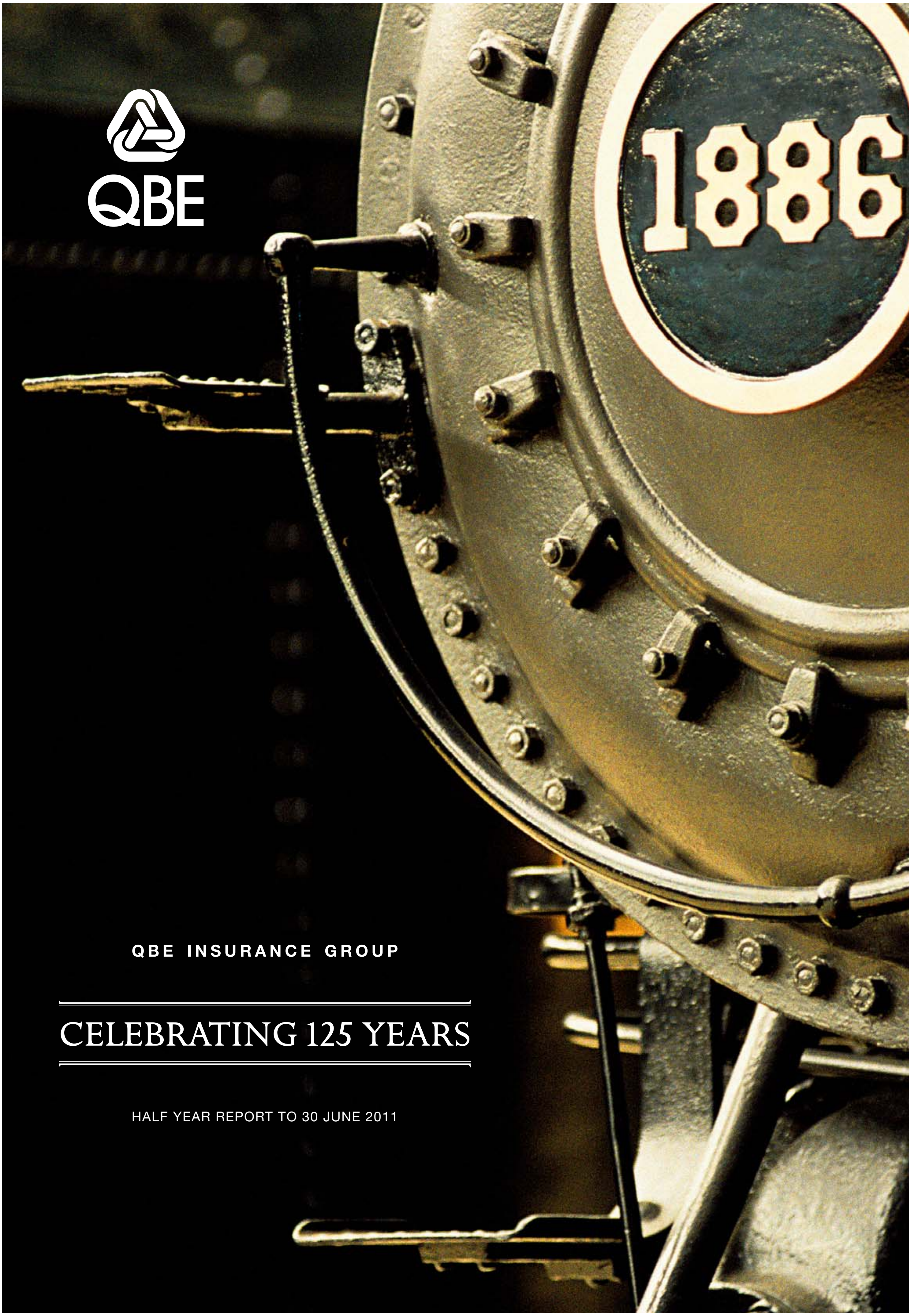


QBE INSURANCE GROUP

CELEBRATING 125 YEARS

HALF YEAR REPORT TO 30 JUNE 2011

CONTENTS

QBE Insurance Group is Australia's largest international general insurance and reinsurance group and one of the top 20 insurers and reinsurers worldwide as measured by net earned premium, with operations in 49 countries and in all key insurance markets. QBE has built its geographic and product diversification through over 135 acquisitions.

OUR VISION

To be internationally recognised as:

a highly successful general insurance and reinsurance group;
a builder of shareholders' wealth;
a developer of "can do" people; and
an organisation that excels in the continuous delivery of new and proven quality products and services.

OUR VALUES

Increasing the long-term wealth of shareholders
Customer satisfaction and retention
Employee motivation
Integrity

QBE was founded in 1886 principally to provide insurance for marine risks relating to the transportation and storage of freight by ship and on land. The half year report cover depicts a compound steam train used for the transportation of freight to shipping ports on the east coast of Australia in the company's early days. From its origins in Queensland Australia, QBE expanded quickly throughout the Asia Pacific region and London, and in more recent years has become a significant insurer in the Americas and European markets. In October 2011, QBE will celebrate its 125 year anniversary.

PERFORMANCE AT A GLANCE

QBE has achieved an increase in profit after tax of 53% despite a record level of natural catastrophe claims for QBE and the global insurance industry. Premium growth was ahead of target, reflecting the successful completion of a number of acquisitions over the past 12 months. Reinsurance costs reduced due to the Group's unique worldwide reinsurance arrangements, with benefits to net earned premium growth and profitability. Premium rates on renewed business increased by close to 3%, reflecting generally increased rates in markets affected by large claims events. Investment income was ahead of our target yields, although a low interest rate environment continues. The interim dividend is maintained at 62 Australian cents per share.

KEY FINANCIAL HIGHLIGHTS

- Net profit after tax up 53% to US$673M predominantly due to improved investment yields
- Strong GWP growth – up 30% to US$8,942M
- Record current accident year large risk and catastrophe claims at 15.9% of NEP compared with 9.3% for 1H 2010
- Combined operating ratio of 95.7% (2010 89.7%)
- Insurance profit of US$762M (2010 US$827M)
- Insurance profit margin of 11.2% of NEP (2010 15.8%)
- Dividend maintained at 62 Australian cents per share

PROFIT AND DIVIDEND

for the half year ended 30 June		2011	2010	% CHANGE
Net profit after income tax	US$M	**673**	440	53
Return on average shareholders' funds	%	**12.5**	9.7	
Basic earnings per share[(1)]	US cents	**62.8**	42.7	47
Diluted earnings per share	US cents	**59.9**	42.2	42
Interim dividend per share	Australian cents	**62.0**	62.0	–
Dividend payout	A$M	**677**	642	5

GROUP OPERATING PERFORMANCE

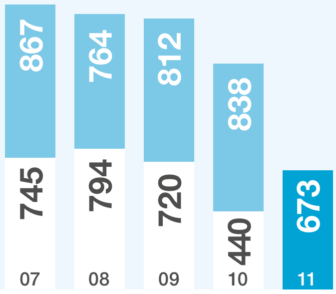
for the half year ended 30 June		2011	2010	% CHANGE
Gross written premium	US$M	**8,942**	6,861	30
Net earned premium	US$M	**6,778**	5,240	29
Underwriting profit	US$M	**291**	542	(46)
Combined operating ratio (COR)	%	**95.7**	89.7	
Insurance profit	US$M	**762**	827	(8)
Insurance profit to net earned premium	%	**11.2**	15.8	
Cash flow from operations	US$M	**1,121**	698	61

(1) Reflects shares notified to the Australian Securities Exchange. Refer to note 6 to the financial statements.

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

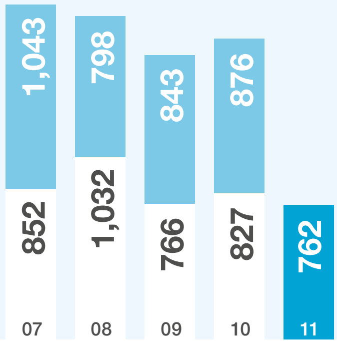
NET PROFIT AFTER INCOME TAX

US$**673** million
up **53**%



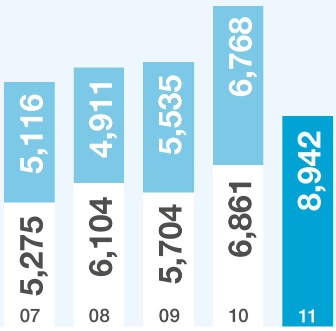
INSURANCE PROFIT

US$**762** million
down **8**%



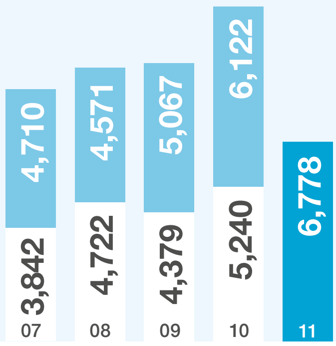
GROSS WRITTEN PREMIUM

US$**8,942** million
up **30**%



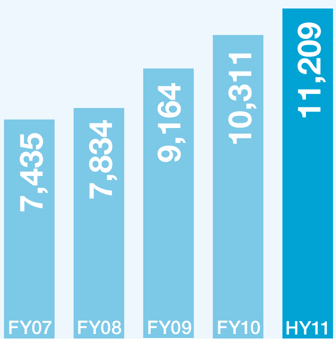
NET EARNED PREMIUM

US$**6,778** million
up **29**%



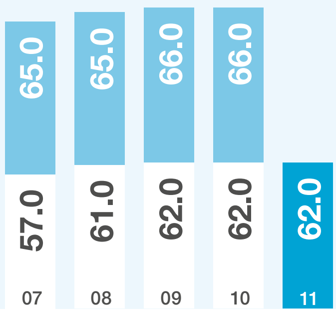
SHAREHOLDERS' FUNDS

US$**11,209** million
up **9**%



DIVIDEND PER SHARE

62.0 Australian cents
unchanged



2nd half year results

OPERATING AND FINANCIAL PERFORMANCE

QBE's combined operating ratio of 95.7% was higher than expected due to the impact of an exceptional level of large natural catastrophe claims in the first half of 2011 which added 6.6% to the current accident year claims ratio when compared with the first half of 2010. This is the first time that QBE has reported a combined operating ratio over 90% since 2004. The Group's underlying underwriting performance remains sound. With excellent stable attritional claims ratios, we are well positioned for the remainder of the year with acquisitions over the past year expected to provide continued strong second half growth and profits. QBE's extensive worldwide reinsurance program assisted profit in the first half with a lower cost, as well as providing greater depth and breadth of coverage. Due to the increased incidence of catastrophes, QBE has recently acquired several additional reinsurance covers for our specialist classes of business. The Group enters the second half of 2011 with a strong franchise, substantial reinsurance capacity to protect our portfolios against a continuation of the unusual frequency of catastrophic claims and likely benefits from the rising insurance and reinsurance premium rates in catastrophe affected areas.

RESULTS

Summary income statement

	HALF YEAR ENDED		YEAR ENDED
	30 JUNE 2011 US$M	**30 JUNE 2010 US$M**	**31 DECEMBER 2010 US$M**
Gross written premium	**8,942**	6,861	13,629
Gross earned premium	**7,834**	6,110	13,432
Net earned premium	**6,778**	5,240	11,362
Net claims incurred	**(4,470)**	(3,136)	(6,807)
Net commission	**(1,069)**	(801)	(1,759)
Underwriting and other expenses	**(948)**	(761)	(1,628)
Net underwriting result	**291**	542	1,168
Net investment income on policyholders' funds	**471**	285	535
Insurance profit	**762**	827	1,703
Net investment income on shareholders' funds	**186**	(169)	124
Financing and other costs	**(114)**	(108)	(222)
Share of net profits of associates	**2**	3	5
Amortisation of intangibles	**(60)**	(25)	(59)
Profit before income tax	**776**	528	1,551
Income tax	**(95)**	(82)	(257)
Profit after income tax	**681**	446	1,294
Non-controlling interests	**(8)**	(6)	(16)
Net profit after income tax	**673**	440	1,278

NET PROFIT AFTER TAX

Net profit after tax was US$673 million compared with US$440 million for the same period last year. The higher profit was due largely to premium growth from acquisitions completed over the past year and increased net investment income which helped offset the impact of an exceptional accumulation of severe natural catastrophe claims.

Details of significant items affecting the half year result before tax are set out in the table below.

Significant items in profit before tax

for the half year ended 30 June	2011 US$M	2010 US$M
Realised / unrealised equity gains (losses)	**20**	(231)
Increased cost of large individual risk and catastrophe claims (current accident year)	**(590)**	–
Operational foreign exchange gains	**150**	101
Amortisation of intangibles	**(60)**	(25)

UNDERWRITING PERFORMANCE

Insurance profit

Insurance profit was US$762 million, down US$65 million or 8%, with an insurance profit margin of 11.2% compared with 15.8% for the same period last year. The record level of large individual risk and catastrophe claims had a 6.6% negative impact on the insurance margin and combined operating ratio. The slightly lower risk-free interest rates compared with rates at 31 December 2010 used to discount outstanding claims for the half year resulted in an adverse impact on the combined operating ratio and the insurance margin of around 0.6%. The net investment yield on policyholders' funds before foreign exchange gains was at the higher end of our target range at 3.5% compared with 2.5% for the same period last year, assisting insurance profit and the insurance profit margin.

Net investment income on policyholders' funds was up 65% from the same period last year due to acquisitions, higher yielding fixed interest securities, predominantly on our large corporate bond portfolio, and operational foreign exchange gains.

The combined operating ratio was 95.7% compared with 89.7% for the same period last year. This should be considered in the context of the significantly higher than normal level of catastrophes. Despite the increased level of catastrophe claims, QBE's results compare well against the majority of our peer group, with many of our competitors around the world reporting combined operating ratios well in excess of 100%.

Key ratios – Group

for the half year ended 30 June		2011	2010
Claims ratio	%	**65.9**	59.9
Commission ratio	%	**15.8**	15.3
Expense ratio	%	**14.0**	14.5
Combined operating ratio	%	**95.7**	89.7
Insurance profit margin	%	**11.2**	15.8

Worldwide portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %
Property	**28.4**	30.9
Motor and motor casualty	**15.7**	17.2
Public/product liability	**14.5**	14.0
Workers' compensation	**7.8**	7.6
Marine, energy and aviation	**7.7**	9.4
Lender placed homeowners	**5.4**	–
Professional indemnity	**4.9**	5.6
Agriculture	**4.4**	1.1
Financial and credit	**4.3**	4.1
Accident and health	**3.7**	4.4
Other	**3.2**	5.7

Segmental analysis

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %
the Americas	**35.4**	30.3
European operations	**28.6**	31.7
Australia	**27.1**	29.8
Latin America	**4.9**	3.6
Asia Pacific	**4.0**	4.6

Historical overview

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2011	**2010**	**2010**	**2009**	**2008**
Gross written premium	US$M	**8,942**	6,861	13,629	11,239	11,015
Net earned premium	US$M	**6,778**	5,240	11,362	9,446	9,293
Combined operating ratio	%	**95.7**	89.7	89.7	89.6	88.5
Insurance profit	US$M	**762**	827	1,703	1,609	1,830
Insurance profit margin	%	**11.2**	15.8	15.0	17.0	19.7

Market conditions

Global insurance markets continue to be influenced by the difficult economic conditions with generally increased competition for new business. In the markets in which we operate, conditions are stabilising with stronger, albeit rational competition. The small and medium commercial enterprise sector is relatively stable with QBE achieving high retention ratios. Overall average premium rates for QBE's renewal business were higher, although premium rates in the short term are expected to remain flat for those classes of business not affected by catastrophe events.

