QBE INSURANCE GROUP

HALF YEAR REPORT TO 30 JUNE 2005

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Cover: The cover image depicts a Cuna Indian mola textile. Molas are works of art created by the women of the Central American Cuna tribe of the San Blas Islands in Panama.

QBE's strategy of growth through acquisitions includes territories such as Latin America. We now have general insurance operations in Argentina, Brazil and Colombia and reinsurance in the region through our joint venture in Panama.

HIGHLIGHTS

FOR THE HALF YEAR ENDED 30 JUNE 2005

PROFIT AND DIVIDEND PAYOUT

		2005	2004*	% change
Net profit after tax	$M	**491**	343	43
Net profit before tax	$M	**675**	429	57
Basic earnings per share	cents	**64.6**	50.7	27
Diluted earnings per share**	cents	**59.2**	44.8	32
Dividend per share	cents	**33.0**	24.0	38
Shareholders' funds	$M	**4,486**	3,251	38

GROUP OPERATING PERFORMANCE

		2005	2004*	% change
Gross written premium	$M	**5,123**	4,763	8
Gross earned premium	$M	**4,331**	3,982	9
Net earned premium	$M	**3,506**	3,114	13
Combined operating ratio	%	**90.3**	90.5	
Insurance profit	$M	**553**	425	30
Insurance profit to net earned premium	%	**15.8**	13.6	
Cash flow from operations	$M	**672**	898	(25)

DIVISIONAL OPERATING PERFORMANCE

			2005	2004*	% change
Australia	Gross earned premium	$M	**1,199**	899	33
	Combined operating ratio	%	**89.3**	89.3	
	Insurance profit to net earned premium	%	**18.1**	14.9	
Pacific Asia Central Europe	Gross earned premium	$M	**348**	323	8
	Combined operating ratio	%	**89.6**	90.9	
	Insurance profit to net earned premium	%	**15.1**	12.0	
QBE Insurance (Europe)	Gross earned premium	$M	**1,138**	1,037	10
	Combined operating ratio	%	**89.2**	91.3	
	Insurance profit to net earned premium	%	**15.6**	13.6	
Lloyd's division	Gross earned premium	$M	**1,015**	1,082	(6)
	Combined operating ratio	%	**92.5**	90.1	
	Insurance profit to net earned premium	%	**15.4**	15.1	
the Americas	Gross earned premium	$M	**631**	641	(2)
	Combined operating ratio	%	**92.1**	91.3	
	Insurance profit to net earned premium	%	**11.3**	9.5	
Investment income	Gross	$M	**409**	190	115
	Net of borrowing costs and investment expenses	$M	**337**	132	155

* 2004 information has been restated for the impact of Australian equivalents to International Financial Reporting Standards ("AIFRS"). Refer to note 1 to the financial statements.

** Assumes that all hybrid securities are fully dilutive.

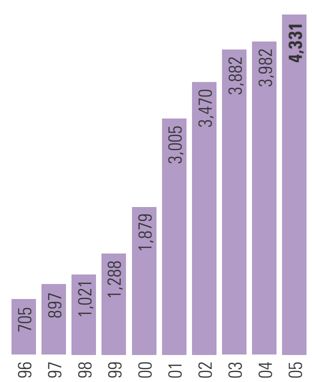
ALL AMOUNTS IN THIS REPORT ARE DENOMINATED IN AUSTRALIAN DOLLARS UNLESS OTHERWISE SPECIFIED.

QBE HISTORY

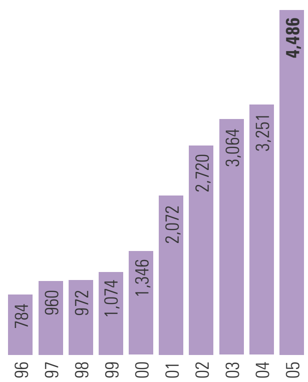
		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2005	2004[1]	2003	2002	2001	2004[1]	2003	2002	2001	2000
Gross written premium	$M	**5,123**	4,763	4,821	4,332	3,795	8,766	8,350	7,723	6,793	4,406
Gross earned premium	$M	**4,331**	3,982	3,882	3,470	3,005	8,571	7,816	7,197	6,298	4,399
Net earned premium	$M	**3,506**	3,114	3,083	2,679	2,274	6,781	6,036	5,642	4,634	3,456
Claims ratio	%	**61.0**	61.6	65.1	68.4	69.8	61.3	63.3	67.6	76.6	71.2
Commission ratio	%	**17.0**	16.8	18.7	18.2	20.0	17.5	18.2	17.7	20.2	18.3
Expense ratio	%	**12.3**	12.1	12.2	12.4	12.4	12.4	12.3	12.4	12.8	13.0
Combined operating ratio[2]	%	**90.3**	90.5	96.0	99.0	102.2	91.2	93.8	97.7	109.6	102.5
Investment income[3]											
before investment gains/losses	$M	**243**	199	181	194	163	415	303	340	336	250
after investment gains/losses	$M	**337**	132	194	97	181	504	413	189	349	310
Insurance profit (loss)[2]	$M	**553**	425	259	160	126	914	627	406	(119)	186
Insurance profit (loss)/ net earned premium[2]	%	**15.8**	13.6	8.4	6.0	5.5	13.5	10.4	7.2	(2.6)	5.4
Operating profit (loss)											
before tax	$M	**675**	429	313	124	132	1,100	765	311	(99)	220
after tax and minority interest[2]	$M	**491**	343	241	115	122	846	572	279	(25)	179
Number of shares on issue[4]	millions	**768**	683	627	600	459	745	672	615	585	429
Shareholders' funds	$M	**4,486**	3,251	3,064	2,720	2,072	4,040	3,313	2,954	2,620	1,709
Total assets	$M	**27,365**	25,578	21,378	19,770	16,324	24,983	20,443	20,567	18,611	13,948
Net tangible assets per share[4]	$	**4.47**	3.48	4.09	3.71	3.66	4.03	4.17	3.96	3.67	3.13
Borrowings to shareholders' funds[5]	%	**38.8**	44.5	47.4	38.0	37.3	44.7	40.3	49.3	32.0	53.5
Basic earnings per share[4]	cents	**64.6**	50.7	37.3	17.5	24.8	121.7	86.5	42.7	(10.5)	42.6
Diluted earnings per share[4,6]	cents	**59.2**	44.8	32.7	17.7	25.4	107.9	77.5	41.4	(4.9)	40.7
Return on average shareholders' funds[7,8]	%	**23.0**	22.1	16.0	8.6	12.9	24.1	18.3	10.0	(1.1)	12.6
Dividend per share[4]	cents	**33.0**	24.0	20.0	16.5	16.5	54.0	42.0	35.0	30.0	31.0
Dividend payout	$M	**254**	164	133	99	76	392	281	213	155	132
Cash flow from operations	$M	**672**	898	726	455	110	2,110	2,089	1,511	280	173
Total financial assets and cash[9]	$M	**15,721**	14,338	11,495	9,461	8,158	14,975	11,823	11,504	9,183	7,334

1 half year ended 30 June 2004 and year ended 31 December 2004 have been restated for the impact of AIFRS. Refer to note 1 to the financial statements
2 the 31 December 2001 comparatives excluding the WTC loss were 101.7%, $242 million, 5.1% and $227 million respectively
3 excludes amortisation and impairment of goodwill/intangibles
4 reflects shares notified to the Australian Stock Exchange. Refer to note 5 to the financial statements
5 excludes ABC securities for funds at Lloyd's
6 assumes that all hybrid securities are fully dilutive
7 2004 comparatives are calculated with reference to AIFRS adjusted shareholders' funds of $2,970 million at 1 January 2004
8 includes convertible preference shares from 2000 to 2003 and the equity portion of hybrid securities issued in 2002 and 2004
9 excludes ABC financial assets pledged for funds at Lloyd's

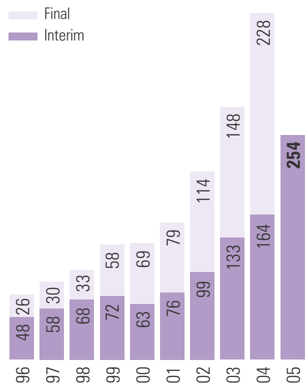
GROSS EARNED PREMIUM $M



SHAREHOLDERS' FUNDS $M



DIVIDEND PAYOUT $M



RESULTS

FOR THE HALF YEAR ENDED 30 JUNE 2005

Operating profit for the half year was $491 million, a 43% increase over the profit of $343 million for the same period last year. The result reflects the benefit of premium growth from acquisitions, the continuation of favourable insurance market conditions and improved investment yields. Equity markets overall were positive during the period with realised and unrealised gains of $39 million after tax compared with a loss of $9 million after tax for the same period last year. Profit before tax was up 57% to $675 million.

The results for the half year have been prepared applying the Australian equivalents to International Financial Reporting Standards ("AIFRS"). Details of the impact of AIFRS are included on pages 26 and 27 of the report, including the restatement of the opening balance sheet and the results for the half year ended 30 June 2004 and the year ended 31 December 2004. All comparisons with last year in this report refer to the figures restated for AIFRS.

Diluted earnings per share including all hybrid securities was 59.2 cents compared with 44.8 cents for the same period last year. Basic earnings per share increased from 50.7 cents per share to 64.6 cents per share.

The return on average shareholders' funds was 23.0% compared with 22.1% for the same period last year.

