QBE INSURANCE GROUP

Half year report to 30 June 2008

CONTENTS

Expansion of European operations' distribution centres

QBE's European operations is a market leader in its chosen sectors of commercial insurance and writes business out of five regional distribution centres: Lloyd's, UK national, London company market, Ireland and the European markets. In recent years the European operations' network has grown considerably as a result of the acquisition of a number of distribution channels. QBE European operations currently has offices across mainland Europe including Italy, Germany, Spain and France as well as a number of Central European and Nordic countries.

Vittorio Emanuele Gallery, Milan, ITALY

QBE Italia
Largo Augusto, 7
20122 Milano
ITALY

Acquisition of additional distribution channels

The acquisition of five distribution channels in Australia and the US, as announced in May 2008, is well on track with completion of all five transactions expected by the end of 2008. These transactions will secure and enhance our global presence and are expected to add net written premium of $200 million and incremental insurance profit of $70 million in 2009.

Sydney, AUSTRALIA

Level 2, 82 Pitt Street
Sydney NSW 2000
AUSTRALIA

QBE Latin American operations continue to flourish

QBE's Latin American footprint continues to expand with four companies offering a varied range of products in Argentina, Brazil, Colombia and Mexico. In early 2008 QBE purchased the 17% minority interest in QBE Argentina, the Argentine workers' compensation insurer. The flexible and targeted approach of the QBE Latin American operations has yielded record profits despite competitive market conditions.

QBE Aseguradora de Riesgos del Trabajo S.A.
Torre Bouchard-Bouchard 547, piso 20
(1106) Buenos Aires, ARGENTINA

National Congress Building, Buenos Aires, ARGENTINA

Completion of North Pointe Holdings acquisition – furthering expansion of the QBE the Americas Specialty Insurance division

With a customer base of specialised owner-operated businesses and a sales network of over 1,900 independent and affiliated agents, North Pointe's book of business is highly complementary to QBE's Specialty Insurance division and brings enhanced scale in line with QBE's strategy of focused diversification.

Mackinac Bridge, Michigan, USA

Wall Street Plaza
88 Pine Street
New York, NY 10005
UNITED STATES

Highlights

for the half year ended 30 June 2008

Group operating performance

		2008	2007	% change
Insurance profit	$M	**1,116**	1,053	6
Insurance profit to net earned premium	%	**21.8**	22.2	
Underwriting profit	$M	**727**	653	11
Combined operating ratio	%	**85.8**	86.2	
Gross earned premium	$M	**5,958**	5,751	4
Net earned premium	$M	**5,108**	4,749	8
Cash flow from operations	$M	**839**	785	7

Profit and dividend

		2008	2007	% change
Net profit after income tax before realised and unrealised equity gains and losses	$M	**920**	860	7
Reported net profit after income tax	$M	**859**	921	(7)
Interim dividend per share	cents	**61.0**	57.0	7
Dividend payout	$M	**542**	492	10

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

Historical review

		Half year ended 30 June[1]					Year ended 31 December[1]				
		2008	2007	2006	2005	2004	2007	2006	2005	2004	2003
Gross written premium	$M	**6,603**	6,520	5,656	5,123	4,763	12,406	10,372	9,408	8,766	8,350
Gross earned premium	$M	**5,958**	5,751	4,932	4,331	3,982	12,361	10,069	9,171	8,571	7,816
Net earned premium	$M	**5,108**	4,749	3,998	3,506	3,114	10,210	8,158	7,386	6,781	6,036
Claims ratio	%	**54.7**	55.7	58.3	61.0	61.6	54.3	55.8	59.9	61.3	63.3
Commission ratio	%	**17.2**	18.2	17.6	17.0	16.8	18.5	17.0	16.9	17.5	18.2
Expense ratio	%	**13.9**	12.3	12.0	12.3	12.1	13.1	12.5	12.3	12.4	12.3
Combined operating ratio	%	**85.8**	86.2	87.9	90.3	90.5	85.9	85.3	89.1	91.2	93.8
Investment income[2]											
before investment gains/losses	$M	**408**	385	297	275	213	776	609	502	431	303
after investment gains/losses	$M	**379**	564	331	369	146	1,132	822	718	519	413
Insurance profit	$M	**1,116**	1,053	748	585	439	2,262	1,788	1,288	928	627
Insurance profit to net earned premium	%	**21.8**	22.2	18.7	16.7	14.1	22.2	21.9	17.4	13.7	10.4
Operating profit											
before income tax	$M	**1,095**	1,212	809	707	443	2,549	2,012	1,523	1,115	765
after income tax and minority interest	$M	**859**	921	591	513	353	1,925	1,483	1,091	857	572
Number of shares on issue[3]	millions	**888**	862	804	768	683	886	819	794	745	672
Shareholders' funds	$M	**8,816**	7,721	5,565	4,500	3,241	8,479	6,283	5,093	4,032	3,313
Total assets	$M	**39,144**	41,113	31,857	27,353	25,581	39,613	31,757	29,665	25,036	20,443
Net tangible assets per share[3]	$	**7.00**	6.22	5.27	4.56	3.56	6.83	5.95	4.76	4.10	4.17
Interest bearing liabilities to shareholders' funds[4]	%	**37.3**	46.3	38.9	38.7	44.6	40.8	37.6	41.8	44.8	40.3
Basic earnings per share[3]	cents	**96.8**	109.2	73.9	67.6	52.1	224.1	184.8	142.5	123.1	86.5
Diluted earnings per share[5]	cents	**96.0**	104.9	69.1	61.9	45.0	217.3	173.5	131.5	109.3	77.5
Return on average shareholders' funds[6,7]	%	**19.9**	28.1	22.2	24.1	22.8	26.1	26.1	23.9	24.5	18.3
Dividend per share	cents	**61.0**	57.0	40.0	33.0	24.0	122.0	95.0	71.0	54.0	42.0
Dividend payout	$M	**542**	492	322	254	164	1,068	774	556	392	281
Cash flow from operations	$M	**839**	785	322	672	898	2,374	2,039	1,987	2,110	2,089
Total investments and cash[8,9]	$M	**23,268**	23,727	18,165	15,721	14,338	24,606	19,972	17,597	14,975	11,823

1 Financial information for 2004 and subsequent years is presented in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"). Financial information for 2003 has not been restated to AIFRS.
2 Excludes amortisation and impairment of goodwill/intangibles.
3 Reflects shares notified to the Australian Securities Exchange. Refer to note 6 to the financial statements.
4 Excludes ABC securities for funds at Lloyd's.
5 Assumes that all hybrid securities are fully dilutive.
6 2004 return has been calculated with reference to the AIFRS adjusted shareholders' funds of $2,951 million at 1 January 2004.
7 Includes convertible preference shares in 2003 and the equity portion of hybrid securities issued in 2002, 2004 and 2007.
8 Excludes ABC financial assets pledged for funds at Lloyd's.
9 Includes investments, cash and cash equivalents and investment properties.

Results

for the half year ended 30 June 2008

The first half of 2008 was very pleasing in terms of our insurance profitability despite the substantial appreciation of the Australian dollar against overseas currencies, particularly sterling and the US dollar, and an increased frequency of large risk and catastrophe claims. Insurance profit before tax for the half year increased by 6% to $1,116 million or 21.8% of net earned premium compared with 22.2% for the same period last year. Insurance profits were achieved in the majority of the 45 countries in which we operate. Net earned premium was up 8% to $5,108 million but up 18% using constant exchange rates.

Net profit after tax for the half year was affected by substantially weaker equity markets and the stronger Australian dollar. Net profit declined by 7% to $859 million. Realised and unrealised losses on equities were $86 million compared with gains of $82 million for the same period last year representing a net adverse movement of $122 million after tax. The stronger Australian dollar adversely impacted profit after tax by an estimated $74 million. Diluted earnings per share was 96.0 cents compared with 104.9 cents for the same period last year. Return on average shareholders' funds was 19.9% compared with 28.1% for the same period last year.

The Australian, Asia Pacific, European operations and Americas divisions and our captive reinsurer, Equator Reinsurance Limited ("Equator Re"), all produced excellent insurance profits. Consistent with recent years, insurance liabilities at 30 June 2008 include a substantial allowance for large individual risk and catastrophe claims which may occur in the second half of 2008, and risk margins in outstanding claims to give a probability of adequacy of 95.1%.

We completed a number of acquisitions in the half year including North Pointe in the US, an underwriting agency in Australia and an underwriting agency in the US. We expect to close the acquisition of other underwriting agencies announced in May 2008 in the second half of the year. We have recently announced the acquisition of PMI Mortgage Insurance in Australia and New Zealand which is subject to regulatory approvals and the in-principle agreement to acquire PMI Mortgage Insurance Asia Limited. We expect that acquisitions announced to date will add around $550 million in net written premium in the first full year and will assist profit after tax by around $160 million. The funding of these acquisitions is from existing resources and increased short term borrowings.

