reinsurance ratio of around 12% of gross earned premium
- An attritional claims ratio of around 49% on an accident year basis
- An income tax expense rate of around 23%
- Maintain Group capital adequacy multiple of more than 1.5 times APRA's minimum requirement
- Gross investment yield of 3.3% to 3.5%

2011 OPERATIONAL PERFORMANCE

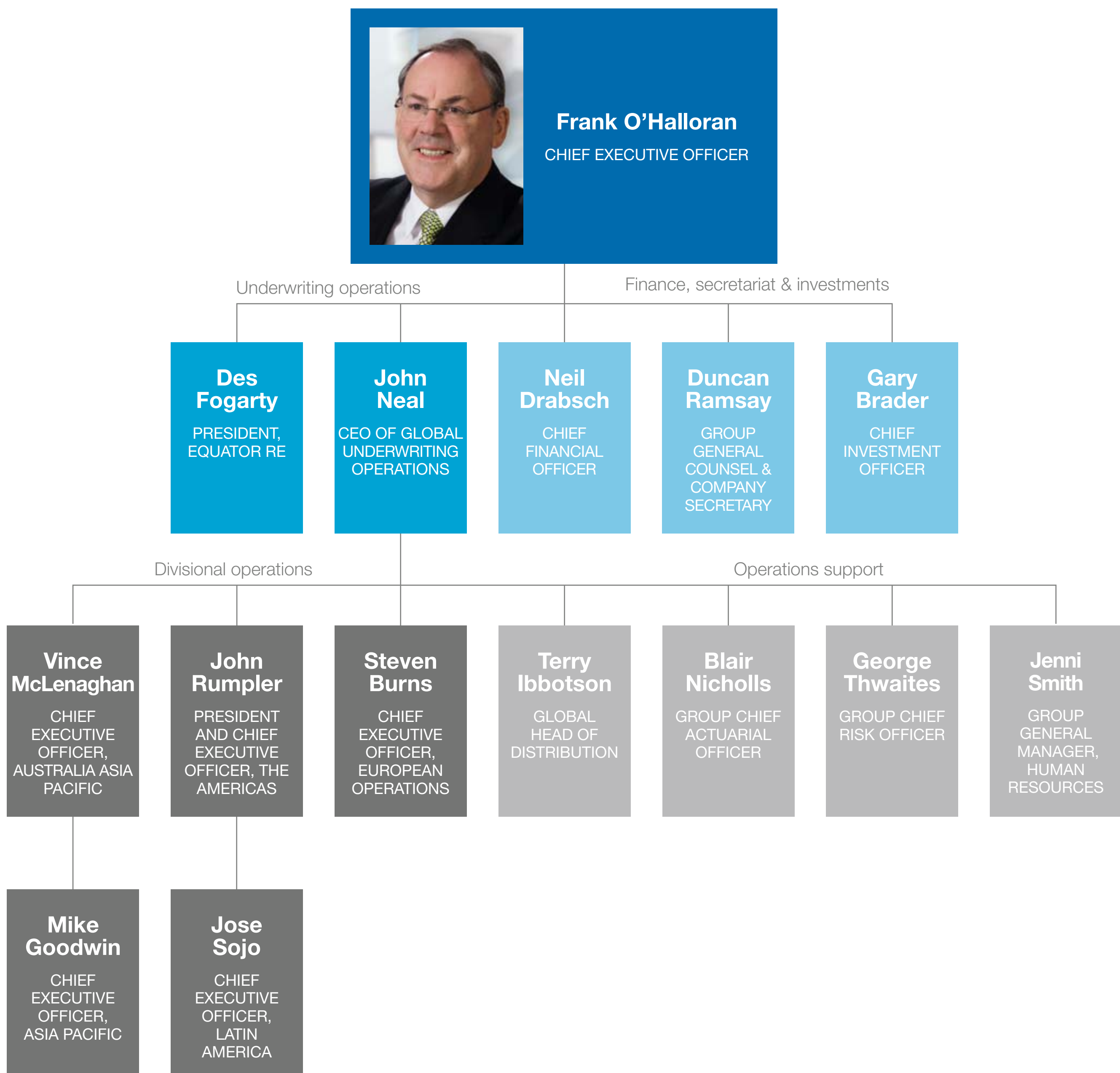
PERFORMANCE GOALS

- Target overall premium rate increase of 2% and high retention rate on renewed business
- Integrate the acquired businesses of Renaissance Re and Balboa in the US
- Continue to look for acquisition opportunities that meet our strict earnings criteria
- Complete funding arrangements to support lower Tier 2 capital
- Maintain key balance sheet ratios at levels that provide security and flexibility for growth
- Target a return on average shareholders' funds in excess of 15%
- Continue to support our long-standing customers and maintain a high retention ratio

QBE executive team

In October 2010, QBE announced a new executive reporting structure following the realignment of the underwriting operations of the Group into three main divisions, namely the Americas, European operations and Australia Asia Pacific. At that time, John Neal, formerly chief underwriting officer of QBE's European operations, was appointed to the newly created role of chief executive officer of global underwriting operations with effect from 1 January 2011. John is based in QBE's Sydney head office and is responsible for the day to day management of the underwriting performance of the three main divisions. The new reporting structure, as set out below, brings further strength and diversity to QBE's highly experienced executive team as the Group positions itself for further growth in 2011 and beyond.

GROUP EXECUTIVE STRUCTURE



JOHN NEAL

Chief executive officer, global underwriting operations
Age 46

Mr Neal has worked at QBE for six years and was appointed to the role of chief executive officer of global underwriting operations with effect from 1 January 2011. He joined QBE in 2004 following QBE's acquisition of his successful Ensign commercial motor operations. Since joining the Group, he has served in several senior management roles within European operations, including as chief operating officer and chief underwriting officer.

NEIL DRABSCH

Chief financial officer
FCA, FAICD, FCIS
Age 62

Mr Drabsch has worked at QBE for 19 years and was appointed chief financial officer in 1994. He joined QBE in 1991 and was the Group company secretary from 1992 to 2001. Mr Drabsch has over 44 years experience in insurance and reinsurance management, finance and accounting, including 24 years as a practising chartered accountant.

DUNCAN RAMSAY

Group general counsel & company secretary
B Comm, LLB, LLM, FANZIIF, FCIS
Age 49

Mr Ramsay has worked at QBE for 17 years, joining as Group general counsel in 1993 and was appointed Group general counsel and company secretary in 2001. Prior to joining QBE, Mr Ramsay spent seven years working for Freehills, an Australian law firm, in the general commercial and litigation areas.

GARY BRADER

Chief investment officer
B Comm
Age 44

Mr Brader has worked at QBE for seven years and was appointed Group chief investment officer in December 2010. He joined QBE in 2003, becoming head of fixed income shortly thereafter. He came to the Group from Alliance Capital in London, and has 19 years prior investment experience including time with AXA Investment Managers in London and AXA Australia.

TERRY IBBOTSON

Global head of distribution
PhD, MBA, B Comm
Age 65

Mr Ibbotson has worked at QBE for 17 years and was appointed global head of distribution in April 2010. He has over 42 years experience in the insurance industry. Mr Ibbotson joined QBE in 1993 and since that time has served in various general management roles, including as chief executive officer of Australian operations.

JENNI SMITH

Group general manager, human resources
MBA
Age 48

Ms Smith has worked at QBE for seven years as Group general manager, human resources. She was formerly General manager HR, international at Telstra Corporation Ltd., based in Sydney with specific Asia-Pacific responsibilities. Ms Smith has extensive business and human resources experience in London in the advertising and television industries.

Risk management, regulatory developments and climate change

Our ability to manage risk is central to the success of our business. We have developed processes and controls over many years to identify and manage key areas of risk exposure and to bring these together to provide a view of the risk position of QBE as a whole. Risk management is a continuous process and our approach is targeted to ensure that our framework is enhanced and tailored to suit the business as it evolves.

GEORGE THWAITES

Chief risk officer
B.Eng (Hons), ACA
Age 45

Mr Thwaites has worked at QBE for 11 years and was appointed Group chief risk officer in 2005. He joined QBE in 1999 as financial controller for the Asia-Pacific division. Prior to joining QBE, Mr Thwaites worked in finance and accounting roles in insurance and the accounting profession in Australia, the UK and Canada. He has been involved with the insurance industry for more than 15 years.

QBE'S RISK MANAGEMENT CULTURE

To create wealth for our shareholders, QBE must pursue opportunities that involve risk. Through robust risk management, QBE aims to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- optimise risk and more effectively allocate capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility through the identification and management of risks to achieve our strategies and objectives.

The Group risk management policy, strategy and framework provide a consistent approach to managing risk across the organisation. This consistency of approach allows a Group-wide view of relative risks and returns.

The QBE board of directors is responsible to shareholders for the performance of the Group and as such undertakes a critical role in ensuring that an effective risk management strategy is established and maintained. Further details on QBE's risk management governance are provided on page 55.

It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk occurs at each point in the business management cycle. It is a key part of our governance structure and our strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management allows all of the Group's risks to be managed in an integrated manner.

Risk management is an integral part of QBE's essential behaviours which involves carefully assessing the balance of risk and reward so that we can maximise the reward from our business activities while limiting the potential downside.

This ownership of risk is supported by QBE's culture, the board and board committees and dedicated risk management personnel with responsibility for maintaining and implementing the risk management strategy and framework. Each risk applicable to a division and business unit is assigned a risk owner, being the person with accountability and authority for managing the risk.

It is the responsibility of every QBE employee to adopt a rigorous approach to managing risks. This includes adhering to QBE's risk management policy and risk management strategy and demonstrating the QBE essential behaviours.

Image: Chameleon on fern.

In order to further align performance with good risk management, QBE sets performance targets and remuneration incentives based on risk adjusted return on equity.

Newly acquired operations are required to be substantially compliant with the QBE risk management policy and strategy within 12 months of acquisition or as approved by the Group chief executive officer based on the complexities of the arrangement.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically. QBE also focuses on other fundamental issues such as the strength of its outstanding claims provision, the quality of its reinsurers and the depth of its culture of honesty, integrity and business acumen.

Key risk management information is provided to the Group audit and risk committee, including the assessment of QBE risks, risk management activities, all internal fraud and other management issues. Appropriate reporting is also maintained within each division, aligned to the relevant organisational structure, including each division's audit and/or risk committees.

Independent assurance on the management of risk is gained in four ways:

- The Group's outstanding claims provision is reviewed by experienced internal actuarial staff. Actuarial staff are involved in forming their own view, separate from management, of the central estimate and the probability of adequacy of the outstanding claims provision. Actuarial staff also review the probability of adequacy of premium liabilities, premium rates and other matters.
- More than 80% of QBE's outstanding claims provision is also reviewed by external actuaries annually.
- QBE's internal audit function reports to the Group audit and risk committee to provide independent assurance that the design and operation of the controls across the Group are effective.
- The external auditor issues an audit opinion on the Group's annual financial statements and a review report on the half year financial statements in accordance with Australian auditing standards. The external auditor also reports annually to APRA stating the level of compliance of QBE's APRA licensed insurance entities with the statements made in their respective risk management and reinsurance management strategy documents.

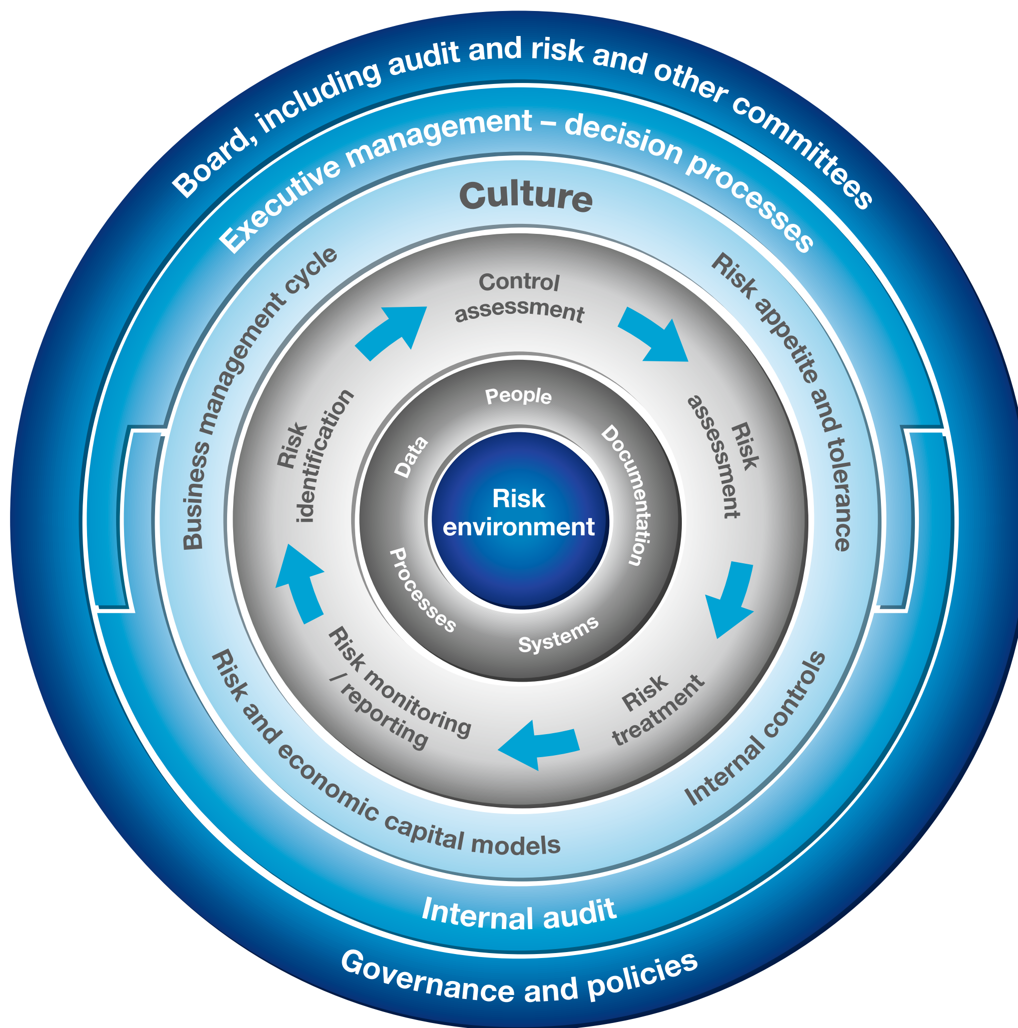
NATURAL SELECTION

In nature, species continue to evolve in response to an ever changing environment. According to the theory of natural selection, the strongest survive and propagate thereby increasing the strength of the species. Survival of the fittest in the corporate world also requires adaptability to ever changing conditions.

KEY MILESTONES

- **18th century: Selective breeding by Robert Bakewell**
  The first person to selectively breed livestock on a systematic basis.
- **1850s and 1860s: Laws of inheritance by Gregor Mendel**
  Showed that the inheritance of traits in peas followed particular laws.
- **1859: Natural selection by Charles Darwin**
  Put forward the theory of evolution by natural selection in his book 'The Origin of Species'.
- **1930: 'Modern evolutionary synthesis' by Ronald Fisher**
  Helped unify Darwin's theory of evolution with Mendel's and newer work on genetics.

In an environment of constantly changing weather patterns, geological instability and shifting population demographics, QBE's risk appetite and ultimate exposure needs ongoing assessment. In response, QBE has developed sophisticated modelling and predictive tools enabling adaptation to the changing environment and the management of risk within well tested tolerances to protect our shareholders' funds.



BLAIR NICHOLLS

Chief actuarial officer
BA Econ, FIAA, FIA (UK), AMP INSEAD
Age 43

Mr Nicholls has worked at QBE for 16 years and was appointed Group chief actuarial officer in 2006. He has been with QBE since 1994 and has undertaken a variety of roles including having spent three years in QBE's London office as the chief actuary for QBE's European operations and, prior to that, a number of positions in QBE's Australian operations.

RISK MANAGEMENT FRAMEWORK

QBE's risk management framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk identification, risk and control self assessment, risk treatment, optimisation and ongoing improvement through management action plans and risk and performance monitoring. These elements form layers around the risk environment as shown in the diagram above.

Risk treatments, internal controls and systems are designed to provide reasonable assurance that the assets and revenues of the Group are safeguarded. This includes ensuring that insurance and investment exposures are within desired limits; reinsurance protections are adequate; counterparties are subject to security assessment; and foreign exchange exposures are within predetermined guidelines.

The Group has established internal controls to manage material business risks in the key areas of exposure relevant to QBE. The broad categories are strategic risk, insurance risk, credit risk, market risk, liquidity risk and operational risk.

The risk assessment and monitoring framework involves ongoing:

- identification and review of the key risks to the Group, including the identification of emerging risks and definition of the acceptable level of risk appetite and tolerance;
- assessment of identified risks throughout the Group in terms of the acceptable level of risk (risk tolerance) and the residual risk remaining after having considered risk treatment;
- assessment of whether each risk is at an acceptable level, or requires appropriate action be taken to mitigate any excess risk;
- transparent monitoring and reporting of risk management related matters on a timely basis; and
- alignment of internal audit programs with the risks.

RISK TOLERANCE

Risk appetite is the level of risk that the board and management are prepared to take in pursuit of the Group's strategic objectives. At Group level, risk appetite is expressed as follows:

- through the business plan objectives, including return on risk adjusted capital, in terms of capital adequacy and through detailed risk limits;
- within the delegation of authority from the board to the chief executive officer;
- within Group policies covering key risk areas; and
- in terms of risk tolerances, including the Group's maximum tolerance for risk.

The Group's tolerance for risk is reviewed by senior management annually and approved by the Group board. An important input into setting the overall tolerance is the allowance for large individual risk and catastrophe claims in the business plan. This is the level of such claims that QBE can afford to fund in any one year without affecting the planned profitability of the Group.

The Group has assessed its major exposure to be a catastrophe loss that may impact more than one class of business and more than one of the Group's operating divisions. This is estimated through a rigorous assessment methodology that includes realistic disaster scenarios, commercial catastrophe loss models and in-house catastrophe loss assessment tools. The outcomes contribute to the setting of reinsurance levels required by QBE and, in conjunction with QBE's appetite and tolerance, determine the amount of risk that is retained by the Group in any one geographic region for a particular peril. The MER for a natural catastrophe for QBE was 4.3% of projected 2010 net earned premium. This has been reduced to around 4.0% by the new worldwide reinsurance arrangements including the 2011 acquisitions announced to date.

ALLOCATION OF CAPITAL

QBE uses a Group-wide economic capital model (ECM) to assess risk and to help determine the level of risk-based capital required for the insurance, credit, market, liquidity and operational risks the Group is exposed to. Risk-based capital is a key measure of risk that is integral to QBE's business management cycle and risk management framework. This basis of capital allocation is also used in determining the return on equity targets for QBE incentive schemes.

The allocation of risk-based capital helps to ensure that the risk taken by the business is commensurate with required returns, and is within the board's risk appetite and tolerance. Risk-based capital enables QBE to make decisions which involve quantitative risk reward trade-offs and is determined as the level of capital that QBE needs to ensure that it can, with a pre-specified probability, satisfy its obligations on all policies issued before the end of the plan year.

The ECM is used by management to help determine the strategic capital allocation, business planning, underwriting performance, pricing, reinsurance and aggregate management, as well as assisting in determining regulatory capital.

REGULATORY DEVELOPMENTS

QBE's robust, proactive approach to monitoring and mitigating regulatory risk enables us to promptly adapt to changes in the regulatory environment and minimise commercial impacts. Ongoing discussions indicate that QBE's comprehensive risk management framework meets the expectations of our numerous regulators and credit rating agencies.

Regulatory reform is being increasingly driven not just by individual regulators, but by interactions between supranational agencies, local regulators, insurers and rating agencies. Regulatory changes are currently occurring at varying levels of pace and sophistication across the financial, regulatory and supervisory landscape. Of particular focus are changes to capital requirements, reinsurance directives, corporate governance, risk management and the admissibility of assets and capital.

Europe's Solvency II directive, scheduled to come into force on 31 October 2012, is one of the major regulatory developments facing the market. Its risk-based solvency framework is designed to link business strategies, risk management and governance to an insurer's required capital. It also introduces group supervision as a key concept, and consequently the principle of "equivalence" has evolved between Solvency II and non-EU regulatory regimes. The intention is to ascertain whether a non-EU jurisdiction's system of regulation and supervision provides a similar level of policyholder and beneficiary protection as Solvency II. The equivalence assessments will affect reinsurance collateral requirements for non-EU reinsurers that reinsure EU cedants, as well as group capital requirements and other compliance requirements for non-EU domiciled groups (such as QBE) that have insurance operations within the EU. The issue of equivalence will also have indirect consequences as non-EU jurisdictions become, or seek to become, assessed by the EU as equivalent for group supervision purposes in order to protect and promote their local insurance and reinsurance markets.

APRA has released proposals to make a range of changes to its capital standards intended to achieve a more risk-sensitive capital framework. APRA has stated that it considers current capital levels to be adequate across the industry and that it does not intend the new proposals to change this. Proposals have also been released for a new level of supervision, Level 3, to apply where there are two or more material entities that are either APRA-regulated in different industries or at least one material regulated and one material unregulated entity within a group. QBE is currently regulated as a Level 2 group. APRA's initial discussion paper in this area indicated the intention is for Level 3 group capital regulations to allow only higher quality capital components and to accompany this with a lower minimum capital requirement. In addition, APRA has signalled its intention to release proposals for further group supervision.

The US is seeing the most sweeping change to financial regulation in over 70 years, which will impact all federally regulated financial agencies and almost every aspect of the financial services industry. New laws have been enacted to promote financial stability, improve accountability and transparency and end the era of bailouts for entities too big to fail. The intention is to create a Federal Insurance Office which, although initially lacking substantive regulatory responsibilities, has a mandate to promote uniformity across state regulation and is intended to provide a federal focus for the coordination of international insurance regulation.

In addition, the US National Association of Insurance Commissioners is considering changes that, if adopted, will significantly increase group-wide oversight by US state insurance regulators. The changes would introduce the concept of enterprise risk for US insurers and also impose extensive informational requirements on insurance groups. Under the changes, US state regulators would be granted explicit authority to examine not only local insurers, but also their affiliates in order to assess contagion risk.

QBE will continue to monitor and, where appropriate, actively engage in the regulatory process. Although there is a significant level of change and an increasing regulatory burden, QBE is well placed to deal with this.

SUSTAINABILITY

The Group's chief actuarial officer and chief risk officer are responsible for monitoring and managing ongoing risks and opportunities relating to climate change in order to mitigate any adverse effect on QBE's businesses and to protect shareholders' funds. Reports are provided to the QBE Group board twice a year on environmental initiatives with a climate change related focus.

Measurement of the Group's environmental impact to date has focused on two key carbon emission metrics, being business air travel and electricity usage. Based on these key metrics, the Group's estimated carbon emissions (CO_2e) for 2010 were 52,730 tonnes (2009 46,440 tonnes), an increase of 14%. This can be summarised as:

- 1,170 tonnes of scope 1 direct greenhouse emissions due to natural gas and oil consumption used for heating (2009 760 tonnes);
- 35,990 tonnes of scope 2 indirect greenhouse emissions from electricity consumption (2009 34,610 tonnes); and
- 15,570 tonnes of scope 3 other indirect greenhouse emissions, defined as emissions relating to travel (2009 11,070 tonnes).

The 2010 increase was predominantly due to higher electricity usage by Australian operations and increased travel in QBE the Americas.

QBE is a participant in the annual Carbon Disclosure Project (CDP) survey and the Group's response to CDP 2010, including details of environmental impact initiatives carried out in each division, is available on our website.

Operations overview

QBE is an international general insurance and reinsurance group, underwriting most major commercial and personal line classes of business through operations in 49 countries.

the Americas

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

		2010	2009
Gross written premium	US$M	**5,165**	4,001
Gross earned premium	US$M	**5,117**	3,939
Net earned premium	US$M	**3,009**	2,527
Combined operating ratio	%	**89.7**	89.7
Staff numbers		**6,088**	5,022

Major events impacting the Americas in 2010:

- Acquired the NAU Country Insurance Company effective 1 July. NAU Country is the third largest US writer of crop insurance.
- Acquired the CNA Argentina portfolio and an insurance operation in Ecuador, further enhancing our Latin American segment.
- Launched new major brokers and corporate partners distribution channels.
- Signed definitive agreements in November to acquire Renaissance Re's US insurance platform, consisting of both crop and specialty program business.
- Initiated an enhanced operating model and five year strategic plan "Right On Q".

European operations

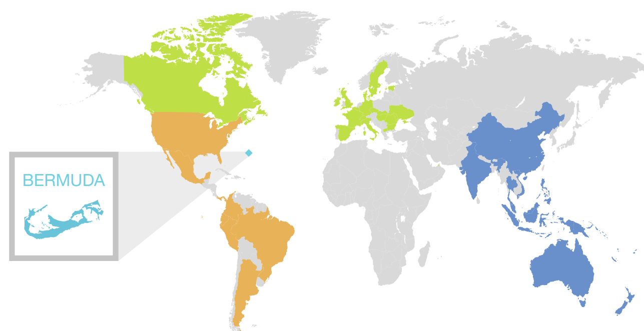
Lloyd's division
In the top five managers and providers of capital at Lloyd's, writing commercial insurance and reinsurance business in the Lloyd's market.

QBE Insurance Europe
General insurance business in the UK, Ireland and 16 countries in mainland Europe. Also writes reinsurance business in Ireland and mainland Europe.

		2010	2009
Gross written premium	US$M	**4,156**	3,961
Gross earned premium	US$M	**4,008**	3,892
Net earned premium	US$M	**2,593**	2,534
Combined operating ratio	%	**90.5**	91.3
Staff numbers		**2,759**	2,869

Major events impacting our European operations in 2010:

- Premium and underwriting profit growth achieved in challenging market conditions.
- Combined operating ratio improved against 2009 despite Chilean earthquake and Deepwater Horizon catastrophe claims.
- Enhancement of our product and geographical diversity, specifically through the acquisition of European reinsurer Secura.
- Delivery of IT and operational change program on track. Anticipated benefits starting to be realised.
- Solvency II preparations on track with QBE in the first wave of companies going through the FSA's validation process.



KEY

the Americas | Europe | Australia Asia Pacific | Equator Re

Australia Asia Pacific operations

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

Asia Pacific operations
General insurance in 17 countries in the Asia Pacific region providing personal, commercial and specialist insurance covers, including professional and general liability, marine, corporate property and trade credit.

		2010	2009
Gross written premium	US$M	**4,308**	3,277
Gross earned premium	US$M	**4,307**	3,112
Net earned premium	US$M	**3,453**	2,510
Combined operating ratio	%	**88.9**	88.8
Staff numbers		**5,644**	5,404

Major events impacting our Australia Asia Pacific operations in 2010:

- The 2008 Elders acquisition added over A$500 million of profitable new gross written premium.
- QBE received four prestigious industry awards in the year recognising our service and technology achievements.
- Launched electronic distribution in Asia with roll out continuing to provide growth opportunities at lower cost.
- Excellent results from QBE LMI reflecting the underlying strength of the economy and stable conditions in the housing market.
- Further progress in diversifying business distribution in the corporate partners, direct, marine and managing agency segments.

Equator Re

The Group's captive reinsurer, Equator Re, provides reinsurance protection to, and assists the management of net exposure and capital levels for, the majority of the operating entities owned by the Group.

		2010	2009
Gross written premium	US$M	**2,479**	1,994
Gross earned premium	US$M	**2,363**	1,918
Net earned premium	US$M	**2,307**	1,875
Combined operating ratio	%	**90.1**	88.2
Staff numbers		**21**	17

Major events impacting Equator Re in 2010:

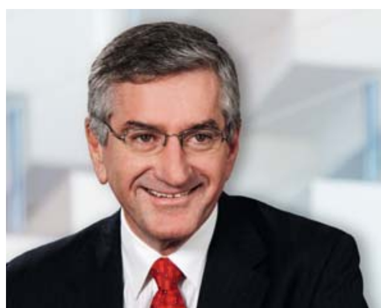
- Premium growth driven mainly by business sourced from the Group's recent acquisitions, specifically NAU Country in North America.
- Adopted a US dollar presentation currency consistent with the QBE Group.
- Results were impacted by significant catastrophe claims including the Melbourne and Perth hail storms, and the Chilean and Christchurch earthquakes.
- Successfully implemented a new operating structure so that Equator Re is more closely aligned with the QBE divisional structure whilst delivering increased operational efficiencies.

the Americas

UNDERWRITING RESULT		NORTH AMERICAN UNDERWRITING OPERATIONS		AGENCIES		TOTAL NORTH AMERICAN OPERATIONS		LATIN AMERICAN UNDERWRITING OPERATIONS		THE AMERICAS	
FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Gross written premium	US$M	**4,606**	3,649	**–**	–	**4,606**	3,649	**559**	352	**5,165**	4,001
Gross earned premium	US$M	**4,563**	3,597	**–**	–	**4,563**	3,597	**554**	342	**5,117**	3,939
Net earned premium	US$M	**2,555**	2,211	**–**	–	**2,555**	2,211	**454**	316	**3,009**	2,527
Net incurred claims	US$M	**1,610**	1,383	**(16)**	(13)	**1,594**	1,370	**260**	180	**1,854**	1,550
Net commission	US$M	**492**	460	**(246)**	(186)	**246**	274	**101**	82	**347**	356
Expenses	US$M	**348**	333	**88**	(9)	**436**	324	**63**	37	**499**	361
Underwriting result	US$M	**105**	35	**174**	208	**279**	243	**30**	17	**309**	260
Claims ratio	%	**63.0**	62.5			**62.4**	61.9	**57.3**	56.9	**61.6**	61.3
Commission ratio	%	**19.3**	20.8			**9.6**	12.4	**22.2**	25.9	**11.5**	14.1
Expense ratio	%	**13.6**	15.1			**17.1**	14.7	**13.9**	11.8	**16.6**	14.3
Combined operating ratio	%	**95.9**	98.4			**89.1**	89.0	**93.4**	94.6	**89.7**	89.7
Insurance profit to net earned premium	%									**13.7**	14.6

PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2010 %	2009 %		2010 %	2009 %
Property	**27.2**	29.3	Accident and health	**6.7**	4.8
Motor and motor casualty	**17.0**	29.1	Financial and credit	**6.1**	2.6
Agriculture and bloodstock	**16.3**	3.2	Householders	**3.7**	5.0
Casualty	**12.3**	14.5	Other	**2.2**	3.9
Workers' compensation	**8.5**	7.6			



JOHN RUMPLER

President and chief executive officer, the Americas
F Fin, FAIEx
Age 50

Mr Rumpler has worked at QBE for 13 years and was appointed president and chief executive officer, the Americas in 2009. He joined QBE in 1997 and led the development of QBE's international credit and surety businesses. Mr Rumpler was formerly a member of the Australian operations executive team and held board positions on several QBE subsidiaries. Mr Rumpler has more than 29 years experience in international banking, government and insurance.

In 2010, QBE's business in the Americas was managed in six specific segments: financial institutions, program business, major brokers and regional, Latin America, crop and reinsurance. We also have six wholly-owned underwriting agencies. In 2010, we produced another strong underwriting result with a combined operating ratio of 89.7%, unchanged from 2009. Despite the challenging market conditions, underwriting profit net of both internal and external reinsurance was up 19% to US$309 million. Acquisitions and other initiatives benefited premium growth; however, lower investment yields, higher attritional and catastrophe claims and reduced net income from wholly-owned agencies adversely affected the insurance profit margin.

MARKET CONDITIONS

The various markets in which QBE operates continue to be competitive, although at varying levels by product and region. Overall we achieved an average 1% increase in premium rates on renewed business. We continue our disciplined approach to only renewing business that meets our strict profit criteria.

2010 has been another challenging year for the US property and casualty insurance industry. Competitive pricing pressures are expected to continue throughout 2011 for our program and regional business, with excess capital in the market likely to exert further downward pressure on premium rates in the near term. Economic conditions, specifically reduced incomes and high unemployment, continue to hamper consumer confidence. QBE has changed its portfolio mix to mitigate the effects of increased competitive pressure with the acquisition of sizeable market shares in specialty products such as crop insurance and lender-placed homeowners insurance.

The economic environment in Latin America has been better than the US in 2010 with faster economic recovery across the region. Consistent with local inflation, premium rate increases of close to 5% were achieved. Rates are expected to rise slightly across the region, although the degree of increase varies across lines of business and countries. Increased penetration and acquisitions in selected markets have benefited growth for QBE, with further encouraging signs for our Latin American business in 2011.

Image: Combine harvester.

INSURANCE PROFIT

Insurance profit, after both internal and external reinsurance, was US$412 million, up from US$367 million in 2009, reflecting an insurance profit margin of 13.7% compared with 14.6% last year. The lower insurance margin was due to lower investment yields on policyholders' funds. The 2010 insurance result benefited from the strong underwriting performance of the crop business written by NAU Country and the lender-placed insurance business produced through Sterling National. Once again, QBE the Americas recorded favourable results compared with the great majority of its competitors in the market.

HISTORICAL OVERVIEW IN US DOLLARS

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007
Gross written premium	US$M	**5,165**	4,001	3,740	3,062
Net earned premium	US$M	**3,009**	2,527	2,605	2,156
Combined operating ratio	%	**89.7**	89.7	93.6	93.6
Insurance profit	US$M	**412**	367	300	276
Insurance profit margin	%	**13.7**	14.6	11.5	12.8

PREMIUM INCOME

Gross written premium was up 29% to US$5,165 million compared with US$4,001 million in 2009. The majority of the premium growth was due to acquisitions and an increase in lender placed homeowners' business from our wholly-owned agency, Sterling National.

Growth in gross written premium was achieved in all business units except for our regional business. Premium income in our regional business was slightly below last year due to market conditions and our disciplined approach to only writing business that meets our strict profit criteria. Gross written premium for our North America property, casualty and reinsurance businesses was US$4,606 million, up 26%. QBE Latin America provided strong premium growth, supported by acquisitions, with gross written premium up 59% to US$559 million.

AGRICULTURAL MACHINERY

The innovations in agricultural machinery made during the Industrial Revolution freed farmers from many laborious tasks and led to farming as we know it today.

KEY MILESTONES

- **1701: Seed drill by Jethro Tull**
  Tull's seed drill mechanised the seed planting process improving germination rates fivefold and greatly increasing agricultural productivity.
- **1794: Cotton gin by Eli Whitney**
  The cotton gin automatically removed the cotton seeds from the cotton fibres making cotton production much more profitable.
- **1850: Corn picker by Edmund Quincy**
  The corn picker sped up corn harvesting and led to the growth of corn belts.
- **1892: Petrol tractor by John Froelich**
  The first petrol-powered tractor which moved forwards and backwards was a big step towards the modern tractor.

QBE has a strong connection to primary production and its associated industries. The recent acquisitions of NAU Country, a leading US-based crop insurer, and Renaissance Re's agricultural business have established QBE as the third largest multi-peril crop insurer in the US. This complements our existing Agri business, providing personal and commercial lines solutions to farmers and their communities. NAU Country offers clients an innovative product called EASYmapping. This innovation uses satellite imaging for fast, accurate and low cost crop pricing and claims management.

JOSE SOJO

Chief executive officer, Latin America
B Bus, M Econ/Pol. science,
Age 39

Mr Sojo has worked at QBE for 10 years and was initially appointed General manager, QBE Latin America in 2002. He joined QBE following the Group's acquisition of QBE Argentina in 2001. Reflecting the significant growth and development of the region, he was appointed chief executive officer, Latin America in early 2011.

Net earned premium was up 19% to US$3,009 million compared with US$2,527 million in 2009. The growth was lower than the growth in gross written premium primarily due to the specialised proportional reinsurance protections for our profitable NAU Country acquisition and additional proportional reinsurance premium ceded to our captive, Equator Re. The cost of reinsurance was up from 36% to 41% of gross earned premium.

CLAIMS EXPERIENCE

The net incurred claims ratio was 61.6% in 2010 compared with 61.3% last year. The claims ratio benefited from the increased level of Sterling National business, offset by an increase in weather-related claims.

There was a small net strengthening of prior accident year claims provisions with risk margin levels slightly increasing.

COMMISSIONS AND EXPENSES

The total commission and expense ratio was 28.1%, down slightly from 28.4% last year. Excluding the agencies, the commission and expense ratio was 33.4% compared with 36.1% in 2009. The reduction was due to the acquisition of the NAU Country crop business which has a lower commission and expense ratio.

The commission ratio was 11.5% compared with 14.1% in 2009, the lower ratio due to the inclusion of crop business and sourcing of business from wholly-owned agencies, particularly Sterling National.

The expense ratio was up from 14.3% to 16.6%. The increase mainly reflected the lower net agency income received from third parties as QBE writes a greater portion of the Sterling National portfolio. Excluding the agency business, the expense ratio was lower at 13.7% compared with 14.6% last year due to benefits from process improvements and continued integration.

AGENCIES

Our investment in US agencies, being the operations of six specialist agencies, continues to deliver solid returns. The agencies produced US$174 million of underwriting profit in 2010 compared with US$208 million in 2009, with the reduction mainly due to the lower commissions received following the increased business underwritten by QBE.

ACQUISITIONS

QBE has continued to grow profitably in the Americas through strategic acquisitions of specialist businesses that have further diversified our product base and geographical spread away from the more competitive classes of business. 2010 was an active year with the following opportunities converted:

- NAU Country, a crop insurer based in Ramsey, Minnesota, was acquired on 1 July, 2010. NAU Country produced US$610 million of gross written premium under QBE ownership in 2010 and around US$900 million for the full year.
- CNA Aseguradora de Riesgos del Trabajo, an Argentina-based workers' compensation insurer, was acquired on 4 June, 2010. This business produced US$86 million of gross written premium for QBE in 2010.
- Colonial Compania de Seguros y Reaseguros, a diverse property and casualty insurer based in Quito, Ecuador, was acquired on 27 July, 2010. This acquisition generated US$45 million in gross written premium for QBE.
- RGM Asegurando LTDA., with operations in Colombia and Ecuador, and Seattle Specialty Insurance Services, based in Seattle, were agency acquisitions complementary to existing strategies. We expect these acquisitions to produce over US$75 million of new gross written premium in a full year.
- In late 2010, QBE announced an agreement to acquire the US insurance operations of Renaissance Re, which include a crop and small specialist program insurance business. The acquisition is subject to regulatory approvals, with completion expected in March 2011. The business acquired is expected to generate around US$400 million of gross written premium in a full year.
- We recently announced a distribution agreement with Bank of America to write lender-placed and voluntary homeowners' contents, motor and related consumer lines insurance and associated services. Lender placed mortgage insurance is not included. The arrangement is expected to commence in the second quarter of 2011 and will provide additional gross written premium of US$1.5 billion in the first full year. The agreement includes a portfolio transfer of insurance liabilities from Balboa Insurance Company and its affiliated entities of US$1.2 billion with tangible assets of an equal amount.

LATIN AMERICAN OPERATIONS

Over the past 10 years, QBE has built a strong foothold in Latin America, building up to a team of more than 1,000 employees in 30 different offices in the region. We offer different insurance products across the region, targeting the most profitable business segments in each country rather than being a provider of all general insurance products.

QBE´s Latin American operations are made up of specialised companies in five countries, namely Colombia, Argentina, Ecuador, Brazil and Mexico. Colombia is our largest market and we are a leader in personal accident mandatory insurance for vehicles, known as SOAT, with a 29% market share. Argentina is our second largest presence in Latin America. We specialise in writing workers' compensation business which has a profitable track record. QBE Brazil is a specialised affinity carrier that sells to a wide base of customers and efficiently delivers products through strong and established distribution relationships with utility companies and retailers. QBE Mexico specialises in providing insurance to small-to-medium sized enterprises and delivers its products through a network of specialised independent agents, using an advanced technological platform.

In 2010, we expanded into Ecuador through the acquisition of Colonial Compania de Seguros y Reaseguros, the largest insurance company in Ecuador, which sells a diverse range of insurance products.

Despite a challenging economic environment, we maintain our focus in the region on profitable organic growth in specialised market segments coupled with the introduction of selected QBE Group sourced opportunities. We will also continue to look for acquisition opportunities to further increase our premium revenue and enhance our excellent combined operating ratios and the return on equity in each country.

In 2010, we focused on expanding and strengthening our local operations. Today, QBE Latin America shares knowledge and expertise across the region within the framework of the QBE culture, our customer focus and our long-standing goal of producing profitable returns for QBE's shareholders.

OUTLOOK

QBE has a diverse range of products in carefully selected market segments throughout the Americas. As economic conditions improve, we are well positioned to take advantage of opportunities as they arise and higher interest rates as they emerge.

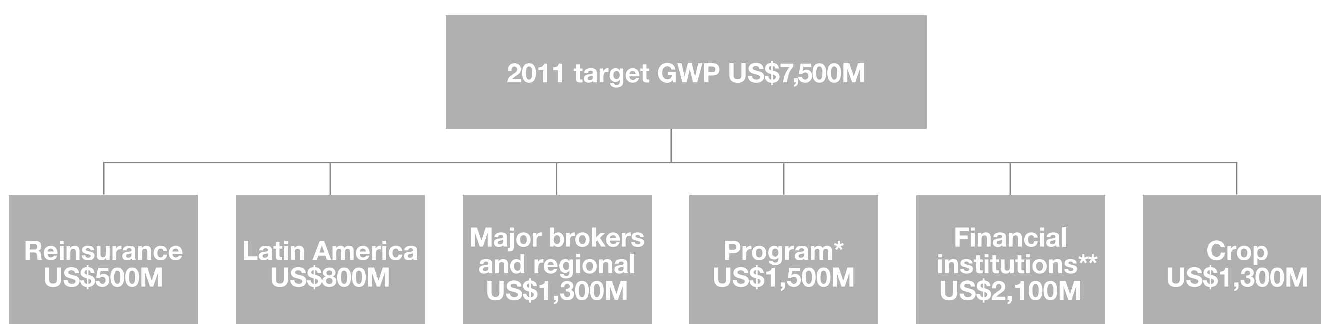
Strategic initiatives are in place and targeted to achieve an improvement of greater than 3% in the combined operating ratio by 2013 from more efficient claims handling and claims cost leakage improvements, coupled with enhanced systems and infrastructure alignment.

We expect economic conditions to remain challenging in 2011 as the economy continues to recover, and we are forecasting average rate increases across the business of around 2%. QBE has maintained underwriting discipline and benefited from strong profits generated from its acquisitions. Including the first full year of the NAU Country acquisition, new strategic initiatives and the recently announced Bank of America distribution agreement and portfolio transfer, we expect an increase in gross written premium to around US$7.5 billion for the Americas in 2011, including around US$800 million from our Latin American operations. This target allows for the cancellation of some regional and program business due to inadequate pricing and profitability. We remain very focused on the bottom line to continue to deliver improved returns for our shareholders and financial stability for our policyholders.

I would like to thank my team for the significant contribution they have made to the growth in premium income and profitability in the Americas in 2010.

John Rumpler
President and chief executive officer, the Americas

In 2011, QBE's business in the Americas is managed in six specific segments: financial institutions, program business, major brokers and regional, Latin America, crop and reinsurance.



* Program business forecast includes wholly-owned agencies.
** Does not include an estimated US$900 million in relation to the portfolio assumption of Balboa Insurance Company and its affiliated entities.

European operations

UNDERWRITING RESULT

FOR THE YEAR ENDED 31 DECEMBER		2010	2009
Gross written premium	US$M	**4,156**	3,961
Gross earned premium	US$M	**4,008**	3,892
Net earned premium	US$M	**2,593**	2,534
Net incurred claims	US$M	**1,498**	1,563
Net commission	US$M	**437**	421
Expenses	US$M	**412**	331
Underwriting result	US$M	**246**	219
Claims ratio	%	**57.7**	61.6
Commission ratio	%	**16.9**	16.6
Expense ratio	%	**15.9**	13.1
Combined operating ratio	%	**90.5**	91.3
Insurance profit to net earned premium	%	**14.5**	15.7

PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2010 %	2009 %		2010 %	2009 %
Marine, energy and aviation	**23.9**	21.3	Property treaty	**10.1**	9.9
Public/product liability	**16.8**	18.7	Workers' compensation	**6.2**	6.3
Professional indemnity	**13.0**	15.2	Financial and credit	**3.1**	3.1
Property facultative and direct	**11.6**	10.7	Other	**2.5**	2.5
Motor and motor casualty	**11.0**	10.5	Accident and health	**1.8**	1.8

STEVEN BURNS

Chief executive officer, European operations FCA

Age 52

Mr Burns has worked at QBE for 10 years and was appointed chief executive officer of QBE's European operations in 2004. He is a chartered accountant and was finance director of the Janson Green managing agency at Lloyd's from 1987, prior to it being acquired by Limit in 1998. Mr Burns became chief executive officer of the Limit Group in August 2000.

European operations produced an improved underwriting result for 2010 despite the challenging market conditions and a year of higher than normal frequency of large individual risk and catastrophe claims and the accelerated costs of systems integration. Underwriting profit, after internal and external reinsurance, was up 12% to US$246 million compared with US$219 million in 2009. The combined operating ratio improved from 91.3% to 90.5%. Lower investment yields on policyholders' funds continued to impact the insurance profit margin.

MARKET CONDITIONS

Soft market conditions prevailed with strong competition on large accounts and new business. A number of catastrophe claims and increased large individual risk claim activity, particularly in the first half of the year, did not encourage any general premium rate increases in the property and liability markets. However, there was selected hardening of premium rates in specialty lines such as offshore energy, airlines, commercial motor and certain property reinsurance markets which will benefit QBE in 2011.

Overall, premium rates for our renewed business were up by 2%, slightly lower than anticipated. With global overcapacity and the absence of an extreme severity of catastrophe claims, reinsurance pricing is expected to remain challenging for US, European and Asian markets.

The underpricing of some products is expected to limit organic growth; however, acquisition and new distribution opportunities will assist new business. We remain disciplined and focused on meeting our minimum return on equity target for all products.