Insurance profit before tax for the half year increased to $553 million or 15.8% of net earned premium compared with $425 million or 13.6% of net earned premium for the same period last year. The strong increase in insurance profit was achieved on net earned premium of $3,506 million, which increased 13% over the same period last year mainly due to the acquisitions made in the second half of 2004. 37 of the 39 countries in which we currently carry on business produced underwriting profits.

All operating divisions produced improved insurance profits. Consistent with recent years, insurance liabilities at 30 June 2005 include a substantial allowance for large losses and catastrophes which may occur in the second half of 2005.

Management results

Operating profit after tax using the seven year spread basis of accounting, which spreads realised and unrealised gains and losses on equities and properties evenly over a period of seven years, was $453 million compared with $389 million for the same period last year. This basis of accounting, which normalises investment earnings, is used to measure the performance of head office management.

Interim dividend

In recognition of the strong operating performance, the directors have declared an interim dividend of 33.0 cents per share, 50% franked, up 38% on the interim dividend of 24.0 cents per share in 2004. The interim dividend represents a payout of $254 million, up 55% from the interim dividend paid in September 2004. Books close on 29 August 2005. The dividend reinvestment programmes continue at a 2.5% discount for the interim dividend. However, in line with general market practice, the directors have decided to suspend the discount for future dividends, commencing March 2006.

KEY RATIOS – GROUP

FOR THE HALF YEAR ENDED 30 JUNE		2005	2004
Gross written premium	$M	**5,123**	4,763
Gross earned premium	$M	**4,331**	3,982
Net earned premium	$M	**3,506**	3,114
Claims ratio	%	**61.0**	61.6
Commission ratio	%	**17.0**	16.8
Expense ratio	%	**12.3**	12.1
Combined operating ratio	%	**90.3**	90.5
Insurance profit to net earned premium	%	**15.8**	13.6

GEOGRAPHIC SEGMENT

GROSS EARNED PREMIUM

FOR THE HALF YEAR ENDED 30 JUNE	2005	2004
Australia	**27.7%**	22.5%
Pacific Asia Central Europe	**8.0%**	8.1%
QBE Insurance (Europe)	**26.3%**	26.1%
Lloyd's division	**23.4%**	27.2%
the Americas	**14.6%**	16.1%

RESULTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

Shareholders' funds

Since 31 December 2004, shareholders' funds as restated under AIFRS have increased 11% to $4,486 million. The increase from the current half year profit and the conversion of $69 million of hybrid securities was partly offset by a movement in the foreign currency translation reserve and the payment of the final 2004 dividend net of reinvestment.

Details of the adjustments to retained profits and other balance sheet items to comply with AIFRS are included on pages 26 and 27 of the report. There are two main items which require comment:

(i) The defined benefit superannuation plan deficits are based on actuarial valuations using high quality corporate or government bond rates and mortality tables which reflect current expectations. QBE will adopt a policy of reporting changes in actuarial assumptions as an adjustment to retained profits each year.

(ii) The non-recourse employee share loans and related share capital cannot be included in the balance sheet as they are treated as an option under AIFRS. The loans are secured by QBE shares and, once they are repaid, the shares will be added to issued share capital.

The ratio of borrowings to shareholders' funds is expected to remain in the range of 35% to 40% by year end.

We calculate the Group's capital adequacy multiple at 30 June 2005 to be around 1.8 times the estimated minimum capital requirement, unchanged from 31 December 2004 as restated for the impact of AIFRS. We have made a number of assumptions in applying the risk based capital approach of the Australian Prudential Regulation Authority ("APRA") for licensed Australian insurers to the Group. APRA has not yet finalised prudential standards for calculating capital adequacy requirements for non-operating holding companies.

Group operating results

The combined operating ratio was 90.3% for the half year compared with 90.5% for the same period last year. The increase in underwriting profit for the half year to $339 million arose from the continued strong performance of most of our portfolios around the world. The results for the half year have again been assisted by a lower than expected claims frequency.

Premium growth has been assisted by the acquisitions made in the second half of 2004, primarily the acquisition on 30 June 2004 of ING's 50% interest in the QBE Mercantile Mutual joint venture. Gross written premium was up 8% to $5,123 million and gross earned premium increased 9% to $4,331 million.

Reinsurance costs decreased from 22% of gross earned premium to 19%, primarily due to synergies from acquisitions and the restructure in the UK in 2004. Approximately 53% of our reinsurance cost is excess of loss and the balance is proportional reinsurance to reduce our aggregate exposure to property risks in Australia and selected insurance programmes in the Americas. Recoveries from reinsurance arrangements during the half year were again much lower than the earned premium ceded to our reinsurers.

The claims ratio was 61.0% compared with 61.6% for the same period last year. The effect of a slight reduction in premium rates has been offset by a lower frequency of claims and the maintenance of improved insurance terms and higher deductibles achieved in recent years. The strength of our provision for outstanding claims has been maintained with the probability of adequacy at 95%. This is slightly in excess of the high end of our internal target range of 85% to 94%. Due to the cyclical nature of our business, particularly with a traditionally higher incidence of catastrophes in the second half of the year, we believe the increased probability of adequacy is warranted at this time. It is also significantly higher than the APRA minimum requirement of 75% for Australian licensed insurers. Prudential margins in the Group's outstanding

IMPACT OF EXCHANGE RATE MOVEMENTS

	2005 ACTUAL $M	2005 AT 2004* EXCHANGE RATES $M	EXCHANGE RATE IMPACT %
Gross written premium	**5,123**	5,199	(1)
Gross earned premium	**4,331**	4,395	(1)
Net earned premium	**3,506**	3,551	(1)
Net investment income	**337**	344	(2)
Profit after tax	**491**	495	(1)
Total financial assets and cash	**15,721**	15,821	(1)
Total assets	**27,365**	27,361	–
Gross outstanding claims	**13,235**	13,291	–
Total liabilities	**22,819**	23,138	(1)

* income statement items are restated to 30 June 2004 cumulative average rates of exchange and balance sheet items to 31 December 2004 closing rates of exchange. Refer to commentary on page 5.

claims provisions have increased in recent years largely as a result of the increase in exposure to long tail classes of business. The probability of adequacy of the Group's outstanding claims provisions 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 and foreign currency movements.

The total acquisition cost ratio, made up of commissions and expenses, was 29.3% of net earned premium compared with 28.9% for the same period last year. The commission ratio was 17.0% compared with 16.8%. The expense ratio increased from 12.1% to 12.3% with total expenses increasing by 14% to $430 million. Expenses for the half year are slightly higher than planned due to: a provision for dilapidation and other costs associated with the consolidation of our premises in the UK; staff redundancy payments to achieve substantial synergies in the UK and Australia; and costs associated with our share-based incentive plans.

Investment income for the half year, which is net of borrowing costs, foreign exchange gains and losses and investment expenses, increased from $132 million to $337 million. This increase reflects the continued strong cash flow and improved yields for cash and shorter duration fixed interest securities, particularly in the US and Australia, and higher equity markets. Gross investment income was $409 million compared with $190 million for the same period last year. The gross investment yield was 5.3% compared with 2.9% for the same period last year.

Cash flow from operating activities was $672 million compared with $898 million for the same period last year. The reduction in cash flow is mainly due to the settlement of claims in respect of the catastrophes that occurred in the second half of 2004.

Income tax expense increased from 19% of pre-tax profit to 27%, primarily due to higher profits in Australia, the US and the UK. The 2004 income tax expense benefited from the release of prior year provisions.

The table below shows the contributions from our Australian general insurance operations, Pacific Asia Central Europe general insurance operations, QBE Insurance (Europe), the Lloyd's division and the Americas. It also shows the contribution from general insurance and inward reinsurance business.

Acquisitions

We have again been busy during the period with the acquisition of Central de Seguros in Colombia, National Farmers Union Property and Casualty Company in the US and the Greenhill underwriting agency in Western Europe. These acquisitions will add approximately $400 million of gross written premium in 2006 but will not be significant for the second half of this year. We are confident that these acquisitions will be earnings per share accretive in 2006.

Impact of exchange rate movements

With over 70% of our revenue derived in currencies other than Australian dollars, currency movements can have an effect on various income statement and balance sheet items. Consistent with prior reports, we set out on page 4 the impact of exchange rate movements for the first half of 2005, which were minimal compared with the first half of 2004. The Group translates income and expense items using the year to date cumulative average rates of exchange. Balance sheet items are calculated at the closing rates of exchange.

CONTRIBUTIONS BY REGION

	GROSS WRITTEN PREMIUM		**NET EARNED PREMIUM**		**NET PROFIT AFTER TAX**		**COMBINED OPERATING RATIO**	
	30 JUNE 2005 $M	**30 JUNE 2004 $M**	**30 JUNE 2005 $M**	**30 JUNE 2004 $M**	**30 JUNE 2005 $M**	**30 JUNE 2004 $M**	**30 JUNE 2005 %**	**30 JUNE 2004 %**
Australia	**1,255**	951	**1,041**	767	**138**	135	**89.3**	89.3
Pacific Asia Central Europe	**358**	333	**279**	274	**34**	16	**89.6**	90.9
QBE Insurance (Europe)	**1,407**	1,285	**999**	899	**164**	93	**89.2**	91.3
Lloyd's division	**1,393**	1,502	**797**	794	**120**	76	**92.5**	90.1
the Americas	**710**	692	**390**	380	**35**	23	**92.1**	91.3
Group	**5,123**	4,763	**3,506**	3,114	**491**	343	**90.3**	90.5
General insurance	**3,816**	3,460	**2,768**	2,308	**373**	257	**90.3**	90.9
Inward reinsurance	**1,307**	1,303	**738**	806	**118**	86	**90.4**	89.3
Group	**5,123**	4,763	**3,506**	3,114	**491**	343	**90.3**	90.5

RESULTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

Outlook

Subject to no major movement in the current average US dollar and sterling rates of exchange to the Australian dollar, we are confident of increasing gross written premium to $9.5 billion and net earned premium to $7.5 billion for the full year.