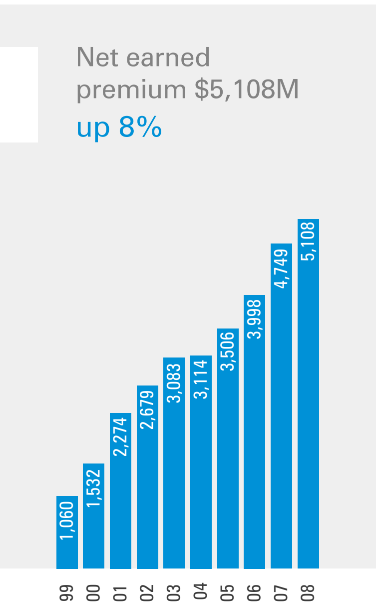
Interim dividend

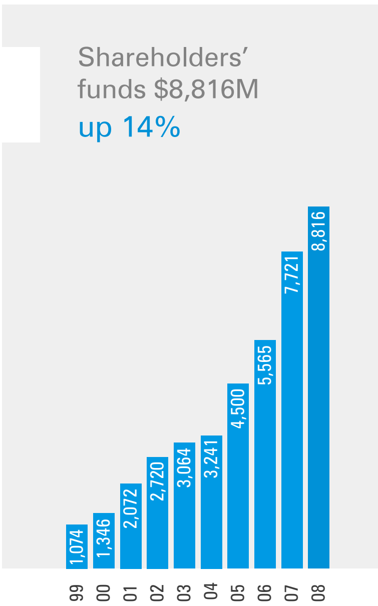
As a result of the strong insurance profitability and despite volatility in equity markets the directors declared an interim dividend of 61.0 cents per share, up 7% on the interim dividend of 57.0 cents per share for the first half of 2007. We have previously indicated that we would smooth out the impact of equity markets in considering our dividends. The interim dividend will be 20% franked with the lower franking due to the higher profits from our overseas operations. The record date for the interim dividend is 1 September 2008. The Dividend Election Plan continues.

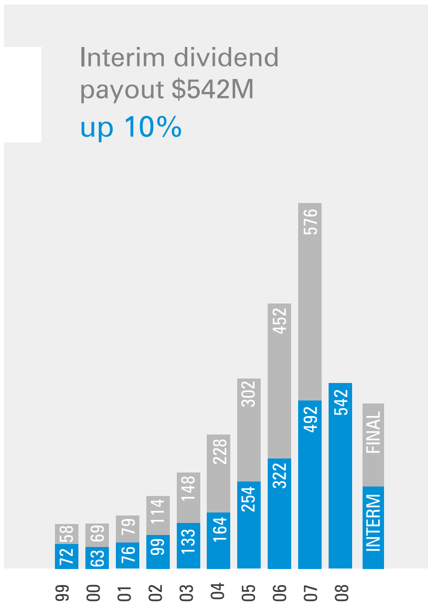
Shareholders' funds

Since 31 December 2007, shareholders' funds have increased by 4% to $8,816 million. The increase is mainly due to the half year profit, partly offset by the payment of the 2007 final dividend net of a small dividend reinvestment. The ratio of borrowings to shareholders' funds at 30 June 2008 was 37.3%. This ratio is in line with our target of around 40%. The substantial majority of our borrowings and the interest rates on those borrowings are locked in for a number of years.

We calculate the Group's capital adequacy multiple at 30 June 2008 to be around 2.4 times the estimated minimum capital requirement applicable to Australian insurers using the risk-based capital approach of the Australian Prudential Regulation Authority ("APRA"). We have made a number of assumptions in applying the APRA standards to the calculation of the Group's minimum capital requirements. APRA has not yet finalised the standards for calculating capital adequacy for non-operating holding companies.







Results continued

for the half year ended 30 June 2008

Key ratios – Group

for the half year ended 30 June		2008	2007
Gross written premium	$M	**6,603**	6,520
Gross earned premium	$M	**5,958**	5,751
Net earned premium	$M	**5,108**	4,749
Claims ratio	%	**54.7**	55.7
Commission ratio	%	**17.2**	18.2
Expense ratio	%	**13.9**	12.3
Combined operating ratio	%	**85.8**	86.2
Insurance profit to net earned premium	%	**21.8**	22.2

Worldwide portfolio mix – gross earned premium

for the half year ended 30 June	2008 %	2007 %
Property	**27.1**	26.4
Motor and motor casualty	**19.2**	17.0
Public/product liability	**18.5**	19.4
Marine, energy and aviation	**9.5**	10.7
Workers' compensation	**7.4**	8.9
Professional indemnity	**6.9**	8.0
Accident and health	**6.7**	5.6
Other	**2.4**	2.0
Financial and credit	**2.3**	2.0

Segmental analysis – gross earned premium

for the half year ended 30 June	2008 %	2007 %
Australia	**22.7**	21.7
Asia Pacific	**4.9**	5.0
European operations	**37.1**	45.0
the Americas	**35.3**	28.3

Impact of exchange rate movements

	2008 actual $M	2008 at 2007 exchange rates[1] $M	Negative exchange rate impact $M	Negative exchange rate impact %
Gross written premium	**6,603**	7,218	(615)	(9)
Gross earned premium	**5,958**	6,514	(556)	(9)
Net earned premium	**5,108**	5,581	(473)	(9)
Net investment income	**379**	415	(36)	(9)
Net profit after income tax	**859**	933	(74)	(9)
Total investments and cash	**23,268**	24,687	(1,419)	(6)
Total assets	**39,144**	41,531	(2,387)	(6)
Gross outstanding claims	**17,152**	18,190	(1,038)	(6)
Total liabilities	**30,270**	32,133	(1,863)	(6)

1 Income statement items are restated to 30 June 2007 cumulative average rates of exchange and balance sheet items to 31 December 2007 closing rates of exchange.

Impact of exchange rate movements

The table on page 4 sets out the impact of the stronger Australian dollar on key income statement and balance sheet items. Using cumulative average exchange rates, the Australian dollar appreciated against sterling and the US dollar by 12% compared with the same period last year. This substantial appreciation of the Australian dollar has had a material impact given that in excess of 76% of gross written premium is in currencies other than the Australian dollar. For balance sheet items, the closing Australian dollar appreciated against sterling and the US dollar by 8%.

Shareholders should be aware that the first half year results will again be translated at the cumulative average exchange rates at the end of 2008. This means that if the Australian dollar continues to appreciate, as was the case last year, then the first half year premium income and results will be reduced accordingly. Conversely, if the Australian dollar weakens against overseas currencies as has happened since 30 June, the first half year premium income and results will increase accordingly.

Operating results

Gross written premium was up 1% to $6,603 million and gross earned premium increased by 4% to $5,958 million. The stronger Australian dollar had a substantial impact on growth. Using constant exchange rates, gross written premium and gross earned premium were up 11% and 13% respectively. Premium growth was also impacted by new business being below plan in Europe and the US due to increased competition and inadequate pricing; however, this has been slightly offset by a higher retention of customers and less than anticipated premium rate reductions on existing business. The overall weighted average reduction in premium rates on renewed business for the half year was around 2%. A reduction in the cost of external reinsurance protections and more effective use of our captive reinsurer have assisted growth in net earned premium.

The combined operating ratio, being the ratio of claims, commissions and expenses to net earned premium, was an excellent 85.8% for the half year compared with 86.2% for the same period last year. Underwriting profit before tax for the half year increased by 11% to $727 million due to the growth in net earned premium and the continued strong performance of most of our portfolios around the world.

Reinsurance expense reduced from 17% to 14% of gross earned premium even though we purchased additional protection to maintain our maximum event retention at around 3.6% of net earned premium. The maximum event retention is the estimated net cost of our largest realistic disaster scenario. As previously announced, we purchased $200 million of aggregate protection for a frequency of large individual risk and catastrophe claims exceeding 8.5% of net earned premium.

The claims ratio was 54.7% compared with 55.7% for the same period last year. The impact of the overall average reduction in premium rates and a higher large individual risk and catastrophe claims ratio due to increased weather related losses in Australia, Asia and the US were more than offset by a continued low attritional claims ratio (i.e. claims less than $2.5 million as a percentage of net earned premium). The risk margins in outstanding claims are estimated to give a probability of adequacy of 95.1% compared with 94.0% at 31 December 2007 and 95.8% at 30 June 2007. Consistent with previous years, we believe that the higher probability of adequacy is warranted at 30 June due to the cyclical nature of our business, particularly with the historically high incidence of catastrophes in the second half of the year. The probability of adequacy of the Group's outstanding claims will vary from time to time depending on the mix of short, medium and long tail business and economic and industry conditions such as latency claims, claims inflation, interest rates and foreign exchange movements.

The total acquisition cost ratio made up of commissions and expenses was on target at 31.1% of net earned premium compared with 30.5% for the same period last year and 31.6% for the year to 31 December 2007. The commission ratio was 17.2% compared with 18.2% with the slight decrease due to a change in business mix and the acquisition of underwriting agencies which reduced commissions and increased expenses. The expense ratio increased from 12.3% to 13.9%. This increase reflects the higher expense ratio for acquisitions made last year, the acquisition of a number of underwriting agencies, the impact of the stronger Australian dollar, lower fee income from workers' compensation managed funds in Australia and increased expenditure on new strategic initiatives to improve efficiencies and distribution in Australia and Europe.

Investment income for the half year which is net of borrowing costs and investment expenses was $379 million, a reduction of 33% from the $564 million for the same period last year. The gross investment yield was 4.3% compared with 6.5% for the same period last year. The significant reduction in investment income is due to lower US interest rates, the substantially lower equity returns and the impact of the stronger Australian dollar which reduced the value of our overseas investments and cash in Australian dollars by some $1.4 billion. Realised and unrealised losses on equities for the half year were $86 million compared with realised and unrealised gains of $82 million for the same period last year. Gross investment income was $513 million compared with $679 million for the same period last year.