INSURANCE PROFIT

Our conservative risk appetite and disciplined approach to underwriting meant that our underwriting result improved slightly even though the increased frequency of large individual risk and catastrophe claims adversely impacted the combined operating ratio. Lower yields on policyholders' funds reduced the insurance profit margin. Investment income on policyholders' funds was down 28% to US$130 million.

Insurance profit, after both internal and external reinsurance, was US$376 million compared with US$399 million, and the insurance profit margin was 14.5% compared with 15.7% in 2009.

Image: Lloyd's of London building, United Kingdom.

HISTORICAL OVERVIEW IN STERLING

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007
Gross written premium	£M	**2,686**	2,552	2,297	2,148
Net earned premium	£M	**1,676**	1,633	1,491	1,528
Combined operating ratio	%	**90.5**	91.3	85.6	84.8
Insurance profit	£M	**243**	257	377	398
Insurance profit margin	%	**14.5**	15.7	25.3	26.0

PREMIUM INCOME

Gross written premium was up 5% to US$4,156 million. Growth was due to the 2% rate increases achieved on renewed business, a pleasing continued high retention rate of close to 90%, delivery of new business initiatives particularly in our casualty business and two months of business from the Secura acquisition.

Net earned premium was up 2% to US$2,593 million. The lower relative growth rate compared with gross written premium was due to slightly higher reinsurance costs following reinstatement premiums on catastrophes and large individual risk claims.

CLAIMS EXPENSE

The net claims ratio was 57.7% compared with 61.6% last year. The improvement was due to the re-engineering of our property, trade credit and aviation accounts and a reduction in claims relating to the global financial crisis, offset by an increase in catastrophe claims. The net claims ratio also benefited from savings in prior accident year claims provisions.

Although there was no single major catastrophe event in insurance terms in 2010, there was a significant increase in the frequency of mid-sized catastrophe claims and, for the full year, the total cost of large individual risk claims and catastrophe claims was US$90 million higher than the previous year.

Our significant casualty, reinsurance and marine and energy portfolios continue to perform well with stable claims costs and positive prior year development.

THE SKYSCRAPER

Technological developments and the cost of land gave rise to what became known as the skyscraper. These factors continue to push skyscrapers higher, as does the innate desire to express pride and power.

KEY MILESTONES

- **1797: The Ditherington flax mill by Charles Bage**
  Known as the "grandfather of skyscrapers", the flax mill is the oldest iron-framed building in the world.
- **1853: The safety elevator by Elisha Otis**
  The special locking mechanism designed by Otis made it more practicable for taller buildings to be built.
- **1885: Home Insurance Building by William Le Baron Jenney**
  The steel-framed, 10 storey Home Insurance Building in Chicago is generally accepted as the world's first true skyscraper.
- **1963: Tube structural system by Fazlur Khan**
  The tube system made construction more economic and freed the skyscraper from the box shape.

Our European operations Mapflow system is a combined rating and geographical risk solution enabling more accurate pricing for property clients. This leading edge system helps underwriters manage the risk of their property portfolios and better understand the potential aggregate exposures to large individual risk and catastrophe claims.

European operations continued

COMMISSION AND EXPENSES

The combined commission and expense ratio was 32.8% compared with 29.7% last year. The increase was mainly the result of a change in the mix of business, the acquisition of Secura in the second half of the year, increased expenses on transformational IT projects and increased charges from Lloyd's. As foreshadowed in previous reports, we have decided to consolidate a number of legacy systems and outsource functional support. The short-term incremental cost of this project adds 1% to the full year expense ratio in 2010 and 2011 with targeted savings in the combined operating ratio in 2012 of 2%. Much of the benefit from this investment is targeted at reducing our attritional claims ratio.

The net commission ratio was up slightly from last year at 16.9% and the expense ratio was 15.9% compared with 13.1% last year.

OTHER DEVELOPMENTS

In November 2010, we successfully completed the acquisition of Secura BV, a Belgium-based reinsurer with expected annual gross written premium of US$250 million. The integration is on track and we expect solid growth from product diversification opportunities and increased capacity for our clients.

Acquisition and distribution opportunities are emerging, particularly as new regulatory requirements, such as Solvency II, are implemented throughout Europe. QBE is well prepared for these regulatory changes.

During the year we successfully implemented a new underwriting structure consolidating our product management into three main divisions, namely property, casualty and motor; marine, energy and aviation; and reinsurance and credit, including Secura.

Streamlining our management and operational structure will enable a more efficient interface with our brokers and clients and will promote better cross-selling opportunities.

OUTLOOK

The prospects for the market hardening in 2011 are limited and it is more likely, in the absence of material claims activity, that difficult market conditions will continue until 2012. Competition is expected to remain strong with many market players continuing to price risks inadequately in search of market share and growth, irrespective of profit outcome. Whilst these conditions are challenging, our disciplined approach to underwriting and our focus on exceeding QBE's minimum target of a 15% return on equity, rather than pursue top line growth, are expected to ensure stable and predictable underwriting results throughout the cycle.

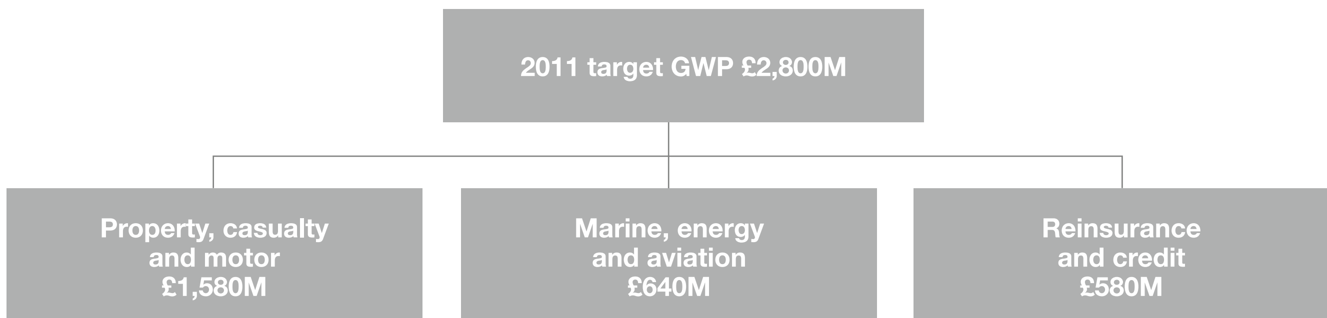
Premium rate increases for 2011 are projected to be around 2% on renewed business. Our priority is to maintain high retention ratios, develop new business initiatives with intermediaries and realise the benefits from the recently completed Secura acquisition.

The implementation of new regulations like Solvency II and the continued fallout from the tough economic conditions are expected to provide QBE with further opportunities for growth and potential acquisitions. While our plan for premium growth in 2011 is relatively modest with expected GWP of around £2.8 billion, we are not prepared to chase underpriced business or business that does not meet our strict underwriting criteria. We will continue to build our branding through a number of internal and external initiatives, including our successful rugby sponsorship.

European operations has again produced a strong result for our shareholders despite the difficult market conditions within which we have had to operate. This would not have been achieved without our very capable and experienced teams of underwriters, claims managers, actuaries, finance and operations support. I sincerely thank them for their enormous contribution during 2010.

Steven Burns
Chief executive officer, European operations

QBE's European operations is a leading specialist underwriter in European commercial lines business. Our main operations are in Lloyd's and the London company markets. QBE also operates from eight regional centres in the UK and has operations in Ireland and 16 mainland European countries.



Australia Asia Pacific operations

Australia Asia Pacific operations produced an outstanding combined operating ratio of 88.9% compared with 88.8% last year. Underwriting profit was up 38% to US$385 million.

VINCE McLENAGHAN

Chief executive officer, Australia Asia Pacific
FANZIIF
Age 51

Mr McLenaghan has worked at QBE for 28 years and was appointed chief executive officer of QBE's Australia Asia Pacific operations in August 2010. Mr McLenaghan has been in the insurance industry for 34 years. During his 28 years with QBE, he has served in a number of general management roles.

AUSTRALIAN OPERATIONS

QBE's Australian operations produced a very satisfying underwriting profit during 2010, up 39% to US$329 million, and a combined operating ratio of 89.2% compared with 89.0% last year.

The division reported continued growth in business with an increased market share in selected markets, mainly from the Elders acquisition in 2009. This strong result was despite experiencing an abnormal level of weather-related catastrophe claims including devastating storms in Victoria, Western Australia, New South Wales and Queensland.

MARKET CONDITIONS AND PRICING TRENDS

Macro economic conditions in Australia continue to be positive, particularly in the mining sector. Consumer confidence remains subdued and cautious, particularly in New South Wales. Volatility throughout the year affected many businesses, restricting confidence, growth in turnover, stock levels and employment, with consequent negative implications for premium growth. Nevertheless, economic growth was positive overall in 2010 benefiting the market generally.

The insurance market remains competitive particularly for larger accounts and new business. This may change as a result of recent catastrophes.

QBE has remained focused on its disciplined approach to underwriting, only writing new and renewal business that meets our strict profit criteria. Renewal retention ratios for most of our products remains stable in the mid 80% range with overall rate increases of 5% achieved in 2010.

QBE achieved significant premium growth off the back of the Elders acquisition, new distribution channels and increasing market share in specifically targeted markets. QBE's primary focus remains in writing business through intermediaries and partners and providing exceptional service and support.

For the ninth consecutive year QBE has been voted "Insurer of the Year" by the members of the National Insurance Brokers Association.

INSURANCE PROFIT

Insurance profit was US$516 million, up 12% compared with US$462 million in 2009 despite the increased catastrophe claims. The insurance profit margin of 17.0% was down from 21.6% last year due to a substantially lower net yield on policyholders' funds.

AUSTRALIAN OPERATIONS

UNDERWRITING RESULT

FOR THE YEAR ENDED 31 DECEMBER		UNDERWRITING OPERATIONS 2010	UNDERWRITING OPERATIONS 2009	AGENCIES 2010	AGENCIES 2009	AUSTRALIAN OPERATIONS 2010	AUSTRALIAN OPERATIONS 2009
Gross written premium	US$M	**3,707**	2,728	**–**	–	**3,707**	2,728
Gross earned premium	US$M	**3,720**	2,588	**–**	–	**3,720**	2,588
Net earned premium	US$M	**3,033**	2,138	**–**	–	**3,033**	2,138
Net incurred claims	US$M	**1,846**	1,299	**–**	–	**1,846**	1,299
Net commission	US$M	**424**	295	**(108)**	(56)	**316**	239
Expenses	US$M	**505**	348	**37**	16	**542**	364
Underwriting result	US$M	**258**	196	**71**	40	**329**	236
Claims ratio	%	**60.9**	60.7			**60.9**	60.7
Commission ratio	%	**13.9**	13.8			**10.4**	11.2
Expense ratio	%	**16.7**	16.3			**17.9**	17.1
Combined operating ratio	%	**91.5**	90.8			**89.2**	89.0
Insurance profit to net earned premium	%					**17.0**	21.6

PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2010 %	2009 %		2010 %	2009 %
Property	**21.0**	20.3	Marine, energy and aviation	**3.5**	3.7
Householders	**16.1**	15.3	Accident and health	**3.1**	3.4
General liability	**13.6**	11.6	Professional indemnity	**3.0**	3.6
Motor and motor casualty	**11.3**	11.6	Other	**1.5**	1.0
Lenders' mortgage insurance	**9.2**	7.5	Credit and surety	**1.1**	4.5
Workers' compensation	**8.0**	8.9	Travel	**0.8**	1.4
Compulsory third party (CTP)	**7.8**	7.2			

In contrast to 2009, the trade credit and surety portfolio returned to underwriting profit in 2010 and our lenders' mortgage insurance division, QBE LMI, again performed strongly.

Property, homeowners and farm and livestock lines of business reported underwriting losses, mainly driven by the increased catastrophe activity.

HISTORICAL OVERVIEW IN AUSTRALIAN DOLLARS

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007
Gross written premium	A$M	**4,051**	3,509	2,914	2,596
Net earned premium	A$M	**3,314**	2,749	2,363	2,141
Combined operating ratio	%	**89.2**	89.0	90.6	82.9
Insurance profit	A$M	**564**	594	494	548
Insurance profit margin	%	**17.0**	21.6	20.9	25.6

PREMIUM INCOME

Gross written premium was up 36% to US$3,707 million (2009 US$2,728 million) or up 15% in Australian dollars to A$4,051 million. Premium growth was assisted by over A$500 million of gross written premium from the Elders insurance and agency acquisitions, premium rate increases and new distribution channels.

Net earned premium increased by 42% to US$3,033 million or was up 21% in Australian dollars to A$3,314 million.

REINSURANCE COSTS

Reinsurance expense was up US$237 million to US$687 million or 18.5% of gross earned premium (2009 17.4%). The higher reinsurance expense ratio mainly reflects the Elders proportional reinsurance arrangements which ceased at the end of June 2010 and the purchase of additional reinsurance covers following the Melbourne and Perth storms. Excluding the Elders insurance portfolios and additional costs to reinstate reinsurance on catastrophe claims, the underlying reinsurance cost was 14.0% of gross earned premium.

CLAIMS EXPERIENCE

The net claims incurred ratio was 60.9% of net earned premium compared with 60.7% in 2009. There were two notable catastrophe events in the first half of the year, namely the Melbourne and Perth storms, with each event creating around US$1 billion of insurance market losses. In addition, Cyclone Ului and the Kalgoorlie earthquake, plus a number of severe storm events on the east coast and the devastating storms in Queensland in December 2010, resulted in an increase in net large individual risk and catastrophe claims of US$51 million compared with last year.

The claims ratios improved in the professional indemnity, New South Wales (NSW) and Queensland CTP, trade credit and QBE LMI portfolios. The workers' compensation portfolio deteriorated slightly due to prior year upgrades for claims inflation. Overall there was a small release of the central estimate of claims provisions from prior years and an increase in risk margins in outstanding claims.

Our many claims staff have worked long hours and travelled across Australia to support our policyholders who have suffered damage due to the many catastrophic events throughout the year. QBE's reputation has been enhanced by their professionalism and focus on quality claims service.

COMMISSION AND EXPENSES

The combined commission and expense ratio remained stable at 28.3%, with continued support from fee income from QBE's wholly-owned agencies and a net benefit from the change in mix of business following the Elders acquisition. The net commission ratio improved from 11.2% to 10.4% reflecting the lower commission on

Image: Radio telescopes.

Elders business and the benefits of other acquired agencies. Net agency income was up US$31 million mainly due to the Elders agency acquisition. Income from service fees for the large managed workers' compensation funds in NSW and Victoria were lower than last year. These, together with the costs of integration of Elders and higher premium levies were the main reasons for the increase in expense ratio from 17.1% in 2009 to 17.9%.

AGENCIES

Underwriting profit for our six wholly-owned agencies increased from US$40 million to US$71 million, with the Elders acquisition benefiting the 2010 result.

Our agency businesses continue to grow and develop with their autonomy, entrepreneurial focus and brand equity protected. Our major agencies, including CHU, continue to deliver strong agency profits and all remain focused on delivery of underwriting results that meet QBE hurdle returns.

Further growth is being planned in the agencies, with CHU expanding into the Dubai strata home units market and investigating growth opportunities in the UK.

The integration of the Elders agency business has been generally successful, although there have been some delays and increased costs in the conversion of the IT systems.

OTHER DEVELOPMENTS

Operational cost reduction initiatives are progressing well. Procurement savings on claims of US$22 million and on expenses of US$4 million were achieved in 2010. IT initiatives targeted to provide benefits internally and to enhance our client service are underway.

During 2010, APRA introduced the concept of its proposed new Life and General Insurance Capital Standards (LAGIC). APRA is continuing to work with the industry to refine requirements, with expected implementation in 2012.

Since year end, we have announced the acquisition of the Australian operations of CUNA Mutual which is subject to regulatory approval. The acquisition will generate around A$80 million of gross written premium in the first full year.

COMMUNICATION TECHNOLOGY

Innovations in communication technology have transformed how we do business. With new technologies came new ways of operating and better ways of meeting customer needs.

KEY MILESTONES

- **1835: Morse code by Samuel Morse**
  Morse co-developed the language of the telegraph and built the first long distance telegraph.
- **1876: The telephone by Alexander Graham Bell**
  Despite some controversy, Bell is credited with inventing the first practical telephone.
- **1960s: Communications satellites**
  Communications satellites opened up an alternative to the intercontinental submarine telegraph cables first laid in the 1860s.
- **1979: First cell phone network, Japan**
  The commercial cell network in Tokyo is the forerunner of today's mobile networks.
- **1989-91: World wide web by Tim Berners-Lee**
  Berners-Lee was the driving force behind the greatest leap in communications in recent times.

In Australia we developed the c.change web portal, a highly effective business tool designed to help intermediaries better manage the risks and policies of their clients. We are in the process of rolling out this award-winning platform to other areas of our global network.

MICHAEL GOODWIN

Chief executive officer, Asia Pacific
BVSc, FIAA, FAICD
Age 52

Mr Goodwin has worked at QBE for six years and was appointed chief executive officer of QBE's Asia Pacific operations in 2007. He is an actuary and has been in the insurance industry for 19 years, having started his career with Mercantile Mutual. Mr Goodwin was deputy general manager of the QBE Mercantile Mutual joint venture when ING's half share was purchased by QBE in 2004 and became chief operating officer of Asia Pacific operations in 2006.

ASIA PACIFIC OPERATIONS

Our operations in Asia Pacific and New Zealand produced another solid underwriting result with the underwriting profit, after internal and external reinsurances, up 27% to US$56 million despite the impact of earthquakes in New Zealand and Vanuatu and floods in Thailand. The combined operating ratio was 86.7%, an improvement on last year's combined operating ratio of 88.1%. The Pacific Islands, Hong Kong, Singapore, Malaysia, Philippines, Macau and Indonesia all produced strong underwriting results. New Zealand was affected by the Christchurch earthquake. All countries apart from Thailand and Vietnam produced underwriting profits.

MARKET CONDITIONS

Economic growth in the Asia region following the global financial crisis has increased business activity with a positive impact on our insurance businesses.

Markets throughout Asia Pacific remained competitive during the year with continuing pricing pressure and most new business opportunities underpriced. There has also been greater competition for broker led business on the larger accounts.

Premium rates on renewed business remain flat across the Asia Pacific region with small increases in Pacific operations and New Zealand offset by small decreases in the Asian markets. Our business retention rates remain high due to our strong relationships with agents and brokers.

Positive signs of rate increases in some countries developed in the latter part of 2010. QBE's strict profit criteria and disciplined approach to underwriting were rewarded with solid underwriting results and some growth in premium income.

PREMIUM INCOME

Gross written premium increased 9% to US$601 million compared with US$549 million last year. We achieved growth in local currency in most of the countries in which we operate. Growth also resulted from movements in foreign exchange rates compared with last year.

During the year, we continued to examine acquisition opportunities; however, none have been converted as they have not met our acquisition criteria.

We started to see increased success in our collaboration efforts with brokers and affinity partners in the region and will continue to build on this in the future.

Net earned premium increased 13% to US$420 million compared with US$372 million last year. Reinsurance expense was 28% of gross earned premium compared with 29% last year. The region benefits from reinsurance protection provided by the Group's captive, Equator Re.

INSURANCE PROFIT

Insurance profit increased to US$77 million compared with US$55 million last year. There was an improvement in the insurance margin, up from 14.8% to 18.3% due to higher investment income on our policyholders' funds.

HISTORICAL OVERVIEW IN US DOLLARS

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007
Gross written premium	US$M	**601**	549	554	488
Net earned premium	US$M	**420**	372	378	348
Combined operating ratio	%	**86.7**	88.1	82.9	82.7
Insurance profit	US$M	**77**	55	94	87
Insurance profit margin	%	**18.3**	14.8	24.8	25.0

ASIA PACIFIC OPERATIONS

UNDERWRITING RESULT

FOR THE YEAR ENDED 31 DECEMBER		2010	2009
Gross written premium	US$M	**601**	549
Gross earned premium	US$M	**587**	524
Net earned premium	US$M	**420**	372
Net incurred claims	US$M	**192**	173
Net commission	US$M	**84**	77
Expenses	US$M	**88**	78
Underwriting result	US$M	**56**	44
Claims ratio	%	**45.7**	46.5
Commission ratio	%	**20.0**	20.7
Expense ratio	%	**21.0**	20.9
Combined operating ratio	%	**86.7**	88.1
Insurance profit to net earned premium	%	**18.3**	14.8

PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2010 %	2009 %
Property	**21.9**	22.1
Marine	**15.0**	14.7
Motor and motor casualty	**13.1**	14.2
Professional indemnity	**12.5**	12.3
Liability	**9.4**	9.3
Workers' compensation	**8.5**	7.4
Accident and health	**5.3**	6.0
Engineering	**4.4**	4.5
Financial and credit	**3.9**	3.9
Travel	**2.2**	1.8
Householders	**2.0**	2.1
Other	**1.8**	1.7

CLAIMS EXPERIENCE

The net claims ratio was 45.7% of net earned premium compared with 46.5% last year. The claims ratio was impacted by a number of catastrophes during the year, in particular the Christchurch and Vanuatu earthquakes and floods in southern Thailand. There was also an increase in large claims in our liability portfolio. Attritional claims rates were slightly lower than 2009. Risk margins in outstanding claims increased and there was a small positive release of central estimate claims provisions from prior years.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 41.0% compared with 41.6% last year. The reduction was due to changes in the mix of business and currency movements. Expense ratios in local currency were in line with last year. We continue to look for methods of improving our efficiency and to increase the benefit from our IT applications development centre in the Philippines.

OTHER DEVELOPMENTS

Our Asia Pacific operations continue to place emphasis on talent development programs and initiatives to reinforce capabilities and maintain a high performance culture. Staff engagement is progressing well and remains a key focus with the implementation of action plans resulting from the engagement surveys in Hong Kong, Malaysia and Singapore.

IT enhancements are progressing and a number of e-business initiatives have been implemented.

Local regulatory reforms continued to dominate throughout 2010. Many countries in the region have continued to move towards a risk-based capital model, in most cases using the principles of the current APRA model. QBE is supportive of risk-based capital modelling. Regulators throughout the region continue to promulgate significant changes to the current regulations. The changes are in line with International Association of Insurance Supervisors' core principles. These changes are consuming significant management time and adding to expense overheads. We expect this to continue in the future and QBE continues to work with the regulators in each of the jurisdictions to ensure that we are well prepared for the changes when they occur.

OUTLOOK

The Australian operations team remains committed to providing its industry-leading service model for customers, intermediaries and business partners and leveraging cross-selling opportunities through QBE's global network.

Subject to large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans, the net combined operating ratio is expected to slightly improve in 2011 due to the positive impact of the Group worldwide reinsurance program, premium rate increases and our continued focus on disciplined underwriting and on efficiency and cost reductions. Gross written premium for our Australian operations in 2011 is expected to be up 9% to A$4.4 billion.

Our Asia Pacific operations are located in 17 countries and our business strategy is based on geographic and product diversification. We continue to capitalise on our strong agency force of over 6,000 agents and we expect all our operations throughout the Asia Pacific region to benefit from improving economic conditions. Our operations are focused on building relationships with our intermediaries and affinity partners across specific products, including utilising Group capabilities to provide products from other QBE divisions. Our Indian joint venture is taking a cautious approach, writing only selective business in extremely difficult market conditions. We continue to develop our entry strategy for the Chinese market and look forward to working with the appropriate stakeholders to capitalise on the opportunities that may exist in that market.

In 2011, we will be looking at small overall premium rate increases across the competitive markets in Asia Pacific and expect growth in gross written premium of around 11% to US$670 million. With our experienced management teams and well developed franchises throughout Asia Pacific and New Zealand, we are confident of our ability to produce another strong underwriting result in 2011, subject to large individual risk claims and catastrophes not exceeding the substantial allowance in our business plans.

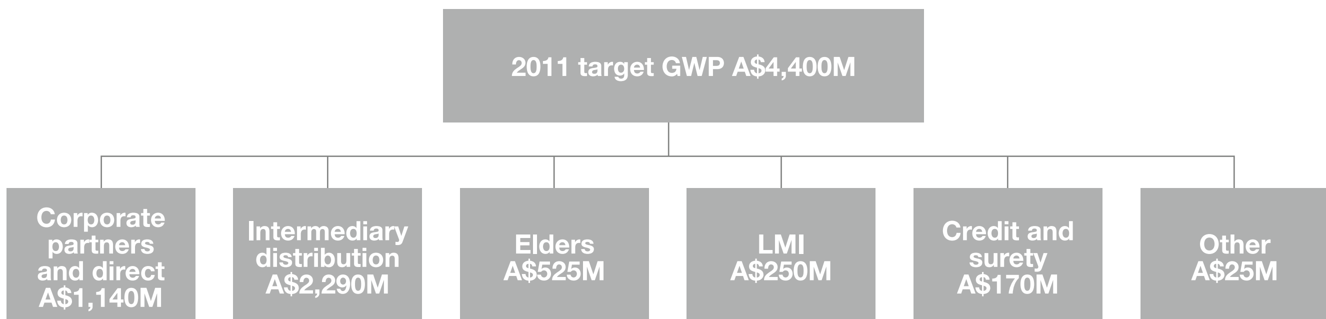
I would like to take this opportunity to thank our teams in Australia and throughout our Asia Pacific operations for the significant contributions that they have made in 2010, and I look forward to their continued support in 2011. I specifically acknowledge the dedication and professionalism of those teams dealing with claims in the aftermath of the recent catastrophes in Australia.

I appreciate the ongoing support we receive from our intermediaries and joint venture partners and look forward to increasing our collaboration efforts in the future.

Vince McLenaghan
Chief executive officer, Australia Asia Pacific

AUSTRALIAN OPERATIONS

QBE's Australian operations provide localised services from more than 50 offices spanning each state and territory. Our business focus is on meeting the needs of our intermediary partners and clients, in particular through automated transaction flow.



ASIA PACIFIC OPERATIONS

QBE's Asia Pacific and New Zealand operations are located in 17 countries. The business model is based on a strong agency force of over 6,000 agents with a strategy to build upon our broker and affinity relationships.

Equator Re

Equator Re is QBE's captive reinsurer. It is domiciled in Bermuda and provides both excess of loss and proportional reinsurance protections to QBE entities globally.

DES FOGARTY

PRESIDENT, EQUATOR RE
B Comm, ACII
Age 49

Mr Fogarty has worked at QBE for 22 years and was appointed president of Equator Re in 2005. He previously worked for Universal Insurance Company of Ireland Limited from 1983. He has held a number of senior management positions within the Group in Ireland and the UK. He has extensive experience in the reinsurance arena, having worked in both claims and underwriting.

Risks assumed by Equator Re are carefully selected, modelled and priced to ensure that they, together with risks retained by QBE's other divisions, do not exceed the Group's maximum event retention limits and tolerance for risk. All business written is subject to a minimum 15% return on equity target and benchmarked against open market pricing. Equator Re provides a key part of the reinsurance requirements of the Group, supporting the management of aggregate exposures to any one large individual risk or catastrophe claim and the achievement of optimum levels of capital in the Group.

All gross premium income, claims and commissions received from or paid to related entities are eliminated when determining the Group's consolidated result.

MARKET CONDITIONS

Equator Re continued its strong premium growth due to the impact of QBE Group acquisitions; however, this was offset somewhat by prevailing soft market conditions and the overall modest premium rate increases achieved by the operating divisions in the direct insurance markets and the consequent effect on proportional cessions to Equator Re. Due to the relatively high incidence of catastrophe claims, Equator Re benefited from reinstatement premium income triggered by catastrophe claims on excess of loss contracts. Equator Re writes premium throughout the entire year in many currencies such that fluctuations in cross currency exchange rates can impact full year premium earnings compared with prior years. Exchange rates can also impact claims based on the timing of claims occurrence, recognition and settlement. The tough global economic conditions adversely impacted investment yields, with Equator Re's investment portfolio being held in multiple currencies and in low risk investments to match its liability exposures.

UNDERWRITING RESULT

FOR THE YEAR ENDED 31 DECEMBER		2010	2009
Gross written premium	US$M	**2,479**	1,994
Gross earned premium	US$M	**2,363**	1,918
Net earned premium	US$M	**2,307**	1,875
Net incurred claims	US$M	**1,417**	1,113
Net commission	US$M	**575**	440
Expenses	US$M	**87**	100
Underwriting result	US$M	**228**	222
Claims ratio	%	**61.4**	59.4
Commission ratio	%	**24.9**	23.5
Expense ratio	%	**3.8**	5.3
Combined operating ratio	%	**90.1**	88.2
Insurance profit to net earned premium	%	**14.0**	17.4

PORTFOLIO MIX

GROSS EARNED PREMIUM FOR THE YEAR ENDED 31 DECEMBER	2010 %	2009 %		2010 %	2009 %
Property	**26.5**	21.2	Workers' compensation	**4.8**	7.9
Public/product liability	**17.8**	22.1	Accident and health	**4.5**	1.2
Marine, energy and aviation	**14.0**	15.2	Professional indemnity	**4.3**	4.7
Agriculture and bloodstock	**11.1**	1.2	Other	**2.1**	0.2
Motor and motor casualty	**7.4**	19.6	Householders	**1.5**	4.7
Financial and credit	**5.1**	1.3	Lenders' mortgage insurance	**0.9**	0.7

INSURANCE PROFIT

Insurance profit of US$322 million was broadly in line with last year (2009 US$326 million) while the insurance profit margin of 14.0% was down against the comparative margin of 17.4%. The lower margin was due to a decline in investment yields on policyholders' funds and a higher claims ratio, with the latter due to the increased frequency and severity of weather-related events and earthquake claims in 2010.

The combined operating ratio was 90.1% compared with 88.2% last year, a very good technical result in a year with a high frequency of catastrophe claims.

GROSS WRITTEN PREMIUM BY SOURCE HISTORICAL OVERVIEW IN LOCAL CURRENCY

FOR THE YEAR ENDED 31 DECEMBER		2010	2009	2008	2007
the Americas	US$M	**1,371**	979	792	761
European operations	£M	**540**	517	417	316
Australian operations	A$M	**155**	146	268	162
Asia Pacific operations	US$M	**131**	99	90	137
Total	US$M	**2,479**	1,994	1,870	1,667

PREMIUM INCOME

Gross written premium of US$2,479 million was 24% higher than the prior year figure of US$1,994 million. This increase was due to new business, particularly due to recent acquisition activity emanating from the Americas and additional catastrophe covers, reinstatement premiums and restructuring of some existing excess of loss programs. This increase more than offset the cancellation of marginal programs which Equator Re selected not to renew in 2010 and decreases on some proportional contracts relating to changes in the underlying business written by QBE. Net earned premium growth of 23% to US$2,307 million, up from US$1,875 million, was in line with written premium growth.

CLAIMS EXPERIENCE

The net claims ratio increased from 59.4% in 2009 to 61.4% in 2010. Equator Re had exposure to a number of significant catastrophe claims including the Perth and Melbourne hail storms, earthquakes in Chile and New Zealand and some limited exposure to the Deepwater Horizon disaster. Equator Re experienced a lower frequency of large individual risk claims compared with 2009. The Equator Re result benefited from a small release from prior year central estimates.

COMMISSIONS AND EXPENSES

The combined commission and expense ratio of 28.7% was consistent with the prior year ratio of 28.8%. Equator Re's commission ratio was largely impacted by commissions and profit commissions paid to related entities on proportional contracts and the reimbursement of a portion of the costs incurred in generating the business that is ceded. All commissions and expenses comply with relevant transfer pricing regulations.

Image: Hurricane headed for Gulf of Mexico.

OTHER DEVELOPMENTS

The Bermuda Monetary Authority (BMA) has confirmed that it is seeking equivalence with the Solvency II requirements being developed in Europe. Whilst initial changes are focused on Bermudian entities writing non-related, open market business, it is expected that the capital requirements for captives will also come under increased regulatory scrutiny in the near term. Equator Re is working closely with the BMA to ensure that it is fully compliant with the new enhanced regulatory environment. Equator Re continues to have a Standard & Poor's financial strength rating of A+ and holds net assets of around US$1.6 billion.

OUTLOOK

The QBE Group has negotiated a unique worldwide reinsurance program for 2011, which combines many of the current reinsurance arrangements for various products into global programs. As part of this restructure, the excess of loss covers provided by Equator Re have also been restructured. This will increase Equator Re's premium revenues, whilst ensuring product and geographic diversification is maintained. As part of the Group worldwide reinsurance cover, we expect overall lower reinsurance costs, more comprehensive coverage and improvement in the combined operating ratio. As the Group continues its acquisition strategy, it is expected that business written by Equator Re will continue to grow, resulting in net premium growth with a small improvement in the combined operating ratio over 2010. Target gross written premium for 2011 is US$3.5 billion.

The Equator Re team has delivered on a number of key projects in the past year which have significantly increased the efficiency and scalability of this division while continuing to manage an ever increasing book of business. I would like to thank the team for their commitment and their contribution to the success of Equator Re and the broader QBE Group.

Des Fogarty
President, Equator Re

INSURANCE

People have pooled financial risks for a very long time. In today's globalised world this pooling is becoming increasingly larger to provide acceptable levels of risk.

KEY MILESTONES

- **1750BC: The code of Hammurabi, Babylon**
  For a fee, shippers could cancel a loan made to fund their shipment if their goods went missing at sea.
- **1688: Lloyd's of London, England**
  Began as a coffee house where people wanting to insure their cargoes met underwriters.
- **19th century: Establishment of reinsurance companies, Europe**
  Specialist reinsurance businesses write multiple lines of business in multiple locations.
- **1962: Offshore captive insurance market, Bermuda**
  This new market offered lower costs, greater control over risk and direct access to reinsurance.
- **1990s: Securitisation of catastrophe risks**
  Evolved after Hurricane Andrew to bring more risk-bearing capacity to the catastrophe reinsurance market.

In 2010, QBE negotiated a unique specialised global reinsurance arrangement with a panel of major international reinsurers. This is the first arrangement of its type to offer a truly global pool of coverage with integrated vertical protection and cover against frequency without restriction by geography or layers of risk.

Board of directors

Directors are selected to achieve a broad range of skills, experience and knowledge complementary to the Group's activities. The board currently comprises eight directors, being an independent chairman, the chief executive officer and six independent non-executive directors.

BELINDA HUTCHINSON AM

BEC, FCA, MAICD, AGE 57
CHAIRMAN

Ms Hutchinson was appointed as an independent non-executive director of QBE in September 1997 and became chairman in July 2010. She is chairman of the funding committee and a member of the audit and risk, investment and remuneration committees. She is a director of AGL Energy Limited and St Vincent's Health Australia. She is also a member of the Salvation Army Sydney and Territorial advisory board and the external advisory panel of the Australian Securities & Investments Commission.

LEN BLEASEL AM

FAIM, FAICD, AGE 68

Mr Bleasel was appointed as an independent non-executive director of QBE in January 2001. He is chairman of the remuneration committee and a member of the audit and risk committee. Mr Bleasel is the chairman of APA Group. He is also the chairman of the Zoological Parks Board of NSW and is a member of the RBS Group (Australia) Pty Limited advisory council. Since July 2010, following the previous chairman's retirement, Mr Bleasel has acted as the lead independent director.

DUNCAN BOYLE

BA, FCII, FAICD, AGE 59

Mr Boyle was appointed as an independent non-executive director of QBE in September 2006. He is chairman of the audit and risk committee and a member of the remuneration committee. Mr Boyle is a director of Clayton Utz and Stockland Trust Group and has 38 years experience in the insurance industry in Australia, New Zealand and the UK.

ISABEL HUDSON

MA, FCII, AGE 51

Ms Hudson is based in the UK and was appointed as an independent non-executive director of QBE in November 2005. She is a member of the audit and risk and remuneration committees. Ms Hudson is chairman of the business development board of Scope, a UK charity, and a director of MGM Advantage, Phoenix Group Holdings and the Pensions Regulator in the UK. She is a member of the Standard Life With Profits Committee. She has 30 years experience in the insurance industry in the UK and mainland Europe.

CHARLES IRBY

FCA (ENGLAND & WALES), AGE 65

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

IRENE LEE

BA, BARRISTER-AT-LAW, AGE 57

Ms Lee was appointed as an independent non-executive director of QBE in May 2002. She is the chairman of the investment committee and a member of the audit and risk and funding committees. Ms Lee is the non-executive chairman of Keybridge Capital Limited, a director of Cathay Pacific Airways Limited, ING Bank (Australia) Limited and the Myer Family Company Pty Limited and is an alternate non-executive director of Hysan Development Company Ltd. She is a member of the advisory council of JP Morgan Australia.

JOHN GREEN

B. JURIS/ LLB, FAICD, SF FIN, AGE 58

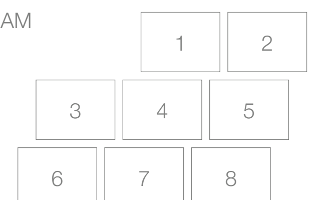
Mr Green was appointed as an independent non-executive director of QBE in March 2010. He is a member of the funding, investment and remuneration committees. He is a non-executive director of WorleyParsons Limited and a number of not-for-profit organisations, a member of the Takeovers Panel in Australia, a book publisher at Pantera Press, a novelist and a business writer. He was previously an executive director at Macquarie Bank and, prior to that, a partner in two commercial law firms.

FRANK O'HALLORAN

FCA, AGE 64
CHIEF EXECUTIVE OFFICER

Frank O'Halloran has been the chief executive officer and managing director of QBE Group since 1998. Frank has 48 years experience in financial services including 34 years at QBE in various Group head office and board roles such as financial controller, chief financial officer, director of finance and director of operations. With an unparalled depth of understanding of the QBE business and the insurance industry generally, Frank's leadership is widely recognised and in 2010 he was inducted into the International Insurance Society Hall of Fame.

1 Belinda Hutchinson AM
2 Len Bleasel AM
3 Duncan Boyle
4 Isabel Hudson
5 Charles Irby
6 Irene Lee
7 John Green
8 Frank O'Halloran



Corporate governance statement

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

The statement incorporates the disclosures required by the revised recommendations of the ASX Corporate Governance Council (ASX CGC) issued in June 2010.

BOARD OF DIRECTORS

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Group's activities. Details of individual directors are included on pages 50 and 51 and can also be found on the QBE website at www.qbe.com. The board currently comprises eight directors including an independent chairman, the chief executive officer and six independent non-executive directors applying the "independence" definition of the ASX CGC. Applying this definition, the board has determined that a non-executive director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of revenue.

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

The relationships identified by the ASX CGC as affecting a director's independent status no longer refer to the period for which a director has served on a board. Nevertheless, as a general guide, the board has agreed that a non-executive director's term should be approximately 10 years. The board considers that a mandatory limit on tenure would deprive the Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. Ms BJ Hutchinson AM has been a non-executive director since September 1997 and chairman since July 2010. She was re-elected as a director at the 2009 AGM. QBE's other directors believe that Ms Hutchinson AM continues to exercise independent judgment and, through her QBE experience, makes an important contribution. They also believe that the chairman's experience gained from directorships in other businesses provides an advantage to QBE.

In 2010, Mr Bleasel AM was appointed lead independent director, which role includes leading the board's evaluation of the chairman.

The chairman oversees the performance of the board, its committees and each director. The board review procedure involves an annual assessment of the entire board and each director, comprising a combination of written questions and answers together with an interview with each director. The chairman reports the overall result to the board and it is discussed by all directors. This review procedure is a precursor to other directors determining whether to support, via the notice of meeting, a non-executive director for re-election at an AGM. The last board review was completed in accordance with the process above in December 2010 ahead of nominating Mr CLA Irby for re-election at the 2011 AGM. The last board review included the audit and risk, investment and remuneration committees as the main committees of the board. The review concluded that each committee was operating soundly and meeting the terms of its charter.

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

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

In accordance with its charter, the board:

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

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

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

The board delegates responsibility to the chief executive officer for management of the business on a day-to-day basis.

Corporate governance statement

BOARD SELECTION PROCESS

The board considers that a diverse range of skills, backgrounds, knowledge and experience is required in order to effectively govern the Group. The board believes that its composition, including selection, appointment, renewal and retirement of members, to be of such importance that it is the role of the board as a whole to review. As a result, all directors are members of the nomination committee.

The board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. Directors review the size and composition of the board regularly and at least once a year as part of the board evaluation process. The board has a skills matrix covering the competencies and experience of each member. When the need for a new director is identified, the required experience and competencies of the new director are defined in the context of this matrix and any gaps that may exist. Generally a list of potential candidates is identified based on these skills required and other issues such as geographic location and diversity criteria. External consultants may be employed where necessary to search for prospective board members. Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates are sought who have a proven track record in creating shareholder value, utmost integrity, a commitment to corporate governance, the required time to commit to the position, a strategic mindset, a preparedness to constructively question and challenge and an independence of mind. The board has adopted non-executive director nomination guidelines.

COMMITTEES

The board is supported by several committees which meet regularly to consider the audit and risk management processes, investments, remuneration and other matters. The main committees of the board are the audit and risk committee, the investment committee and the remuneration committee. The first of these committees became the audit and risk committee during the year to better reflect its role. These committees operate under a written charter approved by the board. Any non-executive director may attend a committee meeting. The committees have direct and unlimited access to QBE's senior managers during their meetings and may consult external advisers when necessary at QBE's cost, including requiring their attendance at committee meetings. Committee membership is reviewed regularly. The chairman of each of the audit and risk and investment committees changed in September 2010 based on experience and following the appointment of Ms BJ Hutchinson AM as Group chairman in July 2010.

In addition, the board has established a funding committee comprising the chairman, Mr JM Green, Ms IYL Lee and the chief executive officer. This committee meets as required.

A report on each committee's last meeting is provided to the next board meeting. The company secretary acts as secretary to all committees. Details of directors' attendance at board and committee meetings are outlined in the table of meeting attendance set out in the directors' report on page 62.

Audit and risk committee

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

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

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

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

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

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

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

External auditor independence

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

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

Corporate governance statement

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

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

Investment committee

The membership of the investment committee comprises four non-executive directors and one executive director. The investment committee normally meets five times a year. The chairman must be a non-executive director who is not the chairman of the board. The current members are Ms IYL Lee (chairman), Mr JM Green, Mr CLA Irby, Ms BJ Hutchinson AM and Mr FM O'Halloran. Meetings of the investment committee usually include, by invitation, the chief investment officer and the chief financial officer. As appropriate, other relevant senior managers also attend.

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

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

The investment committee's responsibilities include review of economic and investment conditions as they relate to QBE and overseeing investment performance, including the performance of any defined benefit superannuation funds sponsored by QBE.

Remuneration committee

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

QBE's governance of remuneration focuses on ensuring that the remuneration and reward strategy and frameworks are aligned with robust risk management practices and strong governance principles and that shareholders receive value for remuneration expenditure.

The role of the remuneration committee is to oversee QBE's general remuneration practices. The remuneration committee, in particular, assesses the appropriateness of remuneration frameworks and practices in order to fairly and responsibly reward the chief executive officer and other members of the Group executive. The remuneration committee ensures rewards are commensurate with performance and that remuneration levels are competitive in the various markets in which QBE operates. The remuneration committee has access to detailed external research from independent consultants.

The remuneration committee's responsibilities include:

- recommendation of the total remuneration (fixed and at-risk) of the chief executive officer to the board and approval of the total remuneration of other members of the Group executive;
- review and approval of short-term and deferred incentives such as equity-based plans;
- review of superannuation;
- review of performance measurement criteria, succession plans and other major human resource practices;
- monitoring of personal development plans (PDP) for the Group executive and other senior positions;
- recommendations on non-executive director remuneration to the board;
- review of reward structures (including incentive schemes) for employees of APRA regulated entities (such as risk and financial control employees) in accordance with the requirements of APRA prudential standards relating to the governance of remuneration; and
- review of workplace diversity.

The remuneration committee recognises that the key to achieving sustained performance is to motivate and retain quality employees and align executive reward with changing shareholder wealth. The remuneration committee has the discretion to reduce deferred equity awards to the Group executive where financial results subsequently deteriorate.

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

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

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

PDPs occur periodically in accordance with the process above, and several took place in 2010. In addition, the board continually monitors the performance of the Group executive through regular contact and reporting.

QBE has operations and staff in 49 countries with differing laws and customs. QBE's remuneration policy therefore reflects the fact that QBE is a global organisation, whilst also taking into account local remuneration levels and practices.

Corporate governance statement

Details of remuneration

Details of remuneration of executives and non-executive directors, such as employee entitlements under the Employee Share and Option Plan, deferred equity awards and superannuation are included in the remuneration report on pages 64 to 88 and in notes 30 and 31 to the financial statements.

Global workforce diversity policy

On 3 December 2010, the remuneration committee approved a global workforce diversity policy in early adoption of the amendments to the ASX CGC recommendations. The policy provides a platform for an integrated diversity management policy across the Group, leveraging initiatives already in place within QBE's divisional operations and improving governance and monitoring of diversity at all levels. A workforce diversity committee will annually set and monitor specific objectives in line with the policy.

The Group has considerable diversity in its workforce. Diversity in the context of QBE encompasses differences in ethnic background, gender, age, sexual orientation, religion and disability. The Group has been assessed as compliant with the Equal Opportunities for Women in the Workplace Act 2010 (for Australian-based employees) and has received positive endorsement regarding the accessibility of employee programs to women and the introduction of new initiatives that support parents returning to work after parental leave. Gender diversity throughout the organisation is in line with Australian industry benchmarks. Women comprise 55.6%(1) of employees throughout the Group. Across all divisional operations, 19.4%(2) of senior leadership roles(3) are occupied by female employees. Representation of women at the board level is considered strong with three members of the QBE Group board being female.

Subject to local legal requirements and other commitments within each market within which QBE operates, QBE's aspirational goal for women in senior positions is 25% for Group head office and 20% for its divisions by 31 December 2012. The policy is available in the corporate governance area of QBE's website or on request from the company secretary.

RISK MANAGEMENT

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

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 quality business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of proven employees skilled in such products allows QBE to lead underwrite in many of the markets in which we operate. Geographic diversification is achieved by operating in 49 countries.