Weighted average premium rates decreased in the six month period by slightly less than 4%. Our business plans included overall premium rate reductions of just over 3%. Importantly, policy terms and conditions and deductibles have been substantially maintained and claims frequency has continued at levels below our expectation. Current premium rates are still adequate to meet our profit targets for the substantial majority of our portfolios around the world. Our business retention ratio has increased, which suggests that our current pricing is not out of line with the market.

As previously mentioned, the Group's probability of adequacy in outstanding claims remains at slightly in excess of the high end of our internal target range. In addition, our unearned premium liabilities include a significant allowance for large losses and catastrophes in the second half. We have revised our insurance profit target for 2005 to the 15% to 16% range from the previously announced 12.5% to 13.5% range. This is subject to large losses and catastrophes not exceeding the substantial allowance included in our insurance liabilities. The strength of our insurance liabilities together with our expectations on premium rates and claims frequency also give us confidence that we can maintain a strong level of insurance profitability through 2006.

We continue to maintain a low exposure to listed equities at 8.2% of total investments and cash, consistent with our risk appetite. We also continue to adopt a cautious approach on the quality and duration of our fixed interest and cash portfolios which average around 0.6 years to maturity. We will further benefit from the higher interest rates in the US in the second half. With expected cash flow and acquisitions, we are on target to increase our net invested funds from $14 billion to $15 billion by the end of 2005. A 1% overall movement in interest rates would affect annualised after tax investment income by $44 million and a 1% change in equity markets would have a $9 million impact.

Our strategy of growth through acquisitions will ensure that we continue to look at a number of acquisitions and opportunities in Australia, the Asia-Pacific region, the Americas and Europe. We are confident that our current shareholders' funds will be sufficient to cover potential growth from our acquisition activity between now and the end of 2005.

QBE's strategy of having a well diversified spread of business, both geographically and by product, has been beneficial to shareholders. We continue to lead terms and conditions on most of the business that we write around the world. We have an experienced management team and professional underwriters who have been with us for many years and who continue to produce the required profitability within the parameters set out in our business plans. The strength of our underwriting teams and support staff gives us the confidence that we will achieve our goals over the short and long term.

Our hard working and loyal staff around the world should feel very satisfied with the performance of the Group for the half year and the solid position that we hold in the markets in which we operate.

WORLDWIDE PORTFOLIO MIX

GROSS EARNED PREMIUM

FOR THE HALF YEAR ENDED 30 JUNE	2005	2004
Marine and aviation	**6.2%**	6.3%
Accident and health	**6.5%**	5.7%
Property	**28.9%**	32.5%
Motor and motor casualty	**13.6%**	12.2%
Financial and credit	**2.3%**	2.6%
Liability	**22.8%**	18.9%
Professional indemnity	**9.1%**	9.5%
Workers' compensation	**9.3%**	10.6%
Other	**1.3%**	1.7%

AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("AIFRS")

From 1 January 2005, Australian companies are required to prepare financial statements under AIFRS. This represents a significant change from former Australian accounting practice. These changes represent the conclusion of the initial phase of a long running global convergence initiative to create a common 'stable platform' of international accounting standards. The intention of this exercise is to enable greater comparability between companies operating and reporting in different capital markets. The differences in methods of reporting will remain for some time as the US is unlikely to align with international standards in the near future, and Europe has deferred adoption of some of the more contentious changes for financial instruments and hedging. The Australian insurance accounting standard has largely been grandfathered and aligned with international standards. As a result, the impact for QBE Group may not be as significant as for other global insurers.

Over the last two years, QBE Group has been involved in discussions with the International and Australian Accounting Standards Boards, both directly and via the Insurance Council of Australia, to help produce a meaningful set of Australian standards which are comparable with those that will apply to our international peers. More comprehensive changes to the recognition and measurement of insurance transactions are expected in phase II of the International Accounting Standards Board's insurance accounting project. We will continue to engage with the standard setters as phase II continues.

The key messages from the transition to AIFRS for QBE Group are that:

- total equity at 31 December 2004 has reduced by $380 million;
- phase I of the AIFRS changes for insurance companies, whilst adding a significant compliance burden, has had no fundamental impact on the underlying economics of our business;
- QBE Group has a long held policy of maintaining prudential margins in outstanding claims and a rigorous approach to the valuation of insurance assets and liabilities. The probability of adequacy for outstanding claims at 31 December 2004 of 94% is unchanged by AIFRS;
- regulated capital as measured by QBE Group is impacted slightly with the capital adequacy multiple of 1.9 times reported at 31 December 2004 under previous Australian accounting standards reducing to 1.8 times; and
- the opening balance adjustment to retained profits will not affect our ability to pay dividends. Retained profits at 31 December 2004 after AIFRS adjustments are $1.2 billion.

The Group has now successfully completed its transition to AIFRS with full details of the financial impacts of the adoption of AIFRS set out in note 1(k). The major financial effects on shareholders' funds are generally non recurring transitional adjustments to restate opening balances under AIFRS. There may also be some ongoing volatility in the income statement and balance sheet due to fair value movements in assets and liabilities as noted below.

KEY STANDARDS IMPACTING QBE GROUP

Standard	Change	Impact
AASB 119: Employee benefits	Deficits and surpluses on defined benefit superannuation schemes to be included on the balance sheet	Total equity reduced by $142 million after tax at 31 December 2004.
AASB 2: Share-based payment	Employee loans and related shares issued are no longer included on balance sheet	Share capital reduced by $90 million at 31 December 2004, which will be reinstated when loans are repaid.
	Expensing of share options on employee incentive arrangements through income statement	Total impact on equity was minimal at 31 December 2004. Ongoing annual charge to the income statement.
AASB 3: Business combinations AASB 136: Impairment of assets	Reclassification of goodwill and intangibles. Amortisation of goodwill replaced by impairment testing	Total equity reduced by $49 million after tax at 31 December 2004 for impairment.
AASB 1023: General insurance contracts	Claims reserves to be discounted at risk free rate	Total equity reduced by $64 million after tax at 31 December 2004. No ongoing impact on income statement.
	Significant increases in disclosure	To be included in 31 December 2005 accounts.
AASB 139: Financial instruments: recognition and measurement	Hedge effectiveness testing	Potential volatility in income statement if hedges fail effectiveness tests.

AUSTRALIA PACIFIC ASIA CENTRAL EUROPE

The recently combined division of Australia Pacific Asia Central Europe ("APACE") brings together operations in 25 countries under a single management structure. The division now includes Central European operations in eight countries, namely Hungary, Ukraine, Macedonia, Moldova, Bulgaria, Slovakia, the Czech Republic and Estonia.

The APACE division produced an outstanding underwriting result. The combined operating ratio for the half year was 89.4% compared with 89.7% for the same period last year.

Gross earned premium for the half year increased 27% to $1,547 million. Net earned premium was up 27% to $1,320 million. Growth in gross earned premium was mainly due to acquisitions made in the second half of 2004. Net earned premium also benefited from synergies through the restructure of reinsurance programmes following these acquisitions.

Set out below are details of the APACE division results for the half year.

Australia

Australian operations continues to produce excellent underwriting results. The combined operating ratio was 89.3%, consistent with the same period last year. The result has benefited from a continued focus on portfolio profitability and risk selection, and improved conditions for insurers over the past four years.

Gross earned premium increased 33% to $1,199 million and net earned premium was up 36% to $1,041 million. The growth is primarily due to the acquisition of ING's share of the QBE Mercantile Mutual joint venture on 30 June 2004.

QBE continues to be a market leader in most of the commercial products that it underwrites in the Australian market. Premium rates for public and professional liability have decreased to reflect the improved claims experience, particularly from recent tort reforms introduced by various state governments with the support of the federal government.

All portfolios produced underwriting results ahead of plan except CTP business in NSW, which was affected by large losses and increased claims awards.

The claims ratio was 62.9% compared with 62.5% for the same period last year. A further reduction in frequency was more than offset by an increase in large loss and catastrophe claims during the half year. The commission ratio increased from 12.6% to 14.0%, reflecting the acquisitions in 2004. The expense ratio decreased from 14.2% to 12.4%, mainly due to the achievement of synergies previously announced.

We expect that gross written premium for 2005 will be around $2.4 billion. We continue to increase our business retention and monitor our pricing to ensure it is not inconsistent with the rest of the market. Premium rates have decreased in a number of commercial classes of business to reflect lower claims frequency and increased competition. We are confident that under current pricing and market conditions we can achieve our profit expectations for the various portfolios that we underwrite.