We continued our low risk absolute return approach to investments and, with the exception of equities, outperformed our internal benchmarks overall. The Group's exposure to equities at 31 December 2007 was substantially protected through derivatives. These protections gradually expired during the half year. Although we substantially outperformed equity market benchmarks, we still incurred a sizeable net unrealised loss on equities due to the continuing market volatility. We continue to remain cautious in managing duration and maintain approximately 93% of fixed interest and cash investments in Moody's Aa3 paper and the majority of the balance in Moody's A3. Our investment portfolio has no direct exposure to US sub prime mortgage products, collateralised debt obligations, collateralised loan obligations or similar securities. QBE's investment portfolio is subject to market forces and is marked to market on a daily basis. Approximately 99% of our investments are liquid.

Cash flow from operating activities was $839 million compared with $785 million for the same period last year. Cash flow was impacted by the stronger Australian dollar.

Income tax expense reduced to 21% of profit before tax, primarily due to increased profits in lower tax paying countries.

The table on page 6 discloses the contributions from each of our insurance divisions. The table also sets out the contribution from general insurance and reinsurance business. We are extremely pleased with the quality and consistency of our underwriting profitability from all our operations around the world.

Results continued

for the half year ended 30 June 2008

Contributions by region

for the half year ended 30 June	Gross written premium 2008 $M	Gross written premium 2007 $M	Net earned premium 2008 $M	Net earned premium 2007 $M	Combined operating ratio 2008 %	Combined operating ratio 2007 %	Insurance profit before income tax 2008 $M	Insurance profit before income tax 2007 $M
Australian operations	**1,480**	1,317	**1,131**	1,059	**82.1**	82.4	**322**	273
Asia Pacific operations	**303**	289	**207**	205	**86.0**	80.5	**44**	58
European operations	**2,672**	2,993	**1,567**	1,892	**83.6**	88.4	**385**	422
the Americas	**2,148**	1,921	**1,469**	1,199	**91.2**	90.7	**208**	181
Equator Re	**1,038**	816	**734**	394	**85.3**	75.6	**157**	119
Elimination – internal reinsurance	**(1,038)**	(816)	**–**	–	**–**	–	**–**	–
Group	**6,603**	6,520	**5,108**	4,749	**85.8**	86.2	**1,116**	1,053
Direct and facultative	**5,758**	5,684	**4,553**	4,136	**87.4**	88.2	**921**	834
Inward reinsurance	**845**	836	**555**	613	**72.4**	72.8	**195**	219
Group	**6,603**	6,520	**5,108**	4,749	**85.8**	86.2	**1,116**	1,053

Outlook

We continue to look at acquisition opportunities to further build our geographic spread and product diversification. As mentioned earlier, we have already converted a number of opportunities this year. The acquisitions converted to date have enabled us to use a portion of our excess capital. We are experiencing increased acquisition activity with opportunities being presented in many of the markets in which we operate. We expect to convert some of these opportunities to optimise our capital and returns to shareholders.

The further appreciation of the Australian dollar, particularly against the US dollar and sterling, continues to have a negative impact on premium income and profitability. At current exchange rates, we now expect gross written premium to be around $12.5 billion and net earned premium to be around $10.8 billion for 2008. This includes the acquisitions to date. We have experienced overall weighted average reductions in premium rates on renewed business for the six months of around 2%. We now expect that the premium rate reductions will be around 2% for the full year compared with the 4% reduction anticipated at the beginning of the year. Unfortunately the slowdown in premium rate reductions and, in some cases, premium rate increases on small to medium enterprise business and personal lines business are being partly offset by continued competition on major corporate business. We remain satisfied that premium rates are sufficient for the majority of our portfolios around the world to meet our return on allocated capital expectations. Competition for new premium income is aggressive so our expectations are that we will continue to remain below plan for new business for the rest of the year.

Premium rates are only part of the equation in determining profitability. The claims ratio, commission ratio, expense ratio, period premiums are held, investment yields, capital levels and tax management are also extremely important parts of driving profitability. All of our teams understand the importance of managing each of the key profit drivers to achieve our return on equity targets.

As previously mentioned, the Group's probability of adequacy of outstanding claims is slightly in excess of the higher end of our internal target range. In addition, our unearned premium liabilities include a significant allowance for large individual risk and catastrophe claims in the second half of the year. These, together with our substantial reinsurance protections, give us confidence that we can meet our insurance profit target for 2008 of around 20% of net earned premium.

Our exposure to equities net of derivatives was 8% of total investments and cash at 30 June and at the date of this report. We continue to monitor equity markets and we will take the opportunity to lock in our position if equity markets improve between now and the end of the year. We continue to focus on maintaining high quality fixed interest and cash investments with an average duration of 0.7 years. This varies by currency depending on interest rate expectations. Our targeted gross investment yield of 5.5% in 2008 includes a 5% capital appreciation on equities during the year.

We continue to be ahead of target with the synergies from the two large acquisitions made in the US last year. At the end of last year, we announced an upgrade of these synergies from $50 million after tax to $100 million after tax. We are behind target in respect of premium income from these acquisitions due to inadequate pricing of new business and a loss of some specialty business due to acquisitions of some agencies by other insurers. We are ahead of target in respect of underwriting profitability. We are not prepared to grow our business to the detriment of our underwriting profitability and return on equity objectives.

Our focused and hard working team should be very pleased with the performance of our insurance businesses for the half year. Our investment team has done an excellent job in a difficult market.

The Group has a strong balance sheet with a conservative investment portfolio and high probability of adequacy of insurance liabilities. We are ready to take advantage of the many opportunities that are likely to emerge due to the current economic conditions. We continue to focus on building our businesses around the world and increasing wealth for shareholders going forward. The QBE team is well aware of our core values, especially creation of wealth for our shareholders from improved profitability and ensuring high customer satisfaction and retention.

Australian operations

Australian operations produced another excellent underwriting result despite an increase in the frequency of large individual risk and catastrophe claims from various weather related losses and slightly lower overall average premium rates. The combined operating ratio for the half year was 82.1% compared with 82.4% for the same period last year.

Insurance profit as a percentage of net earned premium was 28.5% compared with 25.8% for the same period last year. The underwriting and insurance results benefited from our continued focus on insurance profitability, risk selection and the low attritional claims ratio.

Gross written premium increased 12% to $1,480 million and net earned premium was up 7% to $1,131 million. The strong premium growth for the half year follows the purchase of additional distribution channels in the past 12 months and the transfer of portfolios by intermediaries from other insurers to QBE. Customer retention continues to be high. Overall premium rate reductions on renewed business were less than 1% which is better than we anticipated at the beginning of the year.

Initiatives to further improve efficiencies, focus on our customers and interface with intermediaries have been rewarded with increased cross selling opportunities and exposure to more business from existing and new intermediated distribution sources. We expect to convert some of this business in the second half and maintain our growth in gross written premium above 10% for the full year.

The majority of our portfolios in Australia produced underwriting results ahead of plan. The property, homeowners and motor portfolios were affected by the various weather related losses that occurred in January, February and April this year.

The claims ratio was 54.9% compared with 57.3% for the same period last year. A reduction in the attritional claims ratio has been partly offset by the increase in the large individual risk and catastrophe claims ratio. We continue to see positive development of prior year claims with the majority of releases from prior years reinvested in risk margins in outstanding claims for the current accident year to maintain the strong probability of adequacy levels.

The commission ratio slightly increased from 12.7% to 12.8%. The expense ratio increased from 12.4% to 14.4% due to higher costs associated with new strategic initiatives to further improve efficiencies and our interface with intermediaries going forward. Last year's expense ratio also benefited from a special performance fee bonus by the workers' compensation managed funds in New South Wales.

It is pleasing that overall premium rate reductions for the majority of portfolios have slowed. There is evidence of market hardening in some sectors with premium rate increases particularly in personal lines and small to medium enterprises, these representing the majority of our Australian portfolio. However, large corporate risks are still experiencing premium rate reductions due to strong competition by some insurers in Australia and the London market. We are confident that our current pricing is sufficient to enable us to achieve our profit requirements for all the portfolios that we underwrite. Our focus continues on all our key profit drivers, in particular the attritional claims ratio and the retention of our quality customers.

We anticipate that Australia's gross written premium for 2008 including the recently announced PMI acquisition will be around $3.0 billion. We also expect our insurance profit margin to perform strongly for the remainder of the year.

Key ratios – Australian operations

for the half year ended 30 June		**2008**	**2007**
Gross written premium	$M	**1,480**	1,317
Gross earned premium	$M	**1,352**	1,249
Net earned premium	$M	**1,131**	1,059
Claims ratio	%	**54.9**	57.3
Commission ratio	%	**12.8**	12.7
Expense ratio	%	**14.4**	12.4
Combined operating ratio	%	**82.1**	82.4
Insurance profit to net earned premium	%	**28.5**	25.8

Portfolio mix – Australian operations

Gross earned premium for the half year ended 30 June	**2008 %**	**2007 %**
Property	**18.9**	19.4
General liability	**17.8**	19.0
Motor and motor casualty	**12.1**	10.3
Householders	**10.6**	10.7
Accident and health	**9.4**	8.9
Workers' compensation	**9.1**	9.3
Compulsory third party ("CTP")	**6.2**	7.0
Credit and surety	**4.9**	4.5
Professional indemnity	**4.8**	4.9
Marine and aviation	**4.3**	4.3
Travel	**1.9**	1.4
Other	**–**	0.3

Asia Pacific operations

Our Asia Pacific division comprises operations in 17 countries. The combined operating ratio was 86.0% compared with 80.5% for the same period last year. The higher combined operating ratio reflects an increase in large individual risk and catastrophe claims and lower premium rates due to increased competition. Our insurance profit margin was 21.3% compared with 28.3% for the same period last year.