The first half of 2011 experienced a record level of insured natural catastrophe events, with indications from a Munich Re report(1) of an overall insured market loss for the first half year of around US$60 billion or five times greater than the average since 2001. Reinsurance pricing has increased significantly in catastrophe-affected areas and reinsurance renewals for the rest of the year are likely to be more price sensitive due to claims in 2011 to date.

Acquisition opportunities continue to present and QBE is ready to take advantage of opportunities that meet our strict criteria.

Premium income

Gross written premium was up 30% to US$8,942 million. Premium income growth was largely achieved from the acquisitions completed in the past 12 months including the US crop insurers, NAU Country and Renaissance Re, the Balboa insurance business, the European-based Secura NV and CUNA Mutual in Australia. Delays in planting because of unfavourable weather conditions meant that premium income from our US crop insurance was down by approximately US$100 million. The second half of the year will benefit from this premium. Net earned premium was up 29% to US$6,778 million.

Premium income also benefited from higher average renewal rates with a close to 3% increase in overall premium rates on renewed business made up of increases of 4% in Australia, 2% in Asia Pacific, 2% in Europe and more than 2% in the Americas. Premium rate movements are determined by reference to the actual premium rates together with changes in sums insured.

Reinsurance expense

Reinsurance expense reduced from 14.2% to 13.5% of gross earned premium. The lower expense was mainly due to an overall reduction in costs from our new worldwide reinsurance arrangements partly offset by additional reinsurance protections purchased for Balboa, Equator Re and our crop insurance business. Approximately 70% of our reinsurance expense is fixed to the growth in premium income for 2011 to 2013 inclusive. The balance of 30%, while subject to market pricing, is expected to be covered by increased premium rates.

Our maximum event retention from a single catastrophe is currently around 3.8% of forecast 2011 net earned premium compared with 4.0% at 31 December 2010, reflecting lower net retentions and the benefits of our extensive reinsurance covers.

The worldwide reinsurance program provided substantial benefits in the first half through lower cost of claims and reinstatement premiums. The consolidation of numerous reinsurance programs and the elimination of working layers provided significant savings and efficiencies in managing large catastrophe claims such as the Christchurch earthquakes. We estimate that these arrangements assisted underwriting profit by US$217 million compared with our 2010 reinsurance programs.

Claims experience

The net claims incurred ratio increased from 59.9% to 65.9%. Our attritional claims ratio (comprising individual claims of less than US$2.5 million), excluding estimated savings on central estimates of prior accident year claims provisions, was 49.3% compared with 49.0% for the 2010 half year. The slightly higher attritional claims ratio in the first half of 2011 was largely due to the seasonality of claims costs for QBE's crop insurance business compared with earned premium which is largely booked in the second half of the year, partly offset by the lower attritional claims for our US lender placed business.

The level of large individual risk and catastrophe claims for the current accident year, including an allowance for incurred but not reported claims, was 15.9% of net earned premium compared with 9.3% for the same period last year. Large individual risk and catastrophe claims are defined as claims with a cost of US$2.5 million and above. There was a significantly higher level of catastrophe claims compared with the same period last year. This was mainly due to events such as the Queensland and Victorian storms and Cyclone Yasi in Australia, the Japan and Christchurch earthquakes and 12 severe US tornadoes.

The weighted average risk-free interest rate used to discount our outstanding claims provision was 3.15%, slightly down compared with 3.22% at 31 December 2010 and up when compared with 2.75% at 30 June 2010. The slightly lower average discount rate since 31 December 2010 had a negative impact on the underwriting result, increasing the net claims incurred ratio by 0.6%.

(1) Munich Re press release dated 12 July 2011.

Analysis of net incurred claims

	HALF YEAR ENDED 30 JUNE 2011			HALF YEAR ENDED 30 JUNE 2010		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Undiscounted central estimate	**4,420**	**(9)**	**4,411**	3,052	(24)	3,028
Movement in discount	**(228)**	**228**	**–**	(151)	257	106
Movement in risk margins	**273**	**(366)**	**(93)**	172	(261)	(89)
Claims settlement costs and other movements	**160**	**(8)**	**152**	122	(31)	91
Net incurred claims – discounted	**4,625**	**(155)**	**4,470**	3,195	(59)	3,136

Large catastrophe claims in 2011[1]

CATASTROPHE	NET CLAIMS US$M
Christchurch earthquakes (22 February and 13 June)	**186**
12 US tornadoes (April/May/June)	**159**
Queensland floods (2 and 8 January)	**143**
Japan earthquake (11 March)	**137**
Cyclone Yasi (2 February)	**126**
Victorian floods (9 January and 8 February)	**57**

(1) Claims are shown net of a notional allocation of recoveries under the Group's aggregate reinsurance protection.

Commission and expenses

The combined commission and expense ratio was 29.8% of net earned premium, unchanged from 29.8% for the same period last year. The ratio included the impact of the rationalisation and re-engineering of systems in European operations and the Americas and a change in the mix of business due to the US crop insurance and Balboa acquisitions.

The commission ratio was 15.8% compared with 15.3% for the same period last year, with the increase mainly due to the European and US acquisitions completed over the last 12 months.

The expense ratio reduced from 14.5% to 14.0% due to lower operating expenses for newly acquired businesses and reduced incentive payments to staff due to lower profits, partly offset by the costs of initiatives to outsource and consolidate IT systems.

Divisional performance

Contributions by region

for the half year ended 30 June	GROSS WRITTEN PREMIUM 2011 US$M	GROSS WRITTEN PREMIUM 2010 US$M	NET EARNED PREMIUM 2011 US$M	NET EARNED PREMIUM 2010 US$M	COMBINED OPERATING RATIO 2011 %	COMBINED OPERATING RATIO 2010 %	INSURANCE PROFIT BEFORE INCOME TAX 2011 US$M	INSURANCE PROFIT BEFORE INCOME TAX 2010 US$M
the Americas	**3,524**	2,342	**1,874**	1,299	**88.9**	91.0	**303**	172
European operations	**2,824**	2,412	**1,529**	1,227	**95.4**	88.4	**199**	225
Australian operations	**2,268**	1,812	**1,780**	1,510	**102.2**	89.8	**117**	243
Asia Pacific operations	**326**	295	**218**	198	**91.7**	91.4	**32**	30
Equator Re	**2,021**	1,359	**1,377**	1,006	**97.5**	88.9	**111**	157
Elimination – internal reinsurance	**(2,021)**	(1,359)	**–**	–	**–**	–	**–**	–
Group	**8,942**	6,861	**6,778**	5,240	**95.7**	89.7	**762**	827
Direct and facultative	**7,564**	6,015	**5,993**	4,775	**94.5**	89.8	**737**	745
Inward reinsurance	**1,378**	846	**785**	465	**104.6**	88.6	**25**	82
Group	**8,942**	6,861	**6,778**	5,240	**95.7**	89.7	**762**	827

Detail on divisional insurance profitability is provided in the reports on pages 16 to 29.

Agencies

In line with our strategy of acquiring agencies to lock in distribution networks and reduce overall acquisition costs, QBE now owns and controls 18 underwriting agencies. Excluding the profit on premium income generated by the agencies, the agencies contributed US$144 million or 2.1% of net earned premium compared with US$105 million or 2.0% for the same period in 2010. The lower net agency income from third party sources was due to the fact that QBE is now underwriting more of the premium income generated by the agencies.

A summary of the agency result is set out in the table below.

Agency results

for the half year ended 30 June	UNDERWRITING RESULT 2011 US$M	UNDERWRITING RESULT 2010 US$M	PROFIT BEFORE INCOME TAX 2011 US$M	PROFIT BEFORE INCOME TAX 2010 US$M
the Americas	**102**	72	**102**	72
Australian operations	**42**	33	**47**	36
	144	105	**149**	108
Contribution from:				
QBE sources(1)	**116**	70	**120**	72
Third party sources(1)	**28**	35	**29**	36
	144	105	**149**	108

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

CASH FLOW

Operating cash flow for the half year continued to be strong at US$1,121 million compared with US$698 million for the same period in 2010. Cash flow was assisted by increased premium received, particularly from the US crop insurance business.

INCOME TAX EXPENSE

The income tax expense reduced from 15.5% to 12.2% of profit before tax. The lower income tax expense benefited from one-off savings from the realisation of prior year capital losses and profits in lower tax paying countries.

INVESTMENTS

Investment market conditions

A volatile first half of 2011 has seen market activity dominated by developments in Europe, more specifically the debt crisis in Greece and the contagion fears of a sovereign debt restructuring. Markets were also adversely impacted by the tragic events in Japan and a loss of momentum in the US economy. Investor uncertainty has driven yields lower in our major fixed income markets; however, we continue to derive higher running yields through careful credit selection. Active management of our equity portfolio exposure also resulted in positive returns for the year to date.

The global economic outlook remains one of subdued recovery in the developed markets with central banks adopting a cautionary stance on monetary policy given a likely protracted resolution of Europe's debt problems.

Equity strategy

We actively manage equity investments to achieve yields above those on fixed interest securities. We currently have a policy that equity investments should not exceed 5.0% of the total portfolio, a reduction from 7.5% last year. Equity exposure at 31 December 2010 was 1.1% of the total portfolio compared with 2.2% at 30 June 2011. The decision to maintain a low equity exposure was due to current market volatility and uncertainty, together with proposed higher capital charges by regulators and rating agencies.

Investment performance

Investment income for the half year benefited from positive returns on equities, corporate bonds and floating rate notes. Credit spreads were volatile over the period but remained broadly unchanged by half year end. Lower yields throughout the period provided capital gains on fixed interest securities. Realised and unrealised gains on equities were US$20 million for the period to 30 June 2011 compared with losses of US$231 million for the period to 30 June 2010. Operational foreign exchange gains included in investment income were US$150 million compared with US$101 million for the same period last year. Our investment strategy is to maintain a cautious approach, investing in high quality liquid securities to enable us to take advantage of market movements and opportunities when available.

Investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL INVESTMENT INCOME	
for the half year ended 30 June	2011 US$M	2010 US$M	2011 US$M	2010 US$M	2011 US$M	2010 US$M
Equity income	**–**	–	**31**	(209)	**31**	(209)
Income on fixed interest securities, short-term money and cash	**328**	195	**153**	50	**481**	245
Operational foreign exchange gains	**150**	101	**–**	–	**150**	101
Property income	**–**	–	**2**	2	**2**	2
Other income	**2**	–	**10**	1	**12**	1
Gross investment income	**480**	296	**196**	(156)	**676**	140
Realised gain on repurchased debt securities	**–**	–	**2**	–	**2**	–
Other expenses	**(9)**	(11)	**(12)**	(13)	**(21)**	(24)
Net investment income	**471**	285	**186**	(169)	**657**	116

Gross and net yield

	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
for the half year ended 30 June	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Gross(1)	**5.3**	4.0	**4.4**	(4.1)	**5.0**	1.3
Net(2)	**5.2**	3.9	**4.1**	(4.4)	**4.8**	1.0

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

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

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

Our insurance businesses, which operate in multiple currencies, aim to match currency liabilities with assets of the same currency. Due to the nature of our business, small mismatches may occur and foreign exchange gains and losses on these operational transactions are recorded in investment income in accordance with our accounting policy and the requirements of Australian accounting standards. Furthermore, in managing our budgeted profits in various currencies, we may lock in future profits at times when rates are favourable compared with our budgeted rates. Due to the substantial volatility in foreign exchange rates in the first half, we were able to lock in gains totalling US$150 million compared with US$101 million for the same period last year as a result of hedging activities utilising borrowings and forward foreign exchange contracts as a hedge to protect future profits from currency volatility.

The gross and net yield on policyholders' funds before foreign exchange gains was 3.6% and 3.5% (2010 2.7% and 2.5%) respectively.

Currency mix – market value of total investments and cash

as at	30 JUN 2011 %	31 DEC 2010 %
Australian dollar	**34**	35
US dollar	**33**	33
Sterling	**16**	15
Euro	**9**	9
Other	**8**	8

Current AAA cash rate – weighted average yield

as at	30 JUN 2011 %	31 DEC 2010 %
Australian dollar	**4.8**	4.4
Euro	**1.1**	1.0
Sterling	**0.5**	0.5
US dollar	**0.3**	0.3
Other	**2.6**	1.3
Weighted average yield	**2.1**	1.9
Actual yield achieved(1)	**3.6**	2.5

(1) On cash and fixed interest securities.

Investment assets

Total investments and cash

as at	30 JUNE 2011			31 DECEMBER 2010		
	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	**1,098**	**519**	**1,617**	1,157	529	1,686
Short-term money	**5,857**	**2,768**	**8,625**	4,794	2,189	6,983
Fixed interest securities and other	**12,228**	**5,778**	**18,006**	11,181	5,109	16,290
Equities	**–**	**649**	**649**	–	279	279
Investment properties	**–**	**69**	**69**	–	66	66
Total investments and cash	**19,183**	**9,783**	**28,966**	17,132	8,172	25,304

Investment assets backing policyholders' funds of US$19.2 billion increased compared with 31 December 2010 due to the impact of acquisitions and strong operational cash flow. Investment assets backing shareholders' funds of US$9.8 billion also increased compared with 31 December 2010 due to funds retained from increased borrowings to assist working cash flows, refinance short term borrowings and fund acquisitions.

Cash and fixed interest investments – security grading

as at	30 JUN 2011 %	31 DEC 2010 %
Moody's rating:		
Aaa	**22**	22
Aa	**64**	63
A	**11**	12
<A	**3**	3

Currency mix – market value of equities

as at	30 JUN 2011 %	31 DEC 2010 %
US dollar	**41**	34
Australian dollar	**33**	53
Sterling	**12**	5
Euro	**12**	5
Other	**2**	3

Around 86% of our cash and fixed interest investments were rated Aa3 or better and 97% A or better by Moody's. Around 98% of the investments are considered highly liquid.