KEY RATIOS — APACE

		AUSTRALIA		PACE		TOTAL APACE	
FOR THE HALF YEAR ENDED 30 JUNE		**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Gross written premium	$M	**1,255**	951	**358**	333	**1,613**	1,284
Gross earned premium	$M	**1,199**	899	**348**	323	**1,547**	1,222
Net earned premium	$M	**1,041**	767	**279**	274	**1,320**	1,041
Claims ratio	%	**62.9**	62.5	**48.0**	53.0	**59.8**	60.0
Commission ratio	%	**14.0**	12.6	**18.3**	16.4	**14.9**	13.6
Expense ratio	%	**12.4**	14.2	**23.3**	21.5	**14.7**	16.1
Combined operating ratio	%	**89.3**	89.3	**89.6**	90.9	**89.4**	89.7
Insurance profit to net earned premium	%	**18.1**	14.9	**15.1**	12.0	**17.4**	14.1

PORTFOLIO MIX – AUSTRALIA

GROSS EARNED PREMIUM

FOR THE HALF YEAR ENDED 30 JUNE	**2005**	**2004**
Professional indemnity	**5.2%**	7.7%
Credit and surety	**4.6%**	5.9%
Accident and health	**6.5%**	6.3%
Property	**17.6%**	11.7%
Motor vehicle	**9.0%**	9.1%
Travel	**1.7%**	2.2%
Householders	**10.8%**	8.5%
Compulsory third party	**7.5%**	10.7%
General liability	**18.4%**	19.3%
Workers' compensation	**8.3%**	10.2%
Marine and aviation	**4.6%**	5.0%
Other	**5.8%**	3.4%

AUSTRALIA PACIFIC ASIA CENTRAL EUROPE

Pacific Asia Central Europe ("PACE")

Our PACE operations produced an outstanding underwriting result. The combined operating ratio was 89.6% compared with 90.9% for the same period last year. 23 of the 24 operations produced an underwriting profit for the half year.

Premium growth was affected by the stronger Australian dollar and competition, particularly for large property risks and construction workers' compensation business in Hong Kong. Gross earned premium increased 8% to $348 million and net earned premium increased 2% to $279 million. The acquisition of the Zurich Singapore portfolio in 2004 assisted growth. The claims ratio was 48.0% compared with 53.0% for the same period last year. The frequency and severity of claims continued to be low. The commission ratio was 18.3% compared with 16.4% for the same period last year. The increased commission ratio reflects the change in product and geographic mix. The expense ratio increased from 21.5% to 23.3%, mainly due to integration costs following the acquisition of the Zurich portfolio and higher incentive payments to staff for improved profits.

We continue to increase business retention and grow our specialist product lines through international and local insurance brokers. We are considering a number of acquisitions in the region that can be bolted on to existing operations. Our pricing for some commercial lines has reduced in line with our business plans to reflect the lower frequency of claims and increased competition.

QBE has management control and owns 50% or more of its businesses throughout the PACE region. We will not enter into any arrangements where QBE is not in control of its own destiny. Our current business is transacted in 24 countries where we have a strong distribution base of over 11,000 agents and longstanding business relationships with key insurance brokers.

Each of our general insurance operations in Central Europe is producing improved returns, reflecting the application of QBE's business strategy and culture. In the first half of 2005, we moved to exit our life operations as they do not meet our strategic objectives and profit requirements.

We have excellent businesses throughout Asia-Pacific and Central Europe and we are confident of meeting our targets for 2005.

Summary

The recent merger of the Australian, Asia-Pacific and Central European operations and the acquisition of ING's interest in QBE Mercantile Mutual joint venture will bring significant synergies and other benefits to the APACE division. We have already advised the market that we expect $20 million of synergies by the end of 2005 and a further $30 million by the end of 2006. We also see the opportunity to better use our diverse professional skills to meet our clients' requirements in the countries serviced by the APACE division.

Subject to the frequency of large losses and catastrophes not exceeding the substantial allowance in our business plans, we are confident of achieving our profitability targets for 2005.

PORTFOLIO MIX – PACE

GROSS EARNED PREMIUM

FOR THE HALF YEAR ENDED 30 JUNE	2005	2004
Professional indemnity	**10.1%**	9.7%
Marine	**10.8%**	10.3%
Workers' compensation	**5.7%**	4.1%
Motor and motor casualty	**18.5%**	19.5%
Property	**25.0%**	23.8%
Accident and health	**7.2%**	9.8%
Liability	**6.8%**	8.3%
Engineering	**3.0%**	2.8%
Travel	**3.6%**	3.5%
Householders	**3.7%**	2.8%
Other	**5.6%**	5.4%

EUROPEAN OPERATIONS

QBE's European operations comprise QBE Insurance (Europe) (formerly European company operations) and the Lloyd's division, trading as Limit.

The combined operating ratio for European operations was 90.7%, unchanged from the same period last year. The strong combined operating ratio was due to increasing premium rates in recent years, improved product terms and conditions and the continuation of a low frequency and severity of claims.

Gross earned premium in sterling for European operations increased by 4%, primarily due to a slight reduction in premium rates to reflect positive claims experience and increased competition. When translated to Australian dollars, gross earned premium was up 2% to $2,153 million and net earned premium increased 6% to $1,796 million.

QBE Insurance (Europe)

QBE Insurance (Europe) writes reinsurance business in London and Dublin and insurance business in London, Paris, Madrid and Dusseldorf. It also includes the Ensign motor business purchased in April 2004.

This division increased gross earned premium in local currency by 11%, primarily due to the inclusion of the Ensign motor business, which was previously written in the Lloyd's division, and the increased participation on that business for 2005. When translated to Australian dollars, gross earned premium increased 10% to $1,138 million and net earned premium was up 11% to $999 million. Premium growth was also assisted by an improvement in our business retention.

The combined operating ratio was 89.2% compared with 91.3% for the same period last year. These excellent combined operating ratios reflect the improved market conditions over recent years and the low frequency and severity of claims.

The claims ratio was 62.4% compared with 66.1% for the same period last year. This improvement reflects the low frequency of losses, partly offset by the January storms in Europe and an oil refinery loss in Canada, and the absence of prior year upgrades for US casualty and motor excess of loss classes which affected results in 2004.

The commission ratio was 15.3% compared with 15.5% for the same period last year. The slight decrease is due to the change in mix of business. The expense ratio was 11.5% compared with 9.7% for the same period last year. The increase reflects higher incentives to staff for improved insurance profits and provisions made for dilapidation and other costs incurred to achieve synergies by consolidating premises in the UK.

All major portfolios written in QBE Insurance (Europe) produced excellent profits on current underwriting. This gives us confidence that we can maintain the strong combined operating ratios through to the end of 2005, subject to large losses and catastrophes not exceeding the significant allowance in our insurance liabilities.

Limit

Limit is currently the largest manager and second largest provider of capacity at Lloyd's.

Effective 1 January 2005, the Ensign motor business was transferred to QBE Insurance (Europe). This has affected Limit's growth. Gross earned premium in local currency was down 4% and net earned premium was up 2% compared with the same period last year.

KEY RATIOS — QBE INSURANCE (EUROPE)		**GENERAL INSURANCE**		**INWARD REINSURANCE**		**TOTAL**	
FOR THE HALF YEAR ENDED 30 JUNE		**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Gross written premium	$M	**1,007**	866	**400**	419	**1,407**	1,285
Gross earned premium	$M	**831**	713	**307**	324	**1,138**	1,037
Net earned premium	$M	**725**	603	**274**	296	**999**	899
Claims ratio	%	**64.4**	69.7	**56.9**	58.8	**62.4**	66.1
Commission ratio	%	**14.8**	15.1	**16.8**	16.2	**15.3**	15.5
Expense ratio	%	**10.2**	9.0	**15.0**	11.1	**11.5**	9.7
Combined operating ratio	%	**89.4**	93.8	**88.7**	86.1	**89.2**	91.3
Insurance profit to net earned premium	%					**15.6**	13.6

PORTFOLIO MIX – QBE INSURANCE (EUROPE)

GROSS EARNED PREMIUM **FOR THE HALF YEAR ENDED 30 JUNE**	**2005**	**2004**
Professional indemnity	**13.7%**	14.2%
Financial and credit	**2.2%**	4.2%
Marine and aviation	**2.5%**	3.4%
Accident and health	**4.1%**	5.5%
Bloodstock	**2.3%**	2.0%
Property treaty	**5.5%**	6.3%
Property facultative and direct	**11.0%**	12.9%
Workers' compensation	**14.7%**	16.8%
Motor vehicle	**15.9%**	4.8%
Casualty	**5.0%**	10.3%
Public/product liability	**19.7%**	16.3%
Other	**3.4%**	3.3%

EUROPEAN OPERATIONS

Premium was also affected by slightly lower premium rates, increased competition and the strength of sterling against the US dollar. When translated to Australian dollars, gross earned premium was down 6% to $1,015 million and net earned premium was broadly unchanged at $797 million.

The combined operating ratio was 92.5% compared with 90.1% for the same period last year. The continuing low combined operating ratio reflects the favourable market conditions and the low frequency and severity of claims.

The claims ratio was 61.5% compared with 58.3% for the same period last year. The increase reflects the low claims frequency during the half year offset by the European storms, the oil refinery loss in Canada and an upgrade of old US casualty claims provisions in runoff syndicates.

The commission ratio was 19.0% compared with 19.5% due to a slight change in the mix of business. The expense ratio decreased from 12.3% to 12.0% with the increased costs of compliance and higher incentive costs on increased profits being more than offset by the synergies from the European restructure last September, including the merger of our two marine syndicates.

Premium rates for large property, liability and marine risks have been adjusted downwards to reflect the lower claims frequency and increased competition. However, premium rates and policy conditions are still sufficient for us to meet our profit requirements for the substantial majority of the portfolios that we write. The strength of our insurance liabilities and our lead position in the Lloyd's market give us confidence that we will achieve our full year insurance profit targets, subject to large losses and catastrophes not exceeding the substantial allowance in our insurance liabilities.

Summary

We previously announced that the European operations restructure in September 2004 will deliver $30 million of synergies by the end of 2005 and another $50 million by the end of 2007. We are on track to achieve these synergies which include savings in reinsurance costs. A further reorganisation in June 2005 to merge the commercial and retail divisions to form QBE Insurance (Europe) should increase these savings to at least $90 million in a full year.