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

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

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

The Group has established internal controls to manage material business risks in the key areas of exposure relevant to QBE. The broad risk categories are strategic risk, insurance risk, credit risk, market risk, liquidity risk, operational risk and Group risk. Internal controls and systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and foreign exchange exposures are within predetermined guidelines.

The board approves a comprehensive risk management strategy (RMS) and reinsurance management strategy (REMS) annually, both of which are lodged with APRA. The RMS outlines the principles, framework and approach to risk management adopted by the Group, deals with all areas of significant business risk to the Group and outlines the Group's risk tolerances. The REMS covers topics such as the Group's risk tolerance and the Group's strategy in respect of the selection, approval and monitoring of all reinsurance arrangements. The Group security committee assesses reinsurer counterparty security. This management committee normally meets four times a year and holds special meetings as required.

(1) As at 30 June 2010.

(2) As at October 2010.

(3) Senior leadership roles for the purpose of this statement includes all roles that have strategic, financial and operational accountability with responsibilities for complex and operational people management and policy development.

Corporate governance statement

While the RMS and REMS are approved by the board, QBE believes that managing risk is the day-to-day responsibility of the Group head office and the business units, and that all staff need to understand and actively manage risk. The business units are supported by risk management teams, compliance teams, the Group risk and compliance manager and by senior management. Further information on risk management is provided on pages 28 to 31 of the annual report and in note 5 to the financial statements.

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

Internal audit

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

Delegated authorities

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

Actuarial review

It is a long-standing practice of the directors to ensure that the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims provision is reviewed by experienced internal actuarial staff. The chief actuarial officer is based in head office and there are over 220 actuarial staff in the Group. Actuarial staff are involved in forming an independent view, separate from management, of the central estimate and the probability of adequacy of the outstanding claims provision and premium liabilities, premium rates and related matters. More than 95% of QBE's outstanding claims provision is also reviewed by external actuaries annually. External actuaries are generally from organisations which are not associated with the external auditor.

Insurance and other regulation

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

COMMUNICATION AND GUIDELINES

Continuous disclosure

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

QBE takes the spirit of its continuous disclosure obligations very seriously and issues frequent market releases during the year to satisfy those obligations. A list of the material releases made since 1 January 2010 is included on page 173.

Communication with shareholders

The *Corporations Act 2001* no longer requires QBE to distribute an annual report to all shareholders except to those who elect to receive it. QBE also produces a half year report which is sent to all shareholders who elect to receive it. Both reports are available on the QBE website. The website also contains historical and other details on the Group. Shareholders can discuss their shareholding with either the shareholder services department or the share registrar, both located in Sydney.

The AGM is held in Sydney each year, usually in April. In 2011, it will be 5 April. Shareholders are encouraged to attend the AGM in person or by proxy. Most resolutions in the notice of meeting have explanatory notes. During the AGM, shareholders may ask questions of either the chairman or the external auditor.

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

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

Corporate governance statement

Share trading policy

QBE revised its policy in 2010 for directors and senior Group executives relating to the purchase and sale of QBE securities. These are in addition to the insider trading provisions of the *Corporations Act 2001*. In particular, the policy states that directors and senior Group executives should:

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

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

Other Group guidelines

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

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

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

QBE in Australia follows the general insurance code of practice, a self-regulated code developed by the Insurance Council of Australia relating to the provision of products and services to customers of the general insurance industry of Australia. A revised code of practice commenced in July 2010.

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

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

Details of indemnification and insurance arrangements are included in the directors' report on page 61.

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

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

Environmental issues

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

QBE's response to the latest CDP questionnaire, CDP2010, was published in September 2010 and is available on our website in the investor information section.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2010

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of or during the year ended 31 December 2010.

DIRECTORS

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

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

Mr EJ Cloney AM was director and chairman from the beginning of the financial year until his retirement on 4 July 2010.

Ms BJ Hutchinson AM was appointed to the role of chairman on 5 July 2010.

Mr JM Green was appointed as a director effective from 1 March 2010.

At the 2011 annual general meeting (AGM), Mr Irby will retire by rotation and offer himself for re-election.

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

CONSOLIDATED RESULTS

	2010 US$M	2009 US$M
REVENUE		
Premium revenue	**13,432**	10,943
Other revenue	**1,767**	1,510
Net fair value gains on financial assets	**8**	360
Realised gains on sale of controlled entities	**2**	6
Investment income – ABC financial assets pledged for funds at Lloyd's	**–**	101
Total revenue	**15,209**	12,920
Share of net profits (losses) of associates	**5**	(6)
EXPENSES		
Outward reinsurance premium expense	**2,070**	1,497
Gross claims incurred	**7,875**	6,342
Other expenses	**3,487**	2,853
Net fair value losses on investment properties	**2**	16
Net fair value losses on owner occupied properties	**7**	23
Expenses – ABC securities for funds at Lloyd's	**–**	107
Financing and other costs	**222**	185
Profit before income tax	**1,551**	1,891
Income tax expense	**257**	348
Profit after income tax	**1,294**	1,543
Net profit attributable to non-controlling interests	**16**	11
Net profit after income tax attributable to ordinary equity holders of the company	**1,278**	1,532

PROFIT

Net profit after income tax for the year ended 31 December 2010 was down 17% from US$1,532 million last year to US$1,278 million. Although underwriting profitability increased by 19%, net profit after income tax was adversely impacted by a 43% reduction in overall investment income due to continued low investment yields and lower credit spreads on our fixed interest and cash securities, particularly in the US, the UK and Europe. Equity markets remained volatile in 2010 with equity returns substantially lower than 2009.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2010

DIVIDENDS

The directors are pleased to announce a final dividend of 66.0 Australian cents per share for the year ended 31 December 2010, unchanged from 66.0 Australian cents last year. The substantial growth in our overseas profits has meant that the franking of the interim dividend will be reduced to 10%. The total dividend payout is A$1,336 million compared with A$1,306 million last year. The bonus share and dividend reinvestment plans continue at a 2.5% discount.

ACTIVITIES

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

SHAREHOLDERS' FUNDS

Shareholders' funds were US$10,311 million compared with US$9,164 million last year. The movement includes the profit for the year and the impact of exchange rate movements on the translation of our foreign operations to US dollars, which were partly offset by the payment of the final 2009 and interim 2010 dividends during the year.

The number of shares advised to the ASX increased slightly from 1,025 million to 1,052 million.

CHANGE IN PRESENTATION CURRENCY

The Group has elected to adopt a US dollar presentation currency. The US dollar is considered to be more relevant for measuring performance given that around 50% of annualised gross written premium is derived in US dollars. In accordance with the requirements of the relevant accounting standard, comparative information has been restated to US dollars.

REVIEW OF OPERATIONS

Gross earned premium was US$13,432 million, up 23% from last year. Premium growth was achieved largely as a result of the 2009 acquisition of Elders Insurance and Elders agency business, further business sourced through Sterling National which was acquired in 2008 and the impact of our 2010 acquisitions. Net earned premium increased 20% to $11,362 million, impacted by proportional reinsurance costs in relation to the Elders and NAU Country businesses, and reinstatement costs resulting from the increased catastrophe claims experience in the year.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 89.7% compared with 89.6% last year. The net claims ratio was 59.9% compared with 60.3% last year with the movement including an increased frequency of large individual risk and catastrophe claims. The strength of our provision for outstanding claims improved slightly due to the impact of the 2010 acquisitions. The probability of adequacy was 89.8% compared with 88.1% at 31 December 2009. The combined commission and expense ratio increased from 29.3% last year to 29.8% mainly due to additional costs for transformational IT projects, increased premium taxes and Lloyd's levies and lower net agency income in relation to Sterling National as more of the business is now written on QBE's paper.

the Americas

This division reported net earned premium growth of 19% to US$3,009 million. Growth was due mainly to the recent acquisitions and increased lender placed property business sourced through Sterling National. The combined operating ratio was 89.7%, unchanged from last year. The net claims ratio increased slightly from 61.3% to 61.6% reflecting the impact of volatile weather conditions which generated a higher than normal level of weather-related catastrophe claims. This was partly offset by the impact of business written through Sterling National which typically runs at a lower claims ratio. The combined commission and expense ratio reduced slightly from 28.4% to 28.1% primarily due to the impact of the NAU Country acquisition, which has a lower commission and expense ratio, and the benefits of process improvements and continued integration.

European operations

European operations' combined operating ratio was 90.5% compared with 91.3% last year, impacted by prevailing soft market conditions and increased large individual risk and catastrophe claims activity. Net earned premium increased by 2% to US$2,593 million mainly due to growth in our casualty portfolios, the impact of rate increases on renewed business and the Secura acquisition. These were partially offset by increased reinstatement costs in relation to catastrophe claims activity. The net claims ratio reduced from 61.6% to 57.7% with the impact of large individual risk and catastrophe claims more than offset by improvements in our property, aviation and trade credit portfolios and the impact of favourable earn-outs from prior accident year claims provisions. The combined commission and expense ratio increased from 29.7% to 32.8%. The commission ratio increased from 16.6% to 16.9%. The increase in the expense ratio from 13.1% to 15.9% was due to a change in the mix of business, the effect of the Secura acquisition, increased expenses relating to transformation IT projects and an increase in Lloyd's charges.

Australian operations

Australian operations' combined operating ratio was 89.2% compared with 89.0% last year. The strong result is after absorbing the impact of an increase in frequency of large individual risk and catastrophe claims. Net earned premium of US$3,033 million was up 42% from last year. The strong growth reflects the impact of exchange rate movements, the Elders acquisition in 2009, premium rate increases and new distribution channels. The net claims ratio increased slightly from 60.7% last year to 60.9%. Whilst we experienced an increased frequency of weather-related catastrophe claims, claims ratios in professional indemnity, NSW CTP, trade credit and LMI improved compared with last year. The combined commission and expense ratio was unchanged at 28.3%. The commission ratio reduced from 11.2% to 10.4%, benefiting from the contribution made by our agency acquisitions. The expense ratio increased from 17.1% to 17.9% mainly due to the Elders integration costs and reduced fee income from managed workers' compensation funds in NSW.

Asia Pacific operations

Asia Pacific operations' combined operating ratio was 86.7%, down from 88.1% last year. Competition in most of the markets in which we operate remained strong, reflecting the difficult economic conditions and a lack of new business. Net earned premium was up 13% to US$420 million, reflecting growth in many of the countries in which we operate and the impact of exchange rate movements. The claims ratio reduced from 46.5% to 45.7%. Whilst we experienced an increase in the number of large individual risk and catastrophe claims, particularly the Christchurch earthquake, the result benefited from a reduction in attritional claims. The combined commission and expense ratio reduced from 41.6% to 41.0% mainly due to a change in the mix of business and the effect of foreign exchange movements.

Equator Re

Equator Re is QBE's wholly owned captive reinsurer based in Bermuda. The division reported net earned premium growth of 23% to US$2,307 million. The growth largely reflected the impact of recent acquisitions, reinstatement premium due to increased claims activity and new catastrophe covers written. The combined operating ratio was 90.1% compared with 88.2% last year. The net claims ratio increased from 59.4% to 61.4%. Equator Re was exposed to a number of catastrophe claims in the year, although it experienced a lower frequency of large individual risk claims compared with 2009. The result also benefited from some small releases of prior year claims provisions. The combined commission and expense ratio of 28.7% was down slightly compared with 28.8% last year.

Net investment income

Investment income, net of foreign exchange gains and investment expenses, was US$659 million compared with US$1,159 million last year. The movement was impacted by:

- lower interest income with cash and fixed interest securities yielding 2.5% gross compared with 3.8% last year;
- realised and unrealised equity losses of US$48 million compared with gains of US$78 million last year; and
- one-off items in 2009, being foreign exchange gains of US$191 million following the cessation of our hedging of net investments in foreign operations and realised gains of US$54 million on the repurchase of our own debt securities.

The gross investment yield before borrowing costs, exchange gains and losses and investment expenses was 2.9% compared with 4.5% last year.

Income tax

Income tax expense for the period reduced from 18% of net profit before income tax last year to 17% due to the resolution of uncertain tax items and increased profits in lower tax paying countries.

Outstanding claims provision

The provision for outstanding claims for the majority of Group entities is determined after consultation with internal and external actuaries. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. As in previous years, the directors consider that substantial risk margins are required in addition to actuarial central estimates to cover uncertainties such as latency claims, changes in interest rates and superimposed inflation. The APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

GROUP INDEMNITIES

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

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

The indemnity extends to legal costs other than where:

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

DIRECTORS' AND OFFICERS' INSURANCE

QBE pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the Group together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the Group's employees against liabilities past, present or future. The officers of the Group covered by the insurance contract include the directors listed on page 58, the secretary, DA Ramsay, and deputy secretary, P Smiles.

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

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

SIGNIFICANT CHANGES

There were no significant changes in the Group's state of affairs during the financial year.

EVENTS SUBSEQUENT TO THE BALANCE DATE

On 18 November 2010, QBE announced an agreement to acquire the US operations of Renaissance Re, which include a US crop and small specialist program insurance business. The acquisition is subject to regulatory approvals with completion expected in March 2011. The cost is estimated at US$275 million for net tangible assets of US$215 million.

On 4 February 2011, QBE announced the following transactions:

(i) an initial 10 year distribution agreement with Bank of America; and

(ii) the assumption of US$1.2 billion of insurance liabilities and matching assets of Balboa Insurance Company and its affiliates, subsidiaries of Bank of America.

The cost is expected to be US$700 million, the substantial majority of which will be amortised in the next three years. These transactions are subject to regulatory approvals with completion expected in the second quarter of 2011.

Other than the pending acquisitions noted, no matter or circumstance has arisen since 31 December 2010 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATION

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

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2010

MEETINGS OF DIRECTORS

	FULL MEETINGS OF DIRECTORS[1]	MEETINGS OF COMMITTEES			
		AUDIT AND RISK	CHAIRMAN'S[2]	INVESTMENT	REMUNERATION
Number of meetings held	11	4	1	5	5
Number attended					
LF Bleasel AM	10	4	–	–	5
DM Boyle	11	4	–	–	5
JM Green	10	–	–	4	4
IF Hudson	11	4	–	–	5
BJ Hutchinson AM	11	4	1	5	1
CLA Irby	11	–	–	5	–
IYL Lee	10	4	–	5	–
FM O'Halloran[3]	11	–	1	5	–

(1) Included a five day review meeting in London and New York and a one day review meeting in Auckland. In addition, directors attended meetings for each of the Australian regulated insurance companies.

(2) The chairman's committee met in April 2010. Following the retirement of Mr Cloney AM in July 2010, the committee was dissolved.

(3) Mr O'Halloran attends audit and risk and remuneration committee meetings by invitation, not being a member of these committees.

During the February 2010 board meetings, the board also met as the nomination committee. Further meetings occurred during the year, including meetings of the chairman and chief executive officer, meetings of the directors with management and meetings of non-executive directors. From time to time, directors attend meetings of committees of which they are not currently members.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY THE MEMBERS OF THE BOARD

From 1 January 2008 to 28 February 2011, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
LF Bleasel AM			
APA Group	Chairman	30 October 2007	–
DM Boyle			
Stockland Trust Group	Director	7 August 2007	–
JM Green			
WorleyParsons Limited	Director	11 October 2002	–
IF Hudson			
Phoenix Group Holdings	Director	18 February 2010	–
BJ Hutchinson AM			
AGL Energy Limited	Director	22 December 2010	–
CLA Irby			
Aberdeen Asset Management plc	Chairman	1 August 1999	22 January 2009
Great Portland Estates plc	Director	1 April 2004	–
North Atlantic Smaller Companies Investment Trust plc	Director	10 December 2002	–
IYL Lee			
Cathay Pacific Airways Limited	Director	13 January 2010	–
Keybridge Capital Limited	Chairman[1]	26 October 2006	–

(1) Ms Lee stepped down from her position as executive chairman on 9 October 2009 and now has the role of non-executive chairman.

QUALIFICATIONS AND EXPERIENCE OF COMPANY SECRETARIES

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

P Smiles LLB, MBA, ACIS
Mr Smiles is the deputy company secretary of QBE Insurance Group Limited and company secretary of various QBE Australian subsidiaries. He has 19 years insurance experience, which includes 11 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Mr Smiles worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he also acts as a corporate lawyer advising QBE Group head office departments and Asia Pacific offices.

DIRECTORS' INTERESTS AND BENEFITS

(A) Ordinary share capital

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

DIRECTOR	2010 NUMBER	2009 NUMBER
LF Bleasel AM	**67,604**	57,604
DM Boyle	**13,437**	8,697
JM Green[1]	**35,856**	N/A
IF Hudson	**11,359**	9,221
BJ Hutchinson AM	**78,646**	63,496
CLA Irby	**22,889**	15,000
IYL Lee	**26,749**	26,749
FM O'Halloran	**1,404,806**	1,109,173

(1) Mr Green was appointed as a director effective from 1 March 2010.

(B) Options and conditional rights

At the date of this report, Mr O'Halloran had 347,957 (2009 466,544) options over ordinary shares of the company and 218,629 (2009 138,562) conditional rights to ordinary shares of the company under the QBE Incentive Scheme (QIS). Details of the QIS are provided in the remuneration report and in note 30 to the financial statements.

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

(C) Loans to directors and executives

Information on loans to directors and executives are set out in note 31 to the financial statements.

(D) Related entity interests

Details of directors' and executives' interests with related entities are provided in note 31 to the financial statements.

Remuneration report

Dear Shareholder

QBE is pleased to present the 2010 remuneration report.

The remuneration committee recognises that its role is to align remuneration and reward outcomes with an increase in long-term shareholder value.

The Group operates in a competitive global environment where the key to achieving sustained performance is to create a 'can-do' approach to work by motivating and retaining quality employees in each location.

Over the past 12 months, QBE's remuneration framework has remained robust despite the cyclical nature of the insurance industry where financial results vary from year to year. The remuneration committee has remained focused on ensuring that at-risk reward structures reflect the current operating environment, are consistent with strong governance principles and promote integrated risk management practices.

Our remuneration framework is designed to drive the achievement and outperformance of financial and non-financial targets, ensuring that at-risk incentives are in place for most employees worldwide. Executive reward structures ensure that at-risk incentives are only earned when financial targets are met or exceeded.

Using the seven year spread basis of accounting, the return on equity (ROE) was down from 20.2% to 15.9%. This substantially reduced the short-term and long-term incentives payable to Group employees. This clearly demonstrates the alignment of shareholders' and management interests.

Changes in financial markets due to the global financial crisis in 2008 have resulted in increased regulation and governance in remuneration reporting requirements. Shareholder feedback received on our 2009 remuneration report has also highlighted the complexity in communicating executive remuneration due to the large volume of mandatory disclosures.

We have simplified the 2010 remuneration report to more clearly articulate the remuneration approach adopted by QBE and its commercial rationale, and to provide ongoing transparency of our reward structures.

The remuneration committee endeavours to have at-risk reward structures in place that are aligned to the drivers of shareholder value in terms of growth in share price.

Belinda Hutchinson AM
Chairman

Len Bleasel AM
Chairman, Remuneration committee

Remuneration report

QBE's approach to remuneration is designed to ensure that shareholders receive value for fixed remuneration and at-risk reward expenditure. The remuneration policy and framework is underpinned by guiding principles linking it to QBE's business strategy which promote robust risk management practices.

Remuneration policy is reviewed annually to ensure that the structure remains market competitive and aligned with business strategy.

The 2010 remuneration report is structured as follows:

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1.2 What was the executive remuneration framework in 2010?	67
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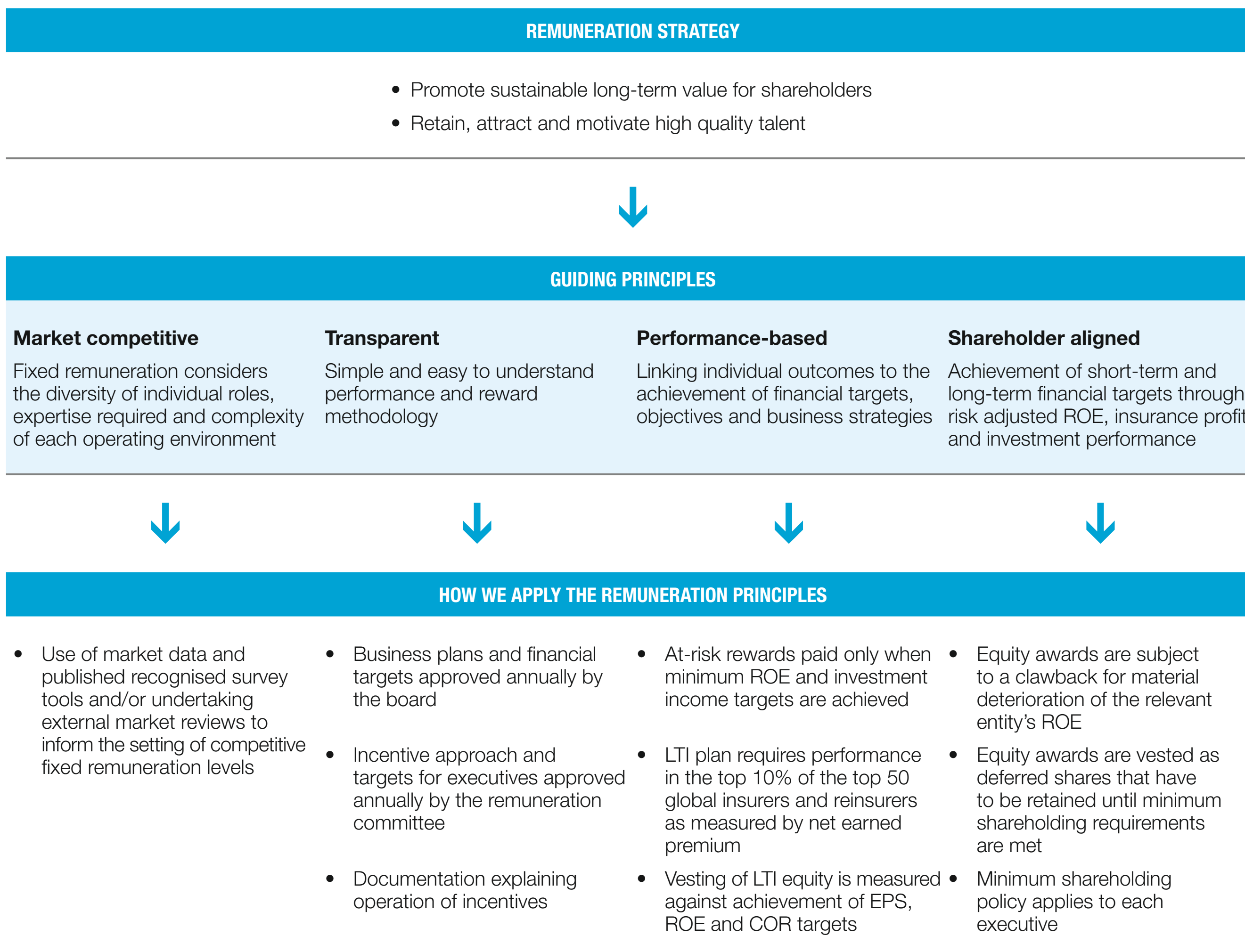
Remuneration report

1. Executive remuneration at a glance

1.1 What is QBE's executive remuneration strategy?

QBE's executive remuneration strategy aims to provide a market competitive remuneration structure that motivates, retains and aligns our people to deliver sustained shareholder value.



Remuneration report

1.2 What was the executive remuneration framework in 2010?

QBE continues to ensure that remuneration arrangements reflect current economic and market conditions, and performance based at-risk rewards are linked to the achievement of challenging financial performance targets.

TOTAL REMUNERATION	COMPONENTS	2010 STRUCTURE
Fixed remuneration	All guaranteed pay – base salary, superannuation and other guaranteed benefits	• Fixed remuneration increases limited to an average of 1.5% with exceptions made only where a promotion or a significant market movement has taken place
At-risk reward	Cash and deferred equity awards delivered under the QBE Incentive Scheme (QIS)	• Short-term cash awards significantly less than 2009 reflecting 2010 financial results • Deferred equity grants also significantly less than 2009 reflecting 2010 financial results • At the discretion of the remuneration committee, deferred equity vesting continues to be subject to a clawback for subsequent material deterioration of the relevant ROE that was used to determine the grant • The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement
	Equity award delivered under the Long-Term Incentive (LTI) scheme	• Introduction of new LTI scheme, subject to future performance hurdles: – 50% of the award is contingent on the Group's diluted EPS increasing by a compound average 7.5% per annum over a five year vesting period; and – 50% of the award allocation is contingent on the Group's average ROE and combined operating ratio for the five year vesting period being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium • Equity vesting is subject to a clawback for subsequent material deterioration of the Group's ROE • Equity vesting is subject to a five year tenure hurdle • The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement

1.3 Actual remuneration outcomes in 2010

Details of the remuneration received by the executive director and other executives in 2010 are provided below. Remuneration details provided in accordance with accounting standards are included in section 3.1 of this remuneration report. Remuneration of non-executive directors is shown on page 83.

	FIXED REMUNERATION						
	CASH SALARY(1) US$'000	OTHER FIXED(2) US$'000	TOTAL US$'000	CASH(3,4) INCENTIVE US$'000	OTHER(5) US$'000	SHARE BASED(6) INCENTIVE US$'000	TOTAL US$'000
Executive director							
FM O'Halloran	1,956	19	1,975	934	440	1,263	4,612
Executives							
SP Burns	996	324	1,320	3,080	2	2,103	6,505
NG Drabsch	888	17	905	386	142	625	2,058
D Fogarty	468	–	468	171	148	202	989
MJ Goodwin	484	32	516	474	458	85	1,533
MD ten Hove(7)	878	17	895	582	301	272	2,050
TW Ibbotson	723	23	746	530	20	280	1,576
V McLenaghan	979	28	1,007	592	121	544	2,264
BM Nicholls	589	15	604	312	30	344	1,290
DA Ramsay	666	20	686	250	124	328	1,388
J Rumpler	889	11	900	802	65	163	1,930
JM Smith	528	14	542	198	17	263	1,020
GB Thwaites	533	16	549	200	29	143	921
	10,577	536	11,113	8,511	1,897	6,615	28,136

(1) Cash salary reflects the amount of fixed cash remuneration earned during the year.

(2) Other fixed remuneration comprises guaranteed benefits such as superannuation.

(3) Mr Burns' cash award includes a contractually agreed bonus payment of one year's fixed remuneration. This was approved by the remuneration committee in October 2005 as part of a five year retention incentive.

(4) Mr Nicholls' cash award includes an ex gratia bonus payment of A$100,000 in recognition of performance during 2010.

(5) Other remuneration includes deemed interest on employee share loans and long service leave accruals where appropriate.

(6) The share based incentive value reflects the value realised by the executive in the financial year. The value has been determined based on the options and conditional rights that vested during 2010 by reference to the closing share price on the vesting date. Details are provided in section 1.4 of this report.

(7) The table does not include Mr ten Hove's termination benefit of US$1,871 million.

1. Executive remuneration at a glance continued

1.4 Which equity awards vested in 2010?

The table below details the value of deferred equity awards granted in previous financial years that vested in 2010. Options vested were in accordance with the legacy 2004 and 2006 Senior Executive Equity Scheme (SEES) terms and conditional rights vested were in accordance with the legacy 2006 Long-Term Incentive plan terms. Award vesting was subject to a tenure hurdle being met which was achieved by each executive.

	VESTED IN 2010					
	OPTIONS NUMBER	CONDITIONAL RIGHTS NUMBER	TOTAL NUMBER	VALUE AT VESTING DATE US$'000	COST TO EXERCISE OPTIONS US$'000	NET BENEFIT AT VESTING DATE(1) US$'000
Executive director						
FM O'Halloran	118,587	30,348	148,935	2,875	(1,612)	1,263
Executives						
SP Burns	163,522	35,734	199,256	3,750	(1,647)	2,103
NG Drabsch	67,350	14,506	81,856	1,540	(915)	625
D Fogarty	12,014	7,200	19,214	365	(163)	202
MJ Goodwin	10,033	1,737	11,770	221	(136)	85
MD ten Hove	23,654	13,851	37,505	272	–	272
TW Ibbotson	27,767	7,079	34,846	657	(377)	280
V McLenaghan	48,487	15,255	63,742	1,203	(659)	544
BM Nicholls	19,158	12,607	31,765	604	(260)	344
DA Ramsay	33,423	8,085	41,508	782	(454)	328
J Rumpler	15,217	4,378	19,595	370	(207)	163
JM Smith	27,009	6,446	33,455	630	(367)	263
GB Thwaites	8,825	5,004	13,829	263	(120)	143

(1) The net benefit excludes the value of Mr ten Hove's options which were exercisable at A$32.68. The share price at the date of vesting was A$21.42.

Australian accounting standards require deferred equity awards earned under the QIS and the LTI to be measured at fair value at the date of grant and expensed over the relevant performance period, regardless of the value which is ultimately received by the executive.

1.5 Looking forward – 2011

Remuneration	• There are no planned changes to fixed remuneration and at-risk reward structures in 2011.
Workplace diversity	• In line with amendments to the ASX Corporate Governance Council Principles and Recommendations, from 2011 the remuneration committee will annually review and report to the board on workplace diversity within QBE. This will include disclosure to the market on policy, gender objectives and achievements in our annual report.
Future termination benefits	• In the past, the remuneration committee has exercised discretion under the various equity plans to allow unvested conditional rights and/or options to remain in the plan after an executive leaves or to vest early upon termination in certain circumstances, such as death, disability, redundancy or retirement. • The introduction in November 2009 of the Australian termination benefits legislation significantly reduces benefits (now capped at 12 months base salary) that can be paid to future terminating executives and directors without shareholder approval. This legislation can potentially restrict the remuneration committee's flexibility to alter existing contracts and remuneration structures going forward. • At this year's AGM, QBE will seek shareholder approval to confirm the remuneration committee's authority to continue exercising discretion under the at-risk reward schemes (QIS and LTI), including the discretion to vest some or all of the unvested conditional rights or options of any executive who is affected by the termination benefits legislation when their employment with QBE ceases. Further details regarding this approval will be included with the notice of meeting for the 2011 AGM.
Governance	• Compliance with the APRA prudential standards covering remuneration governance (effective from 1 April 2010) will continue to be actively monitored by the remuneration committee and management to ensure appropriateness of the Group's remuneration policy and its link to risk management practices. • As the Australian executive remuneration legislative landscape continues to evolve, the federal government has indicated its intention to implement many of the Productivity Commission's recommendations into the regulation of director and executive remuneration. The remuneration committee therefore continues to review aspects of the recommendations to ensure compliance with any introduced legislative changes during 2011.

Remuneration report

2. Remuneration explained

2.1 Introduction

The information presented in the 2010 remuneration report forms part of the directors' report and has been prepared in accordance with section 300A of the *Corporations Act 2001*. The information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The report sets out remuneration details of the Group chief executive officer, executives and non-executive directors, who are the key people accountable for managing QBE and its controlled entities.

Key management personnel of QBE in 2010 are listed in the tables below.

NAME	POSITION
Executive director	
FM O'Halloran	Chief executive officer
Executives	
G Brader(1)	Chief investment officer
SP Burns(2)	Chief executive officer, European operations
NG Drabsch	Chief financial officer
D Fogarty(3)	President, Equator Re
MJ Goodwin	Chief executive officer, Asia Pacific
MD ten Hove(1)	Group general manager, investments
TW Ibbotson(4)	Global head of distribution
V McLenaghan(5)	Chief executive officer, Australia Asia Pacific
J Neal(6)	Chief executive officer of global underwriting operations
BM Nicholls	Group chief actuarial officer
DA Ramsay	Group general counsel and company secretary
J Rumpler(7)	President and chief executive officer, the Americas
JM Smith	Group general manager, human resources
GB Thwaites	Group chief risk officer

(1) Mr Brader assumed the role of chief investment officer on 1 January 2011. Mr Brader's remuneration for 2010 in his previous role is not included in this report. Mr ten Hove ceased his role as Group general manager, investments on 17 December 2010.

(2) Mr Burns is based in London, UK.

(3) Mr Fogarty is based in Dublin, Ireland.

(4) Mr Ibbotson was appointed as head of global distribution on 21 April 2010. Before this appointment he was chief executive officer, Australian operations.

(5) Mr McLenaghan was appointed chief executive officer of QBE Australia Asia Pacific on 9 August 2010. Before this appointment he was Group chief operating officer.

(6) Mr Neal assumed the role of chief executive officer of global underwriting operations on 1 January 2011. His remuneration for 2010 in his previous role is not included in this report.

(7) Mr Rumpler is based in New York, US.

NAME	POSITION
Non-executive directors	
LF Bleasel AM	Non-executive director
DM Boyle	Non-executive director
JM Green	Non-executive director (from 1 March 2010)
IF Hudson(1)	Non-executive director
BJ Hutchinson AM	Chairman, non-executive director (from 5 July 2010)
CLA Irby(1)	Non-executive director
IYL Lee	Non-executive director
Former director	
EJ Cloney AM	Chairman (retired 4 July 2010)

(1) Ms Hudson and Mr Irby are based in London, UK.

2. **Remuneration explained,** continued

2.2 What is the role of the remuneration committee?

The remuneration committee annually reviews the global remuneration policy to ensure that fixed remuneration is appropriately positioned relative to the market and at-risk rewards remain linked to QBE's ROE targets, investment performance targets and business objectives.

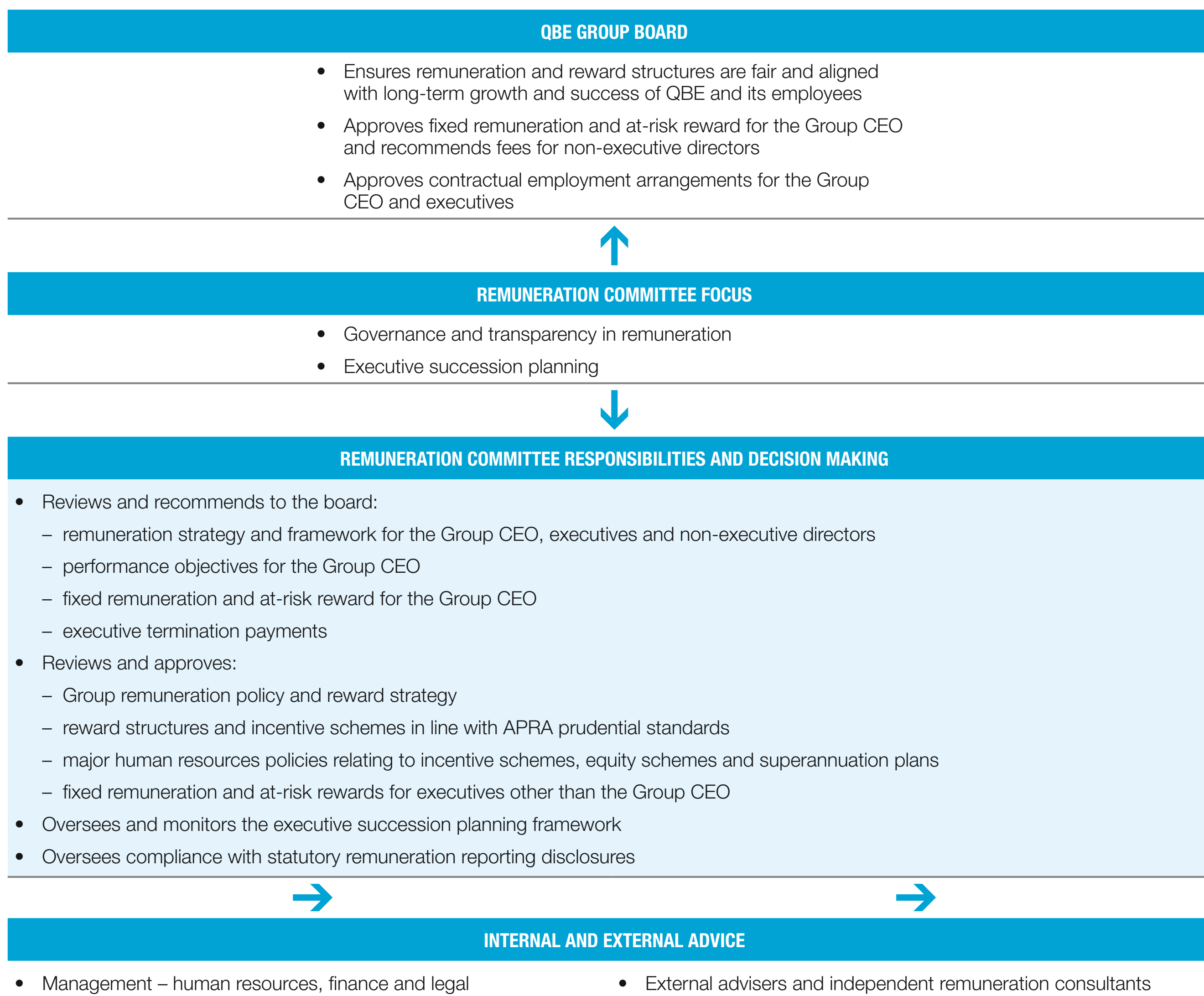
The remuneration committee assesses the appropriateness of remuneration frameworks and practices in order to fairly and responsibly reward the executive director, executives and non-executive directors, ensuring incentives are commensurate with performance and that remuneration is competitive. In addition, the remuneration committee oversees the remuneration and incentive scheme structures for employees of APRA regulated entities (such as risk and financial control employees) in accordance with prudential standards GPS510 and GPS520.

QBE's governance of remuneration focuses on ensuring that remuneration and reward strategy and frameworks are aligned with robust risk management practices and strong guiding principles.

During 2010, the remuneration committee:

- approved the Group's new remuneration policy;
- updated its charter to ensure compliance with new Australian regulatory requirements, including APRA prudential standards covering the governance of remuneration; and
- sought advice from external consultants in relation to the deferred equity award clawback, market remuneration and practice information.

The key responsibilities of the committee are shown below:



Further details on the role of the remuneration committee are set out in the QBE remuneration committee charter (published on www.qbe.com).

Remuneration report

2.3 How is reward linked to QBE's performance?

Our reward frameworks are directly linked to the key financial profit drivers that encourage achievement of Group business plans and create shareholder value over the long-term. A significant component of executive remuneration is at-risk, ensuring alignment between QBE's performance and executive reward.

The achievement of ROE targets is the primary performance measure of QBE's strength. ROE is a relative measure of profitability. It shows how much income the Group is earning for each dollar of capital allocated. It is a strong objective measure of value created. It represents shareholders' "bottom line" and is understood and accepted by institutional investors.

Overall levels of at-risk reward delivered through the QIS take into account the ROE performance of QBE over a number of years, with greater emphasis given to the current financial year. The use of ROE targets ensures that executives focus on delivering superior returns to shareholders.

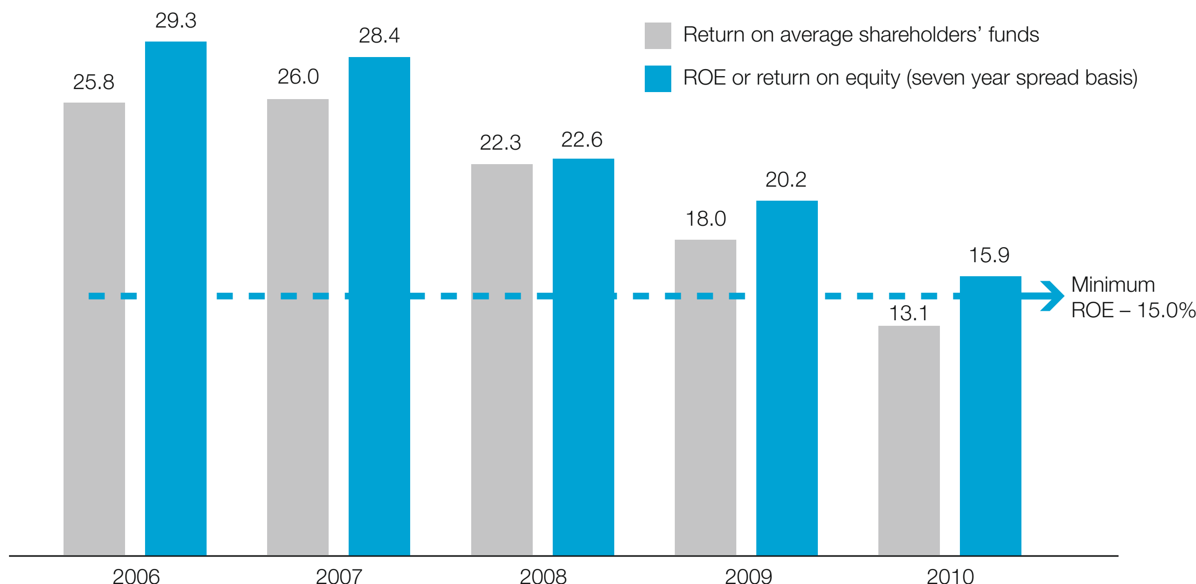
For incentive purposes, ROE is determined as net profit after tax (NPAT) on a management basis as a percentage of opening allocated capital. For the determination of Group incentives, the management result is prepared on a seven year spread basis of accounting. For further clarification, see page 85. If ROE becomes too low, shareholders and the Group may prefer to invest funds elsewhere where they could earn a higher return. As such, it is vitally important that QBE maintains a healthy and stable ROE to ensure shareholder satisfaction. This is why QBE insists on the achievement of a minimum ROE hurdle of 15% of opening allocated capital for each insurance division. This hurdle is well above the majority of QBE's peers around the world.

The philosophy of QBE is that its long-term success is a result of sound operating performance measured by financial metrics such as ROE and investment performance, prudent risk taking, solid strategic decision making and the focus of key executives on the underlying business performance indicators and profit drivers.

Other key financial profit drivers that are linked to executive reward include investment income performance, EPS and COR.

The chart below shows a five year history of QBE's ROE and return on average shareholders' funds.

Key performance indicators (%)

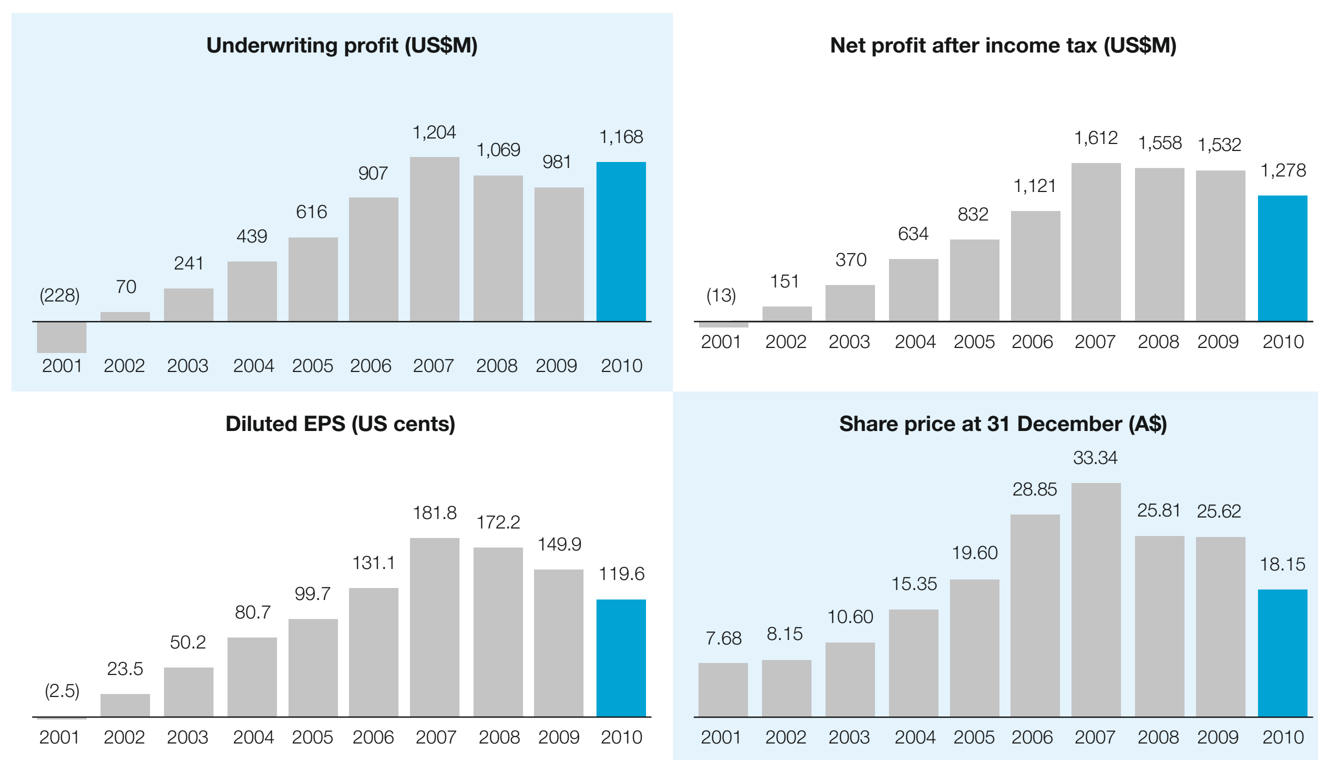


Creating shareholder value is a fundamental goal for QBE. The value of QBE's share price is an indication of shareholder wealth. The share price can be influenced positively by the following measures which are aligned with our executive reward framework:

- growth and increased profitability, particularly insurance profit and investment income performance;
- consistency of earnings, particularly EPS;
- achievement of ROE targets;
- dividend yield and franking credits; and
- quality of the management team.

2. Remuneration explained, continued

QBE's results over the last 10 years across a number of key performance measures are shown in the charts below.



Over the period from 2006 to 2010:

- QBE's underwriting profit increased by a compound annual average 14% per annum;
- QBE's NPAT increased by a compound annual average 9% per annum;
- diluted EPS increased by a compound annual 4% per annum; and
- dividends per share increased by a compound annual average of 13% per annum.

Our 2009 and 2010 net profit after tax were impacted by lower investment yields.

During the same period, average executive remuneration (fixed remuneration and at-risk) reduced by a compound average 1% per annum reflecting lower at-risk remuneration.