Our cash and fixed interest securities are conservatively managed with an average term to maturity of 1.7 years. The modified duration of the cash and fixed interest portfolios is less than 0.4 years, with the shorter duration aimed at mitigating market value volatility as a result of interest rate movements. There was no permanent impairment of any of these securities during the half year or in previous periods, a notable achievement given current market conditions.

We have taken advantage of the recent widening of credit spreads and have increased our exposure to high grade fixed and floating rate corporate bonds to around 50% of our cash and fixed interest investments. Predominantly due to regulatory requirements, we invest in short-dated sovereign, semi-government and supranational bonds which represent around 16% of the total cash and fixed interest investments portfolios. We have no holdings in banks that failed the European stress tests and no holdings of sovereign debt issued by the European peripheral countries.

INTERIM DIVIDEND

The directors have declared an interim dividend of 62 Australian cents per share, maintaining the same rate as for the 2010 interim dividend. The dividend payout is expected to be A$677 million. The interim dividend will be franked at the rate of 10% and will be paid on 23 September 2011. The ex-dividend date is 25 August 2011 and the record date is 31 August 2011. The dividend reinvestment plans continue to be well supported by investors with an average reinvestment rate of 44% over the last two dividends. The dividend reinvestment plans continue at a 2.5% discount.

PRESENTATION CURRENCY

We first adopted a US dollar presentation currency in the June 2010 half year accounts. A US dollar presentation is considered to be more relevant for measuring performance given that around 75% of our insurance business is now written in currencies other than the Australian dollar and around 50% of annualised premium income is derived in US dollars. The change in presentation currency has no economic impact on the value of the net assets of the Group.

QBE continues to pay its dividend in Australian dollars and its shares will remain listed on the Australian Securities Exchange. A summary of QBE's financial results for the last five full years and the last five half years is included on page 46.

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

Key foreign exchange rates and movements against the US$

	CUMULATIVE AVERAGE RATE OF EXCHANGE			CLOSING RATE OF EXCHANGE		
	PERIOD TO 30 JUNE 2011	PERIOD TO 30 JUNE 2010	MOVEMENT %	AS AT 30 JUNE 2011	AS AT 31 DECEMBER 2010	MOVEMENT %
Australian dollar	**1.043**	0.885	17.9	**1.072**	1.023	4.8
Sterling	**1.615**	1.533	5.3	**1.605**	1.561	2.8
Euro	**1.409**	1.329	6.0	**1.451**	1.338	8.4

Impact of exchange rate movements

	2011 ACTUAL US$M	2011 AT 2010 EXCHANGE RATES(1) US$M	EXCHANGE RATE IMPACT US$M	%
Gross written premium	**8,942**	**8,465**	477	5
Gross earned premium	**7,834**	**7,403**	431	6
Net earned premium	**6,778**	**6,378**	400	6
Net profit after income tax	**673**	**655**	18	3
Total investments and cash	**28,966**	**28,146**	820	3
Total assets	**48,186**	**46,822**	1,364	3
Gross outstanding claims provision	**20,610**	**19,983**	627	3
Total liabilities	**36,920**	**35,897**	1,023	3

(1) Income statement items are restated to 30 June 2010 cumulative average rates of exchange and balance sheet items to 31 December 2010 closing rates of exchange.

BALANCE SHEET

Summary balance sheet

as at	30 JUNE 2011 US$M	31 DECEMBER 2010 US$M
Investments and cash	**28,966**	25,304
Trade and other receivables	**6,105**	5,506
Reinsurance recoveries – outstanding claims	**2,228**	1,741
Reinsurance recoveries – IBNR	**1,782**	1,478
Deferred insurance costs	**2,062**	2,003
Intangibles	**6,256**	5,387
Other assets	**787**	769
Total assets	**48,186**	42,188
Outstanding claims	**20,610**	18,236
Unearned premium	**8,172**	6,788
Borrowings	**4,856**	3,243
Other liabilities	**3,282**	3,528
Total liabilities	**36,920**	31,795
Net assets	**11,266**	10,393
Non-controlling interests	**57**	82
Shareholders' funds	**11,209**	10,311

SHAREHOLDERS' FUNDS

Shareholders' funds at 30 June 2011 were US$11,209 million, up from US$10,311 million at 31 December 2010. Details of the movements in the period are set out in the table below.

Reconciliation of shareholders' funds

	US$M
Shareholders' funds at 31 December 2010	**10,311**
Net profit after income tax	**673**
2010 final dividend (net of dividend reinvestment)	**(398)**
Shares issued pursuant to underwriting of the 2010 final dividend	**396**
Foreign exchange movements	**405**
Other reserve movements	**(178)**
Shareholders' funds at 30 June 2011	**11,209**

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. The extent of this hedging is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels. Our decision in 2009 to cease using derivatives to hedge our net investment in foreign operations ensures greater stability in capital adequacy levels for the Group and reduces liquidity risk in funding derivatives.

The foreign exchange movement reflects the impact of translating net assets to a weaker US dollar. Shareholders' funds in Australian dollars were A$10,460 million (31 December 2010 A$10,075 million).

CAPITAL ADEQUACY

During the half year, QBE's capital was strengthened with the issue of ordinary shares following participation in our dividend reinvestment plans and the underwriting of the 2010 final dividend paid in April 2011. The dividend underwriting was done to assist the funding of acquisitions and to cover expected premium growth. In May, we took the opportunity in favourable market conditions to issue subordinated debt securities which substantially increased our lower tier 2 capital levels.

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

MINIMUM CAPITAL REQUIREMENT

Applying the Australian Prudential Regulation Authority (APRA) risk-based criteria for determining the Group's capital adequacy, we calculate that at 30 June 2011 we held 1.7 times the minimum capital requirement (MCR). This multiple is equivalent to US$3.3 billion in excess of the minimum requirement. QBE's regulatory capital base does not include intangible asset value of US$2.3 billion relating to our wholly-owned agencies.

In most markets we are experiencing an increase in regulatory oversight and potential changes to regulations that indicate a move towards higher minimum capital requirements. In Australia, APRA is considering refinements to the prudential framework that may result in a slightly higher minimum capital requirement for QBE's Australian subsidiaries and the Group's capital levels in 2013 and beyond. QBE is well prepared for any such changes, with capital well in excess of our benchmark of 1.5 times the MCR.

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 non-operating holding companies.

Minimum capital requirement

as at	30 JUNE 2011 US$M	31 DECEMBER 2010 US$M
Tier 1		
Share capital and reserves(1)	**10,830**	10,367
Perpetual securities	**164**	179
Excess risk margins (net of tax)	**1,308**	1,129
Deductions	**(6,302)**	(5,394)
	6,000	6,281
Tier 2		
Subordinated debt and hybrid securities	**2,234**	722
Total capital base	**8,234**	7,003
Insurance risk charge	**3,049**	2,699
Concentration risk charge	**573**	539
Investment risk charge	**1,128**	959
Reinsurance risk charge	**154**	131
Minimum capital requirement	**4,904**	4,328
Excess capital	**3,330**	2,675
Capital adequacy multiple	**1.7**	1.6

(1) 31 December 2010 includes additional capital of US$462 million as a result of underwriting the final 2010 dividend.

RECEIVABLES AND REINSURANCE RECOVERIES

Trade and other receivables have increased since 31 December 2010 mainly due to the impact of acquisitions in 2011. Premium and reinsurance receivables over 90 days remain low, with minimal bad debt experience and prudent provisions held for potential non-payment. Receivables and outstanding reinsurance recoverables are reported net of provisions for doubtful debts of US$147 million compared with US$143 million at 31 December 2010.

Reinsurance recoveries increased from US$3.2 billion at 31 December 2010 to US$4.0 billion mainly due to the impact of large catastrophe claims in the period and recent acquisitions. Reinsurance recoveries include US$1.8 billion of recoveries on claims incurred but not reported (2010 US$1.5 billion).

The credit rating of our reinsurance counterparties at 30 June 2011 is set out in the table below.

Outstanding reinsurance recoveries – S&P rating

as at	30 JUN 2011 %	31 DEC 2010 %
AAA	**3**	2
AA	**48**	44
A	**43**	46
BBB or lower	**4**	3
Non-rated	**2**	5

The majority of amounts due from non-rated reinsurers are supported by third party collateral.

INTANGIBLES

Intangibles increased from US$5,387 million at 31 December 2010 to US$6,256 million mainly due to the impact of the Balboa and Renaissance Re acquisitions in the US which added US$806 million to overall intangibles.

Intangibles include future liabilities of US$256 million in relation to the probable achievement of premium and profit targets over the next year.

The Balboa portfolio acquisition and distribution agreement in April 2011 resulted in the recognition of US$622 million of identifiable intangibles that have an estimated useful life of up to 10 years. These intangibles will be written off over the expected useful life, subject to impairment testing. Our initial view which we communicated to the market was that this amount would be amortised over a shorter period against commission. Following discussion with our auditor, we have decided not to make this change as it would mean a significant change in accounting policy, affecting the accounting for amortisation of intangibles on all acquisitions.

BORROWINGS

The ratio of borrowings to shareholders' funds was 43.3%, up from 31.5% at 31 December 2010. The US$1.6 billion increase in borrowings was mainly due to the issue of US$1.0 billion and £325 million (US$526 million) of subordinated debt securities. These securities meet lower tier 2 capital regulatory and ratings criteria. The increased borrowings were used to finance the settlement of short term borrowings, to partly assist the funding of the US acquisitions and to provide capital support for expected premium growth in our US operations.

Borrowing costs in the period were US$103 million compared with US$98 million for the same period last year. The weighted average annualised interest rate on borrowings at 30 June 2011 was 5.1% compared with 5.3% at 31 December 2010.

Borrowings maturity(1)

as at	30 JUN 2011 %	31 DEC 2010 %
Less than one year	**12**	16
One to five years	**51**	74
More than five years	**37**	10

Borrowings profile

as at	30 JUN 2011 %	31 DEC 2010 %
Bank loans	**2**	1
Senior debt	**29**	42
Hybrid securities	**18**	26
Subordinated debt	**48**	25
Capital securities	**3**	6

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

INSURANCE LIABILITIES

Insurance liabilities

as at	30 JUNE 2011 US$M	31 DECEMBER 2010 US$M	31 DECEMBER 2009 US$M	31 DECEMBER 2008 US$M
Outstanding claims	**16,600**	15,017	12,864	11,346
Unearned premium net of deferred insurance costs	**6,110**	4,785	4,374	3,608
	22,710	19,802	17,238	14,954
Central estimate – outstanding claims	**15,291**	13,747	11,847	10,504
Central estimate – unearned premium	**5,020**	3,901	3,487	2,931
Risk margin – outstanding claims	**1,309**	1,270	1,017	842
Risk margin – unearned premium	**1,090**	884	887	677
	22,710	19,802	17,238	14,954
Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model	**1,490**	1,353	1,198	816

The level of risk margins at 30 June 2011 was up slightly compared with 31 December 2010 due to acquisitions and the impact of foreign exchange, partly offset by lower risk-free discount rates.

PROBABILITY OF ADEQUACY

At 30 June 2011, the probability of adequacy of outstanding claims was 88.5% compared with 89.8% at 31 December 2010 and 86.0% at 30 June 2010. The lower ratio since 31 December 2010 was due to a slight reduction in the weighted average discount rate, down to 3.15% compared with 3.22%, with a greater proportion of the portfolios weighted to US business which have a shorter period to settlement and which generally require a lower level of risk margins. A reduction in the weighted average discount rate to 2.6% will lower the Group's probability of adequacy by approximately 2.4% compared with an increase to 3.3% which would improve the probability of adequacy by 0.6%.

As required under Australian accounting standards, insurance liabilities are discounted applying sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate achieved in our quality investment portfolios. We note that a recent IFRS exposure draft is considering the impact of liquidity factors on discount rates in the future. The probability of adequacy of total insurance liabilities was 95.2% compared with 95.5% at 31 December 2010.

OUTLOOK

In the second half of 2011, premium income will benefit from the full year development of the US crop insurance portfolios, the acquisitions of Balboa and Renaissance Re in the US and CUNA Mutual in Australia.

Our 2011 full year gross written premium projection is expected to be slightly more than US$17 billion and net earned premium is projected to be US$15 billion.

Premium rates on renewed business overall are expected to increase; however, growth may be limited to those markets affected by large claim events. For the full year, we are projecting an overall average premium rate increase of 4% on our renewal portfolios.

Results for the second half of the year are exposed to US and European windstorm risks as well as other catastrophes around the world. We have significant catastrophe reinsurance protections in place and have purchased further reinsurance protections for our captive Equator Re, the Balboa portfolio and an accumulation of large risk and catastrophe claims in the second half as well as additional stop loss protection for our US crop portfolios.

Due to the exceptional level of catastrophes in the first half and subject to the usual caveats, we have lowered our insurance profit range to 11% – 14% of net earned premium. The lower end of the range assumes: 13% of net earned premium is used for large individual risk and catastrophe claims compared with 9.3% for 2010; risk-free rates for discounting claims remain at their current low level of 2.6%; and the gross investment yield is reduced to 2.7% for policyholders' funds.

The Group retains a strong balance sheet and capital adequacy for regulatory and rating purposes which, combined with strong cash flow, allow flexibility to fund acquisitions and growth initiatives.

We will continue with our conservative investment strategy, focusing on high quality and liquid securities. There is an expectation that regulators and rating agencies will increase the capital charge on equity investments and, going forward, we will maintain a relatively low exposure to physical equities, which are currently around 2% of our total investment portfolio.

Our insurance businesses around the world are in good shape and positioned to take advantage of improving market conditions and the slight increase in overall premium rates as mentioned above.

Our hard working teams around the world should be very satisfied with the performance of our overall insurance business for the half year. The QBE team is well aware of the need to meet the 15% minimum return on equity requirement and to maintain high levels of customer satisfaction in order to retain our quality customers. We will continue to look for opportunities to enhance our operations and deliver returns to shareholders.

Despite tough insurance and economic conditions, the Group's diversity and proven track record of disciplined underwriting and uncompromising focus on achieving our minimum insurance profit objectives provide us with a sound platform for growth as conditions improve.

In October, we will celebrate our 125 year anniversary. We remain committed to building upon the entrepreneurial spirit of our founders and fostering the culture of excellence which has made us one of the top 20 insurers and reinsurers in the world.

(1) Projections assume: large individual risk and catastrophe claims do not exceed the significant allowance for the second half year; no overall reduction in premium rates; no significant fall in equity markets and interest rates from current levels; no major movement in foreign exchange rates; and no material change to key inflation and economic growth forecasts.

(2) Before foreign exchange gains.