The majority of countries in which we operate produced an underwriting profit. Hong Kong and Indonesia were affected by storm and flood activity and Thailand experienced higher than expected large individual risk claims. Our Singapore, New Zealand and Pacific Islands operations produced excellent results.

Gross written premium increased by 5% to $303 million and gross earned premium was constant at $291 million. This was very pleasing given the stronger Australian dollar and increased competition, particularly for large corporate risks. The majority of the countries in which we operate saw solid premium growth in local currencies. Net earned premium was up 1% to $207 million.

The claims ratio was 43.9% compared with 40.0% for the same period last year. The increase was due to higher large individual risk and catastrophe claims and the overall premium rate reductions experienced in the past 18 months. Attritional claims ratios continue to be at historically low levels and this mainly reflects the focus of our teams on this important profit driver.

The commission ratio increased from 20.5% to 20.8% mainly due to a change in mix of business. The expense ratio increased from 20.0% to 21.3% due to the cost of establishing our joint venture in India and the additional business development staff to support the growth in our corporate business through intermediaries.

Our customer retention continues to remain high. The increase in business development staff in Asia is generating more opportunities for organic growth. Overall premium rates for renewed business reduced by 3% which was slightly better than our plan. While competition pressures continue, we are seeing lower discounts and, in some sectors, signs of the market hardening. We continue to look at a number of acquisition opportunities in Asia; however, we are finding it difficult to compete because of the high prices being offered by other insurers. We have recently received approval for the first stage of our licence for our joint venture in India with the highly respected Rajan Raheja Group and we are developing our plans to potentially write commercial lines business in China.

Subject to foreign exchange movements, we expect gross written premium to exceed $600 million for 2008. In the absence of an unusual frequency or severity of claims the insurance profit margin is expected to be around 20.0% for the full year.

Key ratios – Asia Pacific operations

for the half year ended 30 June		2008	2007
Gross written premium	$M	**303**	289
Gross earned premium	$M	**291**	291
Net earned premium	$M	**207**	205
Claims ratio	%	**43.9**	40.0
Commission ratio	%	**20.8**	20.5
Expense ratio	%	**21.3**	20.0
Combined operating ratio	%	**86.0**	80.5
Insurance profit to net earned premium	%	**21.3**	28.3

Portfolio mix – Asia Pacific operations

Gross earned premium for the half year ended 30 June	2008 %	2007 %
Property	**21.7**	22.8
Motor and motor casualty	**14.6**	15.1
Marine	**14.0**	13.0
Professional indemnity	**12.8**	13.1
Public/product liability	**9.8**	8.5
Accident and health	**6.6**	7.6
Workers' compensation	**6.5**	6.8
Engineering	**4.7**	4.4
Financial and credit	**3.4**	3.0
Householders	**2.2**	2.3
Travel	**1.9**	2.0
Other	**1.8**	1.4

European operations

QBE European operations division comprises QBE Insurance (Europe), British Marine, QBE Reinsurance (Europe) and Central and Eastern Europe (collectively QBE Insurance Europe or “QIE”) and our Lloyd’s division trading as QBE Underwriting Limited (“QUL”). QIE writes insurance business in the UK, Ireland and 15 countries in mainland Europe. It also writes reinsurance business in Ireland.

The overall underwriting and insurance results from our European operations were excellent for the first half. The combined operating ratio for the European operations division was 83.6% compared with 88.4% for the same period last year. The strong underwriting results reflect a profitable earn out from prior underwriting years, our focus on portfolio profitability and a continued low level of attritional claims in the first half of the year. Large individual risk and catastrophe claims were similar to that experienced in the first half of last year. Insurance profit was $385 million and, as a percentage of net earned premium, improved from 22.3% to 24.6%.

Gross written premium for European operations was down by 11% to $2,672 million, gross earned premium reduced by 14% and net earned premium fell by 17% to $1,567 million. The stronger Australian dollar had a material impact on growth. In sterling, gross written premium increased by 1% and net earned premium was down by 5%. Growth in sterling was impacted by a further overall reduction in premium rates of 4% on renewed business. We also discontinued portfolios, in particular small portfolios of US Directors and Officers and Errors and Omissions reinsurance and product contamination where we were not satisfied that the rewards for the risks for underwriting were sufficient. It is pleasing that our customer retention ratio exceeds 90% on the business that we wish to write.

The underwriting and support functions of QIE and QUL have been successfully integrated over recent years. Our management structure and underwriting teams now present themselves on a unified basis across the Lloyd’s and company market distribution platforms. The key differentiator is underwriting product. We operate eight underwriting business units, namely casualty, property, motor, reinsurance, marine and energy, aviation, specialty and British Marine.

We will continue, however, to comment upon the results of QIE and QUL separately as follows.

QBE Insurance Europe

Gross written premium was down 3% to $1,302 million and gross earned premium was down 13% to $1,122 million due to the strong Australian dollar and a slight reduction in premium rates on renewed business. New business is behind plan due to inadequate pricing for an increased number of risks. Customer retention remains very high. Net earned premium reduced by 14% to $902 million.

The combined operating ratio was 86.1% compared with 92.3% for the same period last year. The improved results reflect a better than expected earn out of prior underwriting years and a continued low attritional claims ratio. Insurance profit as a percentage of net earned premium was 20.5% compared with 18.2%. Insurance profit was affected by lower investment income on policyholders’ funds due to lower interest rates on US dollar and sterling investment portfolios. The substantial majority of portfolios and countries produced underwriting profits.

The claims ratio was 54.0% compared with 61.1% for the same period last year. Attritional claims ratios continue to remain low and large individual risk and catastrophe claims for this business unit were down on the same period last year. The claims ratio also benefited from the profitable earn out from prior underwriting years, particularly on our casualty and motor portfolios.

The commission ratio reduced from 15.1% to 15.0%. The expense ratio increased from 16.1% to 17.1% primarily due to the lower premium income and the costs of hiring underwriting teams and infrastructure for our expansion of profitable commercial lines products into regional UK and mainland Europe. Expenses in sterling were in line with the same period last year.

QBE Underwriting Limited (Lloyd’s division)

QUL is the manager of our Lloyd’s syndicates and provider of £1.1 billion of capacity at Lloyd’s for 2008. This capacity is used to support our lead position in the casualty, professional indemnity, marine, energy, aviation, property and reinsurance markets. The results of our QUL business have been exceptional with our claims experience and prior year claims development continuing to be favourable.

Key ratios – European operations

		QBE Underwriting Limited		QBE Insurance Europe		Total European operations	
for the half year ended 30 June		**2008**	2007	**2008**	2007	**2008**	2007
Gross written premium	$M	**1,370**	1,656	**1,302**	1,337	**2,672**	2,993
Gross earned premium	$M	**1,089**	1,292	**1,122**	1,292	**2,211**	2,584
Net earned premium	$M	**665**	844	**902**	1,048	**1,567**	1,892
Claims ratio	%	**48.6**	50.1	**54.0**	61.1	**51.8**	56.2
Commission ratio	%	**18.2**	19.4	**15.0**	15.1	**16.3**	17.0
Expense ratio	%	**13.4**	14.1	**17.1**	16.1	**15.5**	15.2
Combined operating ratio	%	**80.2**	83.6	**86.1**	92.3	**83.6**	88.4
Insurance profit to net earned premium	%	**30.1**	27.4	**20.5**	18.2	**24.6**	22.3

European operations continued

For the 2008 underwriting year, we discontinued some portfolios where we were not satisfied that the rewards for the risks we were undertaking were sufficient. This, together with inadequate pricing for new business and overall premium rate reductions, has meant that gross written premium in local currency was down 6% to £637 million. The substantial strengthening in the Australian dollar has also impacted growth and gross written premium was down 17% to $1,370 million. Savings in external reinsurance costs have been offset by increased excess of loss reinsurance to our captive reinsurer Equator Re. Net earned premium was down 21% to $665 million after increased quota share reinsurance to Equator Re.

The combined operating ratio was a superb 80.2% compared with 83.6% for the same period last year. Insurance profit to net earned premium was 30.1% compared with 27.4% with lower interest yields on US dollar and sterling investments partly offsetting the improvement in the underwriting results.

The claims ratio reduced from 50.1% to 48.6%. The improved claims ratio reflects the continued low attritional claims, a lower level of catastrophe claims and profitable development of the 2007 underwriting year. Risk margins in outstanding claims remain very strong.

The commission ratio reduced from 19.4% to 18.2% due to a change in mix of business. The expense ratio reduced from 14.1% to 13.4% due to synergies from the management restructure.

Overall weighted average premium rates were down 4% on renewed business. This is slightly better than plan. However, competition remains high due to the strong insurance margins and lower claims costs of recent years.

Summary

We have made significant progress with the implementation of new systems and we are looking at a number of new initiatives to achieve further efficiencies from our business. Overall weighted average premium rates continue to reduce, particularly for our casualty and energy portfolios. Continued competitive market conditions mean that it is more difficult to write new business at our target premium rates with the consequence that the top line is under pressure. However, offsetting these adversities are higher customer retention, our terms and conditions are generally holding as well as our low attritional claims ratio. Current pricing is sufficient to meet the profit requirements of our various portfolios.