Overall, premium rates have reduced during the half year in line with our plans. The results for the market are such that we expect some further rate reductions in the remainder of 2005. We will continue to adjust our portfolios to ensure that we meet profitability requirements. We have already taken steps to reduce some portfolios and focus on retention of our quality customers and acquisitions.

The Greenhill underwriting agency acquisition announced in March 2005 has been completed and we expect around A$50 million of premium income in 2006. We are also looking at a number of other opportunities to achieve growth for 2006.

As for other operations in QBE, insurance liabilities include a substantial allowance for large losses and catastrophes in the second half of 2005. This, together with the synergies mentioned earlier and acquisition opportunities, gives us confidence regarding our performance for the rest of 2005 and through 2006.

KEY RATIOS — LLOYD'S DIVISION		**GENERAL INSURANCE**		**INWARD REINSURANCE**		**TOTAL**	
FOR THE HALF YEAR ENDED 30 JUNE		**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Gross written premium	$M	**729**	877	**664**	625	**1,393**	1,502
Gross earned premium	$M	**616**	681	**399**	401	**1,015**	1,082
Net earned premium	$M	**501**	488	**296**	306	**797**	794
Claims ratio	%	**65.1**	57.7	**55.4**	58.9	**61.5**	58.3
Commission ratio	%	**18.7**	19.4	**19.3**	19.8	**19.0**	19.5
Expense ratio	%	**12.4**	13.3	**11.5**	10.8	**12.0**	12.3
Combined operating ratio	%	**96.2**	90.4	**86.2**	89.5	**92.5**	90.1
Insurance profit to net earned premium	%					**15.4**	15.1

PORTFOLIO MIX – LLOYD'S DIVISION

GROSS EARNED PREMIUM **FOR THE HALF YEAR ENDED 30 JUNE**	**2005**	**2004**
Professional indemnity	**13.8%**	13.5%
Marine and aviation	**12.2%**	13.3%
Property	**34.7%**	35.5%
Casualty	**34.8%**	29.1%
Motor	**3.3%**	6.8%
Other	**1.2%**	1.8%

THE AMERICAS

QBE the Americas comprises general insurance and reinsurance businesses in the US and a number of countries in Latin America. The combined operating ratio for the half year was 92.1% compared with 91.3% for the same period last year. The excellent combined operating ratio reflects the strong market conditions and our team's continued focus on profitability.

Growth in gross earned premium in US dollars was 3% following a slight overall increase in premium rates and a higher retention of business, partly offset by lower new business written in the half year. On translation to Australian dollars, gross earned premium decreased 2% to $631 million and net earned premium increased 3% to $390 million.

General insurance business now represents 71% of total gross written premium in the region compared with 68% for the same period last year. This reflects our strategy of focusing on general insurance programme business and general insurance acquisitions and, where possible, converting reinsurance relationships into primary insurance. As mentioned in previous reports, many of our programme portfolios are protected by proportional reinsurance with highly rated reinsurers.

The claims ratio for the half year was 61.3% compared with 62.0% for the same period last year. The 2002, 2003, and 2004 underwriting years continue to show excellent results and reported claims for 2005 to date have been lower than expected. The commission ratio increased from 23.2% to 24.4%, reflecting the changing mix of business. The expense ratio increased from 6.1% to 6.4%. This increase reflects the higher expenses of general insurance business when compared with reinsurance business and the increased allowance for staff incentives.

All our general insurance and reinsurance portfolios in the US are producing underwriting profits. Our Latin American business is also producing underwriting profits. QBE del Istmo, our joint venture reinsurance business in Latin America, continues to produce excellent results.

Our focus on selected regional portfolios in the US and Latin America means that we are not as exposed to the insurance cycle as others who write nationwide and large risks. We generally do not write long tail US casualty or US workers' compensation business. We have achieved overall premium rate increases slightly ahead of plan for 2005 to date. We acquired an insurance business in Colombia and we have also been successful in acquiring the National Farmers Union Property and Casualty Company which is based in Colorado, and which, subject to regulatory approval, we expect to complete in the fourth quarter. These two acquisitions will add more than US$250 million to our gross written premium in a full year, increasing annualised gross written premium from QBE the Americas to around US$1.4 billion.

We are now seen as a leader in the segments of the market in which we operate. The recent acquisitions and premium rate increases give us confidence that we will be ahead of plan for gross written premium in US dollars for 2005. We have an allowance for large losses and catastrophes in our insurance liabilities as well as comprehensive reinsurance protection for catastrophes in the second half of the year. This, together with the strong performance from our various products, gives us confidence that we will achieve our profit targets for the full year.

KEY RATIOS — THE AMERICAS

FOR THE HALF YEAR ENDED 30 JUNE		GENERAL INSURANCE 2005	GENERAL INSURANCE 2004	INWARD REINSURANCE 2005	INWARD REINSURANCE 2004	TOTAL 2005	TOTAL 2004
Gross written premium	$M	**506**	472	**204**	220	**710**	692
Gross earned premium	$M	**465**	442	**166**	199	**631**	641
Net earned premium	$M	**242**	198	**148**	182	**390**	380
Claims ratio	%	**62.0**	62.9	**60.1**	60.9	**61.3**	62.0
Commission ratio	%	**25.2**	22.9	**23.0**	23.7	**24.4**	23.2
Expense ratio	%	**6.6**	5.6	**6.1**	6.6	**6.4**	6.1
Combined operating ratio	%	**93.8**	91.4	**89.2**	91.2	**92.1**	91.3
Insurance profit to net earned premium	%					**11.3**	9.5

PORTFOLIO MIX – THE AMERICAS

GROSS EARNED PREMIUM

FOR THE HALF YEAR ENDED 30 JUNE	2005	2004
Property	**35.9%**	31.3%
Casualty	**27.7%**	26.4%
Motor and motor casualty	**13.3%**	18.2%
Accident and health	**17.5%**	19.4%
Workers' compensation	**2.7%**	1.4%
Other	**2.9%**	3.3%

INVESTMENTS

The gross investment yield for the half year was 5.3% compared with 2.9% for the same period last year. The yield includes net realised and unrealised gains and losses on investments and is before borrowing costs, exchange gains and losses and investment expenses. Net realised and unrealised investment gains for the half year before tax were $94 million compared with a loss of $67 million for the same period last year. Investment income has been assisted by higher interest rates, our strategy of short duration and active management of fixed interest securities, and the continuation of strong cash flow from operations.

Net investment income before tax for the half year, which is net of borrowing costs, foreign exchange gains and losses and investments expenses, increased from $132 million to $337 million.

Cash flow for the six months and acquisitions have resulted in net invested funds increasing to $14.0 billion at 30 June 2005 compared with $13.2 billion at 31 December 2004. We continue to maintain a policy of matching liabilities with assets of the same currency and managing all "tradeable" overseas shareholders' funds back into Australian dollars.

We outperformed the investment benchmarks for the majority of our portfolios and have exceeded our budget for the half year. We have reduced our overexposure to our two long-held resource stocks in Australia.

Our strategy of maintaining a low risk investment portfolio with a small exposure to equities and a short duration for fixed interest securities remains in place. Both the fixed interest and equity portfolios are actively managed to maximise opportunities from changed market conditions. We currently have a weighting to listed equities of 8.2% of total investments and cash. Fixed interest and cash portfolios are at an average maturity of 0.6 years. At 30 June 2005 our listed equity portfolio was invested 34% in Australian dollars, 27% in sterling, 27% in US dollars and 12% in other currencies.

We will continue to monitor the world's key economies, particularly the US. At this stage we do not expect to increase our exposure to equities in 2005. We will continue to actively manage our investment portfolio. The recent increases in interest yields on our substantial US cash and fixed interest portfolios will assist investment income in the next six months and through 2006. Subject to no material fall in equity markets from 30 June 2005 levels, we are confident of a further improvement in investment income in the second half of 2005.

INVESTMENT INCOME

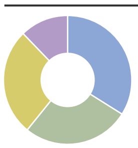
FOR THE HALF YEAR ENDED 30 JUNE	2005	2004
Dividends	**25**	30
Interest	**281**	220
Other income	**9**	7
	315	257
Realised gains (losses) on fixed interest securities	**17**	(13)
Realised gains on equities and properties	**38**	36
Unrealised gains (losses) on fixed interest securities	**22**	(39)
Unrealised gains (losses) on equities and properties	**17**	(51)
Net fair value gains (losses)	**94**	(67)
Gross investment income	**409**	190

TOTAL FINANCIAL ASSETS (INVESTMENTS) AND CASH

	30 JUNE 2005		31 DECEMBER 2004	
	$M	%	$M	%
Cash and cash equivalents	**1,492**	**9.5**	1,121	7.5
Short term money	**5,362**	**34.1**	5,482	36.6
Fixed interest securities and other	**7,483**	**47.6**	6,947	46.4
Mortgages	**9**	**0.1**	10	0.1
Equities	**1,344**	**8.5**	1,383	9.2
Investment properties	**31**	**0.2**	32	0.2
Total financial assets and cash	**15,721**	**100.0**	14,975	100.0

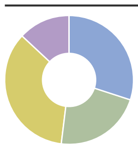
CURRENCY MIX

EQUITIES



AS AT 30 JUNE	2005	2004
Australian dollar	**34%**	37%
US dollar	**27%**	23%
Sterling	**27%**	21%
Other	**12%**	19%

TOTAL FINANCIAL ASSETS (INVESTMENTS) AND CASH



AS AT 30 JUNE	2005	2004
Australian dollar	**30%**	29%
US dollar	**22%**	21%
Sterling	**35%**	37%
Other	**13%**	13%

DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2005

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 2005.