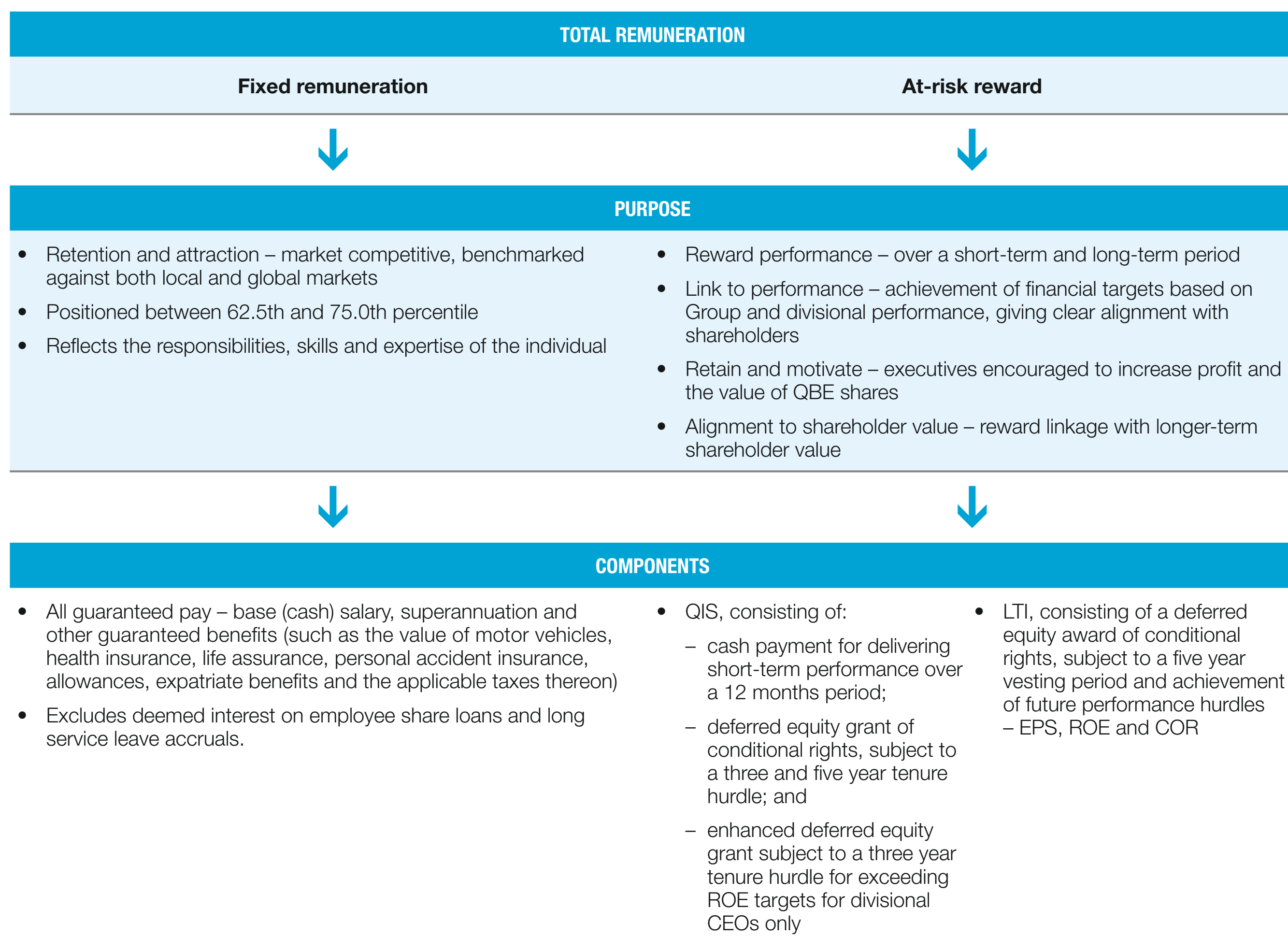
We have a highly experienced executive team with a strong retention record. The average tenure of the executive team (including the Group CEO) is 17 years. All executives have position descriptions in place which set out their roles, accountabilities and duties. They also have employment contracts which confirm their remuneration and reward arrangements, including entitlements on termination.

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

Executive performance is evaluated annually by the Group CEO through formal business review assessments to ensure financial performance targets are achieved. This is generally followed by a formal personal development plan (PDP) process. The PDP process provides feedback to an executive on their overall performance against their position description, demonstrated behaviours and an assessment of current capability and future potential.

2.4 How is executive remuneration structured?

Our fixed remuneration and at-risk reward structure recognises the significant influence executives have on achieving QBE's financial results. The structure encourages sustained high performance based on meeting or exceeding financial results which deliver performance in the top 10% of the top 50 largest global insurers and reinsurers (as measured by net earned premium).



2.4.1 Total reward mix

Consistent with market practice, the mix of total remuneration and reward is reflective of the executive's ability to influence QBE's financial results.

The table below shows the 2010 potential total reward mix assuming maximum at-risk incentives.

		AT-RISK REWARD		
POSITION	FIXED REMUNERATION %	QIS – CASH %	QIS – DEFERRED EQUITY %	LTI %
Group CEO	26	35	26	13
Other executives	23 – 35	31 – 37	26 – 43	3 – 13

2. Remuneration explained, continued

Assessing what is 'competitive'

To assess competitiveness of fixed remuneration, the remuneration committee considers a defined comparator group of companies as set out in the table below.

EXECUTIVES	COMPARATOR GROUP
Australian-based	Generally 50% to 200% of QBE's market capitalisation based on the most recent 12 month average market value to smooth volatility, as well as applying judgment to determine what is appropriate to the individual and the role. For those executive roles where there is insufficient market data, the sizing criteria is expanded to 25% to 400% of market capitalisation.
Overseas-based	Market data on the US and the UK is gathered from relevant external surveys. A similar benchmarking approach, with the emphasis on a comparative group of a similar size to the relevant US or UK operations, is used to filter survey data for both the US and UK executives.

Remuneration practices vary in each of the markets within which we operate, therefore the diversity of individual roles and the complexity of each operating environment is considered.

Balancing short-term and long-term rewards

Based on our view of current market practice and the principles of our remuneration policy, we have developed an at-risk reward structure that balances short-term and long-term incentives.

It consists of the following components:

- cash awards paid under the QIS scheme;
- deferred equity awards granted under the QIS;
- enhanced deferred equity awards under the QIS for exceeding ROE targets (divisional CEOs only); and
- equity awards granted under the LTI.

The short and long-term at-risk rewards aim to reward, retain and motivate executives for making QBE successful.

The 2010 at-risk reward delivery structure is shown below.

The success of our at-risk reward schemes is demonstrated by the low turnover of senior employees and the wealth that has been created for shareholders over many years as demonstrated in the tables of page 72.

AT RISK REWARD	MARCH 2011	2012	2013	2014	2015	2016
QIS – cash award	Cash payment for 2010 financial target achievements					
QIS – deferred equity	Grant of conditional rights with a three and five year vesting tenure hurdle			50% vests		50% vests
	Grant of conditional rights with a three year vesting tenure hurdle(1)			100% vests		
LTI – equity	Grant of conditional rights with a five year vesting, subject to future performance hurdles					50% vests = EPS hurdle 50% vests = ROE + COR hurdle

(1) Refers to enhanced QIS deferred equity award, applicable to divisional CEOs only.

2.5 How did QBE's performance affect executive rewards in 2010?

2.5.1 QIS – cash award

The QIS cash award is a performance-based incentive delivered in the form of an annual cash payment for a performance measurement period of 12 months. The award is designed to motivate and reward executives when annual ROE targets and investment income targets relating to the financial year's performance are achieved or exceeded. Non-executive directors are not eligible to receive a QIS cash reward.

The table on page 75 shows the 2010 financial performance targets, incentive opportunity and achieved award for each executive. The different cash award percentage levels reflect an executive's relative influence on organisational performance.

Cash awards are aligned with shareholders' interests to ensure that short-term incentives are more beneficial to the executive when minimum ROE targets are exceeded.

Remuneration report

		FINANCIAL TARGET(1)				ACTUAL ACHIEVEMENT	
		ROE		CASH AWARD(2)		ROE	CASH AWARD(2)
		MINIMUM %	MAXIMUM %	MINIMUM %	MAXIMUM %	%	%
Executive director							
FM O'Halloran	QBE Group ROE	14	21	15	134	15.9	47.30
Executive							
SP Burns	European operations ROE	10	22	0	133.34	22.4	133.34
NG Drabsch	QBE Group ROE	14	21	15	117	15.9	42.69
D Fogarty(3)	QBE Group ROE	14	21	15	94	15.9	36.44
MJ Goodwin(4)	Asia Pacific operations ROE	15	24	25	125	25.3	125.00
MD ten Hove	Investment income as a % of budget income and individual performance measures	n/a	n/a	0	100	n/a	50.00
	Management key performance indicators	n/a	n/a	0	25	n/a	15.00
TW Ibbotson	Australian operations ROE	15	24	25	125	19.1	71.00
V McLenaghan(5)	QBE Group ROE	14	21	15	133	15.9	47.03
	Australian Asia Pacific operations ROE	15	24	15	133	19.7	76.22
BM Nicholls	QBE Group ROE	14	21	15	94	15.9	36.44
DA Ramsay	QBE Group ROE	14	21	15	94	15.9	36.44
J Rumpler	the Americas ROE	15	22	40	133	17.7	89.10
JM Smith	QBE Group ROE	14	21	15	94	15.9	36.44
GB Thwaites	QBE Group ROE	14	21	15	94	15.9	36.44

(1) Mr ten Hove's performance is measured against investment income targets. All other executives are measured against the achievement of ROE targets.
(2) The cash award is generally calculated as a percentage of fixed remuneration as at 31 December 2010.
(3) Mr Fogarty is based in Dublin. His cash award is calculated using his base salary.
(4) Mr Goodwin is based in Singapore. His cash award is calculated as a percentage of his overseas (assignment) net salary (excluding any positive cost of living adjustment).
(5) Mr McLenaghan's target is based on the QBE Group ROE for the period 1 January to 8 August 2010. Following his appointment to the role of chief executive officer, Australia Asia Pacific on 9 August, the target basis was revised to ROE for Australia Asia Pacific operations.

2.5.2 QIS – deferred equity

The QIS deferred equity award provides executives with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment. Executives are granted deferred equity only if a cash award is earned for the financial year. Non-executive directors are not eligible to receive a QIS deferred equity award.

A tenure hurdle is also attached to deferred equity awards. Shares will normally only vest if the individual has remained in service throughout the three or five year vesting period. Notional dividends, payable in the form of QBE shares, accrue on the conditional rights during the vesting period. The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date.

The maximum deferred equity award is based on an amount which is the lesser of 80% of the cash award earned in the financial year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the cash award is paid.

The tenure hurdle places significant focus on sustained share price growth over the longer-term and provides a significant retention element for the executive.

2. Remuneration explained, continued

The maximum deferred equity award is used as the basis of calculating the number of conditional rights as follows:

- conditional rights to the value of 50% of the equity award will convert to shares after three years; and
- conditional rights to the value of 50% of the equity award will convert to shares after five years.

The share price upon which the allocation of conditional rights is calculated is the weighted average sale price of QBE shares over the five trading days on the ASX from 28 February 2011, being the date on which QBE's annual result is announced to the ASX.

Other key senior employees of the QBE Group are also eligible to participate in the QIS deferred equity award.

The table below shows the deferred equity award that will be granted in March 2011, based on 2010 performance. The Group CEO's award is subject to approval at the AGM.

The ultimate vesting of conditional rights is contingent on there being no material deterioration of the original ROE for 2010 during the vesting period.

Equity is subject to clawback at the discretion of the remuneration committee.

		QIS CASH AWARD		DEFERRED EQUITY AWARD – CONDITIONAL RIGHTS				
					THREE YEARS		FIVE YEARS	
	FIXED REMUNERATION US$'000	% OF FIXED REMUNERATION	CASH US$'000	MAXIMUM US$'000(1)	50% OF AWARD US$'000	NO. OF SHARES(2)	50% OF AWARD US$'000	NO. OF SHARES(2)
Executive director								
FM O'Halloran	1,975	47.30	934	748	374	22,678	374	22,678
Executive								
SP Burns(3)	1,320	133.34	1,760	1,320	792	48,088	792	48,088
NG Drabsch	905	42.69	386	308	154	9,380	154	9,380
D Fogarty	468	36.44	171	136	68	4,146	68	4,146
MJ Goodwin(4)	516	125.00	474	516	258	15,654	258	15,654
MD ten Hove	895	65.00	582	466	233	14,134	233	14,134
TW Ibbotson	746	71.00	530	424	212	12,859	212	12,859
V McLenaghan	1,007	58.80	592	474	237	14,371	237	14,371
BM Nicholls	604	36.44	220	176	88	5,350	88	5,350
DA Ramsay	686	36.44	250	200	100	6,074	100	6,074
J Rumpler	900	89.10	802	642	321	19,473	321	19,473
JM Smith	542	36.44	198	158	79	4,797	79	4,797
GB Thwaites	549	36.44	200	160	80	4,860	80	4,860

(1) Lesser of 80% of cash award or 100% of fixed remuneration, with the exception of Mr Burns whose equity is calculated at 100% of fixed remuneration.
(2) For indicative purposes, a share price of A$18 has been used above.
(3) Mr Burns' deferred equity is determined as 60% of the maximum for each of the three and five year awards.
(4) Mr Goodwin's cash award is based on his overseas (assignment) net salary of US$379,000.

2.5.3 Enhanced QIS deferred equity awards (divisional CEOs)

From 1 January 2008, certain divisional CEOs are eligible to benefit from an enhanced deferred equity award. The first award was made in March 2009. It provides the opportunity to acquire additional equity in the form of conditional rights without payment if divisional ROE targets are exceeded.

A three year tenure hurdle is attached to enhanced deferred equity awards. Shares will only vest if the individual has remained in service throughout the vesting period. The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date. Notional dividends, payable in the form of QBE shares, accrue on the conditional rights during the vesting period.

The ultimate vesting of the conditional rights is also contingent on no material deterioration of the division's 2010 ROE during the vesting period.

The value of the conditional rights allocated varies for each executive, ranging from 3% up to 15% of fixed remuneration or base (cash) salary as appropriate, except for Mr Burns whose award ranges from 0% to 50% of the QIS cash award. To calculate the number of conditional rights granted, the award value is divided by the weighted average sale price of QBE shares over the five trading days on the ASX prior to the grant date (generally the first week of March).

The enhanced deferred equity award aims to encourage superior performance from our divisional CEOs and to increase shareholder value by motivating them to exceed ROE targets.

The divisional ROE hurdles, the minimum and maximum awards and the actual award for the 2010 financial year are shown in the table below.

		DIVISIONAL ROE HURDLES	ENHANCED DEFERRED EQUITY AWARD AS A % OF FIXED REMUNERATION		
EXECUTIVE	DIVISION	MINIMUM AND MAXIMUM %	MINIMUM AND MAXIMUM %	ACTUAL AWARD %	AWARD VALUE[(2)] US$'000
SP Burns[(1)]	European operations	22 – 32	0 – 50	1.0	18
MJ Goodwin	Asia Pacific operations	23 – 27	3 – 15	9.9	51
TW Ibbotson	Australian operations	23 – 27	3 – 15	–	–
J Rumpler	the Americas	23 – 27	3 – 15	–	–

(1) Mr Burns' award is determined as a percentage of the QIS cash award.

(2) Award value has been converted to US dollars using the cumulative average rate of exchange.

2.5.4 Long-Term Incentive (LTI) plan

From the 2010 financial year, a new LTI was introduced to replace the Group Executive Restricted Share Plan (GERSP). Further details on the GERSP are provided on page 87.

Specific risk-related performance measurements and an EPS measure have been established to ensure alignment with APRA's guidelines on prudent risk taking for long-term financial soundness of the business and with shareholders interests. The Group CEO has been invited to participate in the LTI. He was not a participant in the GERSP.

The LTI comprises an award of conditional rights to fully paid shares without payment by the executive, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows:

- 50% of the award allocation will be contingent on QBE's diluted EPS increasing by a compound average 7.5% per annum over the five year vesting period; and
- 50% of the award allocation will be contingent on QBE's average ROE and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period.

Challenging performance hurdles applicable over the five year vesting period have been included in the LTI in response to shareholders' requests to ensure sustainable business development whilst providing appropriate returns to shareholders.

The first award will be granted in March 2011 and, subject to achievement of the above performance hurdles, will vest in March 2016. The vesting of the conditional rights is also contingent on there being no material deterioration in QBE's 2010 ROE during the vesting period.

These combined performance hurdles will determine the number of conditional rights to vest in March 2016, up to a maximum of between 15% to 50% of fixed remuneration as shown in the table below.

	LTI AWARD AS A % OF FIXED REMUNERATION			LTI AWARD – CONDITIONAL RIGHTS	
	DILUTED EPS HURDLE %	ROE AND COR HURDLE %	MAXIMUM AWARD %	MAXIMUM AWARD US$'000	INDICATIVE NO. OF SHARES[(1)]
Executive director					
FM O'Halloran	25.0	25.0	50	987	59,929
Executives					
SP Burns	7.5	7.5	15	198	12,022
NG Drabsch	12.5	12.5	25	226	13,733
D Fogarty	7.5	7.5	15	70	4,266
MJ Goodwin	7.5	7.5	15	77	4,696
MD ten Hove	7.5	7.5	15	134	8,154
TW Ibbotson	7.5	7.5	15	112	6,792
V McLenaghan	25.0	25.0	50	503	30,556
BM Nicholls	7.5	7.5	15	91	5,504
DA Ramsay	7.5	7.5	15	103	6,250
J Rumpler	7.5	7.5	15	135	8,196
JM Smith	7.5	7.5	15	81	4,935
GB Thwaites	7.5	7.5	15	82	5,000

(1) For indicative purposes, a share price of A$18 has been used above.

The remuneration committee will continue to exercise discretion when determining the vesting of awards under the LTI. The committee has the discretion to allocate a pro-rata amount in cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement.

2. **Remuneration explained,** continued

2.6 Keeping executives' and shareholders' interests aligned

2.6.1 Minimum shareholding

In keeping with our remuneration philosophy to align executive at-risk reward with the achievement of returns for shareholders in terms of both dividends and growth in share price, an executive minimum shareholding requirement was introduced from 31 March 2008.

Under the requirement, the Group CEO and executives (excluding non-executive directors) must accumulate a minimum vested shareholding in QBE equivalent to one year's fixed remuneration by 31 March 2010. This holding is to be maintained (taking into account annual changes in fixed remuneration levels) for as long as they remain employed by QBE. New executives are required to build their shareholdings over a three year period after the first equity grant vests.

The minimum shareholding requirement encourages executives to actively build their shareholdings and ensures they have significant exposure to QBE's share price and, by so doing, confirms their long-term interests are aligned with shareholders.

Compliance with the requirement is assessed as at 31 March each year.

If an executive does not meet the minimum shareholding as at the annual review date, QBE may impose a restriction on the sale of any further equity grants.

As at 31 March 2010, the Group CEO and executives met the necessary minimum shareholding requirement with the exception of Mr Goodwin, who has been granted an exemption until 31 March 2012 due to his appointment on 8 October 2007.

2.6.2 Current exposure

Executives have further exposure to QBE's share price through their unvested conditional rights and options. The total shareholding investment of executives (excluding non-executive directors) is shown in the table on page 80.

Options issued in 2007 and 2008 to executives continue to remain below the share price at the grant date (details are provided on page 88) and the value of conditional rights granted in these years has fallen due to the lower QBE share price, demonstrating the alignment between shareholder returns and executive remuneration.

2.6.3 Trading policy

A policy exists stating that non-executive directors, key management personnel and key senior employees should notify any intended share transaction to nominated people within the Group, including hedging of vested entitlements. Trading in QBE ordinary shares is generally only permitted during designated trading windows.

The policy also prohibits the hedging of unvested entitlements. The purpose of this prohibition is to ensure that, until awards granted under the QIS and LTI have vested, there is an alignment between the interests of key management personnel and shareholders, with the effect that market share value movements (either positive or negative) will economically impact the executive.

The policy is enforced by requiring key management personnel to sign an annual declaration that indicates compliance with the restrictions on hedging.

A copy of QBE's trading policy for dealing in securities is available from www.qbe.com/investor information/corporate governance/background documents.

Remuneration report

3. Remuneration in detail

3.1 Statutory executive remuneration disclosures

The following table provides details of the remuneration of QBE's key management personnel (excluding non-executive directors) as determined by reference to applicable Australian accounting standards for the financial year ended 31 December 2010.

			SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS[1]		TERMINATION BENEFITS	TOTAL[4]
	YEAR	CURRENCY '000	BASE SALARY	OTHER[2]	CASH INCENTIVE AWARD[3]	SUPER-ANNUATION	LONG SERVICE LEAVE	CONDITIONAL RIGHTS	OPTIONS		
Executive director[5]											
FM O'Halloran	**2010**	US$	**1,956**	**410**	**934**	**19**	**30**	**1,128**	**312**	**–**	**4,789**
	2009	US$	1,460	356	1,991	208	50	774	301	–	5,140
FM O'Halloran	**2010**	A$	**2,137**	**448**	**1,021**	**21**	**33**	**1,232**	**341**	**–**	**5,233**
	2009	A$	1,878	458	2,561	268	64	996	387	–	6,612
Executives											
SP Burns	**2010**	US$	**996**	**326**	**3,080**	**–**	**–**	**1,728**	**451**	**–**	**6,581**
	2009	US$	999	332	1,765	–	–	1,303	459	–	4,858
NG Drabsch	**2010**	US$	**888**	**128**	**386**	**17**	**14**	**476**	**134**	**–**	**2,043**
	2009	US$	633	188	797	93	18	346	141	–	2,216
D Fogarty	**2010**	US$	**468**	**61**	**171**	**87**	**–**	**230**	**66**	**–**	**1,083**
	2009	US$	488	60	407	87	–	175	60	–	1,277
MJ Goodwin	**2010**	US$	**484**	**423**	**474**	**58**	**9**	**270**	**30**	**–**	**1,748**
	2009	US$	411	253	401	50	11	98	24	–	1,248
MD ten Hove[6]	**2010**	US$	**878**	**287**	**582**	**17**	**14**	**133**	**49**	**1,871**	**3,831**
	2009	US$	691	206	951	70	15	274	85	–	2,292
TW Ibbotson	**2010**	US$	**723**	**4**	**530**	**28**	**11**	**329**	**75**	**–**	**1,700**
	2009	US$	556	47	532	53	10	217	68	–	1,483
V McLenaghan	**2010**	US$	**979**	**102**	**592**	**32**	**15**	**810**	**137**	**–**	**2,667**
	2009	US$	729	109	995	103	21	505	134	–	2,596
BM Nicholls	**2010**	US$	**589**	**14**	**312**	**15**	**16**	**238**	**88**	**–**	**1,272**
	2009	US$	479	17	408	20	12	209	82	–	1,227
DA Ramsay	**2010**	US$	**666**	**111**	**250**	**23**	**10**	**273**	**75**	**–**	**1,408**
	2009	US$	481	115	471	71	18	194	77	–	1,427
J Rumpler[7]	**2010**	US$	**889**	**56**	**802**	**13**	**7**	**153**	**38**	**–**	**1,958**
	2009	US$	639	94	395	6	8	96	38	–	1,276
JM Smith	**2010**	US$	**528**	**7**	**198**	**14**	**10**	**222**	**61**	**–**	**1,040**
	2009	US$	450	7	383	10	4	158	63	–	1,075
GB Thwaites	**2010**	US$	**533**	**20**	**200**	**17**	**8**	**208**	**41**	**–**	**1,027**
	2009	US$	417	15	372	36	14	133	37	–	1,024
Total	**2010**	US$	**10,577**	**1,949**	**8,511**	**340**	**144**	**6,198**	**1,557**	**1,871**	**31,147**
	2009	US$	8,433	1,799	9,868	807	181	4,482	1,569	–	27,139

(1) The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights and options are provided in note 31 to the financial statements.

(2) "Other" includes the deemed value of the share loans, provision of motor vehicles, health insurance, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It includes interest on share loans which is also disclosed in note 31(C) to the financial statements. Directors' and officers' liability insurance has not been included in other remuneration since it is not possible to determine an appropriate allocation basis.

(3) Includes QIS cash award and other amounts which are the accrued entitlement for the financial year, payable in March 2011. Mr Burns' cash award includes a contractually agreed bonus payment of one year's fixed remuneration. This was approved by the remuneration committee in October 2005 as part of a five year retention incentive. Mr Nicholls' cash award includes an ex gratia payment of A$100,000 in recognition of his performance during 2010.

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

(5) Mr O'Halloran's remuneration is shown in both local currency and in the Group's presentation currency to assist readers of the remuneration report.

(6) Mr ten Hove's termination benefit is payable over a 12 month period to 17 December 2011 and comprises one year's fixed remuneration and a one-off payment equivalent to the annual average cash incentive paid over the last three years.

(7) Mr Rumpler was appointed as president and chief executive officer, the Americas on 15 June 2009. Before this appointment, he was Group general manager, credit and surety based in Australia. In 2009, Mr Rumpler's total remuneration is shown, whether as key management personnel or otherwise. Amounts received in his position as key management personnel totalled US$872,000, comprising: base salary of US$463,000; other short-term employee benefits of US$8,000; superannuation of US$6,000; and STI of US$395,000.

3. Remuneration in detail continued

3.2 Equity based remuneration

3.2.1 Executive investment in QBE

	ORDINARY SHARES NUMBER	OPTIONS NUMBER	CONDITIONAL RIGHTS NUMBER	TOTAL POTENTIAL SHARES IN QBE AT 31 JAN 2011 NUMBER	VALUE OF POTENTIAL SHARES AT 31 JAN 2011[1] US$'000	COST TO ACQUIRE SHARES[2] US$'000	NET INVESTMENT IN QBE AT 31 JAN 2011 US$'000
Executive director							
FM O'Halloran	1,343,769	347,957	218,629	1,910,355	33,318	(15,066)	18,252
Executives							
SP Burns	71,142	453,553	342,692	867,387	15,128	(9,936)	5,192
NG Drabsch	168,786	161,549	97,634	427,969	7,464	(5,551)	1,913
D Fogarty	61,550	83,666	46,873	192,089	3,350	(1,921)	1,429
MJ Goodwin	15,801	42,006	60,203	118,010	2,058	(874)	1,184
MD ten Hove	403,655	77,037	84,929	565,621	9,865	(6,730)	3,135
TW Ibbotson	37,866	124,669	69,158	231,693	4,041	(2,488)	1,553
V McLenaghan	266,047	171,617	148,727	586,391	10,227	(5,483)	4,744
BM Nicholls	–	104,102	47,504	151,606	2,644	(2,368)	276
DA Ramsay	257,460	90,622	56,258	404,340	7,052	(3,821)	3,231
J Rumpler	78,190	45,510	32,263	155,963	2,720	(1,594)	1,126
JM Smith	22,595	74,332	45,905	142,832	2,491	(1,639)	852
GB Thwaites	46,397	53,659	43,368	143,424	2,501	(1,475)	1,026

(1) The closing share price at 31 January 2011 was A$17.50 (US$17.44 using the 31 January rate of exchange).
(2) Includes the value of share loans and the anticipated future cost of exercising options determined using the 31 January 2011 rate of exchange.

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

3.2.2 Conditional rights

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

	NUMBER OF RIGHTS GRANTED IN THE YEAR		NUMBER OF RIGHTS VESTED IN THE YEAR	
	2010	2009	2010	2009
Executive director				
FM O'Halloran	**98,014**	63,902	**30,348**	41,182
Executives				
SP Burns	**86,827**	132,272	**35,734**	47,006
NG Drabsch	**39,224**	29,943	**14,506**	21,462
D Fogarty	**16,970**	16,261	**7,200**	11,025
MJ Goodwin	**30,040**	20,261	**1,737**	884
MD ten Hove	**46,820**	10,706	**13,851**	19,904
TW Ibbotson	**26,194**	25,720	**7,079**	10,604
V McLenaghan[1]	**48,978**	61,356	**15,255**	16,648
BM Nicholls	**20,078**	14,480	**12,607**	17,594
DA Ramsay	**23,212**	16,893	**8,085**	11,475
J Rumpler	**16,788**	6,917	**4,378**	5,831
JM Smith	**18,876**	13,877	**6,446**	9,597
GB Thwaites	**18,336**	13,032	**5,004**	3,184

(1) In addition to annual awards under the QIS deferred equity and LTI, Mr McLenaghan was granted 20,000 conditional rights on 1 January 2009 which will vest in March 2012. The award of conditional rights was in recognition of Mr McLenaghan's additional responsibilities as acting president and chief executive officer in the Americas from September 2008 to June 2009.

Remuneration report

3.2.3 Options

Details of options over the ordinary shares in QBE provided as remuneration to executives are set out below. When exercisable, each option is convertible into one ordinary share of the company. The options granted in March 2009 were earned under the legacy DCP terms for the 2008 performance year.

	NUMBER OF OPTIONS GRANTED IN THE YEAR		NUMBER OF OPTIONS VESTED IN THE YEAR[1,2]		NUMBER OF OPTIONS EXERCISED IN THE YEAR[3]	
	2010	2009	2010	2009	2010	2009
Executive director						
FM O'Halloran	–	127,804	**118,587**	–	**118,587**	–
Executives						
SP Burns	–	125,307	**163,522**	–	**163,522**	–
NG Drabsch	–	51,144	**67,350**	–	**67,350**	–
D Fogarty	–	28,839	**12,014**	–	**12,014**	–
MJ Goodwin	–	29,028	**10,033**	–	**10,033**	–
MD ten Hove	–	16,222	**23,654**	46,799	**46,799**	–
TW Ibbotson	–	40,696	**27,767**	–	–	–
V McLenaghan	–	63,589	**48,487**	–	**48,487**	–
BM Nicholls	–	25,681	**19,158**	–	**19,158**	–
DA Ramsay	–	29,962	**33,423**	–	**33,423**	–
J Rumpler	–	13,835	**15,217**	–	**15,217**	–
JM Smith	–	24,611	**27,009**	–	**27,009**	–
GB Thwaites	–	23,113	**8,825**	–	**8,825**	–

(1) Options vesting in 2010 are generally exercisable at A$14.85 per option except as follows:
- Mr Burns' had 62,035 options exercisable at A$8.04 and 54,776 options exercisable at A$11.08.
- Mr ten Hove's options are exercisable at A$32.68.

(2) Mr ten Hove's options which vested in 2009 were exercised in 2010 at A$20.44 per option.

(3) Mr Ibbotson did not exercise his options which vested in 2010.

3.2.4 Future performance options

Future performance options that affect remuneration of executives in the previous, current or future reporting periods are as follows:

NAME	GRANT DATE	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE	VALUE PER RIGHT AT GRANT DATE[1]
SP Burns[2]	2 March 2007	20,000	A$20.44	A$12.55
SP Burns	4 March 2008	20,000	A$20.44	A$3.36
SP Burns	6 March 2009	20,000	A$20.44	A$2.77
SP Burns	5 March 2010	20,000	A$20.44	A$1.88

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

(2) 100,000 future performance options are being granted at A$20.44 in tranches of 20,000 over a five year period from March 2007. The options were approved by the remuneration committee in October 2005 as a five year retention incentive. All options are exercisable within three months of 31 December 2010 and expire on 1 April 2011. The vesting of these options is subject to European operations achieving an average insurance profit of at least 8% for underwriting years 2006 to 2010.

3. Remuneration in detail continued

3.3 Total reward mix

The total reward mix for executives includes actual fixed remuneration and at-risk rewards components based on the contractual entitlements and structure outlined on page 73.

The table below shows the maximum potential and actual proportions of fixed remuneration and at risk reward applicable to each executive during 2010 and 2009.

		MAXIMUM POTENTIAL REWARD MIX				ACTUAL REWARD MIX			
		FIXED REMUNERATION	AT-RISK REWARD			FIXED REMUNERATION	AT-RISK REWARD		
	YEAR	%	QIS CASH %	DEFERRED EQUITY %	LTI %	%	QIS CASH %	DEFERRED EQUITY %	LTI %
Executive director									
FM O'Halloran	**2010**	**26**	**35**	**26**	**13**	**43**	**20**	**16**	**21**
	2009	30	40	30	–	32	38	30	–
Executives									
SP Burns	**2010**	**23**	**31**	**43**	**3**	**27**	**36**	**33**	**4**
	2009	28	37	35	–	28	37	35	–
NG Drabsch	**2010**	**30**	**35**	**28**	**7**	**50**	**21**	**17**	**12**
	2009	30	35	28	7	35	36	29	–
D Fogarty	**2010**	**35**	**33**	**27**	**5**	**56**	**20**	**16**	**8**
	2009	35	33	27	5	40	33	27	–
MJ Goodwin	**2010**	**28**	**35**	**33**	**4**	**31**	**29**	**35**	**5**
	2009	25	31	39	5	27	33	40	–
MD ten Hove	**2010**	**29**	**37**	**29**	**5**	**43**	**28**	**22**	**7**
	2009	29	37	29	5	31	38	31	–
TW Ibbotson	**2010**	**29**	**35**	**32**	**4**	**41**	**29**	**24**	**6**
	2009	29	35	32	4	40	33	27	–
V McLenaghan	**2010**	**26**	**35**	**26**	**13**	**39**	**23**	**18**	**20**
	2009	26	35	26	13	32	38	30	–
BM Nicholls	**2010**	**35**	**33**	**27**	**5**	**56**	**20**	**16**	**8**
	2009	35	33	27	5	40	33	27	–
DA Ramsay	**2010**	**35**	**33**	**27**	**5**	**56**	**20**	**16**	**8**
	2009	35	33	27	5	40	33	27	–
J Rumpler	**2010**	**27**	**37**	**32**	**4**	**36**	**32**	**26**	**6**
	2009	33	38	29	–	48	29	23	–
JM Smith	**2010**	**35**	**33**	**27**	**5**	**56**	**20**	**16**	**8**
	2009	35	33	27	5	40	33	27	–
GB Thwaites	**2010**	**35**	**33**	**27**	**5**	**56**	**20**	**16**	**8**
	2009	35	33	27	5	40	33	27	–

3.4 Employment agreements

The terms and conditions of employment of each executive reflect market conditions at the time of their contract negotiation and appointment. The material terms of the employment agreements for the Group chief executive officer and executives are summarised in the table below.

CONTRACTUAL TERM	PERSONS AFFECTED	CONDITIONS
Duration of contract	CEO and other executives	Permanent full-time contract until notice given by either party.
Notice to be provided by executive or QBE	CEO and other executives	Notice periods are six months except for Mr Drabsch (four weeks) and Messrs. Burns and ten Hove (12 months).
Involuntary termination	CEO and other executives	QBE may pay an executive fixed remuneration and QIS cash awards for the current financial year and must pay statutory entitlements such as accrued annual and long service leave (where applicable) together with superannuation benefits. In the event of termination through death, disability, redundancy or retirement and no disciplinary procedure or notice is pending, the executive is entitled to the value of outstanding QIS cash awards, legacy DCP awards and GERSP awards for previous years plus a pro-rata share of the value of QIS for the current financial year. In addition, the remuneration committee may exercise its discretion to vest LTI awards that have been granted for previous years.

3.4 Employment agreements continued

CONTRACTUAL TERM	PERSONS AFFECTED	CONDITIONS
Voluntary termination	CEO and other executives	In the case of voluntary termination, executives forfeit all conditional rights to ordinary shares not yet vested under the legacy DCP, GERSP and LTI, and all unexercised options under the legacy DCP. QBE may pay an executive fixed remuneration and QIS cash awards for the current financial year and must pay statutory entitlements such as accrued annual and long service leave (where applicable) together with superannuation benefits.
Retirement benefit	CEO	One year's fixed remuneration at retirement and statutory entitlements.
	Mr Ibbotson	One year's fixed remuneration at retirement and statutory entitlements if he stays beyond 30 June 2012.
	Other executives	No specific arrangements in place.
Post-employment restraints	CEO	Three year non-compete agreement post-retirement.
	Mr Ibbotson	Two year non-compete agreement post-retirement.
	Other executives	No specific arrangements in place.

4. Non-executive directors' remuneration

Remuneration philosophy

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

Non-executive directors' fee pool

The aggregate amount approved by shareholders at the 2007 AGM was A$2,700,000 per annum.

Fee framework

Under the current fee framework, non-executive directors receive a base fee in Australian dollars. In addition, a non-executive director (other than the chairman) may receive further fees for membership or chairmanship of a board committee. Future fees may be sacrificed into the QBE non-executive directors' share plan. The directors resolved to increase directors' fees by around 4% in 2011.

The following table details the relevant annual fees:

	2010 US$'000[1]	2009 US$'000[1]
Base fees		
Chairman	**551**	469
Non-executive director	**177**	151
Committee chairman fees		
Audit and risk committee	**41**	35
Chairman's committee[2]	**–**	–
Funding committee	**–**	–
Investment committee	**28**	24
Remuneration committee	**28**	24
Committee membership fees		
Audit and risk committee	**22**	18
Chairman's committee[2]	**–**	–
Funding committee	**–**	–
Investment committee	**20**	17
Remuneration committee	**20**	17

(1) Remuneration has been converted to US dollars using the cumulative average rate of exchange for the relevant year. There were no fee increases in 2010.
(2) The chairman's committee ceased in September 2010.

4. Non-executive directors' remuneration continued

Other benefits

Non-executive directors do not receive any performance-based remuneration such as cash incentives or equity awards. Under the company's constitution, non-executive directors are entitled to be reimbursed for all travel and related expenses properly incurred in connection with the business of the company. Non-executive directors based overseas receive an annual cash travel allowance in addition to fees.

Superannuation

QBE pays superannuation of 9% to Australian-based non-executive directors. Non-executive directors based overseas receive the cash equivalent amount as fees.

Remuneration

Details of the nature and amount of each component of the remuneration of our non-executive directors for the year ended 31 December 2010 are set out in the table below.

		SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOYMENT BENEFITS		TOTAL
	YEAR	DIRECTORS' FEES US$'000	OTHER[4] US$'000	SUPERANNUATION US'000	RETIREMENT BENEFITS US$'000	US$'000[5]
LF Bleasel AM	**2010**	**227**	**–**	**21**	**6**	**254**
	2009	193	–	17	5	215
DM Boyle	**2010**	**225**	**1**	**20**	**–**	**246**
	2009	186	–	17	–	203
EJ Cloney AM[1]	**2010**	**280**	**8**	**25**	**14**	**327**
	2009	469	4	42	20	535
JM Green[2]	**2010**	**182**	**–**	**16**	**–**	**198**
	2009	–	–	–	–	–
IF Hudson[3]	**2010**	**278**	**–**	**–**	**–**	**278**
	2009	236	–	–	–	236
BJ Hutchinson AM	**2010**	**395**	**–**	**27**	**14**	**436**
	2009	193	–	17	10	220
CLA Irby[3]	**2010**	**278**	**–**	**–**	**5**	**283**
	2009	236	–	–	4	240
IYL Lee	**2010**	**235**	**–**	**21**	**4**	**260**
	2009	203	–	18	3	224
Total	**2010**	**2,100**	**9**	**130**	**43**	**2,282**
	2009	1,716	4	111	42	1,873

(1) Mr Cloney retired on 4 July 2010.

(2) Mr Green was appointed on 1 March 2010.

(3) Mr Irby and Ms Hudson are UK residents. They each receive an annual travel allowance of A$40,000 and, in lieu of superannuation, additional fees of 9%, both of which are included in directors' fees.

(4) Staff insurance discount benefits received during the year.

(5) Remuneration has been converted to US dollars using the cumulative average rate of exchange for the relevant year.

Other retirement benefits

Non-executive directors previously received a retirement allowance based on their period of service. The allowance was limited to the aggregate of the director's fees in the last three years of service, subject to a minimum of 10 years service. Where service was less than 10 years, a pro-rata amount was paid. With effect from 31 December 2003, the board terminated the retirement allowance to non-executive directors. Accrued retirement benefits at 31 December 2003 are preserved until retirement and are subject to an annual increase equal to the average five year Australian government bond rate. Shareholders approved an increase in non-executive directors' remuneration and the company's constitution was amended at the 2004 AGM to recognise this change.

The table below sets out the preserved retirement allowances of the relevant non-executive directors at the balance date.

	RETIREMENT ALLOWANCE	
	2010 US$'000	2009 US$'000
LF Bleasel AM	**141**	118
EJ Cloney AM	**–**	516
BJ Hutchinson AM	**317**	264
CLA Irby	**128**	104
IYL Lee	**90**	75

Remuneration report

5. APPENDICES

5.1 Glossary of key terms

The key remuneration terms and abbreviations used in the remuneration report are set out in the table below.

TERM	DEFINITION
Combined operating ratio (COR)	Refer to the definition on page 175 of the annual report.
Deferred Compensation Plan (DCP)	A legacy remuneration arrangement granting equity benefits which ceased from 1 January 2010. From 1 January 2009, equity granted under the DCP was in the form of conditional rights. Prior to 31 December 2008, equity granted under the DCP was in the form of conditional rights and options. Vesting is subject to a three or five year tenure hurdle. Only key management personnel (excluding non-executive directors) were invited to participate. Refer to page 86 for further details.
Diluted earnings per share (EPS)	Refer to note 1 to the consolidated financial statements.
Executives	For the purpose of the remuneration report, executives comprise the executive director and the other key management personnel who are members of the Group executive. Details are provided on page 69 of this report.
Fixed remuneration	All guaranteed pay i.e. base salary, superannuation and other guaranteed benefits.
Group Executive Restricted Share Plan (GERSP)	A remuneration arrangement which came into existence on 1 January 2008, granting conditional rights to QBE shares to participants if the QBE's ROE target of 22% was exceeded. During 2008, the equity under GERSP was referred to as "restricted shares"; however these instruments have the same terms as conditional rights under the DCP. Vesting is subject to a three year tenure hurdle and is contingent on no material subsequent deterioration of QBE's ROE during the vesting period. Only key management personnel (excluding executive and non-executive directors) were invited to participate in the GERSP. The GERSP ceased on 31 December 2009. Refer to page 87 for further details.
Key management personnel (KMP)	Accounting standards require QBE to make disclosures about the remuneration of directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. This group is collectively defined as "key management personnel". AASB 124: Related Party Disclosures specifically requires that non-executive directors are included as key management personnel even though they are not part of QBE's "management". The executives included on page 69 are considered to be key management personnel because they are members of the Group executive, being the management body responsible for the Group's strategy and operation.
Long-Term Incentive Plan (LTI)	The long-term incentive plan replaced the GERSP effective from 1 January 2010. Vesting is subject to a five year performance hurdle and is contingent on no material subsequent deterioration of the Group's ROE during the vesting period. The LTI includes two performance hurdles: • 50% of the award allocation is contingent on QBE's average diluted EPS increasing by a compound 7.5% per annum over a five year vesting period; and • 50% of the award allocation is contingent on QBE's average ROE and COR being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period. Participation in the LTI is limited to key management personnel excluding non-executive directors. Refer to page 77 for further details.
QBE Incentive Scheme (QIS)	The at-risk reward structure that comprises cash awards and deferred equity awards effective from 1 January 2010. The QIS consists of: • a cash award delivered annually for meeting ROE or investment income performance targets, linked to annual budget metrics; • a deferred equity award of conditional rights, subject to a three and five year tenure hurdle; and • an enhanced deferred equity grant subject to a three year tenure hurdle for exceeding ROE targets (divisional CEOs only).
Return on equity (ROE)	Net profit after tax (NPAT) on a management basis as a percentage of opening allocated capital. For the determination of Group incentives, the management result is prepared on a seven year spread basis of accounting which spreads realised and unrealised gains on equities and properties evenly over a period of seven years. Opening allocated capital is adjusted for dividend and capital movements in the year.

5. APPENDICES continued

5.2 Legacy equity schemes

5.2.1 Deferred Compensation Plan (DCP)

Until 31 December 2008 and applicable to awards in March 2009 and prior

For DCP awards made up to and including March 2009 in relation to financial performance in 2008 and prior years, executives were provided with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment by the executive and options to subscribe for shares at market value at the grant date. The DCP award amount was restricted to the lesser of 66.67% of the Short-Term Incentive (STI) award in that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award was paid.

This DCP award amount was used to acquire conditional rights to fully paid shares and options respectively as follows:

- conditional rights to shares to the value of 60% of the DCP award; and
- options over ordinary shares to the value of 40% of the DCP award, with the resulting number multiplied by three.

Conditional rights and options relating to the achievement of profit targets in the financial year were granted in March of the following year. Interest free personal recourse loans were available on terms permitted by the Employee Share and Option Plan to persons in the employment of QBE who hold options under the DCP, to fund the exercise of the options.

Conditional rights and options issued in 2004 and prior financial years were exercisable after three years. Options issued in 2005 and later financial years are exercisable after five years, with the exception of options for senior employees in the Group investment division which continue to be exercisable after three years. The issue of options and interest-free personal recourse loans under the DCP will cease after the final vesting of all incentives granted in March 2009.

From 1 January 2009 and applicable to awards in March 2010

For DCP awards made in March 2010 in respect of financial performance for 2009, executives received conditional rights to fully paid shares. The maximum DCP award was based on an amount which is the lesser of 80% of the STI award (previously 66.67%) in that year or 100% of fixed remuneration or base (cash) salary as at 31 December in the financial year prior to the year in which the STI award is paid.

The maximum DCP award was used as the basis of calculating the number of conditional rights to fully paid shares as follows:

- conditional rights to the value of 50% of the DCP award, converted to shares after three years; and
- conditional rights to the value of 50% of the DCP award, converted to shares after five years.

The share price upon which the allocation of conditional rights was calculated was the weighted average sale price of QBE shares over the five trading days on the ASX prior to the grant date.

The ultimate vesting of the conditional rights is also contingent on there being no material subsequent deterioration of the consolidated entity's ROE during the vesting period. Notional dividends earned are added to the value of the conditional rights granted during the vesting period.