We continue to look at ways to improve the rewards for the risks we undertake and to build our business outside the London market where we see little growth in the short term. We have hired a number of property, casualty and motor underwriters in UK regional and mainland Europe to support our initiative to build our portfolios outside of the London market. Our senior portfolio underwriters in our London office are responsible for overseeing the development of their respective portfolios outside of the London market. These initiatives have seen an increase in new business in our core products; however, we are behind plan due to inadequate pricing in some areas. Our target is to add in excess of $500 million of new business over the next three years to coincide with an expected improvement in market conditions by 2010.

Our insurance liabilities include a significant allowance for large individual risk and catastrophe claims for the second half of 2008. This, together with the quality of our portfolios and comprehensive statistical analysis, gives us confidence regarding our performance for the rest of 2008 subject of course to the usual caveats in relation to large individual risk and catastrophe claims. We have revised our gross written premium targets for the full year to reflect the market conditions and we now expect our top line to be around £2.1 billion for 2008.

Portfolio mix – QBE Underwriting Limited

Gross earned premium for the half year ended 30 June	2008 %	2007 %
Marine, energy and aviation	**31.8**	29.4
Public/product liability	**23.9**	24.6
Property treaty	**15.6**	16.4
Professional indemnity	**11.0**	10.8
Property facultative and direct	**6.8**	7.9
Workers' compensation	**5.8**	6.7
Financial and credit	**2.2**	1.7
Accident and health	**1.9**	1.3
Motor and motor casualty	**0.8**	0.9
Bloodstock	**0.2**	0.3

Portfolio mix – QBE Insurance Europe

Gross earned premium for the half year ended 30 June	2008 %	2007 %
Motor and motor casualty	**21.9**	22.7
Professional indemnity	**17.0**	17.2
Public/product liability	**16.6**	16.4
Property facultative and direct	**14.2**	11.2
Marine, energy and aviation	**9.2**	10.1
Workers' compensation	**7.7**	10.7
Property treaty	**4.2**	4.3
Other	**2.9**	2.4
Financial and credit	**2.9**	2.0
Accident and health	**1.8**	1.1
Bloodstock	**1.6**	1.9

the Americas

QBE the Americas comprises general insurance and reinsurance businesses in the US and in a number of countries in Latin America. The results include the Praetorian and Winterthur acquisitions for the full six months compared with three months and one month respectively for the same period last year.

The Americas underwriting result for the half year was very pleasing given the substantial increase in catastrophe activity, primarily tornadoes, hailstorms and floods in the US. The combined operating ratio for the half year was 91.2% compared with 90.7% for the same period last year. The insurance profit margin was 14.2% compared with 15.1% for the same period last year with the reduction due to the higher combined operating ratio and lower US interest rates on policyholders' funds.

Gross written premium increased 12% to $2,148 million. Gross earned premium was up 29% and net earned premium increased 23% to $1,469 million. Gross written premium benefited from the 2007 acquisitions; however, the increase was materially impacted by the stronger Australian dollar, lower than expected new business due to inadequate pricing, increased competition in some of our regional and specialty portfolios and the loss of some specialty business due to our tough stance on pricing and competition from other insurers. Gross written premium in US dollars increased 27%. Gross written premium for the half year includes two months of the North Pointe acquisition. We estimate this acquisition will produce $150 million in a full year. Overall weighted average premium rates on renewed business were down by slightly less than 1% for the first half. This compares with flat premium rates included in our plan.

Reinsurance expense was higher mainly due to quota share reinsurance arrangements with Equator Re. The external cost of reinsurance as a percentage of gross earned premium was down mainly due to synergies from the recent acquisitions.

The combined operating ratios of the two large acquisitions made in 2007 are in line with expectation; however, gross written premium is below plan because we have not been able to meet our new business targets due to inadequate pricing. We have also lost a small number of specialty insurance programmes due to acquisitions of some agencies by other insurers. Overall, our customer retention remains high.

The claims ratio for the half year was 57.3% compared with 56.4% for the same period last year. A lower attritional claims ratio has been more than offset by an increase in catastrophe claims from the abnormally bad weather in the first half of the year.

The commission ratio was 19.3% compared with 25.9% with the reduction mainly due to the change in mix of business following the acquisitions in 2007 and the reduced commission from the purchase of an underwriting agency. The expense ratio increased from 8.4% to 14.6% due to the acquisitions in 2007 and the North Pointe purchase.

All of our Latin American operations produced strong growth and solid underwriting and insurance profits for the half year. Latin American operations increased gross written premium by 35% to $166 million and produced an excellent combined operating ratio of 93.2% for the half year. The acquisition of Cumbre Seguros in Mexico in late 2007 contributed $30 million of gross written premium and a combined operating ratio of 87.2%.

Our property, householders and agriculture portfolios in the US were affected by the significant increase in catastrophe claims. QBE Specialty which writes programme business through specialised agents also saw a slight decline in underwriting profits from the increased catastrophe claims and slight overall average premium rate reductions.

We are disappointed that we have not been able to meet our new business targets. This is due to our decision to maintain our stance on premium rates and focus on meeting our profit targets. We are seeing positive signs on premium rates for private motor, householders and small to medium enterprise businesses. We are focused on increasing our customer retention from the existing high levels. We upgraded our synergies from the two large US acquisitions in 2007 from $50 million after tax to $100 million after tax. We are confident that we can obtain further synergies, particularly following the North Pointe acquisition where we expect to save a further $15 million after tax in a full year. We expect the expense ratio to improve as these synergies are realised.

We are now projecting that gross written premium will be slightly less than US$4.0 billion for 2008. However, we remain confident of achieving our combined operating ratio target in the low 90s. This is of course subject to catastrophe claims in the second half not exceeding the allowances in our business plans.

We have a number of opportunities that we are investigating in Latin America and the US. We are only looking for bolt-on acquisitions that are complementary to our existing businesses.

Key ratios – the Americas

for the half year ended 30 June		2008	2007
Gross written premium	$M	**2,148**	1,921
Gross earned premium	$M	**2,104**	1,627
Net earned premium	$M	**1,469**	1,199
Claims ratio	%	**57.3**	56.4
Commission ratio	%	**19.3**	25.9
Expense ratio	%	**14.6**	8.4
Combined operating ratio	%	**91.2**	90.7
Insurance profit to net earned premium	%	**14.2**	15.1

Portfolio mix – the Americas

Gross earned premium for the half year ended 30 June	2008 %	2007 %
Property	**32.2**	32.7
Motor and motor casualty	**28.5**	25.1
Casualty	**18.4**	20.1
Accident and health	**10.1**	9.6
Workers' compensation	**7.0**	9.2
Other	**3.8**	3.3

Equator Re

Equator Re provides reinsurance protection to QBE's subsidiaries around the world including participation on a number of the Group's excess of loss and proportional reinsurances with external reinsurers. They include quota share reinsurance arrangements to assist the management of the operating divisions' aggregate exposures and to optimise regulatory capital levels. All business written by Equator Re is priced at market rates.

Gross written premium increased by 27% to $1,038 million and net earned premium was up 86% to $734 million. The increase is due to additional excess of loss protections written by Equator Re for business previously placed externally to the Group and participation on internal quota share arrangements. This additional premium income has not increased Equator Re's exposure to catastrophes. We manage Equator Re's exposures to ensure they are within the maximum event retention of the Group.

The combined operating ratio was 85.3% compared with 75.6% for the same period last year. The deterioration was due to higher large individual risk and catastrophe claims and an increase in proportional reinsurance business. The insurance profit margin was 21.4% compared with 30.2% last year.

The claims ratio was 58.2% compared with 56.1% for the same period last year. The increase was due to the higher level of large individual risk and catastrophe claims for the first half of this year and prudent reserving of increased casualty exposures.

The commission ratio was 20.8% compared with 13.7% with the increase due to higher proportional reinsurance business written this year. The expense ratio remains low at 6.3%, slightly up compared with 5.8% for the same period last year due to increased quota share reinsurance.

Equator Re is an extremely important part of managing the Group's exposures and capital management. We carefully model the exposures that are written into Equator Re. This includes analysing claims over the past 10 years and the aggregate exposure to any one claim or catastrophic event. Equator Re purchases some reinsurance protection to ensure that the exposures to its capital base and the Group aggregates are within our tolerance for risk.

Equator Re's policy is to maintain a capital adequacy multiple of at least 1.5 times APRA's minimum capital requirement for Australian licensed insurers. It retains a Standard & Poor's insurer financial strength rating of A+ and shareholders' funds at 30 June 2008 exceed $1 billion.

Subject to the usual caveats, particularly on large individual risk and catastrophe claims, we expect Equator Re to produce a combined operating ratio of less than 90% for 2008.