2011[1] FY PROJECTIONS

GROSS WRITTEN PREMIUM GROWTH

of **28**% to US$**17.5**BN

NET EARNED PREMIUM GROWTH

of **32**% to US$**15.0**BN

INSURANCE PROFIT MARGIN

range of **11**% – **14**% of net earned premium

GROSS INVESTMENT YIELD ON POLICYHOLDERS' FUNDS

greater than **2.7**%[2]

CAPITAL ADEQUACY MULTIPLE

greater than **1.5** times

THE AMERICAS

QBE's diverse range of products in carefully selected market segments throughout the Americas has assisted in producing an excellent underwriting result despite recent claims from a frequency of severe tornadoes. The US economic conditions and insurance market remain challenging. Notwithstanding this, our strategy for growth in selected markets has positioned us well to take advantage of improving pricing, additional cost synergies and growth opportunities over the longer term. The acquisition of specialist businesses over the past five years has enhanced both the top and bottom line although continuing low investment yields coupled with high levels of catastrophe losses have held back the insurance profit margin improvement already achieved to date.

KEY HIGHLIGHTS

- GWP up 50% to US$3,524M
- Renewal retention in excess of 80%
- Combined operating ratio of 88.9% (2010 91.0%)
- Insurance profit margin of 16.2% (2010 13.2%)

MARKET CONDITIONS

During the first half of 2011, the increased claims costs from tornadoes and floods and overall poor underwriting results for the majority of US insurers gave rise to early signs of price increases in the markets in which QBE the Americas operates. After a number of years of record Midwest storms, US insurers are beginning to realise that these events require the necessary corrections to pricing.

QBE the Americas' portfolios, excluding US crop insurance and the lender placed insurance, produced an average increase in premium rates for renewed business of around 2.5%. We expect further increases and continue to see an improving trend in retention ratios for classes of business which we have targeted to retain. Our underwriters continue to focus on profit improvement by either cancelling or re-underwriting portfolios not meeting our profit expectations.

The Latin American market remains competitive, with our focus on select classes of business continuing to produce strong results. QBE has become the largest underwriter in Ecuador, the largest workers' compensation market for agencies in Argentina, the largest underwriter of personal injury insurance in Colombia, a developer of select micro insurance products in Brazil and one of the most profitable underwriters of small to medium commercial business in Mexico.

QBE the Americas is well positioned and ready to benefit from a hardening market and improvement in profitability from actions taken on program and intermediary portfolios.

INSURANCE PROFIT

Insurance profit was US$303 million, up 76% from US$172 million for the same period last year, reflecting an insurance profit margin of 16.2% compared with 13.2%. The improved insurance profit was mainly due to the growth in QBE FIRST lender placed business as a share of the total Americas book. The combined operating ratio was 88.9%, improved from 91.0% for the same period last year and 89.7% for the full year 2010. Insurance profit does not include any expense associated with the amortisation of intangibles for the recently acquired Balboa portfolio and distribution agreement.

Historical overview in US dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2011	**2010**	**2010**	**2009**	**2008**
Gross written premium	US$M	**3,524**	2,342	5,165	4,001	3,740
Net earned premium	US$M	**1,874**	1,299	3,009	2,527	2,605
Combined operating ratio	%	**88.9**	91.0	89.7	89.7	93.6
Insurance profit	US$M	**303**	172	412	367	300
Insurance profit margin	%	**16.2**	13.2	13.7	14.6	11.5

PREMIUM INCOME

Gross written premium was up 50% to US$3,524 million compared with US$2,342 million for the same period last year. Premium growth benefited from US$428 million of new gross written premium from the distribution agreement with Bank of America and underwriting of the Balboa Insurance lender placed business portfolios from 1 April 2011. In addition, US$533 million of gross written premium was generated from crop insurance from the acquisition of NAU Country in 2010 and the US Renaissance Re insurance and agency operations acquired with effect from 1 January 2011.

Premium growth also benefited from the acquisition of Colonial Compania de Seguros y Reaseguros in July 2010, which expanded our Latin American insurance footprint into Ecuador, and CNA Argentina in June 2010.

Net earned premium was up 44% to US$1,874 million compared with US$1,299 million for the same period last year. Net earned premium growth was also driven by acquisition activity. The cost of reinsurance increased from 37.3% to 40.6% of gross earned premium. The increase was mainly due to the addition of the crop business which generates higher reinsurance premiums when business is profitable. Excluding proportional reinsurance with our captive, Equator Re, the reinsurance expense ratio would have been 17.1% (2010 15.6%).

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %		2011 %	2010 %
Property	**24.5**	32.5	Agriculture	**8.1**	2.6
Motor and motor casualty	**13.8**	20.7	Financial and credit	**5.5**	5.9
Casualty	**13.5**	14.7	Accident and health	**5.4**	8.1
Lender placed homeowners	**13.5**	–	Householders	**4.2**	4.6
Workers' compensation	**9.4**	8.4	Other	**2.1**	2.5

CLAIMS EXPERIENCE

The net incurred claims ratio was 59.4% compared with 58.8% for the same period last year. The higher ratio was mainly due to the frequency and increased severity of weather-related catastrophe claims in the first half of this year, which impacted our intermediary and program segments. Partly offsetting this claims activity was continued strong performance in our other four business segments (QBE FIRST, Latin America, crop and reinsurance).

There was a small strengthening of prior accident year claims provisions within our program segment with overall claims provisions and risk margin levels remaining stable.

COMMISSION AND EXPENSES

The total commission and expense ratio to net earned premium was 29.5%, down from 32.2% for the same period last year. The decrease was mainly due to the crop and QBE FIRST lender placed business which operates at a lower combined commission and expense ratio. The commission and expense ratio also benefited from the exchange commission on internal quota share reinsurance programs.

The commission ratio was 11.4% compared with 13.0% for the same period last year, with the lower ratio due to the addition of the crop business.

The expense ratio was down to 18.1% from 19.2%. The decrease was driven by the lower expense ratio from the crop business and the cost savings associated with the Americas transformation plan.

Underwriting result

		NORTH AMERICAN UNDERWRITING OPERATIONS		AGENCIES		TOTAL NORTH AMERICAN UNDERWRITING OPERATIONS		LATIN AMERICAN UNDERWRITING OPERATIONS		THE AMERICAS	
for the half year ended 30 June		**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Gross written premium	US$M	**3,144**	2,119	**–**	–	**3,144**	2,119	**380**	223	**3,524**	2,342
Gross earned premium	US$M	**2,770**	1,852	**–**	–	**2,770**	1,852	**384**	221	**3,154**	2,073
Net earned premium	US$M	**1,572**	1,110	**–**	–	**1,572**	1,110	**302**	189	**1,874**	1,299
Net incurred claims	US$M	**947**	663	**(6)**	(9)	**941**	654	**172**	110	**1,113**	764
Net commission	US$M	**338**	242	**(187)**	(118)	**151**	124	**62**	45	**213**	169
Expenses	US$M	**205**	174	**91**	55	**296**	229	**44**	20	**340**	249
Underwriting result	US$M	**82**	31	**102**	72	**184**	103	**24**	14	**208**	117
Claims ratio	%	**60.2**	59.7			**59.9**	58.9	**57.3**	58.2	**59.4**	58.8
Commission ratio	%	**21.5**	21.8			**9.6**	11.2	**20.2**	23.8	**11.4**	13.0
Expense ratio	%	**13.0**	15.7			**18.8**	20.6	**14.6**	10.6	**18.1**	19.2
Combined operating ratio	%	**94.7**	97.2			**88.3**	90.7	**92.1**	92.6	**88.9**	91.0
Insurance profit to net earned premium	%									**16.2**	13.2

ACQUISITIONS

Acquisitions in the first half of the year included the US insurance and agency operations of Renaissance Re as well as the Balboa portfolio transfer and distribution agreement with Bank of America. The Renaissance Re acquisition was effective 1 January 2011, whilst Balboa was effective 1 April 2011.

Total gross written premium from these acquisitions on a full year basis is expected to exceed US$1.8 billion. The Balboa portfolio transfer resulted in QBE assuming responsibility for the Balboa net insurance liabilities of US$1,001 million together with matching assets.

Whilst there are a number of acquisition opportunities emerging, our immediate focus is to consolidate and integrate acquisitions to date and to maximise synergies and cross-selling opportunities within our existing business.

OUTLOOK

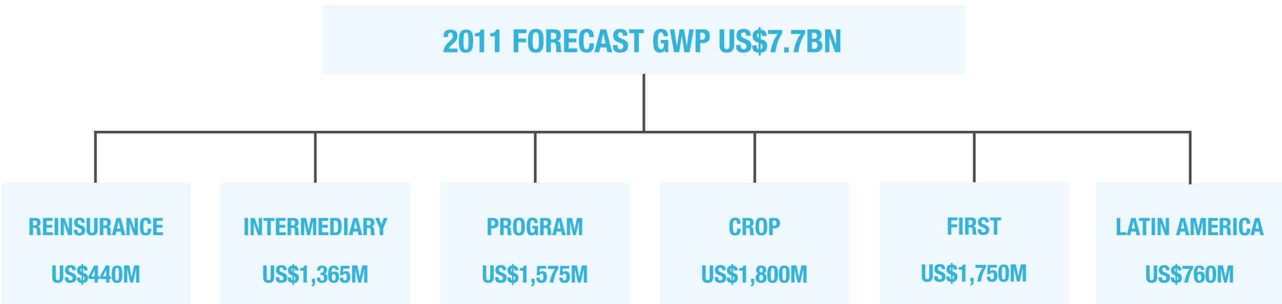
Gross written premium for 2011 for the Americas is forecast to be around US$7.7 billion. Latin America is forecast to be US$760 million of this amount.

Initiatives are in place and targeted to achieve an improvement in the combined operating ratio by 2013 from more efficient claims handling and claims cost leakage improvements, process and product improvements and systems consolidation.

We are well positioned for a market change within the major broker-produced portfolios while focusing on specialist programs and developing improved efficiencies and products within our independent agency businesses. Our reinsurance business remains consistently profitable and is now benefiting from improving conditions.

Competition is expected to remain strong; however, we will maintain our strict underwriting discipline and target growth through longer term acquisition opportunities in segments that meet our stringent criteria. Our aims are to consistently produce an overall combined operating ratio of less than 90% and to exceed the Group's minimum target of 15% return on equity for each of our products and businesses.

QBE's business in the US is managed in six specific units, namely reinsurance, intermediary, program, crop, financial institutions (QBE FIRST) and our operations in five countries in Latin America.



EUROPEAN OPERATIONS

Achieving premium growth and an underwriting profit was very pleasing in a period of economic uncertainty and competitive markets. The result reflects a record level of catastrophe claims in the first half and an unusually high frequency of marine and energy risk claims, partly offset by prior year releases from claims provisions. The favourable result compared to most in the London market is a testament to our experienced underwriters, cautious approach to managing risk, the quality of our products and the benefits of geographical diversification.

KEY HIGHLIGHTS

- GWP up 17% to US$2,824M
- Renewal retention maintained at over 80%
- Large individual risk and catastrophe claims added 9.1% to the claims ratio
- Combined operating ratio of 95.4% (2010 88.4%)
- Insurance profit margin of 13.0% (2010 18.3%)

MARKET CONDITIONS

The London market was heavily exposed to the Australian storms and New Zealand and Japan earthquakes which impacted reinsurance, marine and direct property lines of business. In addition, there was an abnormal frequency of large marine and energy risk claims on both onshore and offshore energy portfolios. Our European operations benefited on a net basis from extensive reinsurance protections.

We have maintained our focus on retaining quality clients in ongoing soft markets. New business levels continued to be under pressure due to inadequate pricing in many classes.

Significant rate increases have been observed in the last quarter on energy and catastrophe impacted renewals, particularly Australian and Japanese reinsurance and worldwide energy clients. We also obtained increases in June and July for US catastrophe reinsurance renewals and on international property business. UK commercial motor rates have been increasing by at least 5% for most clients in response to poor market results and bodily injury claims inflation in the market. However, in other classes, particularly UK and European property and casualty, markets remain very competitive and there is no sign of an immediate upturn. We are now expecting an improved overall average rate increase for European operations for 2011 of closer to 3% compared with the 2% achieved in the first half.

Our casualty, aviation and commercial motor portfolios produced underwriting profits whereas reinsurance, property and marine and energy produced underwriting losses from the significant increase in large individual risk and catastrophe claims.

The broader European insurance market is preparing for the introduction of Solvency II and is dealing with generally increased regulatory oversight and compliance costs. QBE is well prepared for these changes and has recently upgraded capital levels, systems and resources in anticipation.

INSURANCE PROFIT

Insurance profit was US$199 million, down by 12% compared with US$225 million for the same period in 2010, and the insurance profit margin was 13.0% (2010 18.3%). The insurance profit margin was impacted by the significant large individual risk and catastrophe claims referred to above, partly offset by further prior year releases of risk margins in claims provisions. Overall attritional claims were stable. The investment yield on policyholders' funds remains low with no sign of a material increase in interest rates whilst economies remain depressed and the European sovereign debt crisis continues.

Historical overview in pounds sterling

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2011	2010	2010	2009	2008
Gross written premium	£M	**1,748**	1,574	2,686	2,552	2,297
Net earned premium	£M	**946**	800	1,676	1,633	1,491
Combined operating ratio	%	**95.4**	88.4	90.5	91.3	85.6
Insurance profit	£M	**123**	146	243	257	377
Insurance profit margin	%	**13.0**	18.3	14.5	15.7	25.3

PREMIUM INCOME

Gross written premium for the half year was up 17% to US$2,824 million (2010 US$2,412 million). In local currency, it was up 11% to £1,748 million. The growth in premium income was largely due to the acquisition of the Belgian reinsurer, Secura, in late 2010. Secura writes over 95% of its premium in the first half of the year. Growth was also assisted by premium rate increases and inwards reinstatements on reinsurance portfolios. Overall premium rate increases were 2% on average on renewed business. Retention ratios on renewal business were maintained at over 80%, a very pleasing result considering the competitive market conditions.

Net earned premium was up 25% to US$1,529 million or 18% to £946 million. The higher relative growth rate in net earned premium compared with gross written premium was due to lower proportional reinsurance with our captive, Equator Re, and the benefit of the Group's comprehensive reinsurance protections. Reinsurance costs reduced from 36.6% to 31.8% of gross earned premium. Excluding proportional reinsurance with our captive, Equator Re, the reinsurance expense ratio would have been 19.0% (2010 22.5%).

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %		2011 %	2010 %
Marine, energy and aviation	**20.5**	24.0	Property treaty	**10.3**	8.8
Public/product liability	**19.6**	15.9	Workers' compensation	**5.2**	6.7
Professional indemnity	**12.6**	13.0	Financial and credit	**3.5**	3.5
Motor and motor casualty	**12.1**	10.9	Accident and health	**2.5**	2.4
Property facultative and direct	**11.2**	12.2	Other	**2.5**	2.6

CLAIMS

As mentioned previously, there was a record level of catastrophe claims in the first half of the year including the Australia storms and New Zealand and Japan earthquakes, as well as a modest level of exposure to other catastrophes such as US tornadoes. European operations was well protected by reinsurance for these events. Catastrophe claims were partially offset by continued claims provision releases on casualty and inwards reinsurance portfolios. The net claims ratio was 66.2% compared with 58.2% for the same period last year. Higher large individual risk and catastrophe claims added 9.1% to the net claims ratio compared with the same period last year.