Directors

The following directors held office during the half year and up to the date of this report:
LF Bleasel AM
EJ Cloney (chairman)
The Hon NF Greiner AC
BJ Hutchinson
CLA Irby
IYL Lee
FM O'Halloran

CP Curran AO retired on 8 April 2005.

Consolidated results

HALF YEAR ENDED 30 JUNE	2005 $M	2004 $M
Revenue		
Premium revenue	**4,331**	3,982
Other revenue	**780**	636
Net fair value gains on financial assets	**94**	–
Investment income – ABC financial assets pledged for funds at Lloyd's	**60**	17
	5,265	4,635
Expenses	**4,476**	4,062
Amortisation of intangibles and impairment of goodwill/intangibles	**1**	–
Net fair value losses on financial assets	**–**	67
Borrowing costs expense	**46**	37
Borrowing costs expense – ABC securities for funds at Lloyd's	**67**	40
Profit from ordinary activities before income tax	**675**	429
Income tax expense attributable to profit from ordinary activities	**181**	83
Profit from ordinary activities after income tax	**494**	346
Net profit attributable to minority interest	**3**	3
Net profit attributable to members of the company	**491**	343

Balance sheet

Adjustments as a result of the adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS") reduced shareholders' funds at 31 December 2004 by $380 million, to $4,040 million.

Shareholders' funds increased from $4,040 million at 31 December 2004 to $4,486 million at 30 June 2005.

Profit

The directors are pleased to announce a profit after tax of $491 million for the half year ended 30 June 2005 compared with $343 million for the same period last year. The significant increase in profit reflects the benefit of premium growth from acquisitions, the continuation of favourable insurance market conditions and improved investment yields. Comparatives have been restated for the impact of adopting AIFRS.

Dividends

The directors are also pleased to announce an interim dividend of 33.0 cents per share, 50% franked. The dividend payout, including shares issued under the Dividend Election and Reinvestment Plans, will be $254 million compared with $164 million for the same period last year. The Dividend Election and Reinvestment Plans continue at a discount rate of 2.5% for the interim dividend. However, in line with general market practice, the directors have decided to suspend the discount for future dividends, commencing March 2006.

Review of operations

Gross earned premium was $4,331 million, an increase of 9% over the same period last year. Premium growth was assisted by the acquisitions made in the second half of 2004, primarily the acquisition on 30 June 2004 of ING's 50% interest in the QBE Mercantile Mutual joint venture. Net earned premium increased 13% to $3,506 million. Reinsurance costs decreased from 22% to 19% of gross earned premium primarily due to synergies from acquisitions and the restructure in the UK in 2004 . The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 90.3% compared with 90.5% for the same period last year. The claims ratio of 61.0% decreased from 61.6% last year. The effect of a slight reduction in premium rates was offset by a lower frequency of claims and the maintenance of improved insurance terms and higher deductibles achieved in recent years. The commission ratio increased slightly from 16.8% to 17.0%, reflecting a change in the mix of business and the impact of acquisitions in the year. The expense ratio was 12.3%, up slightly from 12.1% for the same period last year due to: a provision for dilapidation and other costs associated with the consolidation of our premises in the UK; staff redundancy payments to achieve synergies in the UK and Australia; and costs associated with our share-based incentive plans.

Australian general insurance combined operating ratio was 89.3%, unchanged from the same period last year. The strong result was achieved from a continued focus on portfolio profitability and risk selection, and improved conditions for insurers over the past four years. Net earned premium of $1,041 million was up 36% from the same period last year, from improved customer retention ratios and the acquisition of the remaining 50% of the QBE Mercantile Mutual joint venture. The claims ratio increased from 62.5% to 62.9%. A further reduction in frequency was more than offset by an increase in large loss and catastrophe claims during the half year. The commission ratio increased from 12.6% to 14.0% due to higher commissions on acquired business. The expense ratio decreased from 14.2% for the same period last year to 12.4%.

Pacific Asia Central Europe combined operating ratio was 89.6% compared with 90.9% for the same period last year, from the continued focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions in the past four years. Premium growth was affected by the stronger Australian dollar and increased competition, particularly for large property risks and construction workers' compensation business in Hong Kong. Net earned premium increased by 2% to $279 million. The claims ratio decreased from 53.0% to 48.0% from a continued low frequency of claims. The commission ratio increased from 16.4% to 18.3% reflecting a change in the product and geographic mix of business, and the expense ratio increased from 21.5% to 23.3%. Expenses include the cost of investigating new market opportunities to improve our geographical and product spread.

QBE Insurance (Europe) reported net earned premium growth of 11% to $999 million, primarily due to the inclusion of the Ensign motor business, which was previously written in the Lloyd's division, and the increased participation on that business for 2005. The division produced a combined operating ratio of 89.2% compared with 91.3% for the same period last year. These excellent combined operating ratios reflect the improved market conditions over recent years and the low frequency and severity of claims. The claims ratio was 62.4% compared with 66.1% for the same period last year. The commission ratio decreased from 15.5% to 15.3% from a change in the mix of business. The expense ratio increased from 9.7% for the same period last year to 11.5% due to the higher incentives to staff for improved insurance profits and provisions made for dilapidation and other costs incurred to achieve synergies by consolidating premises in the UK from September 2005.

Lloyd's division combined operating ratio was 92.5% compared with 90.1% for the same period last year. The continuing low combined operating ratio reflects the favourable market conditions and the low frequency and severity of claims. Net earned premium was broadly unchanged at $797 million due to the transfer of the Ensign business to QBE Insurance (Europe), slightly lower premium rates and the strength of sterling against the US dollar. The claims ratio increased from 58.3% to 61.5% reflecting the low frequency of losses, offset by the European storms, the Canadian oil refinery loss and an upgrade of old US casualty claims provisions in runoff syndicates. The commission ratio decreased from 19.5% to 19.0%. The expense ratio decreased from 12.3% to 12.0% with the increased costs of compliance and higher incentive costs on increased profits being more than offset by the synergies from the European organisation restructure last September, including the merger of our two marine syndicates.

DIRECTORS' REPORT CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

the Americas reported net earned premium growth of 3% to $390 million following a slight overall increase in premium rates and a higher retention of business, partly offset by less new business written in the half year. The combined operating ratio was 92.1% compared with 91.3% for the same period last year. The excellent combined operating ratio reflects the improved market conditions and our team's continued focus on profitability. The claims ratio improved from 62.0% to 61.3% due to lower than expected claims in the 2005 underwriting year and strong results from 2002, 2003 and 2004. The commission ratio increased from 23.2% for the same period last year to 24.4% reflecting the changing mix of business. The expense ratio increased from 6.1% to 6.4% due to the higher expenses of general insurance business when compared with reinsurance business and the increased allowance for staff incentives for improved profitability.

The provision for **outstanding claims** is determined for the substantial majority of Group entities after consultation with actuaries. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. As in previous years, the directors consider that substantial prudential margins are required in addition to actuarial central estimates to cover uncertainties such as latency claims, changes in interest rates and superimposed inflation. The APRA prudential standards provide that, for Australian licensed insurers, outstanding claims must be set at a level that provides a probability of at least 75% that the provision for outstanding claims will be adequate to settle claims as they become payable in the future. The directors have satisfied themselves that the Group's outstanding claims provisions exceed this requirement.

Net investment income increased 155% to $337 million, reflecting the cash flow for the period and improved yields for cash and shorter duration fixed interest securities, particularly in the US and Australia, and higher equity markets. Cash flow was down compared with the same period last year due to the settlement of claims in respect of the catastrophes that occurred in the second half of 2004. The result includes net realised and unrealised gains on investments of $94 million ($67 million loss for the same period last year) and foreign exchange losses of $9 million ($9 million gain for the same period last year). The gross investment yield before borrowing costs, exchange gains and losses and investment expenses was 5.3% compared with 2.9% for the same period last year.

Income tax expense increased from 19% of profit before tax for the same period last year to 27%, primarily due to higher profits in Australia, the US and the UK. The 2004 income tax expense benefited from the release of prior year provisions.

Auditor's independence declaration

A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 17.

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 17th day of August 2005 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 2005, 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

PricewaterhouseCoopers

Sydney
17 August 2005

Liability is limited by the Accountant's Scheme under the *Professional Standards Act 1994 (NSW)*.