Key ratios – Equator Re

for the half year ended 30 June		2008	2007
Gross written premium	$M	**1,038**	816
Gross earned premium	$M	**763**	495
Net earned premium	$M	**734**	394
Claims ratio	%	**58.2**	56.1
Commission ratio	%	**20.8**	13.7
Expense ratio	%	**6.3**	5.8
Combined operating ratio	%	**85.3**	75.6
Insurance profit to net earned premium	%	**21.4**	30.2

Portfolio mix – Equator Re

Gross earned premium for the half year ended 30 June	2008 %	2007 %
Property	**30.5**	38.0
Public/product liability	**22.4**	23.7
Marine, energy and aviation	**18.7**	19.3
Motor and motor casualty	**14.0**	4.0
Workers' compensation	**6.4**	3.1
Professional indemnity	**4.4**	4.8
Accident and health	**2.5**	5.5
Financial and credit	**0.6**	1.1
Other	**0.3**	0.3
Bloodstock	**0.2**	0.2

Investments

The first half of 2008 was the most difficult that we have experienced for a long time. The stronger Australian dollar substantially reduced the value of the overseas component of our cash and investment portfolio in Australian dollars by $1.4 billion. Fixed income markets were very volatile. US two year government yields fell from 3.1% at the beginning of the year to 1.3% by the middle of March only to bounce back to 3.0% by the middle of June and close the half year at around 2.5%. Other fixed income markets were equally volatile and the major equity markets on average fell by 14.5%. Partly offsetting these negatives were the stronger Australian interest rates and the interest rate differentials on the significant hedging of our overseas shareholders' funds into Australian dollars. The adverse trends have meant that gross investment income for the half year was down substantially from $679 million to $513 million. The gross yield was 4.3% compared with 6.5% for the same period last year.

Gross investment income includes realised and unrealised losses on equities of $86 million compared with realised and unrealised gains of $82 million for the same period last year. Net investment income for the half year which is net of borrowing costs, exchange gains and losses and investment expenses was down 33% to $379 million. Refer details set out in the table opposite. Even though our investment income was down for the half year, we are pleased with our outperformance of the cash, fixed interest and equity market benchmarks. We had equity hedges in place for the majority of the half year; however, we felt the full brunt of the fall in equity markets in late June when the last of our hedges expired. Our overall equity return including dividends was a negative 6% which compared with the average of comparable markets of negative 14.5%.

We continue to adopt a low risk absolute return strategy. In the current environment this meant a high quality fixed income portfolio with an average duration of 0.7 years and a lower than normal net exposure to equities. Our exposure to equities is currently 8% of total investments and cash compared with our benchmark of 10% of total investments and cash.

While on target in local currencies, cash flow for the six months was offset by the appreciation of the Australian dollar. Due to the effect of the stronger Australian dollar, net invested funds are now $20 billion compared with $21 billion at 31 December 2007.

We continue to maintain our policy of matching liabilities with assets of the same currencies and managing all tradeable overseas shareholders' funds back into Australian dollars.

The recent reduction in interest rates on our substantial US and UK cash and fixed interest portfolios will continue to impact investment income in the next six months. We had previously advised that our target gross investment yield for 2008 was 5.5%, including a 5% capital appreciation on equities. We will need a major rebound in the equity markets in the next few months to achieve our target. We are still cautiously optimistic of achieving our overall budgeted cash and fixed interest yields; however, foreign exchange volatility may again impact our investment income in the second half.

Investment income

for the half year ended 30 June	2008 $M	2007 $M
Equity income	**(53)**	121
Income on fixed interest securities, short term money and cash	**563**	546
Investment property income	**3**	1
(Losses) gains on sale of controlled entities	**(6)**	3
Other income	**6**	8
Gross investment income	**513**	679
Foreign exchange gains	**8**	1
Borrowing costs	**(114)**	(84)
Other expenses	**(17)**	(19)
Net cost of ABCs	**(11)**	(13)
Net investment income	**379**	564

Total investments and cash

as at	30 June 2008		31 December 2007	
	$M	%	$M	%
Cash	**1,197**	**5.1**	988	4.0
Short term money	**13,074**	**56.2**	16,317	66.3
Fixed interest securities and other	**7,136**	**30.7**	5,552	22.6
Equities	**1,775**	**7.6**	1,656	6.7
Investment properties	**86**	**0.4**	93	0.4
Total investments and cash	**23,268**	**100.0**	24,606	100.0

Currency mix

Market value of equities

as at	30 June 2008 %	31 Dec 2007 %
Australian dollar	**40**	51
Sterling	**19**	24
US dollar	**32**	18
Other	**9**	7

Market value of total investments and cash

as at	30 June 2008 %	31 Dec 2007 %
Australian dollar	**26**	26
Sterling	**23**	24
US dollar	**39**	39
Other	**12**	11

Directors' report

for the half year ended 30 June 2008

Your directors present their report on the consolidated entity consisting of QBE Insurance Group Limited and the entities it controlled at the end of or during the half year ended 30 June 2008.

Directors

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

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

Consolidated results

for the half year ended 30 June	2008 $M	2007 $M
REVENUE		
Premium revenue	**5,958**	5,751
Other revenue	**1,024**	1,010
Net fair value gains on financial assets	**–**	179
Realised gains on sale of controlled entities	**–**	3
Investment income – ABC financial assets pledged for funds at Lloyd's	**28**	39
	7,010	6,982
EXPENSES		
Outward reinsurance premium expense	**850**	1,002
Gross claims incurred	**3,258**	3,161
Other expenses	**1,619**	1,471
Net fair value losses on financial assets	**29**	–
Realised losses on sale of controlled entities	**6**	–
Expenses – ABC securities for funds at Lloyd's	**39**	52
Finance costs	**114**	84
Profit before income tax	**1,095**	1,212
Income tax expense	**235**	287
Profit after income tax	**860**	925
Net profit attributable to minority interest	**1**	4
Net profit after income tax attributable to members of the company	**859**	921

Profit

The insurance result was a profit of $1,116 million, up 6% compared with $1,053 million for the same period last year. Net profit after income tax for the period to 30 June was down 7% to $859 million compared with $921 million for the same period last year. The result was affected by the stronger Australian dollar and significantly weaker equity markets. Despite these factors, insurance profitability remains strong.

Dividends

The directors are pleased to announce a 7% increase in the interim dividend to 61.0 cents per share for the period compared with 57.0 cents per share for the same period last year. The substantial growth in our overseas profits has meant that the franking of the interim dividend will be reduced to 20%. The dividend payout is $542 million, up 10% compared with $492 million for the same period last year. The Dividend Election Plan continues.

Shareholders' funds

Shareholders' funds increased from $8,479 million at 31 December 2007 to $8,816 million. The number of shares advised to the Australian Securities Exchange increased slightly from 886 million to 888 million.

Review of operations

Gross earned premium was $5,958 million, up 4% from the same period last year. Premium growth was impacted by the stronger Australian dollar. Using constant rates of exchange, gross earned premium growth was 13%. Premium growth was also adversely affected by below target new business growth in Europe and the US due to inadequate pricing of risks and an overall weighted average reduction in premium rates of around 2% for renewed business. Net earned premium increased 8% to $5,108 million, assisted by a reduction in the cost of reinsurance protections.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 85.8% compared with 86.2% for the same period last year. The net claims ratio was 54.7% compared with 55.7% for the same period last year. The impact of reduced premium rates and increased large individual risk and catastrophe claims was more than offset by a low attritional claims ratio. The strength of our provision for outstanding claims has been maintained with the probability of adequacy at 95.1%, slightly in excess of the high end of our internal target range of 85% to 94%. The commission ratio reduced from 18.2% to 17.2% reflecting a change in the mix of business and the acquisition of underwriting agencies which reduced commissions and increased expenses. The expense ratio was 13.9%, up from 12.3% for the same period last year, mainly due to the higher expense ratios in our 2007 US acquisitions, the stronger Australian dollar, lower fee income from workers' compensation managed funds in Australia and increased spend on strategic initiatives to improve our distribution in Australia and Europe.

Australian operations

Australian operations' combined operating ratio was 82.1% compared with 82.4% for the same period last year. The result is after absorbing the impact of an increase in catastrophe claims from various weather related losses and slightly lower average premium rates. Net earned premium of $1,131 million was up 7% from the same period last year. Overall premium rate reductions on renewed business were less than expected. The growth also reflects continued high customer retention and the acquisition of distribution channels. The claims ratio decreased from 57.3% to 54.9%. The continued low attritional claims ratio in most classes enabled us to absorb the increased frequency of large individual risk and catastrophe claims. The commission ratio increased slightly from 12.7% to 12.8%. The expense ratio increased from 12.4% to 14.4% due to higher costs associated with new strategic initiatives to improve our interface with intermediaries. Last year's expense ratio benefited from higher performance fees from the New South Wales workers' compensation managed funds.

Asia Pacific operations

Asia Pacific operations' combined operating ratio was 86.0%, up from 80.5% for the same period last year. The result reflects an increase in large individual risk and catastrophe claims. Premium growth was affected by premium rate reductions, the stronger Australian dollar and increased competition, particularly for large corporate risks. Net earned premium was up 1% to $207 million. The claims ratio increased from 40.0% to 43.9% due to increased claims activity and premium rate reductions. The commission ratio increased from 20.5% to 20.8% due to change in the mix of business, and the expense ratio increased from 20.0% to 21.3% due to the costs of establishing our joint venture in India and additional business development staff costs to support our business growth through intermediaries.

European operations

This division comprises two main business units: QBE Insurance Europe and our Lloyd's division trading as QBE Underwriting Limited.

QBE Underwriting Limited's combined operating ratio was 80.2% compared with 83.6% for the same period last year, reflecting the lower level of attritional and large catastrophe claims in the period and the profitable earn out of prior underwriting years. Net earned premium reduced by 21% to $665 million mainly due to increased reinsurance with Equator Re, the reduction in overall premium rates, lower new business due to inadequate pricing and the appreciation of the Australian dollar against sterling. In addition, we discontinued certain portfolios where we were not satisfied that the rewards were sufficient to compensate for the risks assumed. The claims ratio reduced from 50.1% to 48.6%. The commission ratio decreased from 19.4% to 18.2% due to change in the mix of business. The expense ratio decreased from 14.1% to 13.4% due to synergies from our management restructure.