Claims provisions remain strong overall, particularly in our Lloyd's and reinsurance portfolios.

COMMISSION AND EXPENSE RATIO

The combined commission and expense ratio was 29.2% compared with 30.2% for the same period last year. The commission ratio was 16.8% compared with 15.6% last year, with the increase due to a change in business mix following the Secura acquisition and increased broker pressure on commissions. Whilst the level of expenses was stable, the expense ratio was lower at 12.4% compared with 14.6% for the same period last year. An underlying increased cost of the IT transformational project launched in 2009 and preparation for Solvency II regulatory compliance was offset by lower staff incentive provisions due to reduced profits and increased external profit commissions on syndicate 386 claims provision releases.

Underwriting result

for the half year ended 30 June		2011	2010
Gross written premium	US$M	**2,824**	2,412
Gross earned premium	US$M	**2,242**	1,935
Net earned premium	US$M	**1,529**	1,227
Net incurred claims	US$M	**1,013**	715
Net commission	US$M	**257**	191
Expenses	US$M	**189**	179
Underwriting result	US$M	**70**	142
Claims ratio	%	**66.2**	58.2
Commission ratio	%	**16.8**	15.6
Expense ratio	%	**12.4**	14.6
Combined operating ratio	%	**95.4**	88.4
Insurance profit to net earned premium	%	**13.0**	18.3

ACQUISITIONS

The Secura acquisition, which was completed in November 2010, is performing to expectations. Full year premium income from Secura is expected to be around US$320 million. Secura had no exposure to the first half catastrophes which demonstrates the benefits of the diversification that it brings to European operations and QBE as a whole.

We continue to monitor market consolidation, particularly in Lloyd's. Mainland European opportunities are also of interest but those reviewed in the year to date have not met our strict acquisition criteria. We continue to expect an increase in mainland European opportunities in the years ahead as the full impact of regulatory changes, particularly Solvency II criteria, are better understood and adopted.

OUTLOOK

Gross written premium for 2011 is expected to be up 4% to £2.8 billion. Growth is weighted to the first half of the year due to the timing of business written by Secura and our reinsurance portfolios. Our organic growth and new business will always be limited whilst soft markets prevail. Our focus will therefore continue to be on maintaining high retention ratios for our quality customer base and acquisitions.

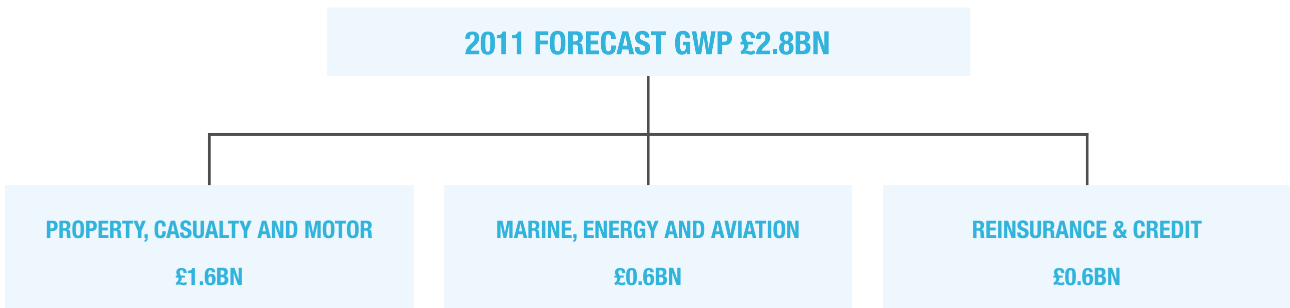
The significant level of catastrophe activity and prolonged soft market conditions will undoubtedly be seen in the results of our peers. Market reaction should begin to move rates upwards in most classes; however, this will probably not occur until well into 2012. Premium rate movements will be accelerated by any major US windstorm or other catastrophe activity in the second half of the year.

We will maintain our focus on ensuring that all portfolios target to meet the Group's minimum 15% return on equity requirement. Property continues to be our main concern; however, the actions we have taken on some segments of the portfolio have helped to reduce the attritional claims ratio for the 2011 year.

Our transformational operational support project is on track to be materially complete by the end of 2011.

By comparison with previous years, the result is disappointing due to large individual risk and catastrophe claims activity in the first half. However, by comparison with most of our peers in the London market, this is a very strong result. There is scope to improve in the second half should the extraordinary level of loss activity in the first half abate.

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



AUSTRALIAN OPERATIONS

Our Australian operations experienced record weather-related catastrophe claims which added 8.5% to the combined operating ratio. This unprecedented level of catastrophe claims resulted from various storms in Victoria and Queensland, cyclones Yasi and Anthony, tropical storm Bianca and the Western Australian bushfires. Whilst overall we recorded an underwriting loss for the first time since 1999, our diverse businesses and range of products enabled us to produce an insurance profit, albeit modest compared with previous years.

KEY HIGHLIGHTS

- GWP increased 25% to US$2,268M
- GWP in local currency increased 6% to A$2,175M
- Retention ratios averaged in the low to mid 80% range
- Combined operating ratio of 102.2% due to the increased frequency of catastrophe claims
- Integration of CUNA Mutual portfolios on track

MARKET CONDITIONS

Generally improved economic conditions resulted in higher sums insured which helped to generate an increase in renewal premiums. Competition still remains strong, particularly in the long tail classes. Short tail catastrophe-exposed classes have tended to come under less competitive pressure, reflecting claims activity and increased reinsurance costs associated with these portfolios. Pricing in some segments has seen us walk away from business as we continue re-underwriting our books of business. QBE predominantly transacts its business through a diverse range of intermediaries with a very clear focus on attracting and retaining quality customers.

INSURANCE PROFIT

It is disappointing to report that we produced an underwriting loss, the first since 1999. The insurance profit margin of 6.6% was significantly lower than 16.1% for the same period last year, mainly due to the increased claims activity, in particular the various Queensland and Victorian storm losses and cyclones Yasi and Anthony. Our longer tail liability classes, lenders' mortgage insurance and credit and surety portfolios all performed well. This, combined with a solid investment result on policyholders' funds, enabled the production of an insurance profit for the half year of US$117 million.

Historical overview in Australian dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2011	2010	2010	2009	2008
Gross written premium	A$M	**2,175**	2,046	4,051	3,509	2,914
Net earned premium	A$M	**1,707**	1,705	3,314	2,749	2,363
Combined operating ratio	%	**102.2**	89.8	89.2	89.0	90.6
Insurance profit	A$M	**112**	274	564	594	494
Insurance profit margin	%	**6.6**	16.1	17.0	21.6	20.9

PREMIUM INCOME

Gross written premium was up 25% to US$2,268 million, or up 6% in local currency to A$2,175 million. Retention remains strong with most portfolios achieving ratios in the low to mid 80% range. Premium growth was aided by the acquisition of CUNA Mutual insurance and rate increases. We recently expanded our financial institutions distribution stream with the acquisition of CUNA Mutual's life and non-life insurance portfolios which are expected to produce around US$100 million of gross written premium in a full year. The stronger average Australian dollar positively impacted premium growth when translated to US dollars.

Overall average premium rate increases were around 3.8%. The CUNA Mutual acquisition and increased writings from our Australian intermediaries, corporate partners and our commercial motor portfolio contributed to the higher gross written premium. NSW CTP and long tail liability classes, where competition was most evident, did not achieve gross written premium expectations.

Net earned premium increased 18% over the prior period mainly due to the impact of the stronger Australian dollar.

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %		2011 %	2010 %
Property	**17.8**	19.8	Agriculture	**4.1**	0.9
Householders	**17.3**	14.9	Marine, energy and aviation	**3.7**	3.3
Motor and motor casualty	**14.5**	12.9	Credit and surety	**3.5**	2.8
General liability	**11.3**	10.9	Professional indemnity	**2.9**	3.9
Compulsory third party	**8.3**	7.3	Accident and health	**2.4**	2.3
Workers' compensation	**8.1**	7.4	Travel	**0.6**	0.8
Lenders' mortgage insurance	**5.4**	12.8	Other	**0.1**	–

REINSURANCE

The reinsurance expense ratio was 16.2% compared with 16.9% for the same period last year. This reflected the benefit of the Group's worldwide reinsurance program, partly offset by additional reinstatements and back up covers purchased from Equator Re at a cost of US$98 million for the period as a result of the severe catastrophe frequency.

We have a comfortable level of reinsurance protection remaining for the second half of 2011 and under the new Group covers.

With effect from 1 January 2011, we moved from a mixture of proportional and excess of loss reinsurance covers to substantially excess of loss which resulted in a further reduction in our reinsurance cost of 4%.

CLAIMS

The net claims ratio was 73.0% of net earned premium compared with 63.2% for the same period last year. The notable catastrophe events occurring in the first half were the Queensland, Victorian and Northern NSW storms, tropical storm Bianca, cyclones Yasi and Anthony, the Perth bushfires and the Christchurch earthquake in New Zealand. Collectively these natural catastrophes resulted in net claims of approximately US$152 million for QBE Australia. The impact of the catastrophes was partly mitigated by recoveries under the Group aggregate cover. Attritional claims remained stable and there was no material release from prior year claims provisions.

Claims ratios improved in aviation, CTP Queensland, trade credit, surety, liability and QBE LMI.

Slightly lower government bond interest rates since 31 December 2010 used to discount outstanding claims increased the net claims ratio by around 1%.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 29.2%, up compared with 26.6% for the same period last year due to reduced profit commission following cessation of proportional reinsurance contracts, increased IT expenses and the lower net earned premium for the half year due to additional reinsurance and reinstatement premiums.

Underwriting result

		UNDERWRITING OPERATIONS		AGENCIES		AUSTRALIAN OPERATIONS	
for the half year ended 30 June		2011	2010	2011	2010	2011	2010
Gross written premium	US$M	**2,268**	1,812	**–**	–	**2,268**	1,812
Gross earned premium	US$M	**2,123**	1,818	**–**	–	**2,123**	1,818
Net earned premium	US$M	**1,780**	1,510	**–**	–	**1,780**	1,510
Net incurred claims	US$M	**1,299**	954	**–**	–	**1,299**	954
Net commission	US$M	**298**	204	**(82)**	(53)	**216**	151
Expenses	US$M	**264**	231	**40**	20	**304**	251
Underwriting result	US$M	**(81)**	121	**42**	33	**(39)**	154
Claims ratio	%	**73.0**	63.2			**73.0**	63.2
Commission ratio	%	**16.7**	13.5			**12.1**	10.0
Expense ratio	%	**14.8**	15.3			**17.1**	16.6
Combined operating ratio	%	**104.5**	92.0			**102.2**	89.8
Insurance profit to net earned premium	%					**6.6**	16.1

OUTLOOK

The CUNA Mutual life and non-life businesses are expected to add US$46 million of gross written premium in the second half of 2011 and provide us with a platform to further expand into the financial intermediary market. Premium income growth is expected to be assisted by overall rate increases of close to 5% for the full year.

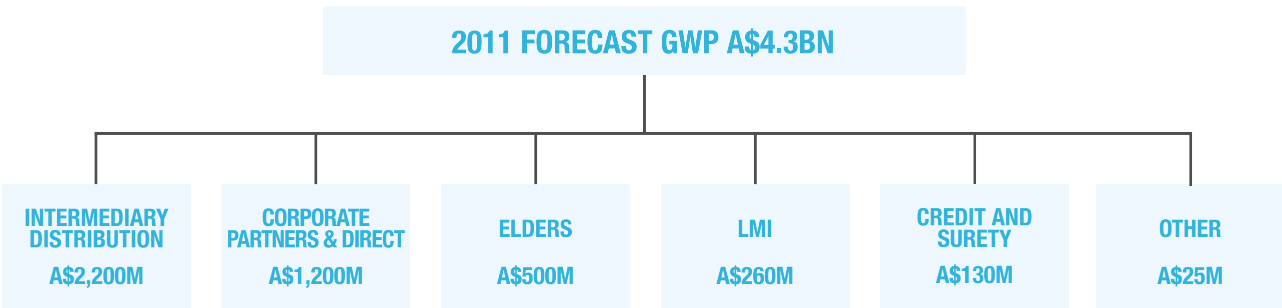
Previously announced operational cost reduction initiatives are proceeding to target with systems integration and other systems consolidation underway. In July, we announced the restructuring of our Australian IT function to provide more effective and robust services for our internal and external users. The project is expected to complete in the fourth quarter and provide savings of US$17 million.

We intend to either increase premium rates or cancel business in those portfolios which do not meet our minimum profit benchmarks. Our focus will remain on retaining our quality customers and continuing to provide a high level of professional service and support to our many distributors and customers.

We expect insurance profitability to improve in the second half and gross written premium to be around A$4.3 billion.

Due to a restructure of the management of our Australian and Asia Pacific operations, we bade farewell to the divisional CEO, Vince McLenaghan. We appreciate Vince's 28 years of loyal service to QBE in many senior roles throughout the Group. We welcome Colin Fagen who has assumed the role of CEO, Australian operations. Colin was previously executive general manager of intermediary distribution and has had 12 years service with QBE. Our operations in the region outside Australia continue to be led by Mike Goodwin, CEO, Asia Pacific.

QBE Australia provides 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

Our operations in 17 countries in the Asia Pacific region produced superb underwriting results despite the devastating earthquakes that occurred in Christchurch, New Zealand. The result benefited from our extensive reinsurance arrangements. Our Asian and Pacific businesses continued to produce strong underwriting results. New Zealand produced its first underwriting loss for many years due to the earthquake losses.

KEY HIGHLIGHTS

- GWP up 11% to US$326M
- Overall rate increases mainly in New Zealand with other regions flat
- Combined operating ratio of 91.7% (2010 91.4%)
- Insurance profit margin of 14.7% (2010 15.2%)

MARKET CONDITIONS

Soft market conditions generally prevailed in the Asia Pacific region with greater competition on larger accounts. New Zealand saw significant increases in premium rates for property business following the earthquakes in Christchurch. During the half year, there were a large number of catastrophes with two major events in Christchurch and a number of smaller events impacting New Caledonia, Malaysia and Thailand.

QBE's renewal retention still remains high due to our close working relationship with agents and brokers. QBE's overall average premium rates on renewed business for the six months across the Asia Pacific region remained flat, except for New Zealand where we started to see large increases in property accounts.