The following example illustrates how a DCP award is calculated:

	STI AWARD		DCP AWARD – CONDITIONAL RIGHTS				
				THREE YEARS		FIVE YEARS	
FIXED REMUNERATION	% OF FIXED REMUNERATION	STI	MAXIMUM DCP AWARD(1)	50% OF DCP AWARD	NO. OF SHARES(2)	50% OF DCP AWARD	NO. OF SHARES(2)
$400,000	50%	$200,000	$160,000	$80,000	4,444	$80,000	4,444

(1) Lesser of 80% of STI award or 100% of fixed remuneration.

(2) This example assumes a share price of A$18.

5.2.2 Group Executive Restricted Share Plan (GERSP)

From 1 January 2008 to 31 December 2009 and applicable to awards in March 2009 and 2010

Key management personnel (excluding non-executive directors, the Group chief executive officer and Mr Burns) were eligible to participate in the GERSP with effect from its inception on 1 January 2008. The GERSP was replaced in 2010 by the Long-Term Incentive (LTI) Plan. Refer to page 77 for further details of the LTI.

The GERSP aimed to retain and reward key executives and to increase shareholder value by motivating executives to exceed Group ROE targets. It provided executives with the opportunity to acquire additional equity in the form of conditional rights (referred to as restricted shares in 2008) without payment by the executive if the Group's ROE target was exceeded.

Each participant received an award of conditional rights if the Group achieved a ROE on a seven year spread basis of accounting in excess of 21%. The benefit to each participant was maximised when the Group achieved a ROE of 26%. The actual ROE for 2009 on the seven year spread basis of accounting was 20.2% which meant that no awards were made under the GERSP for the 2009 financial year.

Deferred equity delivered under the terms of the GERSP is subject to a three year tenure hurdle. Shares will only vest if the individual has remained in service throughout the vesting period. Notional dividends, payable in the form of QBE shares, accrue on the conditional rights during the vesting period. The ultimate vesting of the conditional rights is contingent on no material subsequent deterioration of the consolidated entity's ROE during the vesting period.

The value of the conditional rights allocated varied for each executive ranging from 3% up to 25% of fixed remuneration or base (cash) salary as appropriate. To calculate the number of conditional rights to be granted, the award value is divided by the weighted average sale price of QBE shares over the five trading days on the ASX prior to the grant date (generally the first week of March). The results used for determining the minimum and maximum awards that could be earned under the GERSP for the 2009 financial year, awarded in March 2010, are shown in the table below.

EXECUTIVE	MINIMUM AND MAXIMUM ROE HURDLES	MINIMUM AND MAXIMUM AWARD AS A % OF FIXED REMUNERATION	ACTUAL AWARD AS A % OF FIXED REMUNERATION[4]
NG Drabsch	22% – 26%	5% – 25%	–
D Fogarty[1]	22% – 26%	3% – 15%	–
MJ Goodwin[2]	22% – 26%	3% – 15%	–
MD ten Hove	22% – 26%	3% – 15%	–
TW Ibbotson[3]	22% – 26%	3% – 15%	–
V McLenaghan	22% – 26%	5% – 50%	–
BM Nicholls	22% – 26%	3% – 15%	–
DA Ramsay	22% – 26%	3% – 15%	–
JM Smith	22% – 26%	3% – 15%	–
GB Thwaites	22% – 26%	3% – 15%	–

(1) Mr Fogarty is based in Dublin. His GERSP award was calculated using his base (cash) salary.

(2) Mr Goodwin is based in Singapore. His GERSP award was calculated using his Australian plan (superannuation) salary.

(3) Mr Ibbotson's GERSP award was calculated using fixed remuneration less rental allowance.

(4) Mr Rumpler did not participate in GERSP for 2009.

5. APPENDICES continued

5.3 Valuation of options and conditional rights

5.3.1 Conditional rights

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

GRANT DATE	DATE EXERCISABLE	VALUE PER RIGHT AT GRANT DATE(1)
2 March 2006	2 March 2009	A$23.09
7 April 2006	6 April 2009	A$24.23
2 March 2007	1 March 2010	A$32.68
4 April 2007	2 April 2010	A$32.68
4 March 2008	3 March 2011	A$24.22
4 April 2008	4 April 2011	A$27.00
1 January 2009	2 January 2012	A$25.37
6 March 2009	5 March 2012	A$17.57
5 March 2010	4 March 2013	A$20.90
5 March 2010	4 March 2015	A$20.90

(1) The fair value at grant date of conditional rights is calculated using a binomial model. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights are provided in note 31 to the financial statements.

5.3.2 Options

Options affecting remuneration of key management personnel in the previous, current or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE(1)
3 March 2005	3 March 2008	3 March 2009	A$14.85	A$3.04
3 March 2005	3 March 2010	3 March 2011	A$8.04	A$6.90
3 March 2005	3 March 2010	3 March 2011	A$11.08	A$5.17
3 March 2005	3 March 2010	3 March 2011	A$14.85	A$3.60
8 April 2005	8 April 2010	8 April 2011	A$14.85	A$3.60
2 March 2006	2 March 2009	2 March 2010	A$20.44	A$3.85
2 March 2006	1 March 2011	2 March 2012	A$20.44	A$4.58
7 April 2006	6 April 2011	7 April 2012	A$20.44	A$5.63
2 March 2007	1 March 2010	2 March 2011	A$32.68	A$5.05
2 March 2007	1 March 2012	2 March 2013	A$32.68	A$6.28
4 April 2007	3 April 2012	4 April 2013	A$32.68	A$6.28
4 March 2008	3 March 2011	3 March 2012	A$24.22	A$3.98
4 March 2008	4 March 2013	4 March 2014	A$24.22	A$4.63
4 April 2008	3 April 2013	4 April 2014	A$27.00	A$5.16
7 March 2009	5 March 2012	6 March 2013	A$17.57	A$2.36
6 March 2009	5 March 2014	6 March 2015	A$17.57	A$2.81

(1) The fair value at grant date of options is calculated using a binomial model. The fair value of each option is recognised evenly over the service period ending at vesting date. Details of grants of options are provided in note 31 to the financial statements.

(2) Details of future performance options are shown in section 3.2.4 of this report.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2010

AUDITOR

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

NON-AUDIT SERVICES

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

The board of directors has considered the position and, in accordance with the advice received from the audit and risk committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as provided in note 35 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

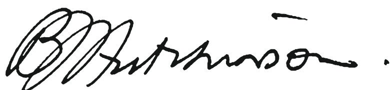
A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 90.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 35 to the financial statements.

ROUNDING OF AMOUNTS

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

Signed in SYDNEY this 28th day of February 2011 in accordance with a resolution of the directors.



BJ Hutchinson AM
Director

FM O'Halloran
Director

Auditor's independence declaration for the year ended 31 December 2010

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

KG Smith
Partner
PricewaterhouseCoopers

Sydney
28 February 2011

Liability limited by a scheme approved under Professional Standards Legislation

Annual financial report

31 DECEMBER 2010

Financial report

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This financial report includes the consolidated financial statements for QBE Insurance Group Limited (the parent entity or the company) and its controlled entities (QBE or the Group). All amounts in the financial report are presented in US dollars unless otherwise stated.

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

Level 2, 82 Pitt Street
Sydney NSW 2000
Australia

A description of the nature of the Group's operations and its principal activities is included in the operations overview on pages 32 to 49 and in the directors' report, neither of which is part of this financial report.

The financial report was authorised for issue by the directors on 28 February 2011.

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

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 US$M	2009 US$M
REVENUE			
Premium revenue		**13,432**	10,943
Other revenue		**1,767**	1,510
Net fair value gains on financial assets		**8**	360
Realised gains on sale of controlled entities		**2**	6
Investment income – ABC financial assets pledged for funds at Lloyd's		**–**	101
Total revenue	6	**15,209**	12,920
Share of net profits (losses) of associates	18	**5**	(6)
EXPENSES			
Outward reinsurance premium expense		**2,070**	1,497
Gross claims incurred		**7,875**	6,342
Other expenses	7(C)	**3,487**	2,853
Net fair value losses on investment properties		**2**	16
Net fair value losses on owner occupied properties		**7**	23
Expenses – ABC securities for funds at Lloyd's		**–**	107
Financing and other costs		**222**	185
Profit before income tax	7(A)	**1,551**	1,891
Income tax expense	9	**257**	348
Profit after income tax		**1,294**	1,543
OTHER COMPREHENSIVE INCOME			
Net movement in foreign currency translation reserve	26(D)	**(392)**	(1,090)
Actuarial losses on defined benefit superannuation plans	24(C)	**–**	(8)
Cash flow hedges	26(D)	**10**	(5)
Gains (losses) on revaluation of owner occupied properties	26(D)	**10**	(6)
Share of associates other comprehensive income		**7**	–
Income tax relating to components of other comprehensive income		**(8)**	1
Other comprehensive income (expense) after income tax		**(373)**	(1,108)
Total comprehensive income after income tax		**921**	435
Profit after income tax attributable to:			
Ordinary equity holders of the company		**1,278**	1,532
Non-controlling interests		**16**	11
		1,294	1,543
Total comprehensive income after tax attributable to:			
Ordinary equity holders of the company		**905**	424
Non-controlling interests		**16**	11
		921	435

Earnings per share for net profit after income tax attributable to ordinary equity holders of the company	NOTE	2010 US CENTS	2009 US CENTS
Basic earnings per share	28	**123.7**	152.8
Diluted earnings per share	28	**119.6**	149.9

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

Consolidated balance sheet

AS AT 31 DECEMBER 2010

	NOTE	2010 US$M	2009 US$M	2008 US$M
ASSETS				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	10	**1,686**	1,435	1,921
Investments	11	**23,552**	20,950	17,995
ABC financial assets pledged for funds at Lloyd's		**–**	–	175
Derivative financial instruments	12	**31**	133	609
Swaps relating to ABC securities		**–**	–	47
Trade and other receivables	13	**5,506**	3,855	3,539
Reinsurance and other recoveries on outstanding claims	22	**3,219**	3,302	3,540
Current tax assets		**94**	126	55
Other assets		**40**	38	58
Deferred insurance costs	14	**2,003**	1,753	1,395
Defined benefit plan surplus	24	**2**	2	1
Property, plant and equipment	15	**432**	344	354
Deferred tax assets	16	**93**	182	234
Investment properties	17	**66**	63	79
Investment in associates	18	**77**	45	43
Intangible assets	19	**5,387**	4,495	3,922
Total assets		**42,188**	36,723	33,967
LIABILITIES				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	12	**92**	36	786
Trade and other payables	20	**2,308**	1,178	1,400
Current tax liabilities		**106**	189	227
Unearned premium	21	**6,788**	6,127	5,003
ABC securities for funds at Lloyd's		**–**	–	219
Outstanding claims	22	**18,236**	16,166	14,886
Provisions	23	**525**	536	501
Defined benefit plan deficit	24	**95**	108	104
Deferred tax liabilities	16	**402**	488	373
Borrowings	25	**3,243**	2,663	2,574
Total liabilities		**31,795**	27,491	26,073
Net assets		**10,393**	9,232	7,894
EQUITY				
Share capital	26(A)	**7,972**	6,604	4,714
Share capital, fully paid yet to be issued		**–**	–	81
Treasury shares held in trust	26(B)	**(1)**	(1)	(1)
Equity component of hybrid securities	26(C)	**132**	102	80
Reserves	26(D)	**(1,527)**	(1,182)	(125)
Retained profits		**3,735**	3,641	3,085
Shareholders' funds		**10,311**	9,164	7,834
Non-controlling interests		**82**	68	60
Total equity		**10,393**	9,232	7,894

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2010

2010	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	**6,604**	**(1)**	**102**	**(1,182)**	**3,641**	**9,164**	**68**	**9,232**
Profit after income tax	**–**	**–**	**–**	**–**	**1,278**	**1,278**	**16**	**1,294**
Other comprehensive income	**–**	**–**	**–**	**(374)**	**1**	**(373)**	**–**	**(373)**
Total comprehensive income	**–**	**–**	**–**	**(374)**	**1,279**	**905**	**16**	**921**
Transactions with owners in their capacity as owners								
Purchase of shares	**–**	**(23)**	**–**	**–**	**–**	**(23)**	**–**	**(23)**
Options and conditional rights expense	**–**	**–**	**–**	**36**	**–**	**36**	**–**	**36**
Shares vested and/or released to participants	**–**	**23**	**–**	**(23)**	**–**	**–**	**–**	**–**
Contributions of equity, net of transaction costs and tax	**397**	**–**	**14**	**–**	**–**	**411**	**–**	**411**
Purchase of non-controlling interests	**–**	**–**	**–**	**(4)**	**–**	**(4)**	**(2)**	**(6)**
Dividends paid on ordinary shares	**–**	**–**	**–**	**–**	**(1,236)**	**(1,236)**	**–**	**(1,236)**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**–**	**51**	**51**	**–**	**51**
Foreign exchange movement	**971**	**–**	**16**	**20**	**–**	**1,007**	**–**	**1,007**
As at 31 December	**7,972**	**(1)**	**132**	**(1,527)**	**3,735**	**10,311**	**82**	**10,393**

2009	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	4,795	(1)	80	(125)	3,085	7,834	60	7,894
Profit after income tax	–	–	–	–	1,532	1,532	11	1,543
Other comprehensive income	–	–	–	(1,099)	(9)	(1,108)	–	(1,108)
Total comprehensive income	–	–	–	(1,099)	1,523	424	11	435
Transactions with owners in their capacity as owners								
Purchase of shares	–	(15)	–	–	–	(15)	–	(15)
Options and conditional rights expense	–	–	–	31	–	31	–	31
Shares vested and/or released to participants	–	15	–	(15)	–	–	–	–
Contributions of equity, net of transaction costs and tax	430	–	–	–	–	430	–	430
Dividends paid on ordinary shares	–	–	–	–	(994)	(994)	–	(994)
Dividend reinvestment under Bonus Share Plan	–	–	–	–	27	27	–	27
Foreign exchange movement	1,379	–	22	26	–	1,427	(3)	1,424
As at 31 December	6,604	(1)	102	(1,182)	3,641	9,164	68	9,232

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 US$M	2009 US$M
OPERATING ACTIVITIES			
Premium received		**13,047**	11,144
Reinsurance and other recoveries received		**1,334**	1,092
Outward reinsurance paid		**(2,183)**	(1,537)
Claims paid		**(7,515)**	(6,557)
Insurance costs paid		**(2,430)**	(2,035)
Other underwriting costs		**(960)**	(705)
Interest received		**598**	523
Dividends received		**43**	40
Other operating income		**76**	23
Other operating payments		**(300)**	(236)
Interest paid		**(145)**	(121)
Income taxes paid		**(203)**	(287)
Net cash flows from operating activities	10	**1,362**	1,344
INVESTING ACTIVITIES			
Proceeds on sale of equity investments		**2,248**	760
Payments for purchase of equity investments		**(1,265)**	(772)
Proceeds on sale of property, plant and equipment		**3**	6
Payments for foreign exchange transactions		**(95)**	(475)
Payments for purchases of other investments		**(577)**	(674)
Payments for purchase of controlled entities and businesses acquired(1)		**(1,098)**	(93)
Proceeds on disposal of controlled entities		**2**	11
Payments for purchase of investment property		**(1)**	(1)
Payments for purchase of property, plant and equipment		**(129)**	(54)
Net cash flows from investing activities		**(912)**	(1,292)
FINANCING ACTIVITIES			
Share issue expenses		**–**	(3)
Refund of over-subscribed portion of share issue		**–**	(73)
Payments for purchase of treasury shares	26(B)	**(23)**	(15)
Proceeds from settlement of staff share loans		**31**	11
Proceeds from borrowings		**1,513**	1,046
Repayment of borrowings		**(871)**	(922)
Dividends paid		**(830)**	(659)
Net cash flows from financing activities		**(180)**	(615)
Net movement in cash and cash equivalents		**270**	(563)
Cash and cash equivalents at the beginning of the financial year		**1,435**	1,921
Effect of exchange rate changes		**(19)**	77
Cash and cash equivalents at the end of the financial year	10	**1,686**	1,435

(1) Net of cash acquired.

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

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Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian accounting standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the requirements of the *Corporations Act 2001*.

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial report, with the principal exceptions for the Group being the measurement of financial assets at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

(iii) Change in presentation currency

The presentation currency used in the preparation of the financial report is US dollars. The Group has selected a US dollar presentation currency because, following further acquisitions of controlled entities in the US, a significant proportion of its underwriting activity is now denominated in US dollars. The US dollar is also the currency which is widely understood by the global insurance industry, international investors and analysts. This is a change from the last published annual financial report which was presented in Australian dollars.

Comparative information has been restated to US dollars. Equity items were translated at the rate of exchange on 1 January 2009 and, with the exception of retained earnings, are retranslated to the closing rate of exchange at each subsequent balance date. Assets and liabilities were translated to US dollars using the relevant closing rate of exchange and income and expense items were translated using the relevant cumulative average rate of exchange. The applicable rates used in the restatement of comparative information are as follows:

		AS AT 1 JANUARY 2009	YEAR ENDED 31 DECEMBER 2009
Cumulative average rate of exchange	A$/US$	–	0.778
Closing rate of exchange	A$/US$	0.702	0.896

(B) Principles of consolidation

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company as at 31 December 2010 and the results of all controlled entities for the financial year then ended. The effects of all transactions between entities in the Group are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income and balance sheet.

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

(ii) Business combinations

Effective 1 January 2010

A revised AASB 3 Business Combinations became applicable to the Group on 1 January 2010.

Business combinations are accounted for using the acquisition method when control of an entity or business is obtained. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the controlled entity acquired, the difference is recognised directly in profit or loss. Costs of acquisition are expensed as incurred.

Where a cash settlement on acquisition is deferred, the future payable is discounted to present value. Where a cash settlement on acquisition is contingent on the outcome of uncertain future events, the fair value of the obligation is classified as a liability and is subsequently remeasured through profit or loss.

Non-controlling interests in an acquiree are recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. If the Group recognises pre-acquisition deferred tax assets after the initial acquisition accounting is completed, there will be no adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Applicable prior to 1 January 2010

Business combinations were accounted for using the purchase method. The cost of an acquisition was measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired was recorded as goodwill. If the cost of acquisition was less than the fair value of the net assets of the controlled entity acquired, the difference was recognised directly in profit or loss.

Where a cash settlement on acquisition was deferred, the future payable was discounted to present value. Contingent consideration was only recognised if the payments were probable and could be measured reliably and was accounted for as an adjustment to goodwill.

Non-controlling interests in an acquiree were recognised at the Group's proportionate share of the acquiree's net identifiable assets. Pre-acquisition deferred tax assets recognised after the initial acquisition accounting was completed gave rise to an adjustment to goodwill.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(iii) Associates

Entities over which significant influence is exercised are accounted for using equity accounting principles. Significant influence is presumed to exist where between 20% and 50% of the voting rights of an entity are held, but can also arise where less than 20% is held through active involvement and influencing policy decisions affecting the entity. The investment is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently adjusted for the post-acquisition change in the associates' net assets. The Group's share of the profit or loss of the associate is included in the profit or loss of the Group and disclosed as a separate line in the statement of comprehensive income.

Distributions received reduce the carrying amount of the investment. Movements in the total equity of the associate, being those movements that are not recognised in the profit or loss, are recognised directly in equity of the Group and disclosed in the statement of changes in equity. The investments are reviewed annually for impairment.

When the Group's share of losses exceeds its interest in the associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

(C) Premium revenue

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

(D) Unearned premium

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

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

(E) Outward reinsurance

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

(F) Claims

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

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

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

(G) Reinsurance and other recoveries

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

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

(H) Acquisition costs

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

(I) Investment income

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

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

(J) Taxation

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

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

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The company and all of its Australian wholly-owned controlled entities (Australian entities) have implemented the tax consolidation legislation. The company is the head entity in a tax-consolidated group comprising the company and the Australian entities. All entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity continues to be a stand-alone tax payer in its own right. In addition to its own current and deferred tax amounts, the company also recognises any current tax or deferred tax arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group. Details of the tax funding agreement are included in note 9 to the financial statements.

(K) Policyholders' and shareholders' funds

Cash and fixed income securities are held to back policyholders' funds, being the net insurance liabilities of the Group. The remaining financial assets and investment properties (refer note 1(R)) are held to back shareholders' funds. Insurance profit is derived by adding investment income on assets backing policyholders' funds to the underwriting result.

(L) Cash and cash equivalents

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

(M) Investments

All investments are designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. The policy of management is to designate a group of financial assets or financial liabilities as fair value through profit or loss when that group is both managed and its performance evaluated on a fair value basis for both internal and external reporting in accordance with the Group's documented investment strategy.

For securities traded in an active market, the fair value is determined by reference to published closing bid price quotations. For securities that are not traded and securities that are traded in a market that is not active, fair value is determined using valuation techniques generally by reference to the fair value of recent arm's length transactions involving the same or similar instruments. Fixed and floating rate securities are valued using independently sourced valuations that do not involve the exercise of judgment by management. Discounted cash flow analysis or option pricing models are used for a small number of investments.

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

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

(N) Derivative financial instruments

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

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

For derivatives traded in an active market, the fair value of derivatives presented as assets is determined by reference to published closing bid price quotations and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques, including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

(O) Hedging transactions

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

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

Hedge accounting is discontinued when:

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

(i) Fair value hedge accounting

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

(ii) Cash flow hedge accounting

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(iii) Hedges of net investments in foreign operations

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

(P) Receivables

Trade receivables are recognised at amounts receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses. When a receivable is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in profit or loss.

(Q) Borrowings

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

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

(R) Investment properties

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

(S) Property, plant and equipment

Owner occupied properties are measured at fair value by reference to external market valuations. When a revaluation increases the carrying value of a property, the increase is credited to the revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised through profit or loss.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised through profit or loss. To the extent that the decrease reverses an increase previously recognised in equity, the decrease is first recognised in equity.

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

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

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

(T) Intangible assets

(i) Goodwill

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

(ii) Intangible assets

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

(U) Impairment of assets

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

(V) Provisions

Provisions for liabilities are made when the Group has a legal or constructive obligation to transfer economic benefits that are of uncertain timing or amount. Provisions are determined based on management's best estimate of the expenditure required to settle the obligation. Expected future payments are discounted to present value. The provision for long service leave is explained in note 1(AA)(v). The provision for contingent consideration in relation to business combinations is explained in note 1(B)(ii).

(W) Foreign currency

(i) Presentation currency

The Group's financial statements are presented in US dollars because a significant proportion of its underwriting activity is denominated in US dollars and because the US dollar is widely accepted by the global insurance industry, international investors and analysts. See note 1(A)(iii).

(ii) Translation of foreign currency transactions and balances

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

(iii) Translation of foreign operations

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

- assets and liabilities are translated at the closing balance sheet date rates of exchange; and

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- income and expenses are translated at cumulative average rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of financial liabilities and other instruments designated as hedges of foreign operations, are taken to shareholders' equity. When a foreign operation is sold in whole or part, these exchange differences are recognised in profit or loss as part of the gain or loss on sale.

(iv) Hedging transactions

Derivatives and borrowings may be used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(O).

(iv) Exchange rates

The principal exchange rates affecting the Group were:

	2010		2009	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/US$	**0.915**	**1.023**	0.778	0.896
£/US$	**1.547**	**1.561**	1.552	1.616
€/US$	**1.328**	**1.338**	1.386	1.433

(X) Equity

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

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

(Y) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(Z) Dividends

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

(AA) Employee benefits

(i) Superannuation

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

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

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

(ii) Share based payments

The Group operates an equity settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is recognised evenly over the service period ending at the vesting date. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

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

(iii) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the company's shareholders.

(iv) Termination benefits

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

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

(v) Long service leave

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(AB) Treasury shares held in trust

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

(AC) Leases

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

(AD) Rounding of amounts

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

(AE) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the board of directors, Group operations executive and Group head office management being the management bodies responsible for the Group's strategy and operations.

(AF) Parent entity financial information

Shares in controlled entities are recorded at cost less a provision for impairment in the parent entity balance sheet.

2 NEW ACCOUNTING STANDARDS AND AMENDMENTS

TITLE		OPERATIVE DATE
AASB 9	Financial Instruments	1 January 2013
2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
2009-12	Amendments to Australian Accounting Standards	1 January 2011
2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19	1 January 2011
2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011
2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 January 2014
2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
2010-5	Amendments to Australian Accounting Standards	1 January 2011
2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 January 2012
2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 January 2014

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

The Group will apply the standards and amendments detailed above for the reporting periods beginning on the operative dates set out above. An initial assessment of the financial impact of AASB 9 and associated amendments to other accounting standards has been undertaken and the application of the current version of this standard is not expected to have a material impact on the Group's financial statements or accounting policies.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION

(A) Operating segments

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 49 countries. The business is managed on a divisional basis as follows:

- QBE the Americas writes insurance and reinsurance business in the US, Central and South America and Bermuda.
- European operations comprises QBE Insurance Europe and QBE Underwriting Limited (Lloyd's division). QBE Insurance Europe writes insurance business in the UK, Ireland and mainland Europe, and reinsurance business in Ireland and mainland Europe. QBE Underwriting Limited underwrites reinsurance and commercial insurance in the Lloyd's market.
- Australian operations primarily underwrites general insurance risks throughout Australia providing all major lines of insurance cover for personal and commercial risks.
- Asia Pacific operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- Equator Re is based in Bermuda providing reinsurance protection to related entities and participating on reinsurances placed with external reinsurers.

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

The table below sets out key financial information relating to the divisions as reported internally to the board of directors and the Group executive being the management bodies responsible for the Group's strategy and operations. Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

2010	THE AMERICAS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	ELIMINATION US$M	TOTAL US$M
Total assets	13,254	15,951	11,320	1,485	5,428	(5,250)	42,188
Total liabilities	9,727	13,493	8,926	1,041	3,858	(5,250)	31,795
Net assets	3,527	2,458	2,394	444	1,570	–	10,393
Property, plant and equipment	185	117	118	12	–	–	432
Investment properties	44	19	–	3	–	–	66
Intangible assets	2,937	658	1,767	25	–	–	5,387
Gross written premium	5,165	4,156	3,707	601	2,479	(2,479)	13,629
Gross earned premium	5,117	4,008	3,720	587	2,363	(2,363)	13,432
Outward reinsurance premium expense	(2,108)	(1,415)	(687)	(167)	(56)	2,363	(2,070)
Net earned premium	3,009	2,593	3,033	420	2,307	–	11,362
Net claims incurred	(1,854)	(1,498)	(1,846)	(192)	(1,417)	–	(6,807)
Net commission	(347)	(437)	(316)	(84)	(575)	–	(1,759)
Underwriting and other expenses	(499)	(412)	(542)	(88)	(87)	–	(1,628)
Underwriting result	309	246	329	56	228	–	1,168
Investment income on policyholders' funds	103	130	187	21	94	–	535
Insurance profit	412	376	516	77	322	–	1,703
Investment income on shareholders' funds	41	31	30	5	17	–	124
Financing and other costs	(105)	(36)	(71)	(1)	(9)	–	(222)
Share of net profits of associates	–	–	5	–	–	–	5
Amortisation of intangibles and impairment of goodwill/intangibles	(49)	(1)	(9)	–	–	–	(59)
Profit before income tax	299	370	471	81	330	–	1,551
Income tax expense	(63)	(59)	(96)	(19)	(20)	–	(257)
Profit after income tax	236	311	375	62	310	–	1,294
Net profit attributable to non-controlling interests	–	(1)	(9)	(6)	–	–	(16)
Net profit after income tax attributable to ordinary equity holders of the company	236	310	366	56	310	–	1,278

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION CONTINUED

2009	THE AMERICAS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN OPERATIONS US$M	ASIA PACIFIC OPERATIONS US$M	EQUATOR RE US$M	ELIMINATION US$M	TOTAL US$M
Total assets	10,993	14,458	9,766	1,286	4,590	(4,370)	36,723
Total liabilities	8,147	12,041	7,475	870	3,328	(4,370)	27,491
Net assets	2,846	2,417	2,291	416	1,262	–	9,232
Property, plant and equipment	176	62	94	12	–	–	344
Investment properties	40	18	–	5	–	–	63
Intangible assets	2,375	540	1,559	21	–	–	4,495
Gross written premium	4,001	3,961	2,728	549	1,994	(1,994)	11,239
Gross earned premium	3,939	3,892	2,588	524	1,918	(1,918)	10,943
Outward reinsurance premium expense	(1,412)	(1,358)	(450)	(152)	(43)	1,918	(1,497)
Net earned premium	2,527	2,534	2,138	372	1,875	–	9,446
Net claims incurred	(1,550)	(1,563)	(1,299)	(173)	(1,113)	–	(5,698)
Net commission	(356)	(421)	(239)	(77)	(440)	–	(1,533)
Underwriting and other expenses	(361)	(331)	(364)	(78)	(100)	–	(1,234)
Underwriting result	260	219	236	44	222	–	981
Investment income on policyholders' funds	107	180	226	11	104	–	628
Insurance profit	367	399	462	55	326	–	1,609
Investment income on shareholders' funds	204	119	150	16	42	–	531
Financing and other costs	(86)	(36)	(65)	(1)	(3)	–	(191)
Share of net losses of associates	–	–	(6)	–	–	–	(6)
Amortisation of intangibles and impairment of goodwill/intangibles	(39)	(2)	(11)	–	–	–	(52)
Profit before income tax	446	480	530	70	365	–	1,891
Income tax expense	(138)	(114)	(78)	(17)	(1)	–	(348)
Profit after income tax	308	366	452	53	364	–	1,543
Net profit attributable to non-controlling interests	(1)	(2)	(3)	(5)	–	–	(11)
Net profit after income tax attributable to ordinary equity holders of the company	307	364	449	48	364	–	1,532

(B) Geographical analysis

The operating segments reported to management in the table above are defined by reference to the geographical locations of each division and as such satisfy the requirements of a geographical analysis as well as an operating segment analysis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 49 countries. The class of business mix is shown on page 109 and an analysis of the Group's gross written and net earned premium from insurance and reinsurance business is shown on page 13. The head office function is located in Australia and exists to support the activities of divisional operations as follows:

- QBE the Americas, which comprises general insurance and reinsurance operations in the US and a number of Latin American countries;
- European operations, which comprises general insurance business written in the UK and throughout mainland Europe; both general insurance and reinsurance business written through Lloyd's of London; and reinsurance business written in Ireland and mainland Europe;
- Australian operations, which writes general insurance throughout Australia providing all major lines of insurance for commercial and personal risks;
- Asia Pacific operations, which comprises general insurance operations in 17 countries; and
- Equator Re, the Group's captive insurer which is based in Bermuda and provides reinsurance protection to related entities.

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

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

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

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

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

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

(i) Insurance risk assumptions

The Group's process for establishing the outstanding claims provision involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes quarterly in-house claims review meetings attended by senior divisional and Group management and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 5.

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;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions on the Group's profit or loss and balance sheet are summarised in note 4(A)(vii).

(ii) Central estimates

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

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

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

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

(iii) Risk margin

Risk margins are held to mitigate the potential for uncertainty in the outstanding claims estimation process. The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business due to factors such as actuarial estimation, data quality and legislative uncertainty, and the diversification benefits achieved by writing a number of classes of business across a number of geographic locations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

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

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

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

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

The potential impact of changes in the coefficient of variation assumptions on the Group's profit or loss and balance sheet is summarised in note 4(A)(vii).

(iv) Assets arising from contracts with reinsurers

Assets arising from contracts with the Group's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance sheet date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk. Counterparty credit risk in relation to reinsurance assets are considered in note 5.

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

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

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

Discount rates

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

	2010 %	2009 %
QBE the Americas	1.85 – 12.10	2.30
European operations	1.60 – 5.45	1.00 – 5.30
Australian operations	1.13 – 5.70	1.19 – 6.00
Asia Pacific operations	0.49 – 5.70	0.95 – 7.56
Equator Re	0.49 – 5.70	0.95 – 7.56

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the outstanding claims provision, which is determined by reference to a combination of historical analysis and current expectations of when claims will be settled. Details of the weighted average term to settlement of the Group's claims provision, analysed by division and currency, are summarised below.

	2010 YEARS						2009 YEARS					
	US$	£	A$	€	OTHER	TOTAL	US$	£	A$	€	OTHER	TOTAL
QBE the Americas	3.0	–	–	–	2.9	3.0	3.1	–	–	–	1.5	3.0
European operations	2.5	3.0	3.5	4.4	3.2	3.4	2.5	2.9	3.7	2.9	3.0	2.8
Australian operations	–	–	2.6	–	1.2	2.6	–	–	2.6	–	1.1	2.6
Asia Pacific operations	3.1	–	2.4	2.8	1.6	1.7	3.0	–	2.5	2.8	1.8	1.9
Equator Re	2.5	3.1	1.9	3.4	1.5	2.7	2.6	3.4	5.4	3.9	1.6	2.9
Group	2.8	3.1	2.7	4.4	2.4	3.0	2.8	3.1	2.8	3.0	2.1	2.8

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS CONTINUED

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

The impact of changes in key variables on the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation. As can be seen from the table below, the impact of a change in discount rates is largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, it is likely that if the central estimate was to increase by 5%, at least part of the increase would result in a decrease in the probability of adequacy. Likewise, if the coefficient of variation were to increase by 1%, it is likely that the probability of adequacy would reduce from its current level and that the change would therefore impact the amount of risk margins held rather than net profit after income tax or equity.

The impact of a change in interest rates on profit after tax due to market value movements in fixed interest securities is shown in note 5(D)(ii).

		PROFIT (LOSS)	
	SENSITIVITY %	2010 US$M	2009 US$M
Central estimate	+5	**(481)**	(415)
	–5	**481**	415
Inflation rate	+0.5	**(139)**	(115)
	–0.5	**135**	112
Discount rate	+0.5	**137**	114
	–0.5	**(142)**	(118)
Coefficient of variation	+1	**(127)**	(100)
	–1	**125**	101
Weighted average term to settlement	+10	**91**	76
	–10	**(92)**	(77)

(B) Retirement benefit obligations

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

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

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

The potential impact of a 1% increase or decrease in the discount rate and inflation assumptions is summarised below. Movements in the assumptions are reflected directly in equity in accordance with the accounting policy set out in note 1(AA)(i) and do not impact net profit after tax.

		EQUITY INCREASE (DECREASE)	
	SENSITIVITY %	2010 US$M	2009 US$M
Discount rate	+1	**23**	21
	-1	**(75)**	(75)
Inflation rate	+1	**(43)**	(44)
	-1	**8**	11

(C) Intangible assets

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

If the discount rate applied in these calculations was increased by 1% over the rates applied at 31 December 2010, the Group would be required to reflect an impairment of US$102 million (2009 US$95 million).

An overview of the Group's risk management framework is provided in the risk management statement on pages 28 to 31 and in the risk management section of the corporate governance statement on pages 55 and 56.

5 RISK MANAGEMENT

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

The Group's risk management policy objectives are to:

- achieve competitive advantage through better understanding the risk environment in which QBE operates;
- optimise risk and more effectively allocate capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises by reducing uncertainty and volatility.

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 quality business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

Risk management is a key part of our governance structure and our strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management allows all of the Group's risks to be managed in an integrated manner.

QBE's global risk management framework defines the risks that QBE is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value for our shareholders. The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self assessment, risk treatment, optimisation and ongoing improvement through management action plans and risk and performance monitoring.

A fundamental part of the Group's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The operating activities of the Group expose it to risks such as market risk, credit risk and liquidity risk. The Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Group has established internal controls to manage risk in the key areas of exposure relevant to its business.

QBE's risk profile is described under the following broad risk categories:

- Strategic risk
- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Each of these is described more fully in sections (A) to (F) below.

(A) Strategic risk

Strategic risk refers to the current and prospective impact on earnings and or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change. This includes risks associated with business strategy and change, tax planning, investment strategy and corporate governance. Of particular relevance are acquisition and capital management risk.

(i) Acquisition risk

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

(ii) Capital management risk

Australian and overseas controlled entities are subject to extensive prudential and other forms of regulation in the jurisdictions in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in Australia and overseas continues to evolve in response to economic, political and industry developments. QBE works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements. Refer to note 26(E).

(B) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. This includes underwriting, catastrophe claims concentration and claims provisioning risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

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

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

5 RISK MANAGEMENT CONTINUED

(i) Underwriting risks

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

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

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

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

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

Concentration risk
The Group's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across 49 countries and hundreds of classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows QBE to lead underwrite in many of the markets in which it operates.

The table below demonstrates the diversity of QBE's operations.

GROSS EARNED PREMIUM	2010 US$M	2009 US$M
Property	**3,996**	3,226
Motor and motor casualty	**2,099**	2,115
Liability	**1,863**	1,648
Marine, energy and aviation	**1,196**	1,078
Workers' compensation	**1,030**	812
Agriculture and bloodstock	**924**	186
Professional indemnity	**706**	749
Accident and health	**562**	382
Financial and credit	**503**	361
Mortgage insurance	**342**	197
Other	**211**	189
	13,432	10,943

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

5 RISK MANAGEMENT CONTINUED

(ii) Claims management and claims provisioning risks

The Group's approach to determining the outstanding claims provision and the related sensitivities are set out in note 4. QBE seeks to ensure the adequacy of its outstanding claims provision by reference to the following controls:

- experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims;
- processes exist to ensure that all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced internal actuaries in conjunction with the local product managers and underwriters for each class of business in each business unit. The valuation of the outstanding claims provision is primarily performed by actuaries who are not involved in the pricing function and who therefore provide an independent assessment of the provision;
- the aggregate outstanding claims provision for each controlled entity is assessed in a series of quarterly internal claims review meetings which are attended by senior divisional management and one or both of the Group chief risk officer and Group chief actuarial officer in order to ensure consistency of provisioning practices across all divisions; and
- approximately 90% of the Group's outstanding claims provision is reviewed by external actuaries at least annually.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons set out in note 4.

(C) Credit risk

Credit risk is the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors.

The Group's credit risk arises mainly from investment and reinsurance protection activities. The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

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

(i) Investment counterparty credit risk

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

	CREDIT RATING						
	Aaa US$M	Aa US$M	A US$M	Baa US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2010							
Cash and cash equivalents	**217**	**1,138**	**229**	**20**	**51**	**31**	**1,686**
Interest-bearing investments	**5,166**	**14,550**	**2,981**	**320**	**202**	**54**	**23,273**
Derivative financial instruments	**–**	**20**	**11**	**–**	**–**	**–**	**31**
As at 31 December 2009							
Cash and cash equivalents	247	401	652	24	75	36	1,435
Interest-bearing investments	6,276	11,122	1,726	305	194	28	19,651
Derivative financial instruments	–	31	102	–	–	–	133

5 RISK MANAGEMENT CONTINUED

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

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

		PAST DUE BUT NOT IMPAIRED				
	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MTHS US$M	3 TO 6 MTHS US$M	6 MTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
As at 31 December 2010						
Premium receivable	**2,750**	**390**	**96**	**25**	**18**	**3,279**
Other debtors	**494**	**20**	**7**	**5**	**16**	**542**
Treasury receivables	**14**	**–**	**–**	**–**	**–**	**14**
Investment receivables	**133**	**4**	**1**	**–**	**–**	**138**
As at 31 December 2009						
Premium receivable	1,333	499	91	24	13	1,960
Other debtors	405	3	1	5	6	420
Treasury receivables	14	1	–	–	–	15
Investment receivables	120	4	–	–	–	124

(ii) Reinsurance counterparty credit risk

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

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

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

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

		CREDIT RATING						
		AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
Reinsurance recoveries on outstanding claims	**2010**	**56**	**1,435**	**1,485**	**19**	**69**	**155**	**3,219**
	2009	141	1,253	1,641	23	70	174	3,302
Reinsurance recoveries on paid claims	**2010**	**198**	**113**	**167**	**2**	**4**	**11**	**495**
	2009	17	118	185	3	11	32	366

5 RISK MANAGEMENT CONTINUED

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

			PAST DUE BUT NOT IMPAIRED				
		NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MTHS US$M	3 TO 6 MTHS US$M	6 MTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
Reinsurance recoveries	**2010**	**306**	**107**	**26**	**18**	**38**	**495**
on paid claims	2009	118	146	41	18	43	366

(D) Market risk

Market risk is the risk of variability in the value of, and returns on, investments and the risk associated with variability of interest rates, foreign exchange rates and economy-wide inflation on both assets and liabilities, excluding insurance liabilities.

Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates); interest rate risk (due to fluctuations in market interest rates); and price risk (due to fluctuations in market prices). Within each of these categories, risks are evaluated before considering the effect of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are maintained within the Group's risk appetite and tolerance.

(i) Currency risk

The Group's exposure to currency risk generally arises as a result of either the translation of foreign currency amounts back to the functional currency of a controlled entity ("operational currency risk") or due to the translation of the Group's net investment in foreign operations back to the functional currency of the parent entity of Australian dollars and to QBE's presentation currency of US dollars.

Operational currency risk

The Group is exposed to currency risk in respect of its operational net foreign currency exposures within each of its controlled entities. This risk is managed as follows:

- As far as is practicable, each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, thus ensuring that any exposures to foreign currencies are minimised.
- Where possible, forward foreign exchange contracts are used to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 1(N).

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent with the gains or losses from related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The Group's policy is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies to which QBE is exposed against the US dollar. The sensitivity is measured with reference to the Group's residual (or unmatched) operational foreign currency exposures at the balance sheet date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1(W)(ii). The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged. This analysis does not take into account that the matching of currency assets and liabilities is actively managed and therefore assumes no response by management to movements in a variable.

		RESIDUAL EXPOSURE		PROFIT (LOSS)	
EXPOSURE CURRENCY	SENSITIVITY %	2010 US$M	2009 US$M	2010 US$M	2009 US$M
Sterling	+10	**144**	(787)	**10**	(55)
	-10			**(10)**	55
Euro	+10	**5**	42	**–**	(3)
	-10			**–**	3

5 RISK MANAGEMENT CONTINUED

Currency risk in relation to net investment in foreign operations
QBE is exposed to currency risk in relation to:

- the translation of the parent entity's net investment in foreign operations to its functional currency of Australian dollars; and
- the translation of all foreign operations to the presentation currency of US dollars.

The parent entity's currency risk in relation to its net investment in foreign operations may be hedged using foreign currency borrowings and forward foreign exchange contracts within authorities set out by the board. Hedging relationships which meet the hedging criteria set out in AASB 139 are accounted for in accordance with the accounting policy set out in note 1(O). The extent of hedging this exposure is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels.

Currency management processes are actively monitored by the Group chief financial officer and involve close senior management scrutiny, including regular board and other management reporting. All hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis. All instruments that are designated as hedges in accordance with AASB 139 are tested for effectiveness on both a prospective and a retrospective basis. These tests are performed at least quarterly.

Foreign exchange gains or losses arising on translation of the Group's foreign operations to the Group's US dollar presentation currency are recognised directly in equity in accordance with the policy set out in note 1(W)(iii). The Group does not hedge this exposure. The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which QBE is exposed through its net investments in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance sheet date.

		RESIDUAL EXPOSURE		EQUITY INCREASE (DECREASE)	
	SENSITIVITY %	2010 US$M	2009 US$M	2010 US$M	2009 US$M
Australian dollar	+10	**5,986**	2,629	**599**	263
	-10			**(599)**	(263)
Sterling	+10	**632**	327	**63**	33
	-10			**(63)**	(33)
Singapore dollar	+10	**76**	70	**8**	7
	-10			**(8)**	(7)
New Zealand dollar	+10	**98**	64	**10**	6
	-10			**(10)**	(6)
Colombian Peso	+10	**68**	51	**7**	5
	-10			**(7)**	(5)
Euro	+10	**496**	36	**50**	4
	-10			**(50)**	(4)

Further information on hedging arrangements is provided in note 12.

(ii) Interest rate risk

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

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

Interest-bearing borrowings issued by the Group are valued at amortised cost and therefore do not expose the Group to fair value interest rate risk. In addition, the majority of these interest-bearing borrowings are at fixed interest rates and so do not expose the entity to cash flow interest rate risk. The Eurobonds, which were redeemed in August 2010, were issued at variable interest rates and were therefore subject to cash flow interest rate risk; however, the Group elected to manage this risk by using derivative financial instruments. For further details refer to note 12(D).

The claims provision is discounted to present value by reference to risk-free interest rates. The Group is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 4(A)(vii). QBE has a policy of maintaining a relatively short duration for assets backing policyholders' funds in order to minimise any further potential volatility affecting insurance profit.

The contractual maturity profile of QBE's interest-bearing financial assets and hence its exposure to interest rate risk, and the effective weighted average interest rate for interest-bearing financial assets is analysed on the following page. The table includes investments at the maturity date of the security; however, many of the longer dated securities have call dates of relatively short duration.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

5 RISK MANAGEMENT CONTINUED

		FLOATING INTEREST RATE	FIXED INTEREST RATE MATURING IN						
			1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
At 31 December 2010									
Interest-bearing financial assets	**US$M**	**12,006**	**8,960**	**1,971**	**906**	**409**	**84**	**623**	**24,959**
Weighted average interest rate	**%**	**3.1**	**2.1**	**3.2**	**3.4**	**5.0**	**6.0**	**5.7**	**2.8**
At 31 December 2009									
Interest-bearing financial assets	US$M	7,116	11,111	1,602	731	85	16	425	21,086
Weighted average interest rate	%	1.9	1.9	3.5	5.1	5.9	4.4	6.2	2.2

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of fixed interest securities and therefore impact reported profit after tax. The impact of a 1.0% increase or decrease in interest rates on fixed interest securities owned by the Group at the balance sheet date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) 2010 US$M	PROFIT (LOSS) 2009 US$M
Interest rate movement – interest-bearing financial assets	+1.0	**(89)**	(68)
	-1.0	**70**	47

(iii) Price risk

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

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

At 31 December 2010, 1.1% (2009 5.9%) of the Group's investments and cash was held in listed equities, of which the majority was publicly traded in the major financial markets.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of equity investments owned by the Group at the balance sheet date on consolidated profit after tax is shown in the table below. The calculation assumes that exposures are unhedged although in practice QBE may purchase derivatives to manage this exposure. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis.