QBE Insurance Europe, which includes operations in the UK, Ireland and mainland Europe, reported net earned premium down 14% to $902 million. Premium growth was impacted by a slight reduction in premium rates and the impact of translation to the stronger Australian dollar. The division produced a combined operating ratio of 86.1% compared with 92.3% for the same period last year. The improved combined operating ratio reflects a better than expected earn out of prior underwriting years and a continued low attritional ratio. The net claims ratio was 54.0% compared with 61.1%. The commission ratio reduced slightly from 15.1% to 15.0% and the expense ratio increased from 16.1% for the same period last year to 17.1% due to the lower net earned premium and the costs associated with the expansion of our profitable commercial lines into UK regional and mainland Europe.

the Americas

This division reported net earned premium growth of 23% to $1,469 million. Premium income benefited from the 2007 acquisitions; however, growth was impacted by the appreciation of the Australian dollar, the need to cancel some existing business due to competition, less than adequate pricing for new business and increased reinsurance with Equator Re. The combined operating ratio was 91.2% compared with 90.7% for the same period last year. The net claims ratio increased from 56.4% to 57.3% due to the increased frequency of large individual risk and catastrophe claims which more than offset the lower attritional claims ratio. The commission ratio decreased from 25.9% for the same period last year to 19.3% and the expense ratio increased from 8.4% to 14.6%. The changes in commission and expense ratios are primarily due to the change in distribution and the higher expense ratios relating to the recent acquisitions. We expect the expense ratio to reduce as synergies are realised.

Equator Re

Equator Re is QBE's wholly owned captive reinsurer based in Bermuda. This division reported net earned premium growth of 86% to $734 million due to increased excess of loss and quota share protections of QBE businesses. The combined operating ratio was 85.3% compared with 75.6% for the same period last year. The net claims ratio increased from 56.1% to 58.2% due to increased large individual risk and catastrophe claims. The commission ratio increased from 13.7% for the same period last year to 20.8% due to the increased proportional business written. The expense ratio remains low at 6.3%, slightly up compared with 5.8% for the same period last year due to increased quota share reinsurance.

Investment income

Net investment income fell 33% to $379 million reflecting the appreciation of the Australian dollar, lower US interest rates and substantially weaker equity markets. The result includes net realised and unrealised losses on equities of $86 million compared with gains of $82 million for the same period last year. The gross investment yield before borrowing costs, exchange gains and losses and investment expenses was 4.3% compared with 6.5% for the same period last year. Cash flow from operations was $839 million, compared with $785 million for the same period last year. Cash flow was impacted by the appreciation of the Australian dollar.

Income tax

Income tax expense for the period reduced from 24% of profit before tax for the same period last year to 21% due to increased profits earned 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 is set out below.

Rounding of amounts

The company is of a kind referred to in the Australian Securities and Investments Commission class order 98/0100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the “rounding off” of amounts in the consolidated financial statements 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 21st day of August 2008 in accordance with a resolution of the directors.

EJ Cloney
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 2008, 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.

RD Deutsch
Partner

Sydney, 21 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Consolidated income statement

for the half year ended 30 June 2008

	Note	2008 $M	2007 $M
REVENUE			
Premium revenue		**5,958**	5,751
Other revenue		**1,024**	1,010
Net fair value gains on financial assets		**–**	179
Realised gains on sale of controlled entities		**–**	3
Investment income – ABC financial assets pledged for funds at Lloyd's		**28**	39
	3	**7,010**	6,982
EXPENSES			
Outward reinsurance premium expense		**850**	1,002
Gross claims incurred		**3,258**	3,161
Other expenses		**1,619**	1,471
Net fair value losses on financial assets		**29**	–
Realised losses on sale of controlled entities		**6**	–
Expenses – ABC securities for funds at Lloyd's		**39**	52
Finance costs		**114**	84
Profit before income tax	4	**1,095**	1,212
Income tax expense		**235**	287
Profit after income tax		**860**	925
Net profit attributable to minority interest		**1**	4
Net profit after income tax attributable to members of the company		**859**	921

	Note	Cents	Cents
Basic earnings per share	5	**97.4**	110.1
Diluted earnings per share	5	**95.7**	104.9

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

Consolidated balance sheet

as at 30 June 2008

	Note	30 June 2008 $M	31 December 2007 $M	30 June 2007 $M
ASSETS				
Financial assets at fair value through profit or loss				
Cash and cash equivalents		**1,197**	988	2,140
Investments		**21,985**	23,525	21,501
ABC financial assets pledged for funds at Lloyd's		**824**	900	934
Derivative financial instruments		**735**	266	295
Swaps relating to ABC securities		**1**	–	–
Trade and other receivables		**5,141**	4,616	6,130
Reinsurance and other recoveries on outstanding claims		**4,040**	4,360	4,361
Current tax assets		**9**	52	47
Other assets		**38**	41	52
Deferred insurance costs		**1,849**	1,683	2,385
Defined benefit plan surplus		**2**	3	1
Property, plant and equipment		**416**	435	425
Deferred tax assets		**159**	158	328
Investment properties		**86**	93	86
Intangible assets		**2,662**	2,493	2,428
Total assets		**39,144**	39,613	41,113
LIABILITIES				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments		**119**	231	111
Swaps relating to ABC securities		**22**	30	57
Trade and other payables		**2,075**	1,934	2,769
Current tax liabilities		**263**	86	187
Unearned premium		**6,045**	5,698	6,842
ABC securities for funds at Lloyd's		**799**	867	886
Outstanding claims		**17,152**	18,231	18,426
Provisions		**109**	67	90
Defined benefit plan deficit		**55**	53	49
Deferred tax liabilities		**344**	415	334
Borrowings		**3,287**	3,458	3,576
Total liabilities		**30,270**	31,070	33,327
Net assets		**8,874**	8,543	7,786
EQUITY				
Share capital	6	**4,744**	4,737	4,428
Treasury shares held in trust	7	**–**	(16)	(16)
Equity component of hybrid securities		**114**	114	115
Reserves		**(72)**	(75)	35
Retained profits		**4,030**	3,719	3,159
Shareholders' funds		**8,816**	8,479	7,721
Minority interest		**58**	64	65
Total equity		**8,874**	8,543	7,786

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

Consolidated statement of recognised income and expense

for the half year ended 30 June 2008

	2008 $M	2007 $M
AMOUNTS RECOGNISED IN EQUITY		
Net decrease in foreign currency translation reserve	**(9)**	(17)
Actuarial losses on defined benefit superannuation plans, net of tax	**(4)**	(3)
Cash flow hedges, net of tax	**28**	14
Losses on revaluation of owner occupied property, net of tax	**–**	(2)
Employee share options, net of tax	**(16)**	(7)
Net expense recognised directly in equity	**(1)**	(15)
AMOUNTS RECOGNISED IN INCOME STATEMENT		
Profit after income tax	**860**	925
Total recognised income and expense for the period	**859**	910
Attributable to:		
Equity holders	**858**	906
Minority interest	**1**	4
	859	910

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

Consolidated statement of cash flows

for the half year ended 30 June 2008

	2008 $M	2007 $M
OPERATING ACTIVITIES		
Premium received	**6,033**	5,806
Reinsurance and other recoveries received	**620**	763
Outwards reinsurance paid	**(1,116)**	(1,128)
Claims paid	**(3,445)**	(2,989)
Insurance costs paid	**(1,183)**	(1,087)
Other underwriting costs	**(594)**	(643)
Interest received	**607**	418
Dividends received	**29**	34
Other operating income	**98**	9
Other operating payments	**(65)**	(23)
Interest paid	**(91)**	(98)
Income taxes paid	**(54)**	(277)
Net cash flows from operating activities	**839**	785
INVESTING ACTIVITIES		
Proceeds on sale of equity investments	**544**	937
Proceeds on sale of investment property	**1**	1
Proceeds on sale of property, plant and equipment	**1**	–
Payments for purchase of equity investments	**(837)**	(979)
(Payments for) proceeds from foreign exchange transactions	**(170)**	175
Proceeds on sale of other financial assets	**721**	1,281
Payments for purchase of controlled entities and businesses acquired[1]	**(235)**	(2,002)
Proceeds on disposal of controlled entities	**–**	3
Payments for purchase of property, plant and equipment	**(30)**	(31)
Net cash flows from investing activities	**(5)**	(615)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**–**	772
Payments for purchase of own shares under staff share scheme	**(9)**	–
Proceeds from settlement of staff share loans	**6**	31
Share issue expenses	**–**	(3)
Proceeds from borrowings	**3**	1,286
Repayment of borrowings	**(1)**	(689)
Dividends paid	**(545)**	(366)
Net cash flows from financing activities	**(546)**	1,031
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD	**288**	1,201
Cash and cash equivalents at the beginning of the half year	**988**	1,019
Effect of exchange rate changes	**(79)**	(80)
Cash and cash equivalents at the end of the half year	**1,197**	2,140

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 2008

1. Basis of preparation of half year financial report

This general purpose consolidated financial report for the half year ended 30 June 2008 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Standards Board Interpretation 10 and the *Corporations Act 2001*.