Generally, economic growth remains positive throughout the region with a number of countries adjusting monetary policy to manage growth and possible inflationary pressures. Investment yields on fixed interest and cash portfolios in most countries remain at low levels, influenced by the US dollar.

PREMIUM INCOME

Gross written premium was up 11% to US$326 million. There was growth in local currencies in most countries as well as the benefit of changes in foreign exchange rates when compared with the same period last year. During the period we acquired the remaining 49% of the Malaysia shareholding from our joint venture partner MBF. Our plan is to continue to seek growth opportunities at the right price across the region. We will also continue to focus on further increasing our collaboration with international brokers and other intermediaries to secure new business that meets our strict underwriting criteria.

Net earned premium was up 10% to US$218 million compared with US$198 million for the same period last year. Net earned premium was impacted by the payment of reinstatement premiums to Equator Re in relation to the Christchurch earthquakes which had a consequent impact on our commission and expense ratios. Reinsurance expense was 30.8% of gross earned premium, slightly up compared with 30.3% for the same period last year. The Asia Pacific and New Zealand portfolios benefited from the Group's worldwide reinsurance program and support of the Group's captive, Equator Re. Excluding proportional reinsurance with Equator Re, the reinsurance expense ratio would have been 25.7% (2010 24.3%).

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %		2011 %	2010 %
Property	**21.7**	22.1	Accident and health	**5.3**	5.4
Marine	**15.6**	15.0	Engineering	**4.5**	4.4
Motor and motor casualty	**12.4**	13.3	Financial and credit	**3.8**	4.0
Professional indemnity	**11.7**	12.7	Other	**2.4**	1.8
Liability	**9.4**	9.3	Travel	**2.3**	1.8
Workers' compensation	**8.9**	8.2	Householders	**2.0**	2.0

INSURANCE PROFIT

Insurance profit was US$32 million compared with US$30 million for the same period last year. Investment income on policyholders' funds was consistent with the same period last year and included foreign exchange gains from hedges to protect our budgeted profits in various currencies. The combined operating ratio was 91.7%, slightly up on 91.4% for the same period last year. All countries produced underwriting profits except those impacted by the catastrophes.

Historical overview in US dollars

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
		2011	**2010**	**2010**	**2009**	**2008**
Gross written premium	US$M	**326**	295	601	549	554
Net earned premium	US$M	**218**	198	420	372	378
Combined operating ratio	%	**91.7**	91.4	86.7	88.1	82.9
Insurance profit	US$M	**32**	30	77	55	94
Insurance profit margin	%	**14.7**	15.2	18.3	14.8	24.8

CLAIMS EXPERIENCE

The claims ratio was 47.7% of net earned premium compared with 49.5% for the same period last year. Improved claims experience in Hong Kong, Malaysia and Singapore was partly offset by the New Zealand earthquake claims. Risk margins in outstanding claims remain stable and overall there was little change in the central estimate claims provision from prior years.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 44.0% compared with 41.9% for the same period last year. The slightly higher expense ratio, up from 21.7% to 22.0%, was mainly due to foreign currency fluctuations between head office and the regions. Total expenses using constant exchange rates were slightly up from the same period last year. Commissions were higher, up from 20.2% to 22.0%, reflecting an increase in broker-led business and the effect of reinstatement premiums.

Underwriting result

for the half year ended 30 June		**2011**	**2010**
Gross written premium	US$M	**326**	295
Gross earned premium	US$M	**315**	284
Net earned premium	US$M	**218**	198
Net incurred claims	US$M	**104**	98
Net commission	US$M	**48**	40
Expenses	US$M	**48**	43
Underwriting result	US$M	**18**	17
Claims ratio	%	**47.7**	49.5
Commission ratio	%	**22.0**	20.2
Expense ratio	%	**22.0**	21.7
Combined operating ratio	%	**91.7**	91.4
Insurance profit to net earned premium	%	**14.7**	15.2

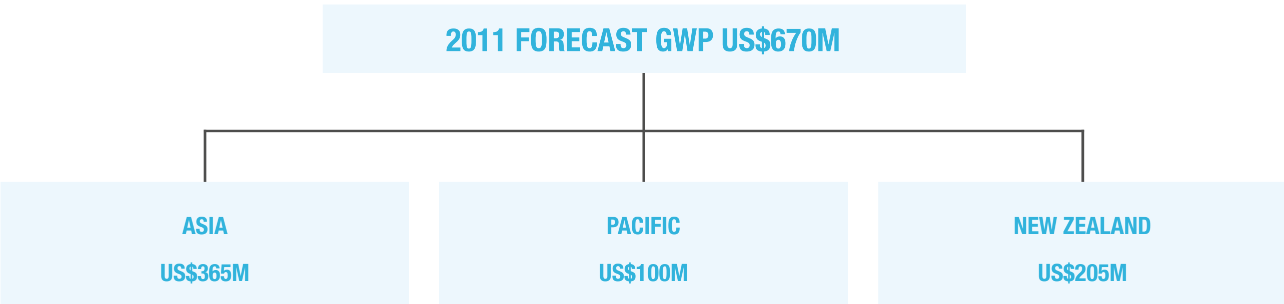
OUTLOOK

We will continue to maintain a strong focus on underwriting fundamentals and target increased market penetration through our intermediary networks to further build on our successful businesses. We will also focus on our specialist product lines and collaborate with other QBE divisions to distribute their specialist products throughout the Asia Pacific region. We have continued our research into the Chinese market with a view to developing a successful strategy that meets our longer term strategic objectives. We expect our Indian joint venture to continue to write business on a very selective basis given the ultra competitive conditions in that market.

There continues to be significant regulatory change across the region which is expected to increase our compliance costs and also involve significant management time. These changes, consistent with the general increase in supervisory focus on risk, are likely to have capital implications for many of our competitors and may provide opportunities for QBE in the future. QBE is well placed to meet these regulatory changes.

We expect markets to remain competitive. We are aiming for an overall average rate increase of 2% to 3% on renewal business for the full year underpinned by the rate increases in property classes in New Zealand which will continue to flow through in the second half in 2011. Premium growth in local currencies is expected to be modest and, for the full year, we project gross written premium to be up 11% to US$670 million. We have an excellent range of businesses throughout Asia Pacific and New Zealand with a dedicated team of professionals and a strong track record of profitability. We are confident that, for the remainder of 2011, the underlying underwriting profit will remain strong subject to the usual caveats.

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 within Asia whilst improving our retention ratios through more efficient servicing of our clients in the region.



EQUATOR RE

Equator Re is QBE's wholly owned captive reinsurer providing excess of loss and proportional reinsurance protections to QBE entities globally. Business written by the captive is designed to support the management of aggregate exposures to any one large individual risk or catastrophe claim and to optimise the levels of capital held within the Group. Risks written by Equator Re are within the Group's maximum event limits and tolerance for risk, and are priced based on market benchmark rates. A large part of Equator Re's risk profile is exposed to catastrophe and large individual risk claims. Equator Re has not been immune to the record level of catastrophe claims that occurred in the first half. An underwriting profit was achieved, although substantially reduced compared with previous periods.

KEY HIGHLIGHTS

- **GWP up 49% to US$2,021M**
- **Abnormal level of catastrophe claims substantially impacted underwriting results**
- **Combined operating ratio 97.5% (2010 88.9%)**
- **Insurance margin 8.1% (2010 15.6%)**

MARKET CONDITIONS

Acquisition activity throughout the Group provided an opportunity for Equator Re to provide capacity to participate on a number of new portfolios, particularly the crop and lender placed business in the Americas.

The Group's new worldwide reinsurance program and associated aggregate covers also provided an opportunity to assist in consolidating the Groups' exposures and provide further reinsurance protection to the divisions.

Investment income improved due to more stable market conditions, increased policyholders' funds and higher yields on fixed interest and cash portfolios. A large proportion of funds are US dollar denominated which continue to be affected by continuing low yields.

INSURANCE PROFIT

Due to the frequency of catastrophe claims, the insurance profit of US$111 million was down compared with US$157 million for the same period last year. Similarly the insurance margin of 8.1% was much lower than the 15.6% achieved for the same period last year on a higher net earned premium.

Investment income on policyholders' funds was slightly up on the same period last year assisted by foreign exchange gains on operational exposures and hedges to protect our budgeted profits in various currencies.

Historical overview in local currency

		HALF YEAR ENDED 30 JUNE		YEAR ENDED 31 DECEMBER		
Gross written premium analysed by ceding division		**2011**	**2010**	**2010**	**2009**	**2008**
the Americas	US$M	**892**	594	1,371	979	792
European operations	£M	**395**	347	540	517	417
Australian operations	A$M	**346**	133	155	146	268
Asia Pacific operations	US$M	**130**	115	131	99	90
Total	US$M	**2,021**	1,359	2,479	1,994	1,870

PREMIUM INCOME

Gross written premium was up 49% to US$2,021 million compared with US$1,359 million for the same period last year. Premium income growth benefited by around US$140 million from proportional reinsurance on the 2011 acquisitions. The increased catastrophe activity also generated additional premium income from the divisions from back-up covers and reinstatement premiums.

Net earned premium was up 37% to US$1,377 million compared with US$1,006 million for the same period last year. External reinsurance expense increased to 10.9% of gross earned premium compared with 2.5% for the same period last year, with the increase mainly due to Equator's share of the Group's new worldwide reinsurance program and a higher level of retrocession cover.

Portfolio mix

GROSS EARNED PREMIUM for the half year ended 30 June	2011 %	2010 %		2011 %	2010 %
Property	**46.6**	31.8	Agriculture	**4.7**	1.5
Public/product liability	**14.4**	17.2	Accident and health	**4.1**	4.7
Marine, energy and aviation	**9.3**	17.0	Workers' compensation	**3.8**	4.8
Motor and motor casualty	**6.8**	8.3	Professional indemnity	**3.7**	5.3
Financial and credit	**4.8**	5.3	Other	**1.8**	4.1

CLAIMS

The net claims ratio was 68.3%, up from 60.1% for the same period last year. Catastrophe claims from exposure to the Queensland, Victorian and northern New South Wales storms, cyclones Yasi and Anthony and the New Zealand and Japan earthquakes were some of the larger claims during the half year.

Risk margin levels were stable with the result benefiting from a small release from prior year central estimates.

COMMISSION AND EXPENSES

The combined commission and expense ratio was 29.2% compared with 28.8% for the same period last year. The increased ratio mainly reflected higher exchange commission on the new quota share reinsurance from US acquisitions.

Underwriting result

for the half year ended 30 June		2011	2010
Gross written premium	US$M	**2,021**	1,359
Gross earned premium	US$M	**1,545**	1,032
Net earned premium	US$M	**1,377**	1,006
Net incurred claims	US$M	**941**	605
Net commission	US$M	**335**	250
Expenses	US$M	**67**	39
Underwriting result	US$M	**34**	112
Claims ratio	%	**68.3**	60.1
Commission ratio	%	**24.3**	24.9
Expense ratio	%	**4.9**	3.9
Combined operating ratio	%	**97.5**	88.9
Insurance profit to net earned premium	%	**8.1**	15.6

OUTLOOK

Gross written premium for the full year 2011 is targeted to be around US$3.5 billion and net earned premium around US$3.2 billion.

Equator Re's net assets exceed US$1.6 billion and its A+ stable insurer financial strength rating was recently confirmed.

Equator Re will continue to participate in Group exposures on a carefully selected basis which are modelled to ensure risks are within Group tolerances. The current high level of catastrophe claims has necessitated the purchase of additional reinsurance protection for the second half of the year.

Underwriting profit for the full year is likely to be lower than last year due to the extent of catastrophe claims incurred to date.

DIRECTORS' REPORT

for the half year ended 30 June 2011

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2011.

DIRECTORS

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

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

CONSOLIDATED RESULTS

for the half year ended 30 June	2011 US$M	2010 US$M
Gross written premium	**8,942**	6,861
Unearned premium movement	**(1,108)**	(751)
Gross earned premium revenue	**7,834**	6,110
Outward reinsurance premium	**(1,720)**	(1,298)
Deferred reinsurance premium movement	**664**	428
Outward reinsurance premium expense	**(1,056)**	(870)
Net earned premium	**6,778**	5,240
Gross claims incurred	**(5,647)**	(3,756)
Reinsurance and other recoveries revenue	**1,177**	620
Net claims incurred	**(4,470)**	(3,136)
Net commission	**(1,069)**	(801)
Underwriting and other expenses	**(948)**	(761)
Underwriting profit	**291**	542
Net investment income on policyholders' funds	**471**	285
Insurance profit	**762**	827
Net investment income on shareholders' funds	**186**	(169)
Financing and other costs (including net cost of ABC securities)	**(114)**	(108)
Share of net profits of associates	**2**	3
Amortisation of intangibles and impairment of goodwill/intangibles	**(60)**	(25)
Profit before income tax	**776**	528
Income tax expense	**(95)**	(82)
Profit after income tax	**681**	446
Net profit attributable to non-controlling interests	**(8)**	(6)
Net profit after income tax	**673**	440

PROFIT

Net profit after income tax for the period ended 30 June 2011 was up 53% from US$440 million for the same period last year to US$673 million. Whilst underwriting profit fell by 46% mainly due to the record level of catastrophe claims in the period, net profit after tax benefited from a significant improvement in investment income due to the achievement of higher investment yields on fixed interest securities and net gains on equity investments.

DIVIDENDS

The directors are pleased to announce an interim dividend of 62.0 Australian cents per share for the period ended 30 June 2011, unchanged from the same period last year. The substantial growth in our overseas profits has meant that the franking of the interim dividend will remain at 10%. The total dividend payout is A$677 million compared with an interim dividend of A$642 million in 2010. The bonus share and dividend reinvestment plans continue at a 2.5% discount. The dividend reinvestment will not be underwritten.

SHAREHOLDERS' FUNDS

Shareholders' funds were US$11,209 million compared with US$10,311 million at 31 December 2010. 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. Our 2010 final dividend was fully reinvested through a combination of the dividend reinvestment plans and underwriting of the dividend.

The number of shares advised to the Australian Securities Exchange increased from 1,052 million to 1,093 million.

PRESENTATION CURRENCY

The Group has presented this financial report in US dollars, consistent with our reporting in 2010. 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.

REVIEW OF OPERATIONS

Gross earned premium was US$7,834 million, up 28% from the same period last year. Premium growth was achieved largely as a result of the acquisitions completed in the last 12 months and higher than average premium rate increases on renewed business. Net earned premium increased 29% to US$6,778 million, impacted by a slight reduction in the reinsurance expense ratio reflecting the benefits of the Group's worldwide reinsurance arrangements, partly offset by additional protections purchased for Balboa, Equator Re and our crop business.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 95.7% compared with 89.7% for the same period last year. The net claims ratio was 65.9% compared with 59.9% for the same period last year with the increase mainly reflecting the record level of catastrophe claims in the period. The probability of adequacy of our provision for outstanding claims reduced reflecting slightly lower average discount rates. The probability of adequacy was 88.5% compared with 89.8% at 31 December 2010. The combined commission and expense ratio was unchanged at 29.8%. The ratio included the impact of rationalising and re-engineering our systems in Europe and the Americas, and the change in business mix due to the US crop insurance and Balboa acquisitions.