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2005

	NOTE	2005 $M	2004 $M
Revenue			
Premium revenue		**4,331**	3 ,982
Other revenue		**780**	636
Net fair value gains on financial assets		**94**	–
Investment income – ABC financial assets pledged for funds at Lloyd's		**60**	17
	2	**5,265**	4,635
Expenses		**4,476**	4,062
Amortisation of intangibles and impairment of goodwill/intangibles		**1**	–
Net fair value losses on financial assets		**–**	67
Borrowing costs expense		**46**	37
Borrowing costs expense – ABC securities for funds at Lloyd's		**67**	40
Profit from ordinary activities before income tax	3	**675**	429
Income tax expense attributable to profit from ordinary activities		**181**	83
Profit from ordinary activities after income tax		**494**	346
Net profit attributable to minority interest		**3**	3
Net profit after tax attributable to members of the company		**491**	343
		CENTS	**CENTS**
Basic earnings per share	7	**64.6**	50.7
Diluted earnings per share	7	**60.8**	44.8

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2005

	NOTE	30 JUNE 2005 $M	31 DECEMBER 2004 $M	30 JUNE 2004 $M
CURRENT ASSETS				
Cash and cash equivalents		**1,492**	1,121	1,127
Receivables		**4,210**	3,146	4,278
Reinsurance and other recoveries on outstanding claims		**868**	805	890
Deferred insurance costs		**1,674**	1,341	1,680
Financial assets at fair value through income		**6,226**	6,548	4,648
Derivative financial instruments		**102**	42	8
Tax assets		**7**	2	11
Other		**1**	2	7
Total current assets		**14,580**	13,007	12,649
NON-CURRENT ASSETS				
Reinsurance and other recoveries on outstanding claims		**2,369**	2,338	2,429
Financial assets at fair value through income		**7,972**	7,274	8,529
Investment properties		**31**	32	34
ABC financial assets pledged for funds at Lloyd's		**1,005**	998	787
Property, plant and equipment		**200**	186	209
Intangible assets		**1,056**	1,039	872
Deferred tax assets		**120**	73	45
Other		**32**	36	24
Total non-current assets		**12,785**	11,976	12,929
Total assets		**27,365**	24,983	25,578
CURRENT LIABILITIES				
Trade and other payables		**1,469**	1,084	2,325
Outstanding claims		**3,862**	3,670	3,649
Unearned premium		**4,740**	3,920	4,722
Interest bearing liabilities		**–**	–	91
Derivative financial instruments		**30**	17	14
Current tax liabilities		**128**	73	43
Total current liabilities		**10,229**	8,764	10,844
NON-CURRENT LIABILITIES				
Outstanding claims		**9,373**	8,935	9,056
Interest bearing liabilities		**1,742**	1,805	1,356
Swaps relating to ABC securities		**13**	30	19
ABC securities for funds at Lloyd's		**992**	968	772
Deferred tax liabilities		**193**	125	16
Provisions		**277**	256	202
Total non-current liabilities		**12,590**	12,119	11,421
Total liabilities		**22,819**	20,883	22,265
Net assets		**4,546**	4,100	3,313
EQUITY				
Share capital	5	**2,965**	2,780	2,349
Equity component of hybrid securities		**108**	108	59
Reserves		**(80)**	(54)	(4)
Retained profits		**1,493**	1,206	847
Shareholders' funds		**4,486**	4,040	3,251
Minority interests		**60**	60	62
Total equity		**4,546**	4,100	3,313

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 2005

	2005 $M	2004 $M
Net decrease in foreign currency translation reserve	**(17)**	(21)
Actuarial (losses) gains on defined benefit superannuation schemes, net of tax	**(20)**	4
Cash flow hedges, net of tax	**(3)**	(1)
Employee share options, net of tax	**14**	7
Net expense recognised directly in equity	**(26)**	(11)
Net profit after tax attributable to members of the company	**491**	343
Total recognised income and expense for the period	**465**	332
Total recognised income and expense for the period is attributable to:		
Equity holders	**462**	329
Minority interests	**3**	3
	465	332

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 2005

	2005 $M	2004 $M
OPERATING ACTIVITIES		
Premium received	**4,707**	4,426
Reinsurance and other recoveries received	**427**	409
Outwards reinsurance paid	**(1,150)**	(1,248)
Claims paid	**(2,206)**	(1,840)
Insurance costs paid	**(876)**	(744)
Other underwriting costs	**(292)**	(168)
Interest received	**276**	215
Dividends received	**21**	29
Other operating income	**1**	3
Other operating payments	**(95)**	(12)
Interest paid	**(40)**	(44)
Income taxes paid	**(101)**	(128)
Net cash flows from operating activities	**672**	898
INVESTING ACTIVITIES		
Proceeds on sale of equity investments	**393**	728
Proceeds on sale of property, plant and equipment	**–**	6
Proceeds on sale of investment property	**1**	–
Payments for purchase of equity investments	**(311)**	(805)
Proceeds from (payments for) foreign exchange transactions	**126**	(97)
Payments for purchase of other investments	**(359)**	(231)
Purchase of controlled entities (net of cash acquired)	**(42)**	(88)
Payments for purchase of investment property	**1**	–
Payments for purchase of property, plant and equipment	**(36)**	(16)
Net cash flows from investing activities	**(227)**	(503)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**–**	1
Proceeds from issue of ESOP shares	**19**	11
Proceeds from borrowings	**–**	98
Repayment of borrowings	**–**	(99)
Dividends paid	**(107)**	(63)
Net cash flows from financing activities	**(88)**	(52)
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD	**357**	343
Cash and cash equivalents at the beginning of the half year	**1,121**	717
Effect of exchange rate changes on opening cash and cash equivalents	**14**	67
Cash and cash equivalents at the end of the half year	**1,492**	1,127

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 2005

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

This general purpose consolidated financial report for the half year ended 30 June 2005 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group interpretations corresponding to the interpretations approved by the International Accounting Standards Board ("IASB") and the *Corporations Act 2001*. The financial report for the half year ended 30 June 2005 does not include all of 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 2004 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*.

Until 31 December 2004, financial statements of the consolidated entity had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). All accounting policies adopted are consistent with those of the previous financial year and corresponding half year except for those policies detailed below which have changed as a result of the adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS") on 1 January 2005. For the consolidated entity the date of adoption of AIFRS was 1 January 2004, which is the start of the comparative period.

This half year report is the first report to be prepared by the consolidated entity in accordance with AIFRS. AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards ("AASB 1") has been applied in preparing these financial statements. When preparing this half year report, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS and the comparative figures have been restated to reflect these adjustments.

Further standards and interpretations may be issued that could be applicable for financial years beginning on or after 1 January 2005 or that are applicable to later accounting periods but with the option for companies to adopt for earlier periods. The consolidated entity's first annual financial statements prepared under AIFRS may, therefore, be prepared in accordance with accounting policies which differ from those used in the preparation of the financial information in this document. In addition, AIFRS is currently being applied in many countries for the first time and contains many new and revised standards and therefore practice on which to draw in applying the standards may develop. At this preliminary stage, before the consolidated entity's first annual financial statements prepared under AIFRS are completed, it should be noted that the financial information in this document could be subject to change.

The consolidated entity has taken the exemption available under AASB 1 to only apply AASB 3: Business Combinations from 1 January 2004. The consolidated entity has also taken the exemption under AASB 1 to only apply AASB 2: Share-based Payment ("AASB 2") to options and conditional rights issued after 7 November 2002 and vesting after 1 January 2005. Accordingly, no expense is recognised in respect of instruments granted before 7 November 2002 and/or vesting before 1 January 2005.

The consolidated entity has elected to apply AASB 119: Employee Benefits ("AASB 119"), issued December 2004, to reporting periods beginning on or after 1 January 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors.

The consolidated entity has not taken the exemptions available under AASB 1 in respect of the restatement of comparative figures on application of:

- AASB 132: Financial Instruments: Disclosure and Presentation;
- AASB 139: Financial Instruments: Recognition and Measurement ("AASB 139");
- AASB 4: Insurance Contracts; and
- AASB 1023: General Insurance Contracts ("AASB 1023").

Consequently, comparative figures have been restated.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity and profit after tax are set out in note 1(k).

(a) Insurance contracts

AASB 1023 defines an insurance contract, and any contracts not meeting this definition must be accounted for under AASB 139. Insurance and reinsurance contracts within the consolidated entity have been reviewed and fall within AASB 1023.

AASB 1023 has also introduced a requirement to include prudential margins in outstanding claims, an impairment test for reinsurance assets and an adequacy test for insurance liabilities.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The test is carried out at the divisional business segment level, being a portfolio of contracts that are broadly similar and managed together as a single portfolio. If the unearned premium liability, less related intangible assets and deferred acquisition costs, is deficient, then the resulting deficiency is recognised in the income statement of the consolidated entity.

The fundamental changes to insurance recognition and measurement proposed in phase II of the IASB's insurance contracts project are being monitored.

(b) Financial assets

(i) Classification of policyholders' and shareholders' funds

Policyholders' funds are those financial assets which are held to fund the insurance liabilities of the consolidated entity. The remaining financial assets, including equities and investment properties, represent shareholders' funds. Insurance profit is derived by adding investment income on policyholders' funds, which excludes unrealised gains and losses on investments, to the underwriting result.

(ii) Policyholders' funds

In accordance with AASB 1023, the consolidated entity is required to measure financial assets held to fund insurance liabilities at fair value through income.

(iii) Shareholders' funds

AASB 139 has an option to measure all financial assets at fair value through income. Shareholders' funds constitutes a group of financial assets which are managed, and their performance evaluated, on a fair value basis in accordance with the consolidated entity's documented investment strategy. The consolidated entity has therefore elected to measure all financial assets that do not fund general insurance liabilities at fair value through income upon initial recognition and at the date of transition to AIFRS.

(iv) Basis of valuation

Fair value for each type of financial asset is determined as follows:

Listed investments – by reference to the closing bid price of the instrument at balance sheet date.

Unlisted investments – the fair value of financial assets not traded on an active market is determined using valuation techniques including reference to:

- the fair value of recent arm's length transactions involving the same instrument or instruments that are substantially the same;
- discounted cash flow analysis; and
- option pricing models to reflect the issuer's specific circumstances.

Investment properties – by reference to external market valuations.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the consolidated entity commits to buy or sell the asset. Financial assets are derecognised when the right to receive future cash flows from the assets has expired, or has been transferred, and the consolidated entity has transferred substantially all the risks and rewards of ownership.

(v) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through the income statement. Derivatives which are part of a hedging relationship are accounted for as set out in note 1(e). The fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet date.

(c) Borrowings

Borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of borrowings using the effective interest method.