	SENSITIVITY %	PROFIT (LOSS) 2010 US$M	PROFIT (LOSS) 2009 US$M
ASX 200	+20	**20**	84
	-20	**(20)**	(84)
FTSE 100	+20	**2**	25
	-20	**(2)**	(25)
EURO STOXX	+20	**2**	13
	-20	**(2)**	(13)
S&P 500	+20	**14**	65
	-20	**(14)**	(65)

5 RISK MANAGEMENT CONTINUED

(E) Liquidity risk

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors. This includes the risk associated with asset liability management. The key objective of the Group's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet QBE's obligations including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

Liquidity must be sufficient to meet both planned and unplanned cash requirements. The Group is exposed to liquidity risk mainly through its obligations to make payments in relation to its insurance activities.

In addition to treasury cash held for working capital requirements, and in accordance with the Group's liquidity policy, a minimum percentage of consolidated investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. QBE has a strong liquidity position. At 31 December 2010, the average duration of cash and fixed interest securities was 0.5 years (2009 0.5 years).

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

The following tables summarise the contractual maturity profile of certain of the Group's financial liabilities based on the remaining undiscounted contractual obligations. The maturity profile of borrowings is included in note 25.

	1 YEAR OR LESS US$M	1 TO 3 YEARS US$M	3 TO 5 YEARS US$M	OVER 5 YEARS US$M	NO FIXED TERM US$M	TOTAL US$M
As at 31 December 2010						
Trade payables	**1,594**	**110**	**5**	**3**	**5**	**1,717**
Treasury payables	**30**	**–**	**–**	**–**	**–**	**30**
As at 31 December 2009						
Trade payables	609	36	3	3	3	654
Treasury payables	35	–	–	–	–	35

The Group has no significant concentration of liquidity risk.

The maturity profile of the Group's net outstanding claims provision is analysed in note 22. For the maturity profile of derivative financial instruments refer to note 12.

(F) Operational risk

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). The Group manages operational risk within the same robust risk management framework as its other risks. The risk assessment and monitoring framework involves on-going:

- identification and review of the key risks to the Group;
- definition of the acceptable level of risk appetite and tolerance;
- assessment of those risks throughout the Group in terms of the acceptable level of risk (risk tolerance) and the residual risk remaining after having considered risk treatment;
- assessment of whether each risk is within the acceptable level of risk, or requires appropriate action be taken to mitigate any excess risk;
- transparent monitoring and reporting of risk management related matters on a timely basis; and
- alignment of internal audit programs with risks.

One of the cornerstones of the Group's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices.

QBE operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorisation and reconciliation procedures.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

6 REVENUE

	2010 US$M	2009 US$M
Premium revenue		
Direct and facultative	**12,180**	9,793
Inward reinsurance	**1,252**	1,150
	13,432	10,943
Other revenue		
Reinsurance and other recoveries	**1,068**	644
Interest and dividend income	**558**	579
Foreign exchange gains	**141**	287
	1,767	1,510
Net fair value gains on financial assets	**8**	360
Realised gains on sale of controlled entities	**2**	6
Investment income – ABC financial assets pledged for funds at Lloyd's	**–**	101
Revenue	**15,209**	12,920

7 PROFIT BEFORE INCOME TAX

(A) Profit before income tax

	NOTE	2010 US$M	2009 US$M
Gross written premium		**13,629**	11,239
Unearned premium movement		**(197)**	(296)
Gross earned premium		**13,432**	10,943
Outward reinsurance premium		**(2,106)**	(1,610)
Deferred reinsurance premium movement		**36**	113
Outward reinsurance premium expense		**(2,070)**	(1,497)
Net earned premium		**11,362**	9,446
Gross claims incurred		**(7,875)**	(6,342)
Reinsurance and other recoveries		**1,068**	644
Net claims incurred	8	**(6,807)**	(5,698)
Net commission		**(1,759)**	(1,533)
Other acquisition costs		**(630)**	(550)
Underwriting and other expenses[1]		**(998)**	(684)
		(10,194)	(8,465)
Underwriting profit		**1,168**	981
Investment income on policyholders' funds		**535**	628
Insurance profit		**1,703**	1,609
Investment income on shareholders' funds		**124**	531
Financing and other costs (including net ABC costs)		**(222)**	(191)
Share of net profits (losses) of associates		**5**	(6)
Amortisation of intangibles and impairment of goodwill/intangibles		**(59)**	(52)
Profit before income tax		**1,551**	1,891

(1) Includes US$175 million (2009 US$235 million) of agency income earned by the Group's agency operations which is treated as a recovery of the Group's underwriting expenses.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

7 PROFIT BEFORE INCOME TAX CONTINUED

(B) Net investment and other income

	2010 US$M	2009 US$M
Dividends received or receivable from non-related entities	**42**	40
Interest received or receivable from non-related entities	**511**	535
Other investment income	**5**	4
Investment and dividend income	**558**	579
Net realised (losses) gains – equities and investment properties	**(7)**	(285)
Net realised gains – fixed interest and other	**80**	218
Net unrealised gains (losses) – equities and investment properties	**(43)**	347
Net unrealised (losses) gains – fixed interest and other	**(24)**	10
Net unrealised losses on owner occupied properties	**(7)**	(23)
Realised gains on sale of controlled entities	**2**	6
Gain on repurchase of debt securities(1)	**–**	54
Foreign exchange gains(2)	**141**	287
Investment and other income	**700**	1,193
Other expenses	**(41)**	(34)
Net investment and other income	**659**	1,159
Investment income on policyholders' funds	**535**	628
Investment income on shareholders' funds	**124**	531
Net investment and other income	**659**	1,159

(1) Gains arose on the repurchase of capital securities and other QBE debt securities.

(2) 2009 realised foreign exchange gains include US$191 million arising following a change in the Group's approach to hedging its net investment in foreign operations.

(C) Other expenses

	2010 US$M	2009 US$M
Commission	**1,759**	1,533
Other acquisition costs	**630**	550
Underwriting and other expenses	**998**	684
Investment expenses	**41**	34
Amortisation of intangibles and impairment of goodwill/intangibles	**59**	52
Other expenses	**3,487**	2,853

(D) Specific items

	2010 US$M	2009 US$M
Defined contribution superannuation plan expense	**70**	32
Payments on operating leases	**87**	72
Depreciation of property, plant and equipment	**59**	55

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

8 CLAIMS INCURRED

(A) Claims analysis

	2010 US$M	2009 US$M
Gross claims incurred and related expenses		
Direct and facultative	**7,089**	5,860
Inward reinsurance	**786**	482
	7,875	6,342
Reinsurance and other recoveries		
Direct and facultative	**786**	549
Inward reinsurance	**282**	95
	1,068	644
Net claims incurred	**6,807**	5,698

(B) Claims development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid. Refer note 8(C) below.

	2010			2009		
	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M
Gross claims incurred and related expenses						
Undiscounted	**8,832**	**(867)**	**7,965**	6,830	(215)	6,615
Discount	**(489)**	**399**	**(90)**	(316)	43	(273)
	8,343	**(468)**	**7,875**	6,514	(172)	6,342
Reinsurance and other recoveries						
Undiscounted	**1,311**	**(248)**	**1,063**	577	45	622
Discount	**(76)**	**81**	**5**	(24)	46	22
	1,235	**(167)**	**1,068**	553	91	644
Net claims incurred						
Undiscounted	**7,521**	**(619)**	**6,902**	6,253	(260)	5,993
Discount	**(413)**	**318**	**(95)**	(292)	(3)	(295)
	7,108	**(301)**	**6,807**	5,961	(263)	5,698

(C) Reconciliation of net claims incurred to claims development table

The development of the net undiscounted central estimate of outstanding claims for the 10 most recent accident years is shown in note 22(E). This note is a reconciliation of the amounts included in the table above and the current financial year movements in the claims development table.

	2010			2009		
	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M	CURRENT YEAR US$M	PRIOR YEARS US$M	TOTAL US$M
Net undiscounted claims development – central estimate (note 22)	**7,935**	**(49)**	**7,886**	5,718	(61)	5,657
Acquisitions – central estimate	**(1,161)**	**–**	**(1,161)**	(83)	–	(83)
	6,774	**(49)**	**6,725**	5,635	(61)	5,574
Foreign exchange	**4**	**(7)**	**(3)**	42	58	100
Movement in claims settlement costs	**301**	**–**	**301**	243	14	257
Movement in discount	**(413)**	**318**	**(95)**	(292)	(3)	(295)
Movement in risk margin	**447**	**(569)**	**(122)**	342	(313)	29
Other movements	**(5)**	**6**	**1**	(9)	42	33
Net claims incurred – discounted	**7,108**	**(301)**	**6,807**	5,961	(263)	5,698

9 INCOME TAX

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

	2010 US$M	2009 US$M
Profit before income tax	**1,551**	1,891
Prima facie tax payable at 30%	**465**	567
Tax effect of permanent differences:		
Untaxed dividends	**(8)**	(8)
Differences in tax rates	**(129)**	(127)
Other, including non-allowable expenses and non-taxable income	**(48)**	(85)
Prima facie tax adjusted for permanent differences	**280**	347
Deferred tax asset no longer recognised	**21**	38
Overprovision in prior years	**(44)**	(37)
Income tax expense	**257**	348
Analysed as follows:		
Current tax	**306**	289
Deferred tax	**(5)**	96
Overprovision in prior years	**(44)**	(37)
	257	348
Deferred tax (credit) expense comprises[1]:		
Deferred tax assets charged to profit	**79**	45
Deferred tax liabilities (credited) charged to profit	**(84)**	51
	(5)	96

(1) Consolidated deferred tax expense includes US$8 million (2009 US$2 million) credited to profit as a result of changes in income tax rates.

(B) Tax consolidation legislation

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

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

Details of franking credits available to shareholders are shown in note 27(C).

Notes to the financial statements

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10 CASH AND CASH EQUIVALENTS

	2010 US$M	2009 US$M	2008 US$M
Cash at bank and on hand	**722**	582	573
Overnight money	**164**	261	510
Cash management trusts	**516**	366	208
Term deposits	**284**	226	629
Commercial paper	**–**	–	1
	1,686	1,435	1,921

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

(A) Restrictions on use

Cash and cash equivalents includes balances readily convertible to cash. All balances are held to service normal operational requirements. Included in cash and cash equivalents are amounts totalling US$150 million (2009 US$237 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's bye-laws, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

(B) Reconciliation of cash flows from operating activities to profit after income tax

	2010 US$M	2009 US$M
Cash flows from operating activities	**1,362**	1,344
Depreciation of property, plant and equipment	**(59)**	(55)
Amortisation and impairment of goodwill/intangibles	**(59)**	(52)
Amortisation of premium/discount on fixed interest securities	**–**	(2)
Profit on sale of controlled entities	**2**	6
Loss on sale of plant and equipment	**(21)**	(1)
Net foreign exchange gains	**143**	283
Other (losses) gains on financial assets	**(6)**	357
Increase in net outstanding claims	**(681)**	(282)
Increase in unearned premium	**(197)**	(297)
Increase in deferred insurance costs	**140**	169
Increase in trade debtors	**395**	84
Increase in net operating assets	**21**	79
Decrease (increase) in trade payables	**321**	(3)
Increase in tax liabilities	**(54)**	(62)
Increase in share-based payments	**(36)**	(31)
Decrease in defined benefit plan surplus/deficit	**23**	6
Profit after income tax	**1,294**	1,543

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

11 INVESTMENTS

	2010 US$M	2009 US$M	2008 US$M
Interest-bearing			
Short-term money	**6,983**	10,352	11,854
Government bonds	**2,642**	1,270	1,398
Corporate bonds	**3,309**	2,670	1,280
Floating rate notes	**10,177**	5,241	2,278
Fixed interest trusts	**162**	118	112
	23,273	19,651	16,922
Equities			
Listed	**276**	1,337	1,069
Unlisted	**3**	2	4
Exchange traded equity derivatives	**–**	(40)	–
	279	1,299	1,073
Total investments	**23,552**	20,950	17,995
Amounts maturing within 12 months	**9,816**	12,307	12,687
Amounts maturing in greater than 12 months	**13,736**	8,643	5,308
Total investments	**23,552**	20,950	17,995

(A) Exchange traded equity derivatives

Contractual amounts for forward contracts at the balance sheet date were nil (2009 US$40 million payable). The credit risk arising from equity derivatives is nil (2009 nil). There were no amounts outstanding for purchased or written options (2009 nil). All derivatives will settle in less than one year.

(B) Charges over investments and other assets

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 32.

(C) Valuation of investments

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. Investments traded in an active market are valued with reference to the closing bid price. The significant majority of other investments, being fixed and floating rate securities, are valued using independently sourced valuations that do not involve the exercise of judgment by management. Less than 1% of investments are valued using accepted valuation practices such as discounted cash flow analysis and option pricing tools. Any reasonable changes in the inputs used to value these investments would not have a significant impact on the balance sheet.

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

Fair value hierarchy

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

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

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

	2010				2009			
	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
Short-term money	**512**	**6,471**	**–**	**6,983**	861	9,491	–	10,352
Government bonds	**1,322**	**1,320**	**–**	**2,642**	314	956	–	1,270
Corporate bonds	**–**	**3,308**	**1**	**3,309**	–	2,640	30	2,670
Floating rate notes	**3**	**10,174**	**–**	**10,177**	–	5,214	27	5,241
Fixed interest trusts	**–**	**162**	**–**	**162**	27	91	–	118
Equities – listed	**275**	**–**	**1**	**276**	1,337	–	–	1,337
Equities – unlisted	**–**	**–**	**3**	**3**	–	–	2	2
Exchange traded equity derivatives	**–**	**–**	**–**	**–**	(40)	–	–	(40)
Total investments	**2,112**	**21,435**	**5**	**23,552**	2,499	18,392	59	20,950

11 INVESTMENTS CONTINUED

(D) Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

LEVEL 3	2010 US$M	2009 US$M
At 1 January	**59**	31
Purchases	**1**	23
Reclassification of level 3 investments	**(55)**	–
Unrealised losses in profit or loss	**–**	(6)
Foreign exchange	**–**	11
At 31 December	**5**	59

The reclassification of investments out of level 3 resulted from an increased availability of observable market data in the current year.

(E) Restrictions on use

Included in investments are amounts totalling US$3,564 million (2009 US$3,561 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's bye-laws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met. Included in this amount is US$1,267 million (2009 US$1,924 million) of short-term money.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	ASSETS			LIABILITIES		
	2010 US$M	2009 US$M	2008 US$M	2010 US$M	2009 US$M	2008 US$M
Maturing within 12 months						
Forward foreign exchange contracts	**31**	41	535	**92**	36	786
Eurobond swaps	**–**	92	–	**–**	–	–
	31	133	535	**92**	36	786
Maturing in greater than 12 months						
Forward foreign exchange contracts	**–**	–	2	**–**	–	–
Eurobond swaps	**–**	–	72	**–**	–	–
	–	–	74	**–**	–	–
	31	133	609	**92**	36	786

Equity derivatives are included in note 11(A).

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

(A) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. In the Group, US$31 million (2009 US$133 million) is receivable from forward foreign exchange contracts and Eurobond swaps at the balance sheet date.

12 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

(B) Forward foreign exchange contracts

Forward foreign exchange contracts are entered into by the Group for the purpose of managing residual foreign currency exposures. The Group's policy for managing such exposures is explained in note 5(D). In the Group, undiscounted contractual amounts to purchase US$4,822 million (2009 US$4,324 million) were outstanding at the balance sheet date. The maturity profile of these contracts is set out in the table below.

	2010 US$M	2009 US$M
Less than one year	**4,822**	4,324
More than one year but less than five years	**–**	–
	4,822	4,324

(C) Eurobond swaps

Prior to the redemption of the Eurobonds in August 2010, a controlled entity was exposed to cash flow interest rate and currency risk in respect of its three Eurobond financing arrangements. Accordingly, the Group entered into swap agreements which resulted in the Group's Eurobond borrowings being fixed at sterling amounts until 2010, at which point the Group would be liable for the original Australian dollar and Euro amounts in the underlying financing arrangements. Under the swap agreements, the variable interest rates of between 1.8% and 2.0% above the wholesale interbank rate were swapped to fixed rates of between 8.4% and 8.6% payable quarterly until 2010. The timing of the payments under the swap agreements matched the dates on which interest was payable on the underlying debt. The contracts were settled on a net basis.

The underlying borrowings were measured at amortised cost in original currency and translated to Australian dollars at the closing rate of exchange. The swaps were measured at fair value. The swaps were designated as cash flow hedges and satisfied the relevant hedge effectiveness tests throughout the period of their existence. The gain or loss on the cash flow hedges was recognised directly in equity. Each financial year end, until the close out of the swap agreements, an amount was transferred from equity to the income statement to offset:

- the differential between the fixed and variable interest payments; and
- the movement in the spot rate on the borrowings.

During the year, a loss of US$29 million (2009 US$12 million gain) was recognised in equity relating to the movements in the fair value of the swaps. During the year, a loss of US$34 million (2009 US$7 million gain) was transferred from equity and included in the income statement.

(D) Determination of fair value and fair value hierarchy

The Group's accounting policy in relation to the valuation of derivatives is set out in note 1(N). Derivatives are analysed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The hierarchy is explained in more detail in note 11(C).

	2010				2009			
	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
Forward foreign exchange contracts	**(61)**	**–**	**–**	**(61)**	34	(29)	–	5
Eurobond swaps	**–**	**–**	**–**	**–**	–	92	–	92
Total	**(61)**	**–**	**–**	**(61)**	34	63	–	97

(E) Hedging arrangements

At the balance date, no derivatives were designated as hedges. At the previous balance date, the value of designated cash flow hedges used to mitigate volatility due to interest rate and currency risk in relation to the Eurobonds was US$92 million. The Eurobonds were redeemed in August 2010.

At the balance sheet date, US$2,239 million of borrowings and US$232 million of liabilities were designated as hedges of net investments in foreign operations (2009 US$740 million of borrowings).

13 TRADE AND OTHER RECEIVABLES

	2010 US$M	2009 US$M	2008 US$M
Trade debtors			
Premium receivable[1]	**3,279**	1,960	1,593
Reinsurance and other recoveries[1]	**495**	366	263
Unclosed premium	**1,038**	970	1,003
	4,812	3,296	2,859
Other debtors	**542**	420	425
Treasury receivables	**14**	15	56
Investment receivables	**138**	124	199
Trade and other receivables	**5,506**	3,855	3,539
Receivable within 12 months	**5,244**	3,785	3,491
Receivable in greater than 12 months	**262**	70	48
Trade and other receivables	**5,506**	3,855	3,539

(1) Net of a provision for impairment.

(A) Provision for impairment

	2010 US$M	2009 US$M
At 1 January	**109**	112
Charge (credit) for the year	**5**	(2)
Other movements	**(3)**	(9)
Foreign exchange	**–**	8
At 31 December	**111**	109

(B) Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(C) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Group as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of balances in the table above, where relevant, is included in note 5. Note 5 also provides more information on the risk management policies of the Group.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

14 DEFERRED INSURANCE COSTS

	2010 US$M	2009 US$M	2008 US$M
Deferred reinsurance premium	**651**	573	386
Deferred net commission	**1,032**	885	748
Deferred acquisition costs	**320**	295	261
Deferred insurance costs	**2,003**	1,753	1,395
To be expensed within 12 months	**1,954**	1,509	1,123
To be expensed in greater than 12 months	**49**	244	272
Deferred insurance costs	**2,003**	1,753	1,395

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2010 US$M	2009 US$M	2010 US$M	2009 US$M	2010 US$M	2009 US$M
At 1 January	**573**	386	**885**	748	**295**	261
Acquisitions	**42**	98	**1**	16	**–**	9
Costs deferred in financial year	**251**	481	**909**	748	**275**	225
Reclassification	**–**	–	**–**	10	**–**	(10)
Amortisation of costs deferred in previous financial years	**(248)**	(286)	**(802)**	(739)	**(267)**	(228)
Disposals	**–**	(19)	**–**	–	**–**	–
Foreign exchange	**33**	(87)	**39**	102	**17**	38
At 31 December	**651**	573	**1,032**	885	**320**	295

15 PROPERTY, PLANT AND EQUIPMENT

2010	FREEHOLD BUILDINGS US$M	LEASEHOLD IMPROVEMENTS US$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US$M	MOTOR VEHICLES US$M	TOTAL US$M
Cost or valuation					
At 1 January	**179**	**100**	**259**	**10**	**548**
Acquisitions	**21**	**1**	**8**	**1**	**31**
Additions	**3**	**8**	**116**	**2**	**129**
Revaluations	**3**	**–**	**–**	**–**	**3**
Disposals	**(5)**	**(1)**	**(24)**	**(3)**	**(33)**
Foreign exchange	**6**	**8**	**(2)**	**–**	**12**
At 31 December	**207**	**116**	**357**	**10**	**690**
Accumulated depreciation and impairment losses					
At 1 January	**–**	**32**	**167**	**5**	**204**
Disposals	**–**	**–**	**(2)**	**(2)**	**(4)**
Depreciation charge for the year	**–**	**11**	**46**	**2**	**59**
Foreign exchange	**–**	**1**	**(2)**	**–**	**(1)**
At 31 December	**–**	**44**	**209**	**5**	**258**
Carrying amount					
At 31 December	**207**	**72**	**148**	**5**	**432**

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

2009	FREEHOLD BUILDINGS US$M	LEASEHOLD IMPROVEMENTS US$M	OFFICE EQUIPMENT/ FIXTURES & FITTINGS US$M	MOTOR VEHICLES US$M	TOTAL US$M
Cost or valuation					
At 1 January	199	79	217	10	505
Additions	2	11	39	2	54
Revaluations	(30)	–	–	–	(30)
Disposals	(4)	(3)	(14)	(2)	(23)
Foreign exchange	12	13	17	–	42
At 31 December	179	100	259	10	548
Accumulated depreciation and impairment losses					
At 1 January	–	22	125	4	151
Disposals	–	(2)	(13)	(2)	(17)
Depreciation charge for the year	–	9	44	2	55
Foreign exchange	–	3	11	1	15
At 31 December	–	32	167	5	204
Carrying amount					
At 31 December	179	68	92	5	344

Principal owner occupied properties are valued annually by the directors effective 31 December based on independent valuations.

All owner occupied properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows.

In accordance with the Group's accounting policy, freehold buildings are measured at fair value. The cost of freehold buildings at 31 December 2010 was US$225 million (2009 US$200 million).

16 DEFERRED INCOME TAX

	2010 US$M	2009 US$M	2008 US$M
Deferred tax assets	**93**	182	234
Deferred tax liabilities	**(402)**	(488)	(373)

(A) Deferred tax assets – maturing in greater than 12 months

(i) The balance comprises temporary differences attributable to:

	2010 US$M	2009 US$M
Amounts recognised in profit or loss		
Financial assets – fair value movements	**40**	48
Provision for impairment	**15**	13
Employee benefits	**67**	67
Defined benefit plans	**3**	7
Insurance provisions	**399**	408
Deferred tax losses recognised	**101**	145
Other	**82**	112
	707	800
Amounts recognised in other comprehensive income		
Capitalised expenses	**6**	6
Defined benefit plans	**29**	29
Employee share options	**–**	4
	35	39
	742	839
Set-off of deferred tax liabilities	**(649)**	(657)
	93	182

(ii) Movements:

	2010 US$M	2009 US$M
At 1 January	**839**	802
Charged to the income statement	**(79)**	(45)
Credited (charged) to equity	**4**	(14)
Acquisitions	**36**	2
Foreign exchange	**(58)**	94
At 31 December	**742**	839

(B) Tax losses

The Group has not brought to account US$71 million (2009 US$72 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. This benefit will only be brought to account when the directors believe it is probable that it will be realised. This benefit of tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

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16 DEFERRED INCOME TAX CONTINUED

(C) Deferred tax liabilities – maturing in greater than 12 months

(i) The balance comprises temporary differences attributable to:

	2010 US$M	2009 US$M
Amounts recognised in profit or loss		
Intangibles	**(249)**	(181)
Insurance provisions	**(506)**	(520)
Foreign currency monetary items	**(141)**	(77)
Financial assets – fair value movements	**(70)**	(106)
Other provisions	**(41)**	(74)
Other items	**(24)**	(167)
	(1,031)	(1,125)
Amounts recognised in other comprehensive income		
Owner occupied property	**(18)**	(15)
Other	**(2)**	(5)
	(20)	(20)
	(1,051)	(1,145)
Set-off of deferred tax assets	**649**	657
	(402)	(488)

(ii) Movements:

	2010 US$M	2009 US$M
At 1 January	**(1,145)**	(941)
Credited (charged) to the income statement	**84**	(51)
Acquisitions	**(68)**	(9)
Foreign exchange	**78**	(144)
At 31 December	**(1,051)**	(1,145)

17 INVESTMENT PROPERTIES

	2010 US$M	2009 US$M
At 1 January	**63**	79
Additions	**6**	1
Disposals	**–**	–
Fair value losses	**(2)**	(16)
Foreign exchange	**(1)**	(1)
At 31 December	**66**	63

Investment properties are valued annually by the directors based on independent valuations.

All investment properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows. Investment properties are not expected to be realised within 12 months.

Rental income from investment properties was US$5 million (2009 US$8 million).

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18 INVESTMENT IN ASSOCIATES

(A) Movements in carrying amounts

	2010 US$M	2009 US$M
At 1 January	**45**	43
Share of profit (loss) after income tax	**5**	(6)
Other comprehensive income	**7**	–
Acquisitions	**29**	–
Foreign exchange	**(9)**	8
At 31 December	**77**	45

(B) Extracts from entity financial statements

	GROUP SHARE OF:			
2010	ASSETS US$M	LIABILITIES US$M	GROSS WRITTEN PREMIUM US$M	NET PROFIT AFTER TAX US$M
Aviabel Cie. Belge d'Assurances Aviation S.A.[1]	**47**	**(37)**	**–**	**–**
QBE del Istmo Reinsurance Company Inc	**122**	**(76)**	**56**	**5**
Pacific Re Limited	**5**	**(1)**	**1**	**–**
Raheja QBE General Insurance Limited	**8**	**–**	**–**	**–**
	182	**(114)**	**57**	**5**

(1) Acquired on 2 November 2010.

	GROUP SHARE OF:			
2009	ASSETS US$M	LIABILITIES US$M	GROSS WRITTEN PREMIUM US$M	NET PROFIT AFTER TAX US$M
QBE del Istmo Reinsurance Company Inc	128	(96)	66	3
Pacific Re Limited	5	(1)	1	–
Raheja QBE General Insurance Limited	11	–	–	–
	144	(97)	67	3

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

19 INTANGIBLE ASSETS

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2010	LLOYD'S SYNDICATE CAPACITY US$M	RENEWAL RIGHTS/ DISTRIBUTION CHANNELS US$M	BRAND NAMES US$M	INSURANCE LICENCES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	**87**	**558**	**39**	**50**	**40**	**14**	**3,815**	**4,603**
Acquisitions	**–**	**137**	**18**	**5**	**9**	**12**	**411**	**592**
Additions/reclassifications	**–**	**9**	**–**	**–**	**–**	**–**	**104**	**113**
Foreign exchange	**(6)**	**11**	**1**	**2**	**–**	**2**	**243**	**253**
At 31 December	**81**	**715**	**58**	**57**	**49**	**28**	**4,573**	**5,561**
Amortisation								
At 1 January	**–**	**(83)**	**(1)**	**–**	**(15)**	**(9)**	**–**	**(108)**
Amortisation for the year	**–**	**(45)**	**(3)**	**–**	**(9)**	**(2)**	**–**	**(59)**
Impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange	**–**	**(5)**	**–**	**–**	**–**	**(2)**	**–**	**(7)**
At 31 December	**–**	**(133)**	**(4)**	**–**	**(24)**	**(13)**	**–**	**(174)**
Carrying amount								
At 31 December	**81**	**582**	**54**	**57**	**25**	**15**	**4,573**	**5,387**

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
2009	LLOYD'S SYNDICATE CAPACITY US$M	RENEWAL RIGHTS/ DISTRIBUTION CHANNELS US$M	BRAND NAMES US$M	INSURANCE LICENCES US$M	SOFTWARE US$M	OTHER US$M	US$M	US$M
Cost								
At 1 January	81	499	25	48	42	13	3,263	3,971
Acquisitions	–	19	11	–	–	–	169	199
Additions/reclassifications	–	21	3	1	(3)	–	62	84
Foreign exchange	6	19	–	1	1	1	321	349
At 31 December	87	558	39	50	40	14	3,815	4,603
Amortisation								
At 1 January	–	(35)	–	–	(8)	(6)	–	(49)
Amortisation for the year	–	(42)	(1)	–	(7)	(2)	–	(52)
Impairment	–	(2)	–	–	–	–	–	(2)
Foreign exchange	–	(4)	–	–	–	(1)	–	(5)
At 31 December	–	(83)	(1)	–	(15)	(9)	–	(108)
Carrying amount								
At 31 December	87	475	38	50	25	5	3,815	4,495

(A) Identifiable intangibles

Lloyd's syndicate capacity, insurance licences and brand names are generally considered to have an indefinite useful life and no amortisation is charged. All remaining intangible assets are amortised over their finite useful lives and the amortisation charge is included in amortisation and impairment of goodwill/intangibles in the income statement. The most significant classes of intangible assets are detailed below.

(i) Lloyd's syndicate capacity

The Lloyd's syndicate capacity relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. Since acquiring QBE Underwriting Limited, the Group has increased its share of ownership for all syndicates from 55% in 2000 to 91% for the 2010 underwriting year. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons Lloyd's syndicate capacity is deemed to have an indefinite useful life.

19 INTANGIBLE ASSETS CONTINUED

(ii) Renewal rights/distribution channels

This is the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution network. Renewal rights and distribution channels are amortised over lives of between five and 21 years depending on the classes of business to which the assets relate.

(iii) Brand names

This asset reflects the revenue generating ability of acquired brands. Brand names are generally considered to have an indefinite useful life due to the long-term nature of this asset. When there is a contractual limit on the use of the brand name, the asset is amortised over the relevant period, being in the range of five to 20 years.

(iv) Insurance licences

This asset gives the Group the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. It is considered to have an indefinite useful life due to its long-term nature.

(v) Software

This is the fair value of key operating systems acquired in business combinations which will benefit the future operations of the acquired entity. Capitalised software is amortised over periods ranging from four to 15 years, reflecting the period during which the Group is expected to benefit from the use of the software.

(B) Goodwill

Goodwill is allocated to cash generating units being the lowest level at which there are separately identifiable cash flows relating to the goodwill. As the Group continues to acquire operations and reorganise the way that operations are managed, reporting structures may change giving rise to a reassessment of cash generating units.

The goodwill relating to certain acquisitions is denominated in currencies other than the US dollar and so is subject to foreign exchange movements.

Goodwill is analysed by cash generating units as follows:

	2010 US$M	2009 US$M	2008 US$M
North American operations	**2,218**	1,846	1,981
Australian general insurance	**911**	800	524
QBE LMI	**788**	690	359
QBE Insurance Europe	**235**	230	199
Lloyd's division	**241**	212	167
Other	**180**	37	33
	4,573	3,815	3,263

(C) Impairment testing of intangible assets

The Group's accounting policy in respect of impairment testing of intangible assets is set out in note 1(T). The recoverable amount of each cash generating unit is determined by reference to a value in use calculation based on the following key assumptions and estimates:

- discounted cash flow projections for a five year period are included in the calculation. This information is extracted from the latest three year business plan which has been presented to and approved by the board;
- projections for years four and five are based on the final year of the three year business plan assuming growth of 2.5% per annum;
- discount rates are pre-tax and reflect a beta and equity risk premium appropriate to the Group; and
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five and an appropriate discount rate and terminal growth rate.

The discount rates used to value cash generating units at 31 December 2010 were in a range of 9.9% to 15.2% (31 December 2009 range of 10.5% to 15.7%).

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20 TRADE AND OTHER PAYABLES

	2010 US$M	2009 US$M	2008 US$M
Trade payables	**1,717**	654	647
Other payables and accrued expenses	**561**	489	705
Treasury payables	**30**	35	18
Investment payables	**–**	–	30
Trade and other payables	**2,308**	1,178	1,400
Payable within 12 months	**2,197**	1,141	1,344
Payable in greater than 12 months	**111**	37	56
Trade and other payables	**2,308**	1,178	1,400

21 UNEARNED PREMIUM

(A) Unearned premium

	2010 US$M	2009 US$M
At 1 January	**6,127**	5,003
Acquisitions/disposals	**214**	198
Deferral of premium on contracts written in the period	**5,133**	4,936
Earning of premium written in previous periods	**(4,974)**	(4,579)
Foreign exchange	**288**	569
At 31 December	**6,788**	6,127
To be earned within 12 months	**6,217**	5,511
To be earned in greater than 12 months	**571**	616
Unearned premium	**6,788**	6,127

(B) Net premium liabilities

	NOTE	2010 US$M	2009 US$M
Unearned premium		**6,788**	6,127
Deferred insurance costs	14	**(2,003)**	(1,753)
Net premium liabilities		**4,785**	4,374

(C) Expected present value of future cash flows for future claims including risk margin

	2010 US$M	2009 US$M
Undiscounted central estimate	**4,178**	3,899
Risk margin	**165**	158
	4,343	4,057
Discount to present value	**(454)**	(413)
Expected present value of future cash flows for future claims including risk margin	**3,889**	3,644

21 UNEARNED PREMIUM CONTINUED

(D) Liability adequacy test

The probability of adequacy applied in the liability adequacy test differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Group.

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 31 December 2010 and 2009.

(E) Risk margin

The process used to determine the risk margin is explained in note 4(A)(iii).

The risk margin in expected future cash flows for future claims as a percentage of the discounted central estimate is 4.4% (2009 4.5%). This is the risk margin required to give a probability of adequacy of 75% for future claims.

22 OUTSTANDING CLAIMS

(A) Net outstanding claims

	2010 US$M	2009 US$M	2008 US$M
Gross outstanding claims	**19,443**	17,170	15,486
Claims settlement costs	**419**	413	373
	19,862	17,583	15,859
Discount to present value	**(1,626)**	(1,417)	(973)
Gross outstanding claims provision	**18,236**	16,166	14,886
Less than 12 months	**6,431**	5,610	5,083
Greater than 12 months	**11,805**	10,556	9,803
Gross outstanding claims provision	**18,236**	16,166	14,886
Reinsurance and other recoveries on outstanding claims[1]	**3,425**	3,534	3,787
Discount to present value	**(206)**	(232)	(247)
Reinsurance and other recoveries on outstanding claims	**3,219**	3,302	3,540
Less than 12 months	**1,227**	1,347	1,202
Greater than 12 months	**1,992**	1,955	2,338
Reinsurance and other recoveries on outstanding claims	**3,219**	3,302	3,540
Net outstanding claims	**15,017**	12,864	11,346
Central estimate	**13,747**	11,847	10,504
Risk margin	**1,270**	1,017	842
Net outstanding claims	**15,017**	12,864	11,346

(1) Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of US$32 million (2009 US$43 million).

(B) Maturity profile of net outstanding claims

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

2010	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
QBE the Americas	**1,003**	**556**	**318**	**193**	**120**	**448**	**2,638**
European operations	**1,605**	**1,006**	**734**	**577**	**416**	**1,241**	**5,579**
Australian operations	**1,486**	**781**	**495**	**313**	**189**	**424**	**3,688**
Asia Pacific operations	**187**	**77**	**44**	**24**	**13**	**25**	**370**
Equator Re	**923**	**557**	**338**	**272**	**195**	**457**	**2,742**
Group	**5,204**	**2,977**	**1,929**	**1,379**	**933**	**2,595**	**15,017**

2009	1 YEAR OR LESS US$M	1 TO 2 YEARS US$M	2 TO 3 YEARS US$M	3 TO 4 YEARS US$M	4 TO 5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
QBE the Americas	833	546	332	195	118	369	2,393
European operations	1,397	960	678	522	388	814	4,759
Australian operations	1,225	650	404	268	161	356	3,064
Asia Pacific operations	146	67	40	20	11	28	312
Equator Re	662	538	313	232	164	427	2,336
Group	4,263	2,761	1,767	1,237	842	1,994	12,864

An analysis of the weighted average term to settlement of the claims provision is included in note 4A(vi).

(C) Risk margin

The process used to determine the risk margin is explained in note 4(A)(iii) and details of the risk-free discount rates adopted are set out in note 4(A)(vi).

The probability of adequacy at 31 December 2010 is 89.8% (2009 88.1%) which is well above APRA's 75% benchmark. The risk margin included in net outstanding claims is 9.2% (2009 8.6%) of the central estimate.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

22 OUTSTANDING CLAIMS CONTINUED

(D) Reconciliation of movement in discounted outstanding claims provision

	2010			2009		
	GROSS US$M	REINSURANCE US$M	NET US$M	GROSS US$M	REINSURANCE US$M	NET US$M
At 1 January	**16,166**	**(3,302)**	**12,864**	14,886	(3,540)	11,346
Increase in net claims incurred in current accident year	**8,343**	**(1,235)**	**7,108**	6,514	(553)	5,961
Movement in prior year claims provision	**(468)**	**167**	**(301)**	(172)	(91)	(263)
Incurred claims recognised in the income statement	**7,875**	**(1,068)**	**6,807**	6,342	(644)	5,698
Acquisitions/disposals	**1,602**	**(190)**	**1,412**	103	11	114
Claim payments	**(7,515)**	**1,334**	**(6,181)**	(6,557)	1,092	(5,465)
Foreign exchange	**108**	**7**	**115**	1,392	(221)	1,171
At 31 December	**18,236**	**(3,219)**	**15,017**	16,166	(3,302)	12,864

(E) Claims development – undiscounted net central estimate

	2000 & PRIOR US$M	2001 US$M	2002 US$M	2003 US$M	2004 US$M	2005 US$M	2006 US$M	2007 US$M	2008 US$M	2009 US$M	2010 US$M	TOTAL US$M
Net claims cost – central estimate:												
At end of accident year		**2,869**	**2,177**	**2,307**	**3,202**	**3,555**	**3,186**	**6,244**	**5,835**	**5,934**	**7,935**	
One year later		**2,911**	**2,116**	**2,152**	**2,996**	**3,603**	**3,128**	**6,058**	**5,958**	**5,972**	**–**	
Two years later		**2,954**	**2,112**	**2,030**	**2,844**	**3,361**	**3,088**	**6,175**	**5,923**	**–**	**–**	
Three years later		**2,838**	**2,108**	**1,996**	**2,825**	**3,382**	**3,036**	**6,164**	**–**	**–**	**–**	
Four years later		**2,891**	**2,102**	**1,944**	**2,714**	**3,394**	**2,974**	**–**	**–**	**–**	**–**	
Five years later		**2,822**	**2,093**	**1,934**	**2,716**	**3,356**	**–**	**–**	**–**	**–**	**–**	
Six years later		**2,857**	**2,118**	**1,952**	**2,697**	**–**	**–**	**–**	**–**	**–**	**–**	
Seven years later		**2,872**	**2,122**	**1,975**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
Eight years later		**2,833**	**2,115**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
Nine years later		**2,840**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
Current central estimate cost for the 10 most recent accident years		**2,840**	**2,115**	**1,975**	**2,697**	**3,356**	**2,974**	**6,164**	**5,923**	**5,972**	**7,935**	
Cumulative net claims payments to date		**(2,636)**	**(1,989)**	**(1,836)**	**(2,299)**	**(2,966)**	**(2,479)**	**(4,582)**	**(4,227)**	**(3,319)**	**(2,494)**	
Net undiscounted central estimate	**869**	**204**	**126**	**139**	**398**	**390**	**495**	**1,582**	**1,696**	**2,653**	**5,441**	**13,993**
Foreign exchange												**694**
Net undiscounted central estimate at 31 December 2010												**14,687**
Discount to present value												**(1,420)**
Risk margin												**1,270**
Claims settlement costs												**419**
Other												**61**
Net outstanding claims at 31 December 2010												**15,017**
Net central estimate development												
Increase (decrease) in the year – current year minus prior year	**55**	**7**	**(7)**	**23**	**(19)**	**(38)**	**(62)**	**(11)**	**(35)**	**38**	**7,935**[1]	**7,886**

(1) Includes US$1,161 million of central estimate relating to 2010 acquisitions which is not included in net incurred claims.

22 OUTSTANDING CLAIMS CONTINUED

A reconciliation of the net central estimate development to the net incurred claims in the income statement, analysed between current and prior accident years, is included in note 8(C).

The Group writes business in currencies other than the US dollar. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been translated to the functional currencies of our controlled entities at constant rates of exchange. All estimates of net central estimate claims cost and cumulative claims payments for the nine most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2010 cumulative average rate of exchange.

The central estimate claims development table is presented net of reinsurance. With operations in 49 countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated net basis, it is not considered meaningful or practicable to provide this information other than on a consolidated net accident year basis.

Outstanding claims in respect of acquisitions are included in the net central estimate claims cost in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the increased share of the central estimate of the outstanding claims provision is allocated to the original accident year.

23 PROVISIONS

2010	PROVISION FOR LONG SERVICE LEAVE US$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US$M	OTHER PROVISIONS US$M	TOTAL PROVISIONS US$M
At 1 January	**28**	**467**	**41**	**536**
Cash payments	**–**	**(150)**	**(1)**	**(151)**
Amounts charged (credited) to the income statement	**4**	**7**	**(4)**	**7**
Other movement	**–**	**113**	**(13)**	**100**
Acquisitions/disposals	**–**	**11**	**13**	**24**
Foreign exchange	**4**	**2**	**3**	**9**
At 31 December	**36**	**450**	**39**	**525**
Payable within 12 months	**29**	**426**	**23**	**478**
Payable in greater than 12 months	**7**	**24**	**16**	**47**
At 31 December	**36**	**450**	**39**	**525**

2009	PROVISION FOR LONG SERVICE LEAVE US$M	AMOUNTS PAYABLE UNDER ACQUISITION AGREEMENTS US$M	OTHER PROVISIONS US$M	TOTAL PROVISIONS US$M
At 1 January	20	430	51	501
Cash payments	–	(9)	(2)	(11)
Amounts charged (credited) to the income statement	2	–	1	3
Other movement	–	1	(16)	(15)
Acquisitions/disposals	1	14	1	16
Foreign exchange	5	31	6	42
At 31 December	28	467	41	536
Payable within 12 months	22	152	7	181
Payable in greater than 12 months	6	315	34	355
At 31 December	28	467	41	536

24 DEFINED BENEFIT PLANS

	2010 US$M	2009 US$M	2008 US$M
Defined benefit plan surplus	**2**	2	1
Retirement benefit deficit	**(77)**	(86)	(78)
Post-employment health care benefit deficit	**(9)**	(10)	(10)
	(86)	(96)	(88)
Committed future contribution	**(9)**	(12)	(16)
Defined benefit plan deficit	**(95)**	(108)	(104)

Entities in the Group participate in a number of superannuation plans which have been established and are sponsored by those entities. A number of these plans provide defined benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation.

Contributions are made to the plans by both employees and controlled entities, typically as a percentage of salary and within the rules of the plans, and are based on funding schedules prepared by independent actuaries. The contribution rate in respect of defined benefit plans is agreed between the relevant controlled entity and the plans' trustees and actuaries. The Group has no immediate legal obligation to settle the liability.

The Group also sponsors defined benefit health care plans that provide post-employment medical benefits and life assurance to eligible retired employees. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Russell Employee Benefits, AON Consulting and Towers Watson. All valuations have been updated for information available at 31 December 2010.

(A) Defined benefit surpluses (deficits)

The amounts recognised in the balance sheet for defined benefit plans are as follows:

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATION		NET RECOGNISED SURPLUS (DEFICIT)	
		2010 US$M	2009 US$M	2010 US$M	2009 US$M	2010 US$M	2009 US$M
Defined benefit retirement plans[1]							
Iron Trades insurance staff trust	31 Dec 10	**242**	235	**(253)**	(238)	**(11)**	(3)
European staff retirement benefit plan	31 Dec 10	**10**	9	**(12)**	(12)	**(2)**	(3)
Janson Green final salary superannuation scheme	31 Dec 10	**167**	160	**(167)**	(163)	**–**	(3)
Secura defined benefit plan	31 Dec 10	**8**	–	**(13)**	–	**(5)**	–
QBE Australia defined benefit plan	31 Dec 10	**39**	43	**(38)**	(44)	**1**	(1)
QBE the Americas plan	31 Dec 10	**212**	187	**(264)**	(253)	**(52)**	(66)
Other plans		**–**	12	**(6)**	(20)	**(6)**	(8)
		678	646	**(753)**	(730)	**(75)**	(84)
Defined benefit post-employment health care plans[2]							
QBE Regional pension restoration plan	31 Dec 10	**–**	–	**(9)**	(10)	**(9)**	(10)
		678	646	**(762)**	(740)	**(84)**	(94)

(1) Defined benefit retirement plan obligations are funded.

(2) Defined benefit post-employment health care plan obligations are not funded.

24 DEFINED BENEFIT PLANS CONTINUED

(B) Reconciliation

	2010 US$M	2009 US$M
Fair value of plan assets at 1 January	**646**	582
Expected return on plan assets	**37**	35
Actuarial gains on plan assets	**27**	23
Employer contributions	**14**	23
Benefits and expenses paid	**(44)**	(33)
Curtailments and settlements	**–**	(30)
Acquisitions	**8**	–
Foreign exchange	**(10)**	46
Fair value of plan assets at 31 December	**678**	646
Defined benefit obligation at 1 January	**(740)**	(648)
Current service cost	**(12)**	(12)
Interest cost	**(40)**	(38)
Actuarial losses	**(32)**	(57)
Benefits and expenses paid	**44**	33
Past service cost	**2**	1
Curtailments and settlements	**25**	29
Acquisitions	**(14)**	–
Foreign exchange	**5**	(48)
Defined benefit obligation at 31 December	**(762)**	(740)
Net deficit at 31 December	**(84)**	(94)
Committed future contributions	**(9)**	(12)
Net deficit recognised in the balance sheet at 31 December	**(93)**	(106)

	2010 US$M	2009 US$M
Net deficit at 1 January	**(94)**	(66)
Amounts recognised in profit or loss		
Current service cost	**(12)**	(12)
Interest cost	**(40)**	(38)
Past service cost	**2**	1
Expected return on plan assets	**37**	35
Curtailments and settlements	**25**	(1)
	12	(15)
Actuarial losses included in retained earnings	**(5)**	(34)
Employer contributions	**14**	23
Acquisitions	**(6)**	–
Foreign exchange	**(5)**	(2)
Net deficit at 31 December	**(84)**	(94)

The credit recognised in profit or loss in the year of US$12 million (2009 US$15 million charge) has been included in underwriting expenses. The actual return on plan assets was a gain of US$64 million (2009 US$58 million).