The financial report for the half year ended 30 June 2008 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 2007 and any public announcements made by QBE Insurance Group Limited and its controlled entities ("the consolidated entity") during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

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

2. Australian accounting standard amendments issued but not yet effective

Title		Operative date
2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	1 January 2009
2007-8	Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
2007-9	Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31 [AASB 3, AASB 5, AASB 8, AASB 101, AASB 114, AASB 116, AASB 127 & AASB 137]	1 January 2009
2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2]	1 January 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation [AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2]	1 January 2009
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	1 January 2009
2008-4	Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities [AASB 124]	31 December 2008
AASB 3	Revision to Australian Accounting Standard – Business Combinations [AASB 3]	1 January 2010

The Australian accounting standard amendments detailed in the table above are not mandatory until the operative dates stated; however, early adoption is permitted.

The consolidated entity will apply the amendments detailed above for the annual reporting periods beginning on the operative dates set out above. The application of these amended standards is not expected to have a material impact on the consolidated entity's financial statements.

3. Revenue

	2008 $M	2007 $M
Premium revenue		
Direct and facultative	**5,232**	5,062
Inward reinsurance	**726**	689
	5,958	5,751
Other revenue		
Reinsurance and other recoveries	**468**	512
Interest and dividend income	**548**	497
Foreign exchange gains	**8**	1
	1,024	1,010
Net fair value gains on financial assets	**–**	179
Realised gains on sale of controlled entities	**–**	3
Investment income – ABC financial assets pledged for funds at Lloyd's	**28**	39
Revenue	**7,010**	6,982

4. Profit before income tax

	2008 $M	2007 $M
Gross written premium	**6,603**	6,520
Unearned premium movement	**(645)**	(769)
Gross earned premium	**5,958**	5,751
Outward reinsurance premium	**(1,064)**	(1,112)
Deferred reinsurance premium movement	**214**	110
Outward reinsurance premium expense	**(850)**	(1,002)
Net earned premium	**5,108**	4,749
Gross claims incurred	**(3,258)**	(3,161)
Reinsurance and other recoveries	**468**	512
Net claims incurred	**(2,790)**	(2,649)
Net commission	**(881)**	(863)
Other acquisition costs	**(284)**	(225)
Underwriting and other expenses	**(426)**	(359)
	(4,381)	(4,096)
Underwriting profit	**727**	653
Investment income on policyholders' funds	**389**	400
Insurance profit	**1,116**	1,053
Investment income on shareholders' funds	**(10)**	164
Amortisation of intangibles and impairment of goodwill/intangibles	**(11)**	(5)
Profit before income tax	**1,095**	1,212

5. Earnings per share

	2008 Cents	2007 Cents
Basic earnings per share	**97.4**	110.1
Diluted earnings per share	**95.7**	104.9

	2008 $M	2007 $M
(A) Reconciliation of earnings used in calculating earnings per share		
Net profit after income tax attributable to members of the company, used in calculating basic earnings per share	**859**	921
Add: finance costs of hybrid securities	**1**	8
Earnings used in calculating diluted earnings per share	**860**	929

	2008 Number of shares 000	2007 Number of shares 000
(B) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share		
Weighted average number of ordinary shares on issue	**887,124**	843,086
Weighted average number of non-recourse loan shares issued under the Plan	**(5,194)**	(5,757)
Weighted average number of treasury shares held in trust	**–**	(768)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share[1]	**881,930**	836,561
Weighted average number of dilutive potential ordinary shares relating to:		
Shares issued under the Plan	**5,194**	5,757
Options issued under the Plan	**2,068**	3,446
Hybrid securities[2]	**9,234**	38,559
Unvested conditional rights supported by treasury shares held in trust	**–**	768
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**898,426**	885,091

1 Weighted average number of ordinary shares reflects shares adjusted to derecognise shares issued under the Employee and Share and Option Plan ("the Plan") which are subject to non-recourse loans. Basic earnings per share calculated with reference to issued share capital notified to the Australian Securities Exchange would have been 96.8 cents (2007 109.2 cents).

2 If all hybrid securities had been included in the calculation of diluted earnings per share at 30 June 2008, diluted earnings per share would have been 96.0 cents (2007 104.9 cents).

6. Share capital

	2008 $M	2007 $M
Issued ordinary shares, fully paid	**4,744**	4,428

	Number of shares 000	$M
Issued and fully paid at 1 January 2008	**880,788**	**4,737**
Shares issued under the Employee Share and Option Plan	**159**	**2**
Employee options exercised	**361**	**5**
Shares issued under the Dividend Election Plan	**1,479**	**–**
Shares issued under the Deferred Compensation Plan on vesting of conditional rights	**3**	**–**
Issued and fully paid at 30 June 2008	**882,790**	**4,744**
Shares notified to the Australian Securities Exchange	**887,986**	**4,786**
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	**(5,196)**	**(42)**
Issued and fully paid at 30 June 2008	**882,790**	**4,744**

	Number of shares 000	$M
Issued and fully paid at 1 January 2007	812,458	3,461
Shares issued under the Employee Share and Option Plan	464	4
Employee options exercised	3,376	34
Vendor options exercised	246	8
Shares issued under the Dividend Reinvestment Plan	2,458	76
Shares issued under the Dividend Election Plan	332	–
Shares issued to holders of hybrid securities	12,986	76
Share placements	24,324	772
Shares issued under the Deferred Compensation Plan on vesting of conditional rights	13	–
Share issue expenses	–	(3)
Issued and fully paid at 30 June 2007	856,657	4,428
Shares notified to the Australian Securities Exchange	862,414	4,477
Less: Plan shares subject to non-recourse loans, derecognised under Australian GAAP	(5,757)	(49)
Issued and fully paid at 30 June 2007	856,657	4,428

7. Treasury shares held in trust

	2008 $M	2007 $M
At 1 January	**16**	16
Acquisition of shares	**9**	37
Shares vested and/or released to participants	**(25)**	(37)
At 30 June	**–**	16

8. Dividends

	2008 $M	2007 $M
Final dividend paid on ordinary shares		
Franked at 50% – 32.5 cents (2007 33.0 cents, 60% franked)	**288**	271
Unfranked – 32.5 cents (2007 22.0 cents)	**288**	181
	576	452
Dividend reinvested under the Dividend Election Plan	**(31)**	(10)
Total dividend paid	**545**	442

The final dividend of $576 million for 2007 was paid on 26 March 2008. On 21 August 2008 the directors declared a 20% franked interim dividend of 61.0 cents per share (2007 57.0 cents per share, 60% franked). The interim dividend is $542 million (2007 $492 million), payable on 17 September 2008.

9. Contingent liabilities

	30 June 2008 $M	31 December 2007 $M
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	**260**	283

A controlled entity has entered into a number of deeds of covenant in respect of its controlled entities to meet part of their obligations to Lloyd's of London. The total guarantee given under these deeds of covenant amounts to $161 million ($93 million at 31 December 2007). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets in favour of Lloyd's of London.

10. Segment information

	Premium revenue		Profit before income tax	
	2008 $M	2007 $M	2008 $M	2007 $M
Australian operations	**1,352**	1,249	**316**	309
Asia Pacific operations	**291**	291	**43**	70
European operations	**2,211**	2,584	**403**	501
the Americas	**2,104**	1,627	**183**	205
Equator Re	**763**	495	**150**	127
Elimination – internal reinsurance	**(763)**	(495)	**–**	–
Total	**5,958**	5,751	**1,095**	1,212

11. Acquisitions

On 1 January 2008, a wholly owned entity acquired effective control of Deep South Holding, LP., an underwriting agency in the US. The purchase price was $199 million (US$190 million) including the maximum potential cost of contingent incentive arrangements for the next three years. Estimated net tangible assets of $3 million (US$3 million) were acquired.

On 30 April 2008, a wholly owned entity acquired North Pointe Holdings Corporation, a NASDAQ listed property and casualty insurer in the US. The purchase price was $152 million (US$143 million) for estimated net tangible assets of $67 million (US$63 million).

Due to the timing of and the inherent complexities involved in the acquisitions, the information provided is provisional only.

12. Events occuring after the balance date

Since 30 June 2008, the consolidated entity has announced its purchase of PMI Mortgage Insurance Ltd in Australia and New Zealand and its in-principle agreement to acquire PMI Mortgage Insurance Asia Limited. Both transactions are subject to regulatory approvals and the latter transaction is subject to definitive agreements. The estimated total purchase price is $1.0 billion including $200 million of contingent consideration for estimated net tangible assets of $0.85 billion determined on an AIFRS basis. The transactions are expected to complete during the third quarter of 2008.

Directors' declaration

The directors declare that the financial statements and notes set out on pages 18 to 26:

(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 consolidated entity's financial position as at 30 June 2008 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 21st day of August 2008 in accordance with a resolution of the directors.

EJ Cloney
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 2008 and the income statement, statement of recognised income and expense and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration for QBE Insurance Group Limited ("the consolidated entity"). The consolidated entity comprises both QBE Insurance Group Limited ("the company") and the entities it controlled during that half year.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 2008 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.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

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.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

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 2008 included on QBE Insurance Group Limited's web site. The directors of QBE Insurance Group Limited are responsible for the integrity of the QBE Insurance Group Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the 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 2008 and of its performance for the half year ended on that date; and

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

PricewaterhouseCoopers
Sydney, 21 August 2008

RD Deutsch
Partner

Liability limited by a scheme approved under Professional Standards Legislation

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