QBE the Americas

This division reported net earned premium growth of 44% to US$1,874 million. Growth was due mainly to recent acquisitions. The cost of reinsurance increased from 37.3% to 40.6% of gross earned premium mainly due to the addition of crop business which generates higher reinsurance premiums when business is profitable. The combined operating ratio was 88.9%, compared with 91.0% for the same period last year. The net claims ratio increased slightly from 58.8% to 59.4% reflecting the frequency and increased severity of weather-related catastrophe claims in the first half of this year, which impacted our intermediary and program segments. This was partly offset by the continued strong performance in our other four business units (QBE FIRST, Latin America, crop and reinsurance). The combined commission and expense ratio reduced from 32.2% to 29.5% mainly due to the crop and QBE FIRST lender placed business, which runs at a relatively low expense ratio, and external agency income.

European operations

European operations' combined operating ratio was 95.4% compared with 88.4% for the same period last year, impacted by the record level of catastrophe claims in the first half and an unusually high frequency of marine and energy large individual risk claims. Net earned premium increased by 25% to US$1,529 million mainly due to the Secura acquisition in 2010 which writes around 95% of its annual premium in the first half of the year. The claims ratio increased from 58.2% to 66.2% due to the claims activity referred to above. Catastrophe claims were partially offset by continued claims provision releases on casualty and inwards reinsurance portfolios. The combined commission and expense ratio reduced from 30.2% to 29.2%. The commission ratio was 16.8% compared with 15.6% for the same period last year, with the increase due to a change in business mix following the Secura acquisition and increased broker pressure on commissions. Whilst the level of expenses was stable, the expense ratio was lower at 12.4% compared with 14.6% for the last half year.

Australian operations

Australian operations' combined operating ratio was 102.2% compared with 89.8% for the same period last year. The result was mainly due to the record catastrophe claims activity, in particular the various Queensland and Victorian storm losses and cyclones Yasi and Anthony. Premium growth was aided by the acquisition of the CUNA Mutual insurance portfolios and rate increases. Net earned premium of US$1,780 million was up 18% from the same period last year. The claims ratio increased from 63.2% for the same period last year to 73.0%. Whilst we experienced an increased frequency of weather-related catastrophe claims, the attritional claims ratio remained stable. The combined commission and expense ratio was 29.2%, up from 26.6% for the same period last year due to reduced profit commission following cessation of proportional reinsurance contracts and increased IT expenses.

Asia Pacific operations

Asia Pacific operations' combined operating ratio was 91.7%, up slightly from 91.4% for the same period last year. The result was impacted by the devastating Christchurch earthquakes. Net earned premium was up 10% to US$218 million. Net earned premium was impacted by the payment of reinstatement premiums to Equator Re in relation to the Christchurch earthquakes which had a consequent impact on commission and expense ratios. The claims ratio reduced from 49.5% to 47.7%. Improved claims experience in Hong Kong, Malaysia and Singapore was partly offset by claims from the New Zealand earthquake. The combined commission and expense ratio increased from 41.9% to 44.0%. The slightly higher expense ratio, up from 21.7% to 22.0%, was mainly due to foreign currency fluctuations between head office and the regions. Total expenses using constant exchange rates were slightly up from the same period last year. Commissions were higher, up from 20.2% to 22.0%, reflecting an increase in broker-led business and the effect of the reinstatement premiums.

Equator Re

Equator Re is QBE's wholly owned captive reinsurer based in Bermuda. The division reported net earned premium growth of 37% to US$1,377 million. Premium income growth benefited due to proportional reinsurance from the new acquisitions. The combined operating ratio was 97.5% compared with 88.9% for the same period last year. The net claims ratio increased from 60.1% to 68.3%. Catastrophe claims from exposure to the Queensland and Victorian storms, cyclones Yasi and Anthony and the New Zealand and Japan earthquakes were some of the larger claims during the half year. The combined commission and expense ratio of 29.2% was up slightly compared with 28.8% for the same period last year. The increased ratio mainly reflected higher exchange commission on new quota share reinsurance from US acquisitions.

Investment income

Investment income, net of foreign exchange gains and investment expenses, was US$657 million compared with US$116 million for the same period last year. The result benefited from:

- increased interest income with cash and fixed interest securities yielding 3.6% gross compared with 2.3% for the same period last year;
- realised and unrealised equity gains of US$20 million compared with losses of US$231 million for the same period last year; and
- foreign exchange gains of US$150 million compared with US$101 million for the same period last year as a result of hedging activities utilising borrowings and forward foreign exchange contracts as a hedge to protect future profits from currency volatility.

The gross investment yield before foreign exchange gains and investment expenses was 3.9% compared with 0.3% for the same period last year.

Income tax

Income tax expense for the period reduced from 15.5% of net profit before tax to 12.2% due to one-off savings from the realisation of prior year capital losses and profits in lower tax paying countries.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

ROUNDING OF AMOUNTS

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

Signed in SYDNEY this 19th day of August 2011 in accordance with a resolution of the directors.

BJ Hutchinson AM Director	FM O'Halloran Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

KG Smith
Partner

Sydney, 19 August 2011

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 30 June 2011

	NOTE	2011 US$M	2010 US$M
Gross written premium		**8,942**	6,861
Unearned premium movement		**(1,108)**	(751)
Gross earned premium revenue	4	**7,834**	6,110
Outward reinsurance premium		**(1,720)**	(1,298)
Deferred reinsurance premium movement		**664**	428
Outward reinsurance premium expense		**(1,056)**	(870)
Net earned premium		**6,778**	5,240
Gross claims incurred		**(5,647)**	(3,756)
Reinsurance and other recoveries revenue	4	**1,177**	620
Net claims incurred		**(4,470)**	(3,136)
Gross commission expense		**(1,132)**	(848)
Reinsurance commission revenue	4	**63**	47
Net commission		**(1,069)**	(801)
Other acquisition costs		**(340)**	(263)
Underwriting and other expenses		**(608)**	(498)
Underwriting profit		**291**	542
Investment income – policyholders' funds		**480**	296
Investment expenses – policyholders' funds		**(9)**	(11)
Insurance profit		**762**	827
Investment income – shareholders' funds		**198**	75
Investment expenses – shareholders' funds		**(12)**	(13)
Fair value losses on financial assets		**–**	(231)
Financing and other costs		**(114)**	(108)
Share of net profits of associates		**2**	3
Amortisation of intangibles and impairment of goodwill/intangibles		**(60)**	(25)
Profit before income tax		**776**	528
Income tax expense		**(95)**	(82)
Profit after income tax		**681**	446
OTHER COMPREHENSIVE INCOME			
Net movement in foreign currency translation reserve		**(184)**	190
Actuarial gains (losses) on defined benefit superannuation plans		**7**	(9)
Cash flow hedges		**–**	5
Gains (losses) on revaluation of owner occupied properties		**4**	–
Share of associates other comprehensive income		**–**	–
Income tax relating to components of other comprehensive income		**4**	2
Other comprehensive income after income tax		**(169)**	188
Total comprehensive income after income tax		**512**	634
Profit after income tax attributable to:			
Ordinary equity holders of the company		**673**	440
Non-controlling interests		**8**	6
		681	446
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**504**	628
Non-controlling interests		**8**	6
		512	634

Earnings per share for net profit after tax attributable to ordinary equity holders of the company	NOTE	2011 US CENTS	2010 US CENTS
Basic earnings per share	5	**63.1**	42.9
Diluted earnings per share	5	**59.9**	42.2

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2011

	NOTE	30 JUNE 2011 US$M	31 DECEMBER 2010 US$M	30 JUNE 2010 US$M
ASSETS				
Financial assets at fair value through profit or loss				
Cash and cash equivalents		**1,617**	1,686	2,553
Investments		**27,280**	23,552	19,659
Derivative financial instruments		**42**	31	204
Trade and other receivables		**6,105**	5,506	4,355
Reinsurance and other recoveries on outstanding claims		**4,010**	3,219	3,067
Current tax assets		**42**	94	75
Other assets		**15**	40	37
Deferred insurance costs		**2,062**	2,003	2,237
Defined benefit plan surplus		**1**	2	2
Property, plant and equipment		**473**	432	354
Deferred tax assets		**136**	93	104
Investment properties		**69**	66	60
Investment in associates		**78**	77	48
Intangible assets		**6,256**	5,387	4,373
Total assets		**48,186**	42,188	37,128
LIABILITIES				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments		**37**	92	81
Trade and other payables		**2,319**	2,308	1,369
Current tax liabilities		**230**	106	160
Unearned premium		**8,172**	6,788	6,557
Outstanding claims		**20,610**	18,236	15,738
Provisions		**339**	525	379
Defined benefit plan deficit		**86**	95	121
Deferred tax liabilities		**271**	402	261
Borrowings		**4,856**	3,243	3,468
Total liabilities		**36,920**	31,795	28,134
Net assets		**11,266**	10,393	8,994
EQUITY				
Share capital	6	**9,081**	7,972	6,351
Treasury shares held in trust		**(1)**	(1)	(1)
Equity component of hybrid securities		**138**	132	109
Reserves		**(1,712)**	(1,527)	(1,000)
Retained profits		**3,703**	3,735	3,462
Shareholders' funds		**11,209**	10,311	8,921
Non-controlling interests		**57**	82	73
Total equity		**11,266**	10,393	8,994

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 30 June 2011

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

	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	EQUITY COMPONENT OF HYBRID SECURITIES US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2010	6,604	(1)	102	(1,182)	3,641	9,164	68	9,232
Profit after income tax	–	–	–	–	440	440	6	446
Other comprehensive income	–	–	–	195	(7)	188	–	188
Total comprehensive income	–	–	–	195	433	628	6	634
Transactions with owners in their capacity as owners								
Purchase of shares	–	(21)	–	–	–	(21)	–	(21)
Options and conditional rights expense net of tax	–	–	–	16	–	16	–	16
Shares vested and/or released to participants	–	21	–	(21)	–	–	–	–
Contributions of equity, net of transaction costs and tax	175	–	13	–	–	188	–	188
Final dividend paid on ordinary shares	–	–	–	–	(623)	(623)	–	(623)
Dividend reinvested under Bonus Share Plan	–	–	–	–	11	11	–	11
Foreign exchange movement	(428)	–	(6)	(8)	–	(442)	(1)	(443)
As at 30 June 2010	6,351	(1)	109	(1,000)	3,462	8,921	73	8,994

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half year ended 30 June 2011

	2011 US$M	2010 US$M
OPERATING ACTIVITIES		
Premium received	**8,130**	6,026
Reinsurance and other recoveries received	**656**	846
Outwards reinsurance paid	**(1,202)**	(864)
Claims paid	**(4,504)**	(3,523)
Insurance costs paid	**(1,413)**	(1,055)
Other underwriting costs	**(777)**	(749)
Interest received	**437**	267
Dividends received	**9**	19
Other operating income	**49**	8
Other operating payments	**(162)**	(111)
Interest paid	**(82)**	(128)
Income taxes paid	**(20)**	(38)
Net cash flows from operating activities	**1,121**	698
INVESTING ACTIVITIES		
Proceeds on sale of equity investments	**562**	358
Payments for purchase of equity investments	**(878)**	(767)
Proceeds on sale of investment properties	**1**	–
Proceeds on sale of property, plant and equipment	**1**	2
Payments for foreign exchange transactions	**(28)**	(51)
(Payments for purchase) proceeds from sale of other investments	**(2,285)**	700
Payments for purchase of controlled entities and businesses acquired(1)	**(149)**	(206)
Proceeds on disposal of controlled entities	**41**	2
Payments for purchase of property, plant and equipment	**(61)**	(54)
Net cash flows from investing activities	**(2,796)**	(16)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**396**	–
Payments for purchase of treasury shares	**(26)**	(21)
Proceeds from settlement of staff share loans	**6**	28
Proceeds from borrowings	**1,626**	1,433
Repayment of borrowings	**(25)**	(469)
Dividends paid	**(405)**	(471)
Net cash flows from financing activities	**1,572**	500
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	**(103)**	1,182
Cash and cash equivalents at the beginning of the half year	**1,686**	1,435
Effect of exchange rate changes	**34**	(64)
Cash and cash equivalents at the end of the half year	**1,617**	2,553

(1) Net of cash acquired.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 30 June 2011

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

This general purpose consolidated financial report for the half year ended 30 June 2011 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Standards Board Interpretations and the *Corporations Act 2001*.

The financial report for the half year ended 30 June 2011 does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 31 December 2010 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group) during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

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

The presentation of the statement of comprehensive income has been amended in the period to 30 June 2011 to provide a more detailed analysis of the results of the Group's insurance business. This is considered to be more relevant information for users of the financial statements. The presentation of this information is consistent with information previously provided in the notes to the financial statements. Prior year comparatives have been adjusted for consistency with the new presentation format.

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
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
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012
AASB 1054	Australian Additional Disclosures	1 January 2012
2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project	1 January 2012
2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements	1 January 2014
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2014
2011-5	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation	1 January 2012
2011-6	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IAS 27 (revised)	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 19 (revised)	Employee Benefits	1 January 2013
IAS 1 (revised)	Presentation of Financial Statements	1 January 2013

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

The Group will apply the standards and amendments detailed above for the reporting periods beginning on the operative dates set out above. An initial assessment of the financial impact of 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.

3. SEGMENT INFORMATION

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business through operations in 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.