24 DEFINED BENEFIT PLANS CONTINUED

(C) Amounts included in retained earnings

Cumulative actuarial gains and losses included in retained earnings are as follows:

	2010 US$M	2009 US$M
Actuarial losses at 1 January	**145**	135
Movement in the year	**–**	10
Actuarial losses at 31 December	**145**	145
Deferred taxation on actuarial losses at 1 January	**(41)**	(39)
Movement in the year	**(2)**	(2)
Deferred taxation on actuarial losses at 31 December	**(43)**	(41)
Net actuarial losses at 31 December	**102**	104

(D) Principal actuarial assumptions

	2010 %	2009 %
Discount rate	**4.0 – 10.1**	5.1 – 9.3
Expected return on plan assets	**4.2 – 7.0**	4.9 – 7.0
Future salary increases	**3.0 – 10.0**	3.5 – 8.0
Future pension increases	**1.9 – 3.4**	2.0 – 3.5

The expected return on plan assets is based on historical and future expectations of returns for each of the major asset classes as well as the expected and actual allocation of plan assets to these major classes.

(E) Analysis of plan assets

	2010 US$M	2009 US$M
Equities	**162**	192
Bonds	**490**	407
Property	**1**	1
Other	**25**	46
	678	646

(F) Historical summary

	2010 US$M	2009 US$M	2008 US$M	2007 US$M	2006 US$M
Experience gains (losses) arising on plan liabilities	**1**	(7)	27	2	7
Experience gains (losses) arising on plan assets	**27**	23	(109)	(14)	(7)

	2010 US$M	2009 US$M	2008 US$M	2007 US$M	2006 US$M
Present value of plan obligations	**(762)**	(740)	(648)	(809)	(573)
Fair value of plan assets	**678**	646	582	798	574
Net (deficit) surplus	**(84)**	(94)	(66)	(11)	1

(G) Funding

Employer contributions to the defined benefit retirement plans are based on recommendations by the plans' actuaries. The objective of the Group's funding schedules is to ensure that benefit entitlements are fully funded at the time they become payable. Total employer contributions expected to be paid to the various plans in 2011 amount to US$23 million.

25 BORROWINGS

	2010 US$M	2009 US$M	2008 US$M
Payable within 12 months	**27**	–	677
Payable in greater than 12 months	**3,216**	2,663	1,897
Total borrowings	**3,243**	2,663	2,574

(A) Maturity profile of borrowings

Final repayment date:		2010 US$M	2009 US$M
Bank loans	**Principal amount**		
19 January 2011	US$25 million	**25**	–
30 June 2011	US$2.0 million	**2**	2
15 March 2036	US$20 million	**20**	20
		47	22
Senior debt			
14 March 2014	US$211 million	**209**	209
14 March 2014	£191 million	**295**	305
28 September 2015	£550 million	**853**	883
		1,357	1,397
Eurobonds(1)			
2 August 2020	Nil (2009 A$150 million/£58 million)	**–**	134
2 August 2020	Nil (2009 A$20 million/£8 million)	**–**	18
2 August 2020	Nil (2009 €98 million/£60 million)	**–**	140
		–	292
Hybrid securities(2, 3)			
16 May 2027	Nil (2009 £258 million)	**–**	479
12 May 2030	US$850 million	**840**	–
		840	479
Subordinated debt			
1 July 2023	US$220 million (2009 US$220 million)	**217**	217
30 June 2020(4)	US$500 million	**494**	–
15 June 2035	US$16 million	**16**	–
31 December 2035	US$80 million	**78**	78
14 December 2036	US$15 million	**15**	–
		820	295
Capital securities(5)			
No fixed date	US$151 million (2009 US$151 million)	**150**	150
No fixed date	£18 million	**29**	28
		179	178
Total borrowings		**3,243**	2,663

(1) The Group redeemed the Eurobonds on 3 August 2010.

(2) Hybrid securities are shown net of the equity conversion option. The US dollar principal amounts shown are the outstanding amounts payable at the end of the 20 year term excluding accrued interest.

(3) Both investors and QBE have the option, in certain circumstances, to request repurchase or redemption of the securities before the final repayment date. Details are provided in note 25(D).

(4) On 30 June 2011, and certain specified dates thereafter, subject to regulatory approval, QBE can redeem the securities for cash. The securities may be converted into QBE ordinary shares at the holder's option on 30 June 2011 and certain specified dates thereafter.

(5) QBE has the option to redeem these securities before the final repayment date. Details are provided in note 25(E).

(B) Finance costs

Finance costs of US$15 million (2009 US$6 million) have been capitalised in the year.

(C) Security and facility arrangements

In the normal course of business, bank loans are made to controlled entities and secured by guarantees or letters of comfort given by the company.

The hybrid securities are guaranteed by the company and a controlled entity. The claims of investors under these guarantees in general will rank equally with all existing and future unsecured and unsubordinated indebtedness of the company and the controlled entity.

Subordinated debt of US$250 million was issued by the company in June 2003 and a further US$500 million was issued in June 2010. The claims of bondholders pursuant to both of these borrowings will be subordinated in right of payment to the claims of all senior creditors, including policyholders, of the relevant controlled entity.

The performance of the obligations of the controlled entity under the capital securities is guaranteed by the company to the extent that the controlled entity has funds. The guarantee is an unsecured and subordinated obligation of the company. The guarantee ranks senior to the claims of the holders of ordinary shares of the company, equally with equally ranked securities and instruments of the company and junior to the claims of creditors of the company.

25 BORROWINGS CONTINUED

(D) Hybrid securities

(i) Hybrid securities due 2030

On 12 May 2010, the Group raised US$850 million through the issue of 20 year hybrid securities. Interest accumulates at 2.5% per annum (compounding semi-annually). In the event of conversion, the company will issue a fixed number of shares to the security holders. The conversion rate may be adjusted in certain circumstances to take into account dividends paid on the company's ordinary shares. In the event of redemption, repurchase or maturity, the Group can elect to repay the principal and accreted interest in either cash or the equivalent value in shares of the company, or a combination of both. Investors can request repurchase at the end of three, five, seven, 10 or 15 years from the date of issue. The Group can redeem the securities at any time on or after three years from the date of issue. Investors have the option to convert the security if:

- the market value of the security is less than the US dollar equivalent of the market value of the underlying shares in the company for five consecutive trading days;
- the securities are called for redemption; or
- on certain corporate transactions occurring (e.g. change in control).

The liability component of the securities, being the obligation to make future payments of principal and interest to investors, is included in borrowings and the equity conversion option is included in equity.

In the event of conversion of all the securities, approximately 33.4 million shares will be issued.

(ii) Hybrid securities due 2027

In 2007, a controlled entity issued £258 million of 20 year hybrid securities. Investors can request repurchase at the end of years three, five, seven, 10 or 15 from the date of issue. The company can redeem the securities at any time after three years from the date of issue. Investors have the option to convert the security if:

- the company calls for their redemption;
- the market value of the security is less than the market value of the underlying shares in the company for five consecutive trading days; or
- on certain corporate transactions occurring (e.g. change in control).

These securities were redeemed for cash on 16 May 2010.

(E) Capital securities

In 2007, a controlled entity issued US$550 million of capital securities. In 2006, a controlled entity issued £300 million of capital securities. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The issuer may redeem the securities on 1 June 2017 and certain specified dates thereafter. On 1 June 2017, the coupons on the securities will change from a fixed to floating rate.

Both issues of capital securities are subordinated. Distributions are deferrable and not cumulative. If a distribution or principal amount is not paid by the controlled entity, and the company does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE preference shares. For so long as the distributions or principal amounts are outstanding, no payments (including distributions or principal amounts) are to be made on the company's shares or other instruments ranking junior to the securities. Payment of distributions or principal amounts on equal ranking securities may be paid proportionally.

In 2009, US$98 million of capital securities were repurchased by the Group, for cash, at a discount giving rise to a profit of US$30 million on consolidation. These securities continue to be held by the Group. The asset and the corresponding liability are eliminated in the Group's balance sheet.

(F) Senior notes due 2014

In 2008, the company issued US$211 million and £191 million of senior notes maturing on 14 March 2014. The notes are unsecured and unsubordinated obligations of the Group and will rank equally amongst themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the Group. Interest of 9.75% per annum is payable half-yearly on the US dollar notes and interest of 10.00% per annum is payable half-yearly on the sterling notes.

(G) Senior notes due 2015

In 2009, the company issued £550 million of senior notes maturing on 28 September 2015. The notes are unsecured and unsubordinated obligations of the Group and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future senior indebtedness of the Group. Interest of 6.125% is payable half-yearly in arrears.

(H) Fair value of borrowings

	2010 US$M	2009 US$M
Bank loans	**47**	22
Senior notes	**1,508**	1,522
Eurobonds	**–**	285
Hybrid securities	**857**	490
Subordinated debt	**822**	287
Capital securities	**151**	132
	3,385	2,738

The fair value has been estimated using valuation techniques based on market available data for similar debt instruments.

26 EQUITY

(A) Share capital

2010	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,020**	**6,604**
Shares issued under the Employee Share and Option Plan	**–**	**3**
Employee options exercised	**3**	**35**
Shares issued under Dividend Reinvestment Plan	**22**	**359**
Shares issued under Bonus Share Plan	**3**	**–**
Foreign exchange	**–**	**971**
Issued ordinary shares, fully paid at 31 December	**1,048**	**7,972**
Shares notified to the Australian Securities Exchange	**1,052**	**8,006**
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	**(4)**	**(34)**
Issued ordinary shares, fully paid at 31 December	**1,048**	**7,972**

2009	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	982	4,714
Shares issued under the Employee Share and Option Plan	–	3
Employee options exercised	1	7
Shares issued under the Share Purchase Plan	6	81
Shares issued under Dividend Reinvestment Plan	20	313
Shares issued under Bonus Share Plan	2	–
Shares issued to holders of hybrid securities	9	106
Share issue expenses net of tax	–	1
Foreign exchange	–	1,379
Issued ordinary shares, fully paid at 31 December	1,020	6,604
Shares notified to the Australian Securities Exchange	1,025	6,636
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(5)	(32)
Issued ordinary shares, fully paid at 31 December	1,020	6,604

Ordinary shares in the company have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. Ordinary shareholders rank after all creditors and are entitled to any residual proceeds.

(B) Treasury shares held in trust

	2010 US$M	2009 US$M
At 1 January	**(1)**	(1)
Purchase of shares	**(23)**	(15)
Shares vested and/or released to participants	**23**	15
Foreign exchange	**–**	–
At 31 December	**(1)**	(1)

Shares in the company may be bought on-market to satisfy future obligations of the company under the various employee share based remuneration plans. Any such shares are held in trust. On consolidation, these shares are recognised as treasury shares held in trust. The balance of the treasury shares held in trust at the balance sheet date represents the cumulative cost of acquiring shares in the company that have not yet been distributed to employees as share based remuneration.

26 EQUITY CONTINUED

(C) Equity component of hybrid securities

	2010 US$M	2009 US$M
At 1 January	**102**	80
Movement during the period	**14**	–
Foreign exchange	**16**	22
At 31 December	**132**	102

(D) Reserves

	2010 US$M	2009 US$M
Owner occupied property revaluation reserve(1)		
At 1 January	**9**	11
Valuation increase (decrease)	**10**	(6)
Deferred tax	**(2)**	2
Foreign exchange	**2**	2
At 31 December	**19**	9
Cash flow hedges reserve(2)		
At 1 January	**(7)**	–
Fair value loss	**(29)**	(50)
Transfer of loss to income statement	**34**	45
Taxation	**(3)**	(2)
Foreign exchange	**5**	–
At 31 December	**–**	(7)
Foreign currency translation reserve(3)		
At 1 January	**(1,304)**	(214)
Losses on translation	**(551)**	(765)
Gains (losses) on hedging transactions	**159**	(325)
At 31 December	**(1,696)**	(1,304)
Options reserve(4)		
At 1 January	**111**	70
Options and conditional rights expense	**36**	31
Transfers from reserve on vesting of options and conditional rights	**(23)**	(15)
Taxation	**(4)**	2
Foreign exchange	**17**	23
At 31 December	**137**	111
General reserve(5)		
At 1 January	**4**	4
Foreign exchange	**1**	–
At 31 December	**5**	4
Realised capital profits reserve(6)		
At 1 January	**5**	4
Foreign exchange	**1**	1
At 31 December	**6**	5
Associates(7)		
At 1 January	**–**	–
Movement in the year	**7**	–
At 31 December	**7**	–
Premium on purchase of non-controlling interests(8)		
At 1 January	**–**	–
Purchase of non-controlling interest	**(4)**	–
Foreign exchange	**(1)**	–
At 31 December	**(5)**	–
Total reserves at 31 December	**(1,527)**	(1,182)

(1) Used to recognise fair value movements in the carrying value of owner occupied property. Refer note 1(S).
(2) Used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. Refer note 1(O)(ii).
(3) Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments are taken to the foreign currency translation reserve. Refer note 1(W). In the event of the disposal of a relevant net investment, the movement in the reserve is recognised in the statement of comprehensive income.
(4) Used to recognise the fair value of instruments issued as share based payments.
(5) Established prior to 1989 for general purposes.
(6) Realised capital profits arising prior to the introduction of capital gains tax in Australia.
(7) Used to recognise other comprehensive income of associates.
(8) Used to recognise the premium paid over net asset value on increasing the non-controlling interest in a controlled entity.

26 EQUITY CONTINUED

(E) Capital risk management

QBE's objectives when managing capital are to maintain an optimal capital structure to reduce the cost of capital whilst meeting capital adequacy requirements, providing security for policyholders and continuing to provide returns to shareholders. Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group has the option to adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or debt securities with capital characteristics or sell assets to reduce debt.

The controlled entities which are insurance companies are subject to, and are in compliance with, externally imposed capital requirements set and monitored by regulatory bodies. These requirements are in place to ensure sufficient solvency margins for the protection of policyholders. In addition, the Group aims to maintain a strong credit rating and robust capital ratios in order to support its business objectives and maximise shareholder wealth.

The Group uses a Group-wide economic capital model (ECM) to assess the level of capital required for the underwriting, claims provisioning, credit, market, liquidity and operational risks to which it is exposed. The economic capital is determined as the level of capital that the Group needs to ensure that it can, with a pre-specified probability, satisfy its obligations in relation to all policies issued on or before the end of the plan year, with all risks run-off to ultimate. The ECM is used by management to help determine the strategic capital allocation, business planning, underwriting performance, pricing, reinsurance and aggregate management, as well as assisting in determining regulatory capital and reviews by third parties.

Capital is allocated to business units, divisions and ultimately to underwriting portfolios according to the associated risk. The minimum target risk adjusted return on capital is 15%. The business plans include net asset projections, dividends, issued share projections and solvency projections as well as the impact of potential acquisitions. Should there be a significant change in the Group's risk profile, the ECM will be recalculated, reviewed and, if appropriate, the results reported to the Group's board.

The Group maintains an ongoing review of its structure to ensure flexibility in the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the Group to maintain its financial strength and credit rating and has afforded it with good access to capital markets when needed.

Management monitors the company's and the Group's capital levels on an ongoing basis, with particular focus on the following:

- The Group is subject to APRA Level 2 minimum capital requirements. Management actively manages the components of capital in order to achieve an optimal capital adequacy multiple of around 1.5 times APRA's minimum requirement for Level 2 groups.
- All regulated wholly-owned entities are subject to local prudential standards requiring that a minimum level of capital is maintained to meet obligations to policyholders. It is the Group's policy that each regulated entity maintains a capital base appropriate to its size, business mix, complexity and risk profile which meets local regulatory requirements.
- The Group aims to maintain the ratio of borrowings to shareholders' funds at around 40%. The ratio of borrowings to shareholders' funds at 31 December 2010 was 31.5% (2009 29.1%).
- The Group believes that insurer financial strength ratings provided by the major rating agencies are an important factor in demonstrating the financial strength and claims paying ability of our regulated wholly-owned entities. The Group's policy is to maintain ratings that optimise the balance between providing security to policyholders whilst providing appropriate returns to shareholders. All of our regulated wholly-owned entities are rated Standard & Poor's "A" rating or higher (or equivalent rating from other recognised rating agencies) at 31 December 2010.

In addition to the management reporting and planning processes, the Group has dedicated staff in all business units and divisions responsible for understanding the regulatory capital requirements for each of our operations. The quality of assets (particularly investments and reinsurance recoveries) is monitored on an ongoing basis to ensure issues are identified early and remedial action, where necessary, is taken to restore effective capital performance and levels.

27 DIVIDENDS

(A) Dividend Reinvestment and Bonus Share Plans

The company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP) which allow equity holders to receive their dividend entitlement in the form of QBE ordinary shares.

The last date of receipt of election notices applicable to the DRP and BSP is 10 March 2011.

(B) Dividends

	2010	2009	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	**62.0**	66.0	62.0
Franking percentage	**15%**	20%	20%
Franked amount per share (Australian cents)	**9.3**	13.2	12.4
Dividend payout (A$M)	**642**	678	628
Payment date	**22 Sept 2010**	30 March 2010	22 Sept 2009

On 28 February 2011, the directors declared a 10% franked final dividend of 66.0 Australian cents per share payable on 11 April 2011. The final dividend payout is A$694 million (2009 A$678 million).

	2010 US$M	2009 US$M
Previous year final dividend paid on ordinary shares		
Franked	**125**	89
Unfranked	**498**	357
	623	446
Interim dividend paid on ordinary shares		
Franked	**92**	110
Unfranked	**521**	438
	613	548
Dividend reinvestment under Bonus Share Plan	**(51)**	(27)
Total dividend paid	**1,185**	967

(C) Franking credits

The franking account balance on a tax paid basis at 31 December 2010 was a surplus of A$14 million (2009 surplus of A$30 million). After taking into account the impact of franking on the final dividend recommended by the directors since year end, but not recognised as a liability at year end, the franking account balance will be a deficit of A$16 million (2009 deficit of A$28 million).

Following the introduction of the conduit foreign income (CFI) rules effective for the Group from 1 January 2006, shareholders will receive CFI credits for the unfranked portion of the final 2010 dividend. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

28 EARNINGS PER SHARE

	2010 US CENTS	2009 US CENTS
Basic earnings per share	**123.7**	152.8
Diluted earnings per share	**119.6**	149.9

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

	2010 US$M	2009 US$M
Net profit after income tax attributable to ordinary equity holders of the company, used in calculating basic earnings per share	**1,278**	1,532
Add: finance costs of convertible securities	**14**	21
Earnings used in calculating diluted earnings per share	**1,292**	1,553

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

	2010 MILLION	2009 MILLION
Weighted average number of ordinary shares on issue	**1,037**	1,007
Weighted average number of non-recourse loan shares issued under the Plan	**(4)**	(4)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share(1)	**1,033**	1,003
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**4**	4
Options issued under the Plan	**1**	2
Convertible securities	**43**	27
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,081**	1,036

(1) Weighted average number of ordinary shares reflects shares adjusted to derecognise shares issued under the Plan. Basic earnings per share calculated with reference to issued share capital notified to the ASX would have been US123.2 cents (2009 US152.1 cents). Refer to note 26(A).

29 BUSINESS COMBINATIONS

(A) Acquisitions

The following entities were acquired during the financial year:

On 4 June 2010, a wholly-owned entity acquired the entire share capital of CNA Aseguradora de Riesgos del Trabajo SA, a workers' compensation insurer in Argentina. The purchase price was US$66 million for net tangible assets of US$15 million.

On 1 July 2010, a wholly-owned entity acquired the entire share capital of NAU Country Insurance Company, a leading underwriter of multi-peril crop insurance business in the US. The purchase price was US$573 million for net tangible assets of US$188 million.

On 27 July 2010, a wholly-owned entity acquired the entire share capital of Colonial Compania de Seguros y Reaseguros SA, a general insurance company in Ecuador. The purchase price was US$35 million for net tangible assets of US$19 million.

On 4 August 2010, a wholly-owned entity acquired 51% of RGM Asegurando Ltda, a Colombian insurance agency. The purchase price was US$6 million for net tangible assets of nil.

On 1 September 2010, a wholly-owned entity acquired the entire share capital of Seattle Specialty Insurance Services, a US-based agency for lender-placed insurance products and provider of outsourcing services to financial institutions. The purchase price was US$36 million for net tangible assets of US$1 million.

On 2 November 2010, a wholly-owned entity acquired the entire share capital of Secura NV, a Belgian-based specialist reinsurer. The purchase price was US$443 million for net tangible assets of US$344 million.

The fair value of assets and liabilities arising from acquisitions in the year ended 31 December 2010 and final fair values of assets and liabilities arising from acquisitions in the year ended 31 December 2009 are as follows:

29 BUSINESS COMBINATIONS CONTINUED

	2010				2009		
	NAU US$M	SECURA US$M	OTHERS US$M	TOTAL US$M	ELDERS US$M	OTHERS US$M	TOTAL US$M
Cash and cash equivalents	15	171	10	196	180	8	188
Investments	234	1,110	167	1,511	–	–	–
Trade and other receivables	348	349	51	748	209	2	211
Reinsurance and other recoveries on outstanding claims	25	159	6	190	73	–	73
Current tax assets	5	1	1	7	4	–	4
Other assets	–	25	–	25	–	–	–
Deferred insurance costs	45	–	(2)	43	123	–	123
Property, plant and equipment	8	–	23	31	–	–	–
Deferred tax assets	13	14	9	36	2	–	2
Intangible assets	127	–	54	181	30	–	30
Total assets	820	1,829	319	2,968	621	10	631
Trade and other payables	118	103	56	277	98	9	107
Current tax liabilities	–	–	2	2	–	–	–
Unearned premium	180	19	15	214	221	–	221
Outstanding claims	134	1,340	128	1,602	187	–	187
Provisions	–	–	13	13	1	1	2
Defined benefit plan deficit	–	6	–	6	–	–	–
Deferred tax liabilities	41	17	10	68	9	–	9
Borrowings	32	–	6	38	–	–	–
Total liabilities	505	1,485	230	2,220	516	10	526
Net assets acquired	315	344	89	748	105	–	105

	2010				2009		
	NAU US$M	SECURA US$M	OTHERS US$M	TOTAL US$M	ELDERS US$M	OTHERS US$M	TOTAL US$M
Purchase consideration							
Cash	573	443	132	1,148	238	22	260
Contingent and deferred consideration	–	–	11	11	–	14	14
Total purchase consideration	573	443	143	1,159	238	36	274
Fair value of net assets acquired	315	344	89	748	105	–	105
Goodwill	258	99	54	411	133	36	169

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

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

The acquired businesses contributed premium revenue of US$914 million and net profit after income tax of US$77 million to the Group for the period from acquisition to 31 December 2010.

If the acquisitions had occurred on 1 January 2010, consolidated gross earned premium and consolidated net profit after income tax for the year ended 31 December 2010 would have been US$14,079 million and US$1,336 million respectively.

(B) Critical accounting estimates and judgments

The Group makes estimates and judgments in determining the fair value of assets and liabilities acquired. These estimates and judgments are determined by qualified and experienced employees. Refer to note 4 for further detail.

30 SHARE BASED PAYMENTS

(A) Employee Share and Option Plan

The company, at its 1981 AGM, approved the issue of shares from time to time under an Employee Share and Option Plan (the Plan), up to 5% of the issued ordinary shares in the capital of the company. Any full-time or part-time employee of the Group or any equally owned joint venture who is offered shares or options pursuant to the offer document of the Plan is eligible to participate in the Plan.

Under the Plan, ordinary shares of the company are offered at the weighted average market price during the five trading days up to the date of the offer. Likewise, the exercise price for options offered under the Plan is the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, for awards made up to and including March 2009 interest-free loans were granted to employees to subscribe for shares issued under the Plan. Prior to 20 June 2005, the terms of the loans were either personal recourse or non-recourse. With effect from 20 June 2005, only personal recourse loans were granted to employees to subscribe for shares under the Plan. The loans are repayable in certain circumstances as set out in the Plan such as termination of employment or breach of condition. The award of options and interest-free loans was discontinued for awards made after March 2009.

Currently equity is awarded on three bases within the Plan as detailed below.

(i) QBE deferred equity plans

QBE Incentive Scheme

The QBE Incentive Scheme (QIS) is an at-risk reward structure that comprises cash and deferred equity awards. It came into effect from 1 January 2010 and is applicable to deferred equity awards made in March 2011 and thereafter.

Executives

Under the QIS, the directors can issue conditional rights to shares to executives who have already achieved predetermined performance targets. The maximum deferred equity award is based on an amount which is the lesser of 80% of the cash award earned in the financial year or 100% of fixed remuneration at 31 December in the financial year immediately prior to the year in which the cash award is paid. The maximum deferred equity award is used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 50% of the award will be converted to shares after three years; and
- conditional rights to the value of 50% of the award will be converted to shares after five years.

Other key senior employees

Other key senior employees of the QBE Group are also eligible to participate in the QIS, with the maximum award restricted to the lesser of 66.67% of the cash award in that year or 100% of base (cash) salary as at 31 December in the financial year prior to the year in which the cash award was paid. The deferred equity award is used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 60% of the award amount, converted to shares after three years; and
- conditional rights to the value of 60% of the award amount, converted to shares after five years, with the exception of senior employees in the Group investment division whose conditional rights continue to be converted to shares after three years.

All QIS participants

Further shares are issued to executives and other key senior employees in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).

The shares issued pursuant to the conditional rights will only vest if the individual has remained in the Group's service throughout the vesting period. The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date. The ultimate vesting of the conditional rights is also contingent on there being no material deterioration of the relevant entity's return on equity during the vesting period.

Deferred Compensation Plan – legacy scheme applicable to the 2009 financial year

The terms of the Deferred Compensation Plan (DCP) for the period from 1 January 2009 applicable to awards in March 2010 are set out below.

Executives

Executives were invited to participate in the DCP, under which they received conditional rights to fully paid shares. The maximum deferred equity award was based on an amount which was the lesser of 80% of the short-term cash incentive (STI) award earned in the financial year or 100% of fixed remuneration at 31 December in the financial year immediately prior to the year in which the cash award was paid. The maximum DCP award was used as a basis for calculating the number of conditional rights using the same formula as described above in relation to the QIS deferred equity award.

Other key senior employees

Other key senior employees of the QBE Group were invited to participate in the DCP, under which they received conditional rights to fully paid shares. The maximum deferred equity award was based on an amount which was the lesser of 66.67% of the STI award earned in the financial year or 100% of base (cash) salary as at 31 December in the financial year immediately prior to the year in which the cash award is paid. The DCP award was used as a basis for calculating the number of conditional rights using the same formula as described above in relation to the QIS deferred equity award.

30 SHARE BASED PAYMENTS CONTINUED

All DCP participants

Further shares were issued to executives and other key senior employees in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The shares issued pursuant to the conditional rights will only vest if the individual has remained in the Group's service throughout the vesting period. The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date. The ultimate vesting of the conditional rights is also contingent on there being no material deterioration of the relevant entity's return on equity during the vesting period.

Deferred Compensation Plan – legacy scheme applicable to 2008 and prior financial years

For DCP awards made in March 2009 and prior, the directors were able to issue conditional rights to shares and options to subscribe for shares to senior management who have already achieved predetermined performance criteria. The terms of the DCP varied to take into account the requirements and market conditions of the locations of senior management, but the general terms of the DCP conditional rights and options for both executives and other key senior employees were as follows:

- The conditional rights entitled relevant employees to receive shares on the third anniversary of the grant of the rights. Further shares were issued in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.
- The shares issued pursuant to the conditional rights were issued without payment being made by senior management (i.e. at a nil exercise price).
- The options were subject to the terms and conditions of the Plan. Options issued in 2004 and prior could be exercised after three years, whilst any options issued in 2005 and thereafter will generally be exercisable after five years. They must be exercised within a 12 month period after vesting. Interest-free personal recourse loans were granted on the terms permitted by the Plan as described above to persons who hold options to fund the exercise of options.

The shares issued pursuant to the conditional rights and the options will only vest if the individual has remained in the Group's service throughout the vesting period. The remuneration committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date.

(ii) Share Incentive Plan

Generally, all full-time or part-time Group employees in Australia, Ireland, New Zealand, the UK and the US with a minimum of one year's service are invited to participate in the Share Incentive Plan (the SIP). Under the SIP, which was introduced in 2005, the directors can provide shares up to A$1,000 to employees without payment being made by employees. The allocation of shares is based on the period of service. The shares are purchased on-market and held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier.

(iii) Longer-term incentive plans

Long-Term Incentive (LTI) Plan

The Long-Term Incentive (LTI) plan was introduced from 1 January 2010 and replaces the Group Executive Restricted Share Plan (GERSP). Only executives, including the Group chief executive officer, are invited to participate. The LTI plan comprises an award of conditional rights to fully paid shares without payment by the executive, subject to a five year tenure hurdle with vesting contingent upon the achievement of two future performance hurdles as follows:

- 50% of the award allocation will be contingent on the Group's average diluted earnings per share increasing by a compound average 7.5% per annum over the five year vesting period; and
- 50% of the award allocation will be will be contingent on the Group's average return on equity and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period.

Further shares will be issued in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights.

The remuneration committee will continue to exercise discretion when determining the vesting of awards under the LTI. The committee has the discretion to allocate a pro-rata amount in cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement. The ultimate vesting of the conditional rights is also contingent on there being no material deterioration of the Group's return on equity during the vesting period.

Group Executive Restricted Share Plan

Certain key management personnel were eligible to participate in the GERSP which came into effect from 1 January 2008. Under the GERSP, eligible executives had the opportunity to acquire additional equity in the form of conditional rights if the Group exceeded a return on equity target.

The conditional rights entitle relevant executives to receive fully paid QBE shares on the third anniversary of the grant of the conditional rights. Further shares are issued in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights were issued without payment being made by the executive (i.e. at a nil exercise price).

The shares issued pursuant to the conditional rights will only be issued if the individual has remained in the Group's service throughout the vesting period (unless leaving due to death, genuine retirement, incapacity due to total and permanent disability or redundancy) and is not subject to disciplinary proceedings or notice on that date. The ultimate vesting of the conditional rights is also contingent on there being no material deterioration of the Group's return on equity during the vesting period.

30 SHARE BASED PAYMENTS CONTINUED

(B) Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP and GERSP granted, vested and transferred to employees during the year were as follows:

2010 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2010	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEES IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2010
2 March 2007	1 March 2010	**A$32.68**	**733,784**	**–**	**–**	**(731,887)**	**(1,897)**	**–**
4 April 2007	3 April 2010	**A$32.68**	**29,412**	**–**	**936**	**(30,348)**	**–**	**–**
4 March 2008	3 March 2011	**A$24.22**	**1,218,953**	**–**	**78,572**	**(112,387)**	**(11,633)**	**1,173,505**
4 April 2008	4 April 2011	**A$27.00**	**40,767**	**–**	**2,893**	**–**	**–**	**43,660**
1 January 2009	2 January 2012	**A$25.37**	**21,403**	**–**	**1,519**	**–**	**–**	**22,922**
6 March 2009	5 March 2012	**A$17.57**	**1,945,130**	**812**	**127,371**	**(153,281)**	**(25,440)**	**1,894,592**
5 March 2010	5 March 2013	**A$20.90**	**–**	**1,030,459**	**71,468**	**(42,903)**	**(12,461)**	**1,046,563**
5 March 2010	5 March 2015	**A$20.90**	**–**	**1,150,894**	**79,703**	**(51,197)**	**(12,461)**	**1,166,939**
31 March 2010	30 March 2013	**A$20.90**	**–**	**49,007**	**1,860**	**–**	**–**	**50,867**
31 March 2010	30 March 2015	**A$20.90**	**–**	**49,007**	**1,860**	**–**	**–**	**50,867**
			3,989,449	**2,280,179**	**366,182**	**(1,122,003)**	**(63,892)**	**5,449,915**

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2010 was A$21.25 (2009 A$17.90). The weighted average fair value of conditional rights granted during the year ended 31 December 2010 was A$20.90 (2009 A$17.65).

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP and GERSP granted, vested and transferred to employees during the prior year were as follows:

2009 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JAN 2009	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEES IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2009
2 March 2006	1 March 2009	A$23.09	821,850	–	1,194	(821,004)	(2,040)	–
7 April 2006	6 April 2009	A$24.23	39,572	–	1,610	(41,182)	–	–
2 March 2007	1 March 2010	A$32.68	734,850	–	49,752	(40,394)	(10,424)	733,784
4 April 2007	3 April 2010	A$32.68	27,485	–	1,927	–	–	29,412
4 March 2008	3 March 2011	A$24.22	1,216,083	–	82,597	(63,738)	(15,989)	1,218,953
4 April 2008	4 April 2011	A$27.00	38,095	–	2,672	–	–	40,767
1 January 2009	2 January 2012	A$25.37	–	20,000	1,403	–	–	21,403
6 March 2009	5 March 2012	A$17.57	–	1,883,467	131,428	(24,218)	(45,547)	1,945,130
			2,877,935	1,903,467	272,583	(990,536)	(74,000)	3,989,449

(C) Employee options

During the year, the company granted to one qualifying employee (2009 464 employees) options over ordinary shares with a market value of A$410,000 (2009 A$53 million), being the quoted market price at the date the options were granted. The weighted average fair value of options granted during the year ended 31 December 2010 was A$1.88 (2009 A$2.80).

The market value of the options outstanding at the balance sheet date was A$158 million (2009 A$299 million), calculated by reference to the quoted market value of the underlying shares at that date.

30 SHARE BASED PAYMENTS CONTINUED

Details of the number of employee options granted, exercised and cancelled or forfeited during 2010, including those issued under the DCP, were as follows:

2010 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2010	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2010
3 March 2004	A$11.08	27,750	–	(3,250)	–	24,500
3 March 2005	A$8.04	135,583	–	(135,583)	–	–
3 March 2005	A$11.08	150,310	–	(150,310)	–	–
3 March 2005	A$14.85	1,896,832	–	(1,758,583)	(10,800)	127,449
8 April 2005	A$14.85	118,587	–	(118,587)	–	–
2 March 2006	A$20.44	1,933,956	–	(186,860)	(36,014)	1,711,082
7 April 2006	A$20.44	94,771	–	–	–	94,771
2 March 2007	A$20.44	20,000	–	–	–	20,000
2 March 2007	A$32.68	1,628,220	–	–	(138,668)	1,489,552
4 April 2007	A$32.68	51,125	–	–	–	51,125
4 March 2008	A$20.44	20,000	–	–	–	20,000
4 March 2008	A$24.22	2,384,319	–	(51,941)	(186,685)	2,145,693
4 April 2008	A$27.00	74,257	–	–	–	74,257
6 March 2009	A$20.44	20,000	–	–	–	20,000
6 March 2009	A$17.57	3,100,686	1,518	(161,343)	(49,406)	2,891,455
5 March 2010	A$20.44	–	20,000	–	–	20,000
		11,656,396	21,518	(2,566,457)	(421,573)	8,689,884
Weighted average exercise price		A$21.00	A$20.24	A$15.03	$25.66	A$22.54

The weighted average share price at the date of exercise of options during the year was A$21.05 (2009 A$22.47). The weighted average remaining contractual life of total options outstanding at 31 December 2010 was 2.8 years (2009 3.2 years).

Employee options outstanding at 31 December 2010 were as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE(1)	DCP/STI	OTHER(2)	TOTAL OPTIONS
2011	80,000	278,267	–	358,267
2012	–	2,004,426	–	2,004,426
2013	–	1,611,403	–	1,611,403
2014	–	1,843,786	–	1,843,786
2015	–	2,847,502	–	2,847,502
2024	–	–	24,500	24,500
	80,000	8,585,384	24,500	8,689,884
Vested and exercisable at 31 December 2010	–	164,475	24,500	188,975

(1) The future performance options have been issued subject to the achievement of specific performance criteria. Examples of such criteria are provided in the remuneration report.

(2) Other options were issued to US and Irish employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

30 SHARE BASED PAYMENTS CONTINUED

Details of the number of employee options granted, exercised and cancelled or forfeited during 2009, including those issued under the DCP, were as follows:

2009 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JAN 2009	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2009
3 March 2004	A$11.08	34,750	–	(7,000)	–	27,750
3 March 2005	A$8.04	135,583	–	–	–	135,583
3 March 2005	A$11.08	150,310	–	–	–	150,310
3 March 2005	A$14.85	2,103,730	–	(195,107)	(11,791)	1,896,832
8 April 2005	A$14.85	118,587	–	–	–	118,587
12 May 2005	A$14.81	60,000	–	(60,000)	–	–
2 March 2006	A$20.44	2,127,857	–	(151,265)	(42,636)	1,933,956
7 April 2006	A$20.44	94,771	–	–	–	94,771
2 March 2007	A$20.44	40,000	–	(20,000)	–	20,000
2 March 2007	A$32.68	1,739,572	–	–	(111,352)	1,628,220
4 April 2007	A$32.68	51,125	–	–	–	51,125
4 March 2008	A$20.44	40,000	–	(20,000)	–	20,000
4 March 2008	A$24.22	2,468,346	–	(19,110)	(64,917)	2,384,319
4 April 2008	A$27.00	74,257	–	–	–	74,257
6 March 2009	A$20.44	–	20,000	–	–	20,000
6 March 2009	A$17.57	–	3,201,126	(15,137)	(85,303)	3,100,686
		9,238,888	3,221,126	(487,619)	(315,999)	11,656,396
Weighted average exercise price		A$22.12	A$17.59	A$17.44	A$24.55	A$21.00

Employee options outstanding at 31 December 2009 were as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE	DCP/STI	OTHER	TOTAL OPTIONS
2010	–	218,679	–	218,679
2011	60,000	2,396,255	–	2,456,255
2012	–	2,223,366	–	2,223,366
2013	–	1,767,872	–	1,767,872
2014	–	1,905,741	–	1,905,741
2015	–	3,056,733	–	3,056,733
2024	–	–	27,750	27,750
	60,000	11,568,646	27,750	11,656,396
Vested and exercisable at 31 December 2009	–	135,304	27,750	163,054

(D) Fair value of options and conditional rights

The fair value of both options and conditional rights is determined using a binomial model. The fair value is recognised evenly over the service period ending at vesting date. For those options and conditional rights granted during the year to 31 December 2010, the following significant assumptions were used:

		OPTIONS		CONDITIONAL RIGHTS	
		2010	2009	2010	2009
Share price on grant date	A$	**20.50**	16.30	**20.50**	16.30 – 25.81
Fair value of instrument at grant date	A$	**1.88**	2.36 – 2.81	**20.90**	17.57 – 25.37
Risk-free interest rate	%	**4.25**	3.6 – 4.2	**4.25**	3.6 – 4.2
Expected share price volatility	%	**25.0**	25.0	**25.0**	25.0
Expected dividend yield	%	**5.0**	5.0	**5.0**	5.0
Expected life of instrument	years	**1.0**	2.0 – 5.0	**3.0 – 5.0**	3.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

30 SHARE BASED PAYMENTS CONTINUED

(E) Share Incentive Plan

The market value of shares issued under the terms of the SIP is expensed in the period in which the shares are granted. The total number of shares issued to participating employees in the year was 241,960 (2009 243,725). The weighted average market price on the issue date was A$16.78 (2009 A$22.75).

(F) Share based payment expenses

Total expenses arising from share based payment transactions during the year included in underwriting expenses were as follows:

	2010 US$M	2009 US$M
Options provided under the DCP	**7**	9
Conditional rights provided under the DCP	**29**	22
Shares provided under the SIP	**4**	5
	40	36

31 KEY MANAGEMENT PERSONNEL

(A) Key management personnel – compensation

	2010 US$'000	2009 US$'000
Short-term employee benefits	**23,146**	21,820
Post employment benefits	**513**	960
Other long-term employment benefits	**144**	181
Share based payments	**7,755**	6,051
Termination benefits	**1,871**	–
	33,429	29,012

(B) Key management personnel – equity instruments

(i) Options and conditional rights provided as remuneration

For additional details of equity instruments (options and conditional rights) provided to key management personnel as remuneration and shares issued on the exercise of such instruments, together with the associated terms and conditions, refer to the remuneration report on pages 64 to 88. No equity instruments were provided to non-executive directors.

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31 KEY MANAGEMENT PERSONNEL CONTINUED

(ii) Conditional rights holdings

Details of the movements in the number of conditional rights to ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2010 NUMBER OF RIGHTS	BALANCE AT 1 JAN 2010	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2010[1]
Executive director						
FM O'Halloran	**138,562**	**98,014**	**12,401**	**(30,348)**	**–**	**218,629**
Other key management personnel						
SP Burns	**268,892**	**86,827**	**22,707**	**(35,734)**	**–**	**342,692**
NG Drabsch	**66,447**	**39,224**	**6,469**	**(14,506)**	**–**	**97,634**
D Fogarty	**33,997**	**16,970**	**3,106**	**(7,200)**	**–**	**46,873**
MJ Goodwin	**27,909**	**30,040**	**3,991**	**(1,737)**	**–**	**60,203**
MD ten Hove	**46,333**	**46,820**	**5,627**	**(13,851)**	**–**	**84,929**
TW Ibbotson	**45,459**	**26,194**	**4,584**	**(7,079)**	**–**	**69,158**
V McLenaghan	**105,148**	**48,978**	**9,856**	**(15,255)**	**–**	**148,727**
BM Nicholls	**36,886**	**20,078**	**3,147**	**(12,607)**	**–**	**47,504**
DA Ramsay	**37,404**	**23,212**	**3,727**	**(8,085)**	**–**	**56,258**
J Rumpler	**17,715**	**16,788**	**2,138**	**(4,378)**	**–**	**32,263**
JM Smith	**30,431**	**18,876**	**3,044**	**(6,446)**	**–**	**45,905**
GB Thwaites	**27,162**	**18,336**	**2,874**	**(5,004)**	**–**	**43,368**

(1) None of these conditional rights were vested or exercisable at 31 December 2010.

2009 NUMBER OF RIGHTS	BALANCE AT 1 JAN 2009	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2009[1]
Executive director						
FM O'Halloran	105,152	63,902	10,690	(41,182)	–	138,562
Other key management personnel						
SP Burns	166,006	132,272	17,620	(47,006)	–	268,892
NG Drabsch	53,612	29,943	4,354	(21,462)	–	66,447
D Fogarty	26,532	16,261	2,229	(11,025)	–	33,997
MJ Goodwin	6,701	20,261	1,831	(884)	–	27,909
MD ten Hove	52,494	10,706	3,037	(19,904)	–	46,333
TW Ibbotson	27,363	25,720	2,980	(10,604)	–	45,459
V McLenaghan	53,549	61,356	6,891	(16,648)	–	105,148
BM Nicholls	37,583	14,480	2,417	(17,594)	–	36,886
DA Ramsay	29,536	16,893	2,450	(11,475)	–	37,404
J Rumpler	15,468	6,917	1,161	(5,831)	–	17,715
JM Smith	24,158	13,877	1,993	(9,597)	–	30,431
GB Thwaites	15,535	13,032	1,779	(3,184)	–	27,162

(1) None of these conditional rights were vested or exercisable at 31 December 2009.

31 KEY MANAGEMENT PERSONNEL CONTINUED

(iii) DCP option holdings

Details of the movements in the number of DCP options over ordinary shares in the company provided as remuneration to the key management personnel are provided below.

2010 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2010	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2010[1]	EXERCISE COST AT 31 DEC 2010 A$'000
Executive director						
FM O'Halloran	466,544	–	(118,587)	–	347,957	7,858
Other key management personnel						
SP Burns	537,075	–	(163,522)	–	373,553	8,313
NG Drabsch	228,899	–	(67,350)	–	161,549	3,591
D Fogarty	95,680	–	(12,014)	–	83,666	1,841
MJ Goodwin	52,039	–	(10,033)	–	42,006	842
MD ten Hove	123,836	–	(46,799)	–	77,037	1,958
TW Ibbotson	124,669	–	–	–	124,669	2,497
V McLenaghan	220,104	–	(48,487)	–	171,617	3,806
BM Nicholls	123,260	–	(19,158)	–	104,102	2,376
DA Ramsay	124,045	–	(33,423)	–	90,622	2,010
J Rumpler	60,727	–	(15,217)	–	45,510	1,022
JM Smith	101,341	–	(27,009)	–	74,332	1,644
GB Thwaites	62,484	–	(8,825)	–	53,659	1,190

(1) Mr ten Hove had 23,654 DCP options that were vested and exercisable at 31 December 2010. All other options were unvested and not exercisable at this date.

2009 NUMBER OF OPTIONS	BALANCE AT 1 JAN 2009	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC 2009[1]	EXERCISE COST AT 31 DEC 2009 A$'000
Executive director						
FM O'Halloran	338,740	127,804	–	–	466,544	9,619
Other key management personnel						
SP Burns	411,768	125,307	–	–	537,075	10,112
NG Drabsch	177,755	51,144	–	–	228,899	4,592
D Fogarty	66,841	28,839	–	–	95,680	2,019
MJ Goodwin	23,011	29,028	–	–	52,039	991
MD ten Hove[1]	107,614	16,222	–	–	123,836	2,915
TW Ibbotson	83,973	40,696	–	–	124,669	2,497
V McLenaghan	156,515	63,589	–	–	220,104	4,526
BM Nicholls	97,579	25,681	–	–	123,260	2,661
DA Ramsay	94,083	29,962	–	–	124,045	2,507
J Rumpler	46,892	13,835	–	–	60,727	1,248
JM Smith	76,730	24,611	–	–	101,341	2,046
GB Thwaites	39,371	23,113	–	–	62,484	1,321

(1) Mr ten Hove had 46,799 DCP options that were vested and exercisable at 31 December 2009. All other options were unvested and not exercisable at this date.