2011	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	16,439	18,279	12,315	2,234	7,261	(8,342)	48,186
Total liabilities	(12,418)	(15,336)	(10,139)	(1,752)	(5,617)	8,342	(36,920)
Net assets	4,021	2,943	2,176	482	1,644	–	11,266
Gross written premium	3,524	2,824	2,268	326	2,021	(2,021)	8,942
Gross earned premium revenue – external	3,154	2,242	2,123	315	–	–	7,834
Gross earned premium revenue – internal	–	–	–	–	1,545	(1,545)	–
Outward reinsurance premium expense	(1,280)	(713)	(343)	(97)	(168)	1,545	(1,056)
Net earned premium	1,874	1,529	1,780	218	1,377	–	6,778
Net claims incurred	(1,113)	(1,013)	(1,299)	(104)	(941)	–	(4,470)
Net commission	(213)	(257)	(216)	(48)	(335)	–	(1,069)
Underwriting and other expenses	(340)	(189)	(304)	(48)	(67)	–	(948)
Underwriting result	208	70	(39)	18	34	–	291
Investment income on policyholders' funds	95	129	156	14	77	–	471
Insurance profit	303	199	117	32	111	–	762
Investment income on shareholders' funds	65	46	40	7	28	–	186
Financing and other costs	(60)	(18)	(30)	–	(6)	–	(114)
Share of net profits of associates	–	–	2	–	–	–	2
Amortisation of intangibles and impairment of goodwill/intangibles	(53)	(1)	(6)	–	–	–	(60)
Profit before income tax	255	226	123	39	133	–	776
Income tax (expense) credit	(53)	(39)	(13)	(10)	20	–	(95)
Profit after income tax	202	187	110	29	153	–	681
Net profit attributable to non-controlling interests	(1)	–	(4)	(3)	–	–	(8)
Net profit after income tax	201	187	106	26	153	–	673

3. SEGMENT INFORMATION CONTINUED

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	12,059	14,376	9,791	1,329	4,953	(5,380)	37,128
Total liabilities	(8,819)	(12,176)	(7,741)	(934)	(3,844)	5,380	(28,134)
Net assets	3,240	2,200	2,050	395	1,109	–	8,994
Gross written premium	2,342	2,412	1,812	295	1,359	(1,359)	6,861
Gross earned premium revenue – external	2,073	1,935	1,818	284	–	–	6,110
Gross earned premium revenue – internal	–	–	–	–	1,032	(1,032)	–
Outward reinsurance premium expense	(774)	(708)	(308)	(86)	(26)	1,032	(870)
Net earned premium	1,299	1,227	1,510	198	1,006	–	5,240
Net claims incurred	(764)	(715)	(954)	(98)	(605)	–	(3,136)
Net commission	(169)	(191)	(151)	(40)	(250)	–	(801)
Underwriting and other expenses	(249)	(179)	(251)	(43)	(39)	–	(761)
Underwriting result	117	142	154	17	112	–	542
Investment income on policyholders' funds	55	83	89	13	45	–	285
Insurance profit	172	225	243	30	157	–	827
Investment income on shareholders' funds	(32)	(38)	(63)	(9)	(27)	–	(169)
Financing and other costs	(50)	(23)	(31)	–	(4)	–	(108)
Share of net profits of associates	–	–	3	–	–	–	3
Amortisation of intangibles and impairment of goodwill/intangibles	(20)	(1)	(4)	–	–	–	(25)
Profit before income tax	70	163	148	21	126	–	528
Income tax expense	(9)	(50)	(13)	(4)	(6)	–	(82)
Profit after income tax	61	113	135	17	120	–	446
Net profit attributable to non-controlling interests	–	–	(3)	(3)	–	–	(6)
Net profit after income tax	61	113	132	14	120	–	440

4. INCOME

	2011 US$M	2010 US$M
Gross earned premium revenue		
Direct and facultative	**6,902**	5,577
Inward reinsurance	**932**	533
	7,834	6,110
Other revenue		
Reinsurance and other recoveries revenue	**1,177**	620
Reinsurance commission revenue	**63**	47
	9,074	6,777
Other income		
Interest, dividend and other income	**402**	251
Foreign exchange gains	**150**	101
Net fair value gains on financial assets	**115**	17
Realised gains on sale of controlled entities	**11**	2
	678	371
Income	**9,752**	7,148
Other income		
Investment income – policyholders' funds	**480**	296
Investment income – shareholders' funds	**198**	75
	678	371

5. EARNINGS PER SHARE

	2011 US CENTS	2010 US CENTS
Basic earnings per share	**63.1**	42.9
Diluted earnings per share	**59.9**	42.2

	2011 US$M	2010 US$M
(A) Reconciliation of earnings used in calculating earnings per share		
Net profit after income tax attributable to ordinary equity holders of the company, used in calculating basic earnings per share	**673**	440
Add: finance costs of convertible securities	**12**	2
Earnings used in calculating diluted earnings per share	**685**	442

	2011 NUMBER OF SHARES MILLIONS	2010 NUMBER OF SHARES MILLIONS
(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share		
Weighted average number of ordinary shares on issue	**1,070**	1,031
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(4)**	(4)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share(1)	**1,066**	1,027
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**4**	4
Options issued under the Plan	**–**	1
Convertible securities	**74**	15
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,144**	1,047

(1) Weighted average number of ordinary shares reflects shares adjusted to derecognise shares subject to non-recourse loan agreements issued under the Plan. Basic earnings per share calculated with reference to issued share capital notified to the Australian Securities Exchange would have been US 62.8 cents (2010 US 42.7 cents).

6. SHARE CAPITAL

	2011 US$M	2010 US$M
Issued ordinary shares, fully paid	**9,081**	6,351

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

6. SHARE CAPITAL CONTINUED

	NUMBER OF SHARES MILLIONS	US$M
Issued and fully paid at 1 January 2010	1,020	6,604
Shares issued under the Employee Share and Option Plan	–	1
Employee options exercised	3	33
Shares issued under the Dividend Reinvestment Plan	7	141
Shares issued under the Bonus Share Plan	1	–
Foreign exchange movement	–	(428)
Issued and fully paid at 30 June 2010	1,031	6,351
Shares notified to the Australian Securities Exchange	1,035	6,380
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(4)	(29)
Issued and fully paid at 30 June 2010	1,031	6,351

7. DIVIDENDS

	2010		2009
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	66.0	62.0	66.0
Franking percentage	10%	15%	20%
Franked amount per share (Australian cents)	6.6	9.3	13.2
Dividend payout (A$M)	694	642	678
Payment date	11 Apr 2011	22 Sept 2010	30 Mar 2010

On 19 August 2011, the directors declared a 10% franked interim dividend of 62.0 Australian cents per share payable on 23 September 2011. The interim dividend payout is A$677 million (2010 A$642 million). The record date is 31 August 2011.

	2011 US$M	2010 US$M
Final dividend paid on ordinary shares		
Franked	**73**	125
Unfranked	**656**	498
	729	623
Dividend reinvested under the Bonus Share Plan	**(15)**	(11)
Total dividend paid	**714**	612

8. CONTINGENT LIABILITIES

	30 JUNE 2011 US$M	31 DECEMBER 2010 US$M
Letters of credit issued in support of the Group's participation in Lloyd's	**1,086**	1,075

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. Further amounts totalling US$41 million (US$122 million at 31 December 2010) may be payable in the future.

9. BORROWINGS

Subordinated debt due 2041

On 24 May 2011, the Group raised US$1 billion and £325 million (US$526 million) through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 7.3% and 7.5% per annum respectively until 24 May 2021, at which point the rate will be reset to a 10 year mid market swap rate plus a spread of 4.0%. The rate will be reset again, on the same basis, on 24 May 2031.

9. BORROWINGS CONTINUED

The securities are redeemable prior to the ultimate maturity date at the option of QBE with the written approval of the Australian Prudential Regulation Authority (APRA) in the event of:

- certain tax and US investment company registration events, which allow a redemption at any time; or
- certain regulatory and rating agency equity credit events which allow redemption at any time after 24 May 2016.

The securities are treated as lower Tier 2 capital by APRA and rated BBB+ by Standard and Poor's and Baa1 by Moody's.

Subordinated debt due 2020

The terms and conditions of the US$500 million subordinated debt due 30 June 2020 were amended during the period so that:

- instead of being redeemable for cash by QBE on 30 June 2011 and certain specified dates thereafter, they may now be redeemed for cash on 30 June 2012 and certain specified dates thereafter; and
- instead of being convertible to QBE ordinary shares at the holder's option on 30 June 2011 and certain specified dates thereafter, they are now convertible on 30 June 2012 and certain specified dates thereafter.

Any redemption of the securities is subject to regulatory approvals.

10. BUSINESS COMBINATIONS

On 1 January 2011, a wholly-owned entity acquired the entire share capital of the US operations of Renaissance Re, which includes a US crop and small specialist insurance business. The purchase price was US$270 million for net tangible assets of US$177 million.

On 31 January 2011, a wholly-owned entity acquired the entire share capital of Business Debtorinsure (Brokers) Pty Limited. The purchase price was A$2 million (US$2 million) for net tangible assets of nil.

On 1 April 2011, a wholly-owned entity acquired the insurance liabilities and matching investment and other assets of Balboa Insurance Company Limited and its affiliates. The purchase price was US$708 million for net tangible liabilities of US$5 million.

On 1 April 2011, a wholly owned entity acquired the entire share capital of CUNA Mutual's Australian operations. The purchase price was A$21 million (US$22 million) for net tangible assets of A$19 million (US$20 million).

The fair value of assets and liabilities arising from acquisitions in the half year ended 30 June 2011 are as follows:

	BALBOA US$M	RENAISSANCE RE US$M	OTHER US$M	TOTAL US$M
Cash and cash equivalents	930	61	5	996
Investments	–	209	107	316
Trade and other receivables	35	461	3	499
Reinsurance and other recoveries on outstanding claims	–	56	10	66
Deferred insurance costs	59	32	–	91
Property, plant and equipment	8	2	1	11
Deferred tax assets	84	30	2	116
Total assets	1,116	851	128	2,095
Trade and other payables	25	225	4	254
Current tax liabilities	–	8	–	8
Unearned premium	811	124	49	984
Outstanding claims	249	304	54	607
Deferred tax liabilities	36	13	1	50
Total liabilities	1,121	674	108	1,903
Net (liabilities) assets acquired	(5)	177	20	192
Purchase consideration				
Cash	708	270	24	1,002
Contingent and deferred consideration	–	–	–	–
Total purchase consideration	708	270	24	1,002
Fair value of net (liabilities) assets acquired	(5)	177	20	192
Goodwill and intangibles acquired	713	93	4	810

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

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

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

The acquired businesses contributed gross premium revenue of US$624 million and net profit after income tax of US$132 million to the Group for the period from acquisition to 30 June 2011. If the acquisitions had occurred on 1 January 2011, consolidated gross premium revenue and consolidated net profit after income tax for the half year ended 30 June 2011 would have been US$8,279 million and US$831 million respectively.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 34 to 43:

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

(b) give a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

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

Signed in SYDNEY this 19th day of August 2011 in accordance with a resolution of the directors.

BJ Hutchinson AM
Director

FM O'Halloran
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of QBE Insurance Group Limited

REPORT ON THE HALF YEAR FINANCIAL REPORT

We have reviewed the accompanying half year financial report of QBE Insurance Group Limited, which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for the QBE Insurance Group (the consolidated entity). The consolidated entity comprises both QBE Insurance Group Limited (the company) and the entities it controlled during that half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the consolidated entity for the half year ended 30 June 2011 included on QBE Insurance Group Limited' web site. The company's directors are responsible for the integrity of the QBE Insurance Group Limited's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the half year ended on that date; and

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

PricewaterhouseCoopers
Sydney, 19 August 2011

K.G. Smith.

KG Smith
Partner

Liability limited by a scheme approved under Professional Standards Legislation.

HISTORICAL REVIEW

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2011	**2010**	**2009**	**2008**	**2007**	**2010**	**2009**	**2008**	**2007**	**2006**
Gross written premium	US$M	**8,942**	6,861	5,704	6,104	5,275	13,629	11,239	11,015	10,391	7,839
Gross earned premium	US$M	**7,834**	6,110	5,039	5,508	4,653	13,432	10,943	10,773	10,353	7,610
Net earned premium	US$M	**6,778**	5,240	4,379	4,722	3,842	11,362	9,446	9,293	8,552	6,166
Claims ratio	%	**65.9**	59.9	60.8	54.7	55.7	59.9	60.3	57.6	54.3	55.8
Commission ratio	%	**15.8**	15.3	17.0	17.2	18.2	15.5	16.2	17.2	18.5	17.0
Expense ratio	%	**14.0**	14.5	11.5	13.9	12.3	14.3	13.1	13.7	13.1	12.5
Combined operating ratio	%	**95.7**	89.7	89.3	85.8	86.2	89.7	89.6	88.5	85.9	85.3
Investment income											
before net fair value gains/losses	US$M	**542**	330	512	495	392	660	838	1,237	839	575
after net fair value gains/losses	US$M	**657**	116	542	470	536	659	1,159	1,199	1,132	732
Financing and other costs(1)	US$M	**114**	108	90	118	81	222	191	223	189	115
Insurance profit	US$M	**762**	827	766	1,032	852	1,703	1,609	1,830	1,895	1,351
Insurance profit to net earned premium	%	**11.2**	15.8	17.5	21.8	22.2	15.0	17.0	19.7	22.2	21.9
Operating profit											
before income tax	US$M	**776**	528	893	1,012	981	1,551	1,891	2,028	2,135	1,521
after income tax and non-controlling interests	US$M	**673**	440	720	794	745	1,278	1,532	1,558	1,612	1,121
Number of shares on issue(2)	millions	**1,093**	1,035	1,003	888	862	1,052	1,025	987	886	819
Shareholders' funds	US$M	**11,209**	8,921	8,253	8,447	6,546	10,311	9,164	7,834	7,435	4,962
Total assets	US$M	**48,186**	37,128	36,057	37,503	34,857	42,188	36,723	33,967	34,737	25,079
Net tangible assets per share(2)	US$	**4.58**	4.46	4.17	6.71	5.27	4.76	4.63	4.02	5.99	4.70
Borrowings to shareholders' funds	%	**43.3**	38.9	29.3	37.3	46.3	31.5	29.1	32.9	40.8	37.6
Basic earnings per share(2)	US cents	**62.8**	42.7	72.2	89.5	88.3	123.2	152.1	174.1	187.7	139.7
Diluted earnings per share	US cents	**59.9**	42.2	71.6	88.5	84.9	119.6	149.9	172.2	181.8	131.1
Returns on average shareholders' funds	%	**12.5**	9.7	17.9	20.0	27.7	13.1	18.0	22.3	26.0	25.8
Dividend per share	Australian cents	**62.0**	62.0	62.0	61.0	57.0	128.0	128.0	126.0	122.0	95.0
Dividend payout	A$M	**677**	642	628	542	492	1,336	1,306	1,187	1,068	774
Cash flow from operations	US$M	**1,121**	698	564	776	635	1,362	1,344	1,886	1,988	1,541
Total investments and cash(3)	US$M	**28,966**	22,272	20,644	22,260	20,096	25,304	22,448	19,995	21,552	15,755

(1) Financing and other costs in 2009 and prior include the net cost of ABC securities.
(2) Reflects shares notified to the Australian Securities Exchange. Refer to note 6 to the financial statements.
(3) Includes financial assets at fair value through the income statement, cash and cash equivalents and investment properties.

GLOSSARY OF INSURANCE TERMS

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

Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Maximum event retention (MER)	The largest loss to which an insurer will be exposed (taking into account the probability of that loss at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance assets and 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 underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Policyholders' funds	Those financial assets held to fund the insurance provisions of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedent or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
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.
Syndicate	A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting profit (loss)	The amount of profit (loss) from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Written premium	Premiums written, whether or not earned, during a given period.

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