31 KEY MANAGEMENT PERSONNEL CONTINUED

(iv) Future performance option holdings

Details of the movements in the number of future performance options over ordinary shares in the company provided as remuneration to the key management personnel are provided below.

NUMBER OF OPTIONS		BALANCE AT 1 JAN	GRANTED IN THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DEC[(1)]	EXERCISE COST AT 31 DEC A$'000
Key management personnel							
SP Burns	**2010**	**60,000**	**20,000**	**–**	**–**	**80,000**	**1,635**
	2009	40,000	20,000	–	–	60,000	1,226

(1) None of these options were vested or exercisable at 31 December 2010 or 31 December 2009.

(v) Shareholdings

The movements during the year in the number of ordinary shares in the company held by the key management personnel, including their personally related parties, are provided in the table below.

2010 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2010	CONDITIONAL RIGHTS VESTED	OPTIONS EXERCISED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2010[(1)]	INTEREST IN SHARES AT 31 DEC 2010 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors							
LF Bleasel AM	**57,604**	**–**	**–**	**10,000**	**–**	**67,604**	**–**
DM Boyle	**8,697**	**–**	**–**	**4,740**	**–**	**13,437**	**–**
EJ Cloney AM	**635,621**	**–**	**–**	**(30,000)**	**44,251**	**649,872**	**–**
JM Green	**10,281**	**–**	**–**	**14,700**	**–**	**24,981**	**–**
IF Hudson	**9,221**	**–**	**–**	**1,550**	**588**	**11,359**	**–**
BJ Hutchinson AM	**63,496**	**–**	**–**	**15,150**	**–**	**78,646**	**–**
CLA Irby	**15,000**	**–**	**–**	**7,889**	**–**	**22,889**	**–**
IYL Lee	**26,749**	**–**	**–**	**–**	**–**	**26,749**	**–**
Executive director							
FM O'Halloran	**1,158,560**	**30,348**	**118,587**	**16,650**	**80,661**	**1,404,806**	**956,504**
Other key management personnel							
SP Burns	**54,695**	**35,734**	**163,522**	**(193,522)**	**10,713**	**71,142**	**3,792**
NG Drabsch	**184,682**	**14,506**	**67,350**	**(106,485)**	**14,861**	**174,914**	**168,786**
D Fogarty	**49,827**	**7,200**	**12,014**	**(12,014)**	**4,523**	**61,550**	**21,643**
MJ Goodwin	**13,017**	**1,737**	**10,033**	**(10,033)**	**1,047**	**15,801**	**6,532**
MD ten Hove	**316,261**	**13,851**	**46,799**	**–**	**26,744**	**403,655**	**199,088**
TW Ibbotson	**30,787**	**7,079**	**–**	**–**	**–**	**37,866**	**–**
V McLenaghan	**202,305**	**15,255**	**48,487**	**–**	**–**	**266,047**	**109,809**
BM Nicholls	**33,935**	**12,607**	**19,158**	**(65,700)**	**–**	**–**	**–**
DA Ramsay	**215,952**	**8,085**	**33,423**	**–**	**–**	**257,460**	**92,318**
J Rumpler	**58,595**	**4,378**	**15,217**	**–**	**–**	**78,190**	**56,975**
JM Smith	**21,149**	**6,446**	**27,009**	**(32,009)**	**–**	**22,595**	**–**
GB Thwaites	**31,137**	**5,004**	**8,825**	**(1,761)**	**3,192**	**46,397**	**2,382**

(1) Mr Cloney retired on 4 July 2010. Interest in shares is shown at retirement date.

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31 KEY MANAGEMENT PERSONNEL CONTINUED

The movements in the number of ordinary shares in the company held by key management personnel, including their personally related parties, in the prior year are provided in the table below.

2009 NUMBER OF SHARES	INTEREST IN SHARES AT 1 JAN 2009	CONDITIONAL RIGHTS VESTED	OPTIONS EXERCISED	SHARES PURCHASED (SOLD)	DIVIDENDS REINVESTED IN THE YEAR	INTEREST IN SHARES AT 31 DEC 2009	INTEREST IN SHARES AT 31 DEC 2009 SUBJECT TO NON-RECOURSE LOANS
Non-executive directors							
LF Bleasel AM	52,116	–	–	5,488	–	57,604	–
DM Boyle	5,003	–	–	3,694	–	8,697	–
EJ Cloney AM	635,377	–	–	244	–	635,621	–
IF Hudson	8,732	–	–	–	489	9,221	–
BJ Hutchinson AM	51,888	–	–	11,608	–	63,496	–
CLA Irby	15,000	–	–	–	–	15,000	–
IYL Lee	26,505	–	–	244	–	26,749	–
Executive director							
FM O'Halloran	1,116,740	41,182	–	(72,811)	73,449	1,158,560	894,972
Other key management personnel							
SP Burns	76,142	47,006	–	(75,000)	6,547	54,695	3,540
NG Drabsch	227,556	21,462	–	(79,896)	15,560	184,682	155,527
D Fogarty	35,550	11,025	–	(13)	3,265	49,827	20,209
MJ Goodwin	11,036	884	–	244	853	13,017	6,099
MD ten Hove	275,633	19,904	–	–	20,724	316,261	185,898
TW Ibbotson	20,183	10,604	–	–	–	30,787	–
V McLenaghan	185,413	16,648	–	244	–	202,305	109,809
BM Nicholls	16,097	17,594	–	244	–	33,935	8,076
DA Ramsay	215,708	11,475	–	(11,231)	–	215,952	92,318
J Rumpler	58,595	5,831	–	(5,831)	–	58,595	56,975
JM Smith	11,308	9,597	–	244	–	21,149	–
GB Thwaites	25,669	3,184	–	244	2,040	31,137	3,401

(C) Key management personnel – share loans

Details of the share loans made by the Group to the key management personnel are set out below.

(i) Personal recourse share loans

2010	BALANCE AT 1 JAN 2010 A$'000	LOANS MADE IN THE YEAR A$'000	REPAYMENTS A$'000	BALANCE AT 31 DEC 2010 A$'000	INTEREST NOT CHARGED A$'000	HIGHEST BALANCE IN THE PERIOD A$'000
Executive director						
FM O'Halloran	**1,271**	**1,761**	**–**	**3,032**	**168**	**3,032**
Other key management personnel						
NG Drabsch	**–**	**1,000**	**(1,000)**	**–**	**5**	**1,000**
MJ Goodwin	**–**	**149**	**(149)**	**–**	**–**	**149**
MD ten Hove	**991**	**956**	**–**	**1,947**	**118**	**1,947**
V McLenaghan	**142**	**720**	**(47)**	**815**	**47**	**862**
DA Ramsay	**516**	**496**	**(64)**	**948**	**58**	**1,012**
J Rumpler	**13**	**226**	**(10)**	**229**	**13**	**239**
JM Smith	**–**	**401**	**(401)**	**–**	**4**	**401**
GB Thwaites	**121**	**131**	**(5)**	**247**	**15**	**252**

31 KEY MANAGEMENT PERSONNEL CONTINUED

2009	BALANCE AT 1 JAN 2009 A$'000	LOANS MADE IN THE YEAR A$'000	REPAYMENTS A$'000	BALANCE AT 31 DEC 2009 A$'000	INTEREST NOT CHARGED A$'000	HIGHEST BALANCE IN THE PERIOD A$'000
Executive director						
FM O'Halloran	1,271	–	–	1,271	84	1,271
Other key management personnel						
NG Drabsch	502	–	(502)	–	14	502
MD ten Hove	991	–	–	991	63	991
V McLenaghan	157	–	(15)	142	10	157
DA Ramsay	558	–	(42)	516	36	558
J Rumpler	14	–	(1)	13	1	14
GB Thwaites	121	–	–	121	8	121

(ii) Non-recourse share loans

Prior to 20 June 2005, non-recourse loans were provided by the Group to the executive director and other key management personnel for the purchase of shares in the company. Under Australian accounting standards, non-recourse loans and the related shares are derecognised and are instead treated as options.

2010	BALANCE AT 1 JAN 2010 A$'000	LOANS MADE IN THE YEAR A$'000	REPAYMENTS A$'000	BALANCE AT 31 DEC 2010 A$'000	INTEREST NOT CHARGED A$'000	HIGHEST BALANCE IN THE PERIOD A$'000
Executive director						
FM O'Halloran	**4,227**	**–**	**–**	**4,227**	**273**	**4,227**
Other key management personnel						
SP Burns	**22**	**–**	**–**	**22**	**1**	**22**
NG Drabsch	**1,979**	**–**	**–**	**1,979**	**128**	**1,979**
D Fogarty	**87**	**–**	**–**	**87**	**6**	**87**
MJ Goodwin	**35**	**–**	**–**	**35**	**2**	**35**
MD ten Hove	**2,848**	**–**	**–**	**2,848**	**184**	**2,848**
V McLenaghan	**951**	**–**	**(70)**	**881**	**59**	**951**
BM Nicholls	**165**	**–**	**(165)**	**–**	**10**	**165**
DA Ramsay	**935**	**–**	**(59)**	**876**	**58**	**935**
J Rumpler	**381**	**–**	**(32)**	**349**	**23**	**381**
GB Thwaites	**43**	**–**	**–**	**43**	**3**	**43**

(D) Other transactions with key management personnel and their personally related parties

FM O'Halloran – retirement benefits

Mr O'Halloran joined QBE in June 1976. 13 of his years with the Group have been in the position of chief executive officer, with four years as director of operations, seven years as director of finance, five years as chief financial officer and the remainder as Group financial controller. On 1 January 1998, a controlled entity entered into a retirement benefit arrangement with Mr O'Halloran, which is in addition to his entitlement under the QBE Australia defined benefit plan. This arrangement was revised during 2009. On his retirement, he will receive a lump sum payment of 100% of his fixed remuneration for the year prior to the date of his retirement. As a condition of this arrangement, Mr O'Halloran has entered into a non-compete agreement for three years from the date of his retirement.

32 CONTINGENT LIABILITIES

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. Under accounting standards, no provision is required for such items if a future transfer of benefits is not probable or cannot be reliably measured. If settlement becomes probable, a provision is required. Refer to note 1(V).

In the normal course of business, the Group may be exposed to the possibility of contingent liabilities in relation to litigation arising out of its insurance and reinsurance transactions. Provisions are made for obligations that are probable and quantifiable. There are no individually significant amounts not provided for and such transactions are not considered likely to have a material impact on the net assets of the Group.

QBE is required to support the underwriting activities of the Group's controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's are those funds of the Group which are subject to the terms of the Lloyd's Deposit Trust Deed and are required to support underwriting for the following year and the open years of account, determined by a formula prescribed by Lloyd's each year. Letters of credit of US$1,075 million (2009 US$968 million) were issued in support of the Group's participation in Lloyd's. In addition, a controlled entity has entered into various trust and security deeds with Lloyd's in respect of assets lodged to support its underwriting activities. These deeds contain covenants that require the entity to meet financial obligations should they arise in relation to cash calls from syndicate participations totalling US$101 million (2009 US$137 million). A cash call would be made first on the assets held in trust funds and only after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit.

Controlled entities have entered into acquisition agreements. The costs of certain of these acquisitions have a contingent consideration component. The Group has made provision for the fair value of the consideration that it expects to settle based on the achievement of specified performance criteria in future years. Details are provided in notes 23 and 29. Further amounts totalling US$122 million (2009 US$218 million) may be payable in the future.

33 CAPITAL EXPENDITURE COMMITMENTS

	2010 US$M	2009 US$M
Capital expenditure commitments contracted but not provided for in the financial statements (not later than one year)	**13**	4

34 OPERATING LEASE COMMITMENTS

	2010 US$M	2009 US$M
Payable:		
Not later than one year	**80**	71
Later than one year but not later than five years	**172**	178
Later than five years	**254**	291
Total future minimum lease payments under non-cancellable operating leases	**506**	540

35 REMUNERATION OF AUDITORS

	2010 US$'000	2009 US$'000
PricewaterhouseCoopers (PwC) – Australian firm[1]		
Audit or review of financial reports of the parent entity	**1,149**	1,297
Audit of financial reports of controlled entities	**2,422**	2,758
Audit of statutory returns	**404**	810
Other audit assurance services	**164**	112
Taxation services	**8**	7
Actuarial services	**56**	48
Advisory services (including business continuity management assistance)	**28**	23
	4,231	5,055
Related practices of PwC – Australian firm (including overseas PwC firms)[1]		
Audit of financial reports of controlled entities	**7,129**	9,474
Audit of statutory returns	**1,006**	1,273
Other audit assurance services	**470**	134
Taxation services	**994**	483
Actuarial services	**9**	–
Advisory services (including due diligence services)	**22**	23
	9,630	11,387
	13,861	16,442
Audit and assurance services	**12,744**	15,858
Other services	**1,117**	584
	13,861	16,442
Other auditors		
Audit of financial reports of controlled entities	**410**	128

(1) From 1 January 2003, the Group may engage PwC for non-audit services, subject to the general principle that fees for non-audit services should not exceed 30% of the total of all fees in any one year. Consistent with prior periods, PricewaterhouseCoopers cannot provide the excluded services of preparing accounting records or financial reports, asset or liability valuations, acting in a management capacity, acting as a custodian of assets or acting as share registrar.

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FOR THE YEAR ENDED 31 DECEMBER 2010

36 RELATED PARTIES

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2010 %	2009 %
(A) Parent entity			
QBE Insurance Group Limited	Australia		
(B) Controlled entities[1]			
Affinity Insurance Services	US	**100.00**	100.00
AIS Green Slip Group Pty Limited	Australia	**100.00**	100.00
Anex Jenni & Partner AG	Switzerland	**100.00**	100.00
Atlasz Real Estate and Management Company Limited	Hungary	**100.00**	100.00
Austral Mercantile Collections Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
BCO Insurance Agency of Texas Inc	US	**100.00**	100.00
BCO Surplus Lines Inc	US	**100.00**	100.00
Blue Ridge Indemnity Company	US	**100.00**	100.00
Blue Ridge Insurance Company	US	**100.00**	100.00
British Marine Managers Limited	UK	**100.00**	100.00
Burnett & Company Inc	US	**100.00**	100.00
Burnett Holdings Inc	US	**100.00**	100.00
Burnett Insurance Management Services Inc	US	**100.00**	100.00
Capital Collection Services Inc	US	**100.00**	100.00
Capital Excess & Surplus Brokers Inc	US	**100.00**	100.00
CHU Underwriting Agencies (UK) Limited	UK	**100.00**	100.00
CHU Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
CNA Aseguradora de Riesgos del Trabajo SA	Argentina	**100.00**	–
Colonial Compania de Seguros y Reaseguros SA	Ecuador	**100.00**	–
Community Association Underwriters of America Inc	US	**100.00**	100.00
Corporate Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Davis Garvin Agency Inc	US	**100.00**	100.00
Deep South of California Inc	US	**100.00**	100.00
Deep South Surplus Inc	US	**100.00**	100.00
Deep South Surplus of Florida LLC	US	**100.00**	100.00
Deep South Surplus of Texas Management LLC	US	**100.00**	100.00
Deep South Surplus of Texas LP[3]	US	**–**	–
Elders Insurance (Underwriting Agency) Pty Limited	Australia	**75.00**	75.00
Elders Insurance Agencies Pty Limited	Australia	**100.00**	100.00
Elders Insurance Limited	Australia	**100.00**	100.00
Ensign Dedicated No.1 Limited	UK	**100.00**	100.00
Ensign Holdings Limited	UK	**100.00**	100.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
FAI Insurances (Fiji) Limited	Fiji	**100.00**	100.00
Flood Underwriters of Seattle LLC	US	**100.00**	–
General Casualty Company of Wisconsin	US	**100.00**	100.00
General Casualty Insurance Company	US	**100.00**	100.00
Greenhill Baia Underwriting GmbH	Germany	**100.00**	100.00
Greenhill International Insurance Holdings Limited	UK	**100.00**	100.00
Greenhill Sturge Underwriting Limited	UK	**100.00**	100.00
Greenhill Underwriting Espana Limited	UK	**100.00**	100.00
Hoosier Insurance Company	US	**100.00**	100.00
HP Jenni & Partner AG (in liquidation)	Switzerland	**100.00**	100.00
Hyfield Company Limited[2]	Thailand	**49.00**	49.00
Invivo Medical Pty Limited	Australia	**50.00**	50.00

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

36 RELATED PARTIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2010 %	EQUITY HOLDING 2009 %
Iron Trades Management Services Limited	UK	**100.00**	100.00
Lifeco Re Limited	UK	**100.00**	100.00
Lifeco SRO	Czech Republic	**100.00**	100.00
Limit Corporate Members Limited	UK	**100.00**	100.00
Limit Holdings Limited	UK	**100.00**	100.00
Limit No 1 Limited	UK	**100.00**	100.00
Limit No 2 Limited	UK	**100.00**	100.00
Limit No 3 Limited	UK	**100.00**	100.00
Limit No 4 Limited	UK	**100.00**	100.00
Limit No 5 Limited	UK	**100.00**	100.00
Limit No 6 Limited	UK	**100.00**	100.00
Limit No 7 Limited	UK	**100.00**	100.00
Limit No 10 Limited	UK	**100.00**	100.00
Limit Properties Limited	UK	**100.00**	100.00
Mantis Reef II Limited[3]	Cayman Is	**–**	–
Mantis Reef II Pledge Limited[3]	Cayman Is	**–**	–
MBP Holdings Limited	UK	**100.00**	100.00
Minster Court Asset Management (UK) Limited	UK	**100.00**	100.00
Minster Court Asset Management Pty Limited	Australia	**100.00**	100.00
MMIA Pty Limited	Australia	**100.00**	100.00
MMWC Pty Limited	Australia	**100.00**	100.00
National Credit Insurance (Brokers) NZ Limited	NZ	**100.00**	100.00
National Credit Insurance (Brokers) Pty Limited	Australia	**100.00**	100.00
National Farmers Union Property and Casualty Company	US	**100.00**	100.00
NAU Acquisition Inc	US	**100.00**	–
NAU Country Insurance Company	US	**100.00**	–
NAU Holding Company LLC	US	**100.00**	–
North Pointe Casualty Insurance Company	US	**100.00**	100.00
North Pointe Financial Services Inc	US	**100.00**	100.00
North Pointe Insurance Company	US	**100.00**	100.00
NP Capital Trust 1[3]	US	**–**	–
Operador Logistico de Soat-Ols SA	Ecuador	**50.99**	–
P&C Claim Care Management LLC	US	**100.00**	–
Permanent LMI Pty Limited	Australia	**50.08**	50.08
Pitt Nominees Pty Limited	Australia	**100.00**	100.00
Praetorian Insurance Company	US	**100.00**	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	**60.00**	60.00
QBE (PNG) Limited	PNG	**100.00**	100.00
QBE (Singapore) Pte Ltd	Singapore	**100.00**	100.00
QBE Agencies Americas Holdings Inc	US	**100.00**	–
QBE Agencies Australia Holdings Pty Limited	Australia	**100.00**	–
QBE Agencies Holdings Pty Limited	Australia	**100.00**	–
QBE Americas Inc	US	**100.00**	100.00
QBE AS	Slovakia	**100.00**	100.00
QBE Aseguradora de Riesgos del Trabajo SA	Argentina	**100.00**	100.00
QBE Atlantic LLC	US	**100.00**	100.00
QBE Atlasz Ingatlankezelo zrt	Hungary	**100.00**	100.00
QBE Brasil Seguros SA	Brazil	**99.99**	99.99
QBE Capital Funding LP[3]	Jersey	**–**	–

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

36 RELATED PARTIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2010 %	EQUITY HOLDING 2009 %
QBE Capital Funding LP II[3]	Jersey	**–**	–
QBE Corporate Limited	UK	**100.00**	100.00
QBE de Mexico Compania de Seguros SA de CV	Mexico	**99.99**	99.99
QBE Employee Share Trust[3]	Australia	**–**	–
QBE European Services Limited (formerly QBE (Stafford) Limited)	UK	**100.00**	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Europe Holdings Services Agent de Asigurare SRL	Romania	**100.00**	100.00
QBE Funding V Limited	Jersey	**100.00**	–
QBE Funding Trust[3]	US	**–**	–
QBE Funding Trust II[3]	US	**–**	–
QBE Funding Trust III[3]	US	**–**	–
QBE Funding Trust IV[3]	US	**–**	–
QBE Funding Trust V[3]	US	**–**	–
QBE Holdings (AAP) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (Americas) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (EO) Limited	UK	**100.00**	100.00
QBE Holdings (Europe) Limited	UK	**100.00**	100.00
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Holdings Inc	US	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Hu KFT	Hungary	**100.00**	100.00
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance (Europe) Limited	UK	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00
QBE Insurance (International) Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**51.00**	51.00
QBE Insurance (Philippines) Inc	Philippines	**59.00**	59.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Thailand) Co Limited[2]	Thailand		
Thai resident entities		**23.67**	23.67
Non-Thai resident entities		**24.87**	24.87
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE Insurance (Vietnam) Company Limited	Vietnam	**100.00**	100.00
QBE Insurance Company (UK) Limited	UK	**100.00**	100.00
QBE Insurance Corporation	US	**100.00**	100.00
QBE Insurance Holdings Pty Limited	Australia	**100.00**	–
QBE International Holdings (UK) plc	UK	**100.00**	100.00
QBE International Holdings Limited	Hong Kong	**100.00**	100.00
QBE Investments (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	US	**100.00**	100.00
QBE Investments (UK) Limited	NZ	**100.00**	100.00
QBE Irish Share Incentive Plan[3]	Ireland	**–**	–
QBE (Jersey) GP Limited	Jersey	**100.00**	100.00
QBE (Jersey) GP II Limited	Jersey	**100.00**	100.00
QBE Latin America Insurance Holdings SL	Spain	**100.00**	100.00
QBE Lenders' Mortgage Insurance (Holdings) Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE Lenders' Mortgage Insurance Limited	Australia	**100.00**	100.00
QBE Makedonija[4]	Macedonia	**65.23**	65.23
QBE Management (Ireland) Limited	Ireland	**100.00**	100.00

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

36 RELATED PARTIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2010 %	2009 %
QBE Management Company (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Management Inc	US	**100.00**	100.00
QBE Management Services (Philippines) Pty Limited	Australia	**100.00**	100.00
QBE Management Services (UK) Limited	UK	**100.00**	100.00
QBE Management Services Pty Limited	Australia	**100.00**	100.00
QBE Marine and Energy Services Pte Limited	Singapore	**100.00**	100.00
QBE Marine Underwriting Agency Pte Limited	Singapore	**70.00**	70.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	**100.00**	100.00
QBE Nordic Aviation Insurance A/S	Denmark	**100.00**	100.00
QBE PL Sp ZOO	Poland	**–**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Regional Companies (NA) Inc	US	**100.00**	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Reinsurance (Europe) Limited	Ireland	**100.00**	100.00
QBE Reinsurance (UK) Limited	UK	**100.00**	100.00
QBE Reinsurance Corporation	US	**100.00**	100.00
QBE Seguros SA	Colombia	**97.63**	97.58
QBE Services Inc	Canada	**100.00**	100.00
QBE SK SRO	Slovakia	**100.00**	100.00
QBE Specialty Insurance Company	US	**100.00**	100.00
QBE SRO	Czech Republic	**100.00**	100.00
QBE UK Finance I Limited	UK	**100.00**	100.00
QBE UK Finance II Limited	UK	**100.00**	100.00
QBE UK Finance III Limited	UK	**100.00**	100.00
QBE UK Finance IV Limited	UK	**100.00**	100.00
QBE UK Share Incentive Plan(3)	UK	**–**	–
QBE Ukraine(2)	Ukraine	**50.00**	50.00
QBE Underwriting Limited	UK	**100.00**	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	**100.00**	100.00
QBE Underwriting Services (UK) Limited	UK	**100.00**	100.00
QBE Underwriting Services Limited	UK	**100.00**	100.00
QBE US Agencies Inc	US	**100.00**	100.00
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (SA) Limited	Australia	**100.00**	100.00
QBE Workers Compensation (VIC) Limited	Australia	**100.00**	100.00
QBEMM Pty Limited	Australia	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Regent Insurance Company	US	**100.00**	100.00
RGM Asegurando LTDA	Colombia	**51.00**	–
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
Secura NV	Belgium	**100.00**	–
Seattle Specialty Insurance Services Inc	US	**100.00**	–
Sinkaonamahasarn Company Limited(2)	Thailand	**49. 00**	49. 00
SIU LLC	US	**100.00**	100.00
SLG Benefits and Insurance LLC	US	**100.00**	100.00
Southeastern Claims Services Inc	US	**100.00**	100.00
Southern Fire & Casualty Company	US	**100.00**	100.00
Southern Guaranty Insurance Company	US	**100.00**	100.00
Southern Pilot Insurance Company	US	**100.00**	100.00

36 RELATED PARTIES CONTINUED

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2010 %	EQUITY HOLDING 2009 %
Southern National Risk Management Inc	US	**100.00**	100.00
SRL Underwriting Limited	UK	**100.00**	100.00
Stahl Intermediaries Inc	US	**100.00**	100.00
Standfast Corporate Underwriters Limited	UK	**100.00**	100.00
Star Trust(3)	Cayman Is	**–**	–
Sterling National Corporation (formerly ZC Sterling Corporation)	US	**100.00**	100.00
Sterling National Enterprises LLC (formerly BRO Enterprises Inc)	US	**100.00**	100.00
Sterling National Insurance Agency Inc (formerly ZC Sterling Agency Inc)	US	**100.00**	100.00
Sterling Property Tax Solutions Inc (formerly ZC Real Estate Tax Solutions Limited)	US	**100.00**	100.00
Strakh-Consult (in liquidation)	Ukraine	**100.00**	100.00
The MiniBus & Coach Club Limited	UK	**100.00**	100.00
Torch Dedicated Corporate Member Limited	UK	**100.00**	100.00
Travelon Pty Limited	Australia	**100.00**	100.00
Underwriting Agencies of Australia (Holdings) Pty Limited	Australia	**92.50**	90.00
Underwriting Agencies of Australia Pty Limited	Australia	**92.50**	90.00
Unigard Indemnity Company	US	**100.00**	100.00
Unigard Insurance Company	US	**100.00**	100.00
United Security Insurance Company	US	**100.00**	100.00
Universal Underwriting Agencies Pty Limited	Australia	**100.00**	100.00
Visionex 2000 Limited	UK	**100.00**	100.00
Westwood Insurance Agency	US	**100.00**	100.00

(1) All controlled entities have a 31 December year end.

(2) The following special conditions exist with respect to the Group's equity holdings:

- For accounting purposes, the Group has management control of QBE Insurance (Thailand) Co Limited and QBE Ukraine by reference to management agreements.
- The issued share capital of Hyfield Company Limited and Sinkaonamahasarn Company Limited owned by the Group is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.

(3) Deep South Surplus of Texas LP, Mantis Reef II Limited, Mantis Reef II Pledge Limited, NP Capital Trust 1, QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Share Incentive Plan, Star Trust, the QBE Funding Trusts, QBE Capital Funding LP and QBE Capital Funding LP II have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.

(4) The shareholding in QBE Makedonija equates to 73.50% (2009 73.50%) of the voting rights.

(5) All equity in controlled entities is held in the form of shares or through contractual arrangements.

(C) Associates

	COUNTRY OF INCORPORATION	INVESTMENT 2010 %	INVESTMENT 2009 %
Aviabel Cie. Belge d'Assurances Aviation S.A.	Belgium	**19.14**	–
Pacific Re Limited	Papua New Guinea	**30.97**	30.97
QBE Del Istmo Reinsurance Company Inc	Panama	**38.37**	40.43
Raheja QBE General Insurance Company	India	**26.00**	26.00

(D) Related party disclosures

All material information required to be disclosed under AASB 124: Related Party Disclosures has been included in the financial statements as follows:

	REFERENCE
Tax sharing agreement	Note 9(B)
Remuneration of key management personnel	Directors' report and note 31
Retirement allowances of key management personnel	Directors' report
Shares and options held by key management personnel	Note 31
Related party transactions with key management personnel	Note 31(D)
Defined benefit plans	Note 24
Guarantees in respect of related parties	Note 32

In the ordinary course of business, various controlled entities receive dividends and purchase and sell investments in public entities in which directors of the company are directors and shareholders.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

37 PARENT ENTITY FINANCIAL INFORMATION

(A) Summarised financial data of QBE Insurance Group Limited (the company)

	COMPANY	
	2010 US$M	2009 US$M
Profit for the year	**1,383**	612
Other comprehensive income for the year	**14**	7
Total comprehensive income	**1,397**	619
Assets due within 12 months[1]	**579**	1,367
Shares in controlled entities	**15,986**	12,850
Total assets	**16,565**	14,217
Liabilities payable within 12 months[2]	**2,595**	2,801
Borrowings	**2,097**	1,643
Total liabilities	**4,692**	4,444
Net assets	**11,873**	9,773
Share capital	**7,972**	6,604
Equity component of hybrid securities	**132**	102
Options reserve	**78**	55
Retained profits	**3,691**	3,012
Total equity	**11,873**	9,773

(1) Includes amounts due from QBE Group companies of US$480 million.
(2) Includes amounts due to QBE Group companies of US$2,428 million.

(B) Guarantees and contingent liabilities

The company had the following contingent liabilities:

	COMPANY	
	2010 US$M	2009 US$M
Letters of credit issued in support of the Group's participation in Lloyd's of London	**1,075**	968
Letters of credit issued in support of insurance provisions of controlled entities	**745**	745
Guarantees to investors of Eurobonds	**–**	317
Guarantees to investors in hybrid securities	**850**	417
Guarantees to investors in capital securities	**1,018**	1,035

Details of the guarantees to investors in hybrid securities and capital securities and security arrangements in respect of borrowings are provided in note 25.

(C) Contractual commitments

The company did not have any contractual commitments in relation to the acquisition of property, plant and equipment at 31 December 2010 (2009 nil).

38 EVENTS OCCURING AFTER THE BALANCE DATE

On 18 November 2010, QBE announced an agreement to acquire the US operations of Renaissance Re, which includes a US crop and small specialist program insurance business. The acquisition is subject to regulatory approvals with completion expected in March 2011. The cost is estimated at US$275 million for net tangible assets of US$215 million.

On 4 February 2011, QBE announced the following transactions:

(i) an initial 10 year distribution agreement with Bank of America; and

(ii) the assumption of US$1.2 billion of insurance liabilities and matching assets of Balboa Insurance Company and its affiliates, subsidiaries of Bank of America.

The cost is expected to be US$700 million, the substantial majority of which will be amortised in the next three years.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 92 to 166 are in accordance with the *Corporations Act 2001*, including:

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

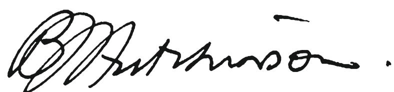
   (ii) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

Note 1(A) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2010.

Signed in SYDNEY this 28th day of February 2011 in accordance with a resolution of the directors.



BJ Hutchinson AM
Director

FM O'Halloran
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the financial report

We have audited the accompanying financial statements of QBE Insurance Group Limited (the company), which comprise the balance sheet as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the QBE Insurance Group (the Group). The Group comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the annual report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of QBE Insurance Group Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the remuneration report included in pages 64 to 88 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QBE Insurance Group Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of QBE Insurance Group Limited (the company) for the year ended 31 December 2010 included on the QBE Insurance Group Limited web site. The company's directors are responsible for the integrity of the QBE Insurance Group Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers   K.G. Smith.

PricewaterhouseCoopers

KG Smith
Partner

Sydney
28 February 2011

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange (ASX) and trades under the code “QBE”.

Annual General Meeting (AGM)

Time: 10:00am Tuesday, 5 April 2011
City Recital Hall, Angel Place, Sydney NSW 2000 Australia

Online proxy voting is available through the Link investor service centre website.

Voting rights of ordinary shares

The constitution provides for votes to be cast:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

Shareholder information and enquiries

Most enquiries and correspondence regarding shareholdings can be directed to QBE’s share registrar:

Link Market Services Limited (Link)
Locked Bag A14, Sydney South NSW 1235 Australia

Level 12, 680 George Street, Sydney NSW 2000 Australia

Telephone: +61 2 8280 7158
Facsimile: +61 2 9287 0303
Internet: www.linkmarketservices.com.au (Link investor service centre website)
Email: registrars@linkmarketservices.com.au

For security purposes, please quote your Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Link cannot assist you with these changes. Please quote your HIN.

Relevant interests register

Orient Capital Pty Limited of Level 12, 680 George Street, Sydney NSW 2000, Australia maintains QBE’s register of information about relevant interests. The register contains any responses from custodians on and after 1 January 2005 to searches relating to the beneficial ownership of QBE’s shares. Shareholders and other parties can telephone Orient Capital on +61 2 8280 6000 or facsimile on +61 2 8280 6001 if they wish to inspect this register.

Shareholding details online

View your shareholdings and update your details online at the Link investor service centre website. You will be asked to provide either your SRN or HIN, your surname and postcode.

You may receive dividend statements, notices of meetings, annual reports and major company announcements electronically by registering your email address at the Link investor service centre website.

Annual report mailing list

Amendments to the Corporations Act have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, the annual report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the annual report, please notify Link in writing or select the annual report option under “communication options” on the Link investor service centre website.

The half yearly results summary to 30 June 2011 will be mailed with the interim dividend. The next annual report for the year ending 31 December 2011 will be distributed in March 2012. QBE does not produce a concise financial report.

Shareholder information

Tax File Number (TFN), Australian Business Number (ABN) or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting the Link investor service centre website. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Link of their resident status. TFN forms are available from Link or can be downloaded from either the QBE or Link websites.

Conduit foreign income (CFI)

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Dividends

QBE encourages shareholders to have cash dividends credited directly to a bank, building society or credit union account in either Australia or New Zealand to eliminate delays in funds clearance and to significantly reduce the risk of loss or theft. A dividend advice confirming the deposit details is either mailed to you or is available online on the payment date.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) when the plans are active. The DRP enables you to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, you must have a minimum shareholding of 100 shares.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Unpresented cheques/unclaimed money

Under the Unclaimed Moneys Act, unclaimed dividends must be given to the NSW state treasury. It is very important that shareholders bank outstanding dividend cheques promptly and advise Link immediately of changes of address or bank account details.

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Link's website.

Registered office

QBE Insurance Group Limited
Level 2, 82 Pitt Street, Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444
Facsimile: +61 2 9235 3166
Internet: www.qbe.com

QBE website

QBE's website provides investors with information about QBE including annual reports, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a brief history of QBE's dividends, access to standard forms (change of address, direct credit advice and more) and online access to your shareholding details via the share registry.

Shareholder information

RECENT QBE DIVIDENDS

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
12 April 2001	final	26 March 2001	16.0	30
28 September 2001	interim	7 September 2001	16.5	25
12 April 2002	final	25 March 2002	13.5	15
3 October 2002	interim	13 September 2002	16.5	12
11 April 2003	final	19 March 2003	18.5	12
25 September 2003	interim	1 September 2003	20.0	15
25 March 2004	final	9 March 2004	22.0	30
20 September 2004	interim	30 August 2004	24.0	50
23 March 2005	final	7 March 2005	30.0	50
16 September 2005	interim	29 August 2005	33.0	50
29 March 2006	final	10 March 2006	38.0	50
14 September 2006	interim	1 September 2006	40.0	60
2 April 2007	final	14 March 2007	55.0	60
21 September 2007	interim	10 September 2007	57.0	60
26 March 2008	final	6 March 2008	65.0	50
17 September 2008	interim	1 September 2008	61.0	20
31 March 2009	final	11 March 2009	65.0	20
22 September 2009	interim	1 September 2009	62.0	20
30 March 2010	final	10 March 2010	66.0	20
22 September 2010	interim	30 August 2010	62.0	15

TOP 20 SHAREHOLDERS AS AT 31 JANUARY 2011

NAME	NUMBER OF SHARES	% OF TOTAL
HSBC Custody Nominees (Australia) Limited	326,299,752	31.03
JP Morgan Nominees Australia Limited	135,964,986	12.93
National Nominees Limited	134,316,899	12.77
Citicorp Nominees Pty Limited	45,543,318	4.33
Cogent Nominees Pty Limited	16,938,626	1.61
JP Morgan Nominees Australia Limited	15,995,638	1.52
AMP Life Limited	7,349,037	0.70
Australian Reward Investment Alliance	5,633,068	0.54
Australian Foundation Investment Company Limited	4,827,793	0.46
Perpetual Trustee Company Limited	4,697,912	0.45
UBS Wealth Management Australia Nominees Pty Ltd	4,331,805	0.41
RBC Dexia Investor Services Australia Nominees Pty Limited	3,710,228	0.35
Queensland Investment Corporation	3,650,128	0.35
Argo Investments Limited	3,493,817	0.33
UBS Nominees Pty Ltd	2,340,000	0.22
Citicorp Nominees Pty Limited	2,285,297	0.22
Cogent Nominees Pty Limited	1,833,069	0.17
Custodial Services Limited	1,797,870	0.17
UBS Nominees Pty Ltd	1,747,481	0.17
Choiseul Investments Limited	1,660,869	0.16
Total	724,417,593	68.89

Shareholder information

QBE SUBSTANTIAL SHAREHOLDERS AS AT 31 JANUARY 2011

NAME	NUMBER OF SHARES	% OF TOTAL[(1)]	DATE OF NOTICE
Credit Suisse Holdings (Australia) Limited	114,439,958	11.06	24 August 2010
Aberdeen Asset Management Asia Limited	107,071,524	10.34	7 September 2010
Commonwealth Bank of Australia Limited	53,674,351	5.10	8 December 2010

(1) Percentage of total at date of notice.

DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS AS AT 31 JANUARY 2011

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 1000	99,110	60.82	46,865,604	4.46
1001 to 5000	55,296	33.93	117,295,800	11.15
5001 to 10000	5,620	3.45	39,353,090	3.74
10001 to 100000	2,741	1.68	59,215,777	5.63
100001 and over	192	0.12	789,001,185	75.02
Total	162,959	100.00	1,051,731,456	100.00

SHAREHOLDINGS OF LESS THAN A MARKETABLE PARCEL AS AT 31 JANUARY 2011

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 29 or fewer shares	2,101	1.29	32,496	0.00

Financial calendar and ASX announcements

FINANCIAL CALENDAR

2011	
28 February	Profit and dividend announcement for the year ended 31 December 2010 Annual report available on website
3 March	Notice of meeting and proxy form mailed to shareholders Annual report mailed as requested
4 March	Shares begin trading ex dividend
10 March	Record date for determining shareholders' entitlement to 2010 final dividend
5 April	Annual General Meeting
11 April	2010 final dividend paid
30 June	Half year end
19 August*	Profit and dividend announcement for the six months ending 30 June 2011
25 August*	Shares begin trading ex dividend
31 August*	Record date for determining shareholders' entitlement to 2011 interim dividend
23 September*	2011 interim dividend paid
31 December	Year end

* Dates shown are provisional and may be subject to change.

MATERIAL ANNOUNCEMENTS TO THE ASX

2011	
4 February	Market update
3 February	Announced trading halt pending market announcement
27 January	Announced acquisition of Australian operations of CUNA Mutual

2010	
14 December	Publication of 2011 financial calender
18 November	Announced acquisition of the US operations of Renaissance Re
3 November	Announced completion of the Secura NV acquisition
29 October	Announced new Group executive appointment
26 October	Presentation to the Citi Australian investment conference
22 October	Announced revised policy for trading in QBE shares by QBE executives
13 September	Presentation to the CSLA investors' forum in Hong Kong
1 September	Responded to rumours about CEO succession
19 August and 8 September	Announced interim dividend details
19 August	Announced half year result
9 and 18 August	Historical information presented in US dollars
9 August	Announced revised Group executive structure
26 July	Market update
5 July	Announced acquisition of Secura NV
2 July	Announced completed acquisition of NAU Country Insurance Company
30 June	Announced issue of lower Tier 2 debt
16 June	Investor update
3 June	Announced redemption of Eurobond securities
3 June	Announcement in response to market rumours
3 May	Announced redemption of LYONs IV securities
29 and 30 April	Announced new issue of Senior Convertible Securities
28 April	Market update
21 April	Announced appointment of Global Head of Distribution
16 April	Announced acquisition of NAU Country Insurance Company
8 March	CEO presentation to Citi Australia and NZ investment conference
3 and 12 March	Announced DCP option exercise
3 and 18 March	Announced final dividend and dividend pricing details
1 March	AGM notice of meeting
1, 4, 5, 11 March, 1, 8, 12, 23 April, 7, 29, 30 July, 4, 17 August and 24 September	Announced changes to directors' interests in the company
26 February	Announced 2009 results
16 February	Announced the appointment of a new non-executive director
25 January and 9 February	Variations to the rules of QBE's dividend reinvestment plans

10 year history

FOR THE YEAR ENDED 31 DECEMBER

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Gross written premium	US$M	**13,629**	11,239	11,015	10,391	7,839	7,171	6,484	5,407	4,184	3,502
Gross earned premium	US$M	**13,432**	10,943	10,773	10,353	7,610	6,990	6,340	5,061	3,899	3,246
Net earned premium	US$M	**11,362**	9,446	9,293	8,552	6,166	5,630	5,016	3,909	3,056	2,389
Claim ratio	%	**59.9**	60.3	57.6	54.3	55.8	59.9	61.3	63.3	67.6	76.6
Commission ratio	%	**15.5**	16.2	17.2	18.5	17.0	16.9	17.5	18.2	17.7	20.2
Expense ratio	%	**14.3**	13.1	13.7	13.1	12.5	12.3	12.4	12.3	12.4	12.8
Combined operating ratio	%	**89.7**	89.6	88.5	85.9	85.3	89.1	91.2	93.8	97.7	109.6
Investment income[1]											
before investment gains/losses	US$M	**660**	838	1,237	839	575	470	421	252	224	207
after investment gains/losses	US$M	**659**	1,159	1,199	1,132	732	631	486	323	142	214
Financing and other costs[2]	US$M	**222**	191	223	189	115	87	102	56	40	34
Insurance profit (loss)	US$M	**1,703**	1,609	1,830	1,895	1,351	982	686	406	220	(61)
Insurance profit (loss) to net earned premium	%	**15.0**	17.0	19.7	22.2	21.9	17.4	13.7	10.4	7.2	(2.6)
Operating profit (loss)											
before income tax	US$M	**1,551**	1,891	2,028	2,135	1,521	1,161	825	495	168	(51)
after income tax and non-controlling interests	US$M	**1,278**	1,532	1,558	1,612	1,121	832	634	370	151	(13)
Number of shares on issue[3]	millions	**1,052**	1,025	987	886	819	794	745	672	615	585
Shareholders' funds	US$M	**10,311**	9,164	7,834	7,435	4,962	3,735	3,155	2,491	1,657	1,338
Total assets	US$M	**42,188**	36,723	33,967	34,737	25,079	21,753	19,592	15,372	11,538	9,507
Net tangible assets per share[3]	US$	**4.76**	4.63	4.02	5.99	4.70	3.49	3.21	3.14	2.22	1.87
Borrowings to shareholders' funds[3]	%	**31.5**	29.1	32.9	40.8	37.6	41.8	44.8	40.3	49.3	32.0
Basic earnings per share[3]	US cents	**123.2**	152.1	174.1	187.7	139.7	108.6	91.1	56.0	23.1	(5.4)
Diluted earnings per share	US cents	**119.6**	149.9	172.2	181.8	131.1	99.7	80.7	50.2	23.5	(2.5)
Returns on average shareholders' funds	%	**13.1**	18.0	22.3	26.0	25.8	24.2	22.5	17.8	10.1	(1.1)
Dividend per share	Australian cents	**128.0**	128.0	126.0	122.0	95.0	71.0	54.0	42.0	35.0	30.0
Dividend payout	A$M	**1,336**	1,306	1,187	1,068	774	556	392	281	213	155
Cash flow from operations	US$M	**1,362**	1,344	1,886	1,988	1,541	1,514	1,561	1,353	819	144
Total investments and cash[4]	US$M	**25,304**	22,448	19,995	21,552	15,755	12,891	11,709	8,888	6,454	4,691

(1) Excludes financing and other costs and amortisation of goodwill/intangibles.

(2) Financing and other costs include the net cost of ABC securities.

(3) Reflects shares notified to the Australian Securities Exchange. Refer to note 26(A) of the financial statements.

(4) Includes financial assets at fair value through the income statement, cash and cash equivalents and investment properties.

Glossary of insurance terms

Term	Definition
Accident year experience	Simplistically, the matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Attritional claims ratio	Total net claims with a cost of less than US$2.3 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.
Casualty insurance	Insurance that is primarily concerned with the losses caused by injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A form of excess of loss reinsurance that, subject to specified limits, indemnifies the insured for the amount of loss in excess of a specified retention with respect to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin for the possible fluctuation of the liability.
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commission ratio	Net commission expense as a percentage of net earned premium.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium (GEP)	The total premium on insurance earned by an insurer or reinsurer during a specified period on premiums underwritten in the current and previous underwriting years.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting profit (loss) and investment income on policyholders' funds.
Insurance solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Inward reinsurance	The reinsurance or assumption of risks written by another insurer.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a cost of US$2.3 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy which protects the lender (e.g. a bank) against non-payment or default on a residential property loan.
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.

Glossary of insurance terms continued

Maximum event retention (MER)	The largest loss to which an insurer will be exposed (taking into account the probability of that loss at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance assets and inwards and outwards reinstatement premiums.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the net change in unearned premium for a year.
Net investment income	Gross investment income net of foreign exchange gains and losses and investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Policyholders' funds	Comprises insurance liabilities (e.g. outstanding claims and unearned premium) net of insurance assets (e.g. reinsurance recoveries and trade receivables). Financial assets are held to back the policyholders' funds of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Short-tail	Classes of insurance business involving coverage for risks where notice of a claim is received and claims are outstanding for one year or less before they are finally quantifiable and settled by the insurer.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Written premium	Premiums written, whether or not earned, during a given period.

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