(d) Foreign currency translation

(i) Functional and presentational currency

Items included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated entity's financial statements are presented in Australian dollars, being the functional and presentation currency of QBE Insurance Group Limited.

(ii) Transactions and balances

Foreign currency transactions are translated into functional currencies at the rates of exchange at the dates of the transactions. At the balance date, amounts payable and receivable in foreign currencies are translated at the rates of exchange prevailing at that date. Exchange gains and losses on operational foreign currency transactions and the translation of amounts receivable and payable in foreign currencies are included in the income statement.

The results and financial position of all overseas controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing balance sheet rates of exchange;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas controlled entities, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When an overseas controlled entity is sold, such exchange

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

differences are recognised in the income statement as part of the gain or loss on sale.

(e) Hedging transactions

When derivatives are held for risk management purposes, and when transactions meet the criteria specified in AASB 139, the consolidated entity applies fair value hedge accounting, cash flow hedge accounting or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

When a financial instrument is designated as a hedge, the consolidated entity formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the hedged item matures or is sold or repaid.

(i) Fair value hedge accounting

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

(ii) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity and recycled to the income statement in the periods when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised in the income statement immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item affects the income statement. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(iii) Hedges of net investments

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation.

(f) Owner occupied properties

Under AASB 140: Investment Property ("AASB 140"), owner occupied properties are measured at fair value by reference to external market valuations. When a revaluation increases the carrying value of a property, the increase is credited to the revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. To the extent that the decrease reverses an increase previously recognised in equity, the decrease is first recognised in equity.

(g) Employee benefits

(i) Superannuation

The consolidated entity participates in a number of superannuation plans and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities.

Defined contribution plans

For defined contribution plans, contributions are expensed as incurred.

Defined benefit plans

The liability recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity. Past service costs are recognised immediately in income, unless the changes to the superannuation plan are conditional on the employees remaining in service for a specified period of time (the vesting period) in which case the past service costs are amortised on a straight line basis over the vesting period.

(ii) Share-based compensation

The consolidated entity operates an equity settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of options and conditional rights is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is earned evenly over the period between the grant and vesting dates. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

(h) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets acquired. Goodwill acquired in a business combination is tested for impairment.

(ii) Intangible assets

Intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful lives. Intangible assets are tested for impairment annually or more often if there is an indication of impairment.

(i) Impairment of assets

Assets, including goodwill and intangibles, that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Taxation

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on those rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company and all of its Australian wholly owned controlled entities have implemented the tax consolidation legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

(k) Impact of the adoption of AIFRS

In preparing the opening AIFRS compliant balance sheet, a number of adjustments have been made to the figures previously reported in the 31 December 2004 financial report. The impacts of the adoption of AIFRS on total equity brought forward and 2004 profit after tax reported under previous AGAAP are illustrated below. All amounts have been tax effected in accordance with AASB 112: Income Taxes.

(i) Reconciliation of total equity under previous AGAAP to that under AIFRS:

	31 DECEMBER 2004 $M	30 JUNE 2004 $M	1 JANUARY 2004 $M
Brought forward equity under previous AGAAP	4,480	3,677	3,368
Defined benefit superannuation scheme obligations[1]	(142)	(122)	(117)
Shares under Employee Share and Option Plan derecognised[2]	(90)	(103)	(76)
Impairment[3]	(49)	(52)	(62)
Risk free rate adjustment[4]	(64)	(60)	(70)
Cash flow hedges[5]	(17)	(16)	(15)
Swaps relating to ABC securities[6]	(20)	(13)	(2)
Fair value of financial assets[7]	(4)	(3)	(2)
Share-based payments[8]	7	4	1
Amortisation of borrowing costs using effective interest rate method[9]	(1)	1	–
	(380)	(364)	(343)
Brought forward equity under AIFRS	4,100	3,313	3,025

(ii) Reconciliation of profit from ordinary activities after tax under previous AGAAP to that under AIFRS:

	YEAR ENDED 31 DECEMBER 2004 $M	HALF YEAR ENDED 30 JUNE 2004 $M
Profit after tax under previous AGAAP	820	320
Defined benefit superannuation scheme obligations[1]	3	1
Reversal of goodwill amortisation[3]	13	10
Risk free rate adjustment[4]	6	10
Swaps relating to ABC securities[6]	(18)	(11)
Fair value of financial assets[7]	(2)	(1)
Share-based payments[8]	(9)	(4)
Amortisation of borrowing costs using effective interest rate method[9]	(1)	1
Interest component of forward contracts used for hedging[10]	34	17
	26	23
Profit after tax under AIFRS	846	343

(iii) There are no material differences to the statement of cash flows presented under AIFRS from that presented under previous AGAAP.

(k) Impact of the adoption of AIFRS continued

Notes

1 Under AIFRS, the net deficit or surplus on defined benefit superannuation scheme obligations must be recognised on the balance sheet. Under previous AGAAP, deficits or surpluses were not recognised. An asset or liability, as determined by reference to external valuations, has been recognised where the present value of the employees' accrued benefits is less than or exceeds the net market value of the superannuation schemes' assets.

2 Due to the existence of a non-recourse loan feature, the consolidated entity's Employee Share and Option Plan ("ESOP") is treated as an option under AASB 2. As a result, the employee loans and shares issued to date are derecognised under AIFRS. The share capital will be reinstated onto the balance sheet when the loans are repaid by employees. Consequently, the issued share capital on the balance sheet of the consolidated entity differs from issued share capital as notified to the Australian Stock Exchange.

3 Under previous AGAAP, goodwill was amortised over its estimated useful life whilst intangible assets were subject to ongoing impairment review. Under AIFRS, goodwill and intangible assets with an indefinite life must be tested for impairment and are no longer amortised. Intangible assets with a finite useful life are reviewed periodically for impairment and amortised over their estimated useful life. The process for impairment testing under AIFRS is more prescriptive than under previous AGAAP and the application of this process has resulted in an impairment to goodwill of $62 million.

4 Under AIFRS, the outstanding claims liability must be discounted at a risk free rate. Under AGAAP, the consolidated entity discounted the outstanding claims liability with reference to market risk related returns.

5 The consolidated entity has designated certain derivatives as cash flow hedges. These instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured to fair value at each balance date. The derivatives have qualified for hedge accounting and therefore the portion of the hedge determined to be an effective hedge has been recognised directly in equity. Such instruments were previously accounted for on an accruals basis.

6 The interest rate and cross-currency interest rate swaps in relation to the ABC securities are initially valued at fair value and are subsequently remeasured to fair value through the income statement.

7 The fair value of quoted investments is based on closing bid prices. Under previous AGAAP the consolidated entity used trade price as the basis of valuation.

8 Under AASB 2 the consolidated entity is required to recognise an expense for those options that were issued to employees under share-based compensation plans after 7 November 2002 and that had not vested by 1 January 2005.

9 Borrowings are valued at amortised cost using the effective interest rate method. Under previous AGAAP, borrowings were carried at their principal amount and borrowing costs were expensed on a straight line basis over the period of the borrowings.

10 As permitted under AASB 139, the spot component of a forward contract is designated in the consolidated entity's hedging of net investments in foreign operations. The interest component of the forward contract is included in the income statement. The effective portion of the spot component of the forward contract is transferred to equity.

The consolidated entity has elected to apply an exemption in AASB 1 which permits the cumulative translation differences in respect of all foreign operations represented in the foreign currency translation reserve to be deemed to be zero at the date of adoption of AIFRS. At 1 January 2004, the $130 million debit balance in the foreign currency translation reserve was reduced to zero with an equivalent adjustment to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

2. REVENUE

	2005 $M	2004 $M
Revenue from ordinary activities		
Premium revenue		
Direct	**3,437**	3,036
Inward reinsurance	**894**	946
	4,331	3,982
Other revenue		
Reinsurance and other recoveries	**465**	370
Investment income	**315**	257
Exchange gains	**–**	9
	780	636
Net fair value gains on financial assets*	**94**	–
Investment income – ABC financial assets pledged for funds at Lloyd's	**60**	17
Total revenue	**5,265**	4,635

* Net fair value gains on financial assets includes realised gains of $55 million.

3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

	2005 $M	2004 $M
Gross written premium	**5,123**	4,763
Unearned premium movement	**(792)**	(781)
Gross earned premium	**4,331**	3,982
Outward reinsurance premium	**968**	1,055
Deferred reinsurance premium movement	**(143)**	(187)
Outward reinsurance premium expense	**825**	868
Net earned premium	**3,506**	3,114
Gross claims incurred	**2,494**	2,219
Claims settlement expenses	**112**	68
Reinsurance and other recoveries	**(465)**	(370)
Net claims incurred	**2,141**	1,917
Net commission	**596**	524
Other acquisition costs	**225**	190
Underwriting and other expenses	**205**	186
	3,167	2,817
Underwriting profit	**339**	297
Investment income on policyholders' funds	**214**	128
Insurance profit	**553**	425
Investment income on shareholders' funds	**123**	4
Amortisation of intangibles and impairment of goodwill/intangibles	**(1)**	–
Profit from ordinary activities before income tax	**675**	429

4. DIVIDENDS

	2005 $M	2004 $M
Final dividend paid on ordinary shares		
Franked at 50% – 15.0 cents (2004 6.6 cents)	**114**	44
Unfranked – 15.0 cents (2004 15.4 cents)	**114**	104
	228	148
Dividend reinvested under the Dividend Election Plan	**(24)**	(16)
Total dividend paid	**204**	132

The final dividend of $228 million for 2004 was paid on 23 March 2005. On 17 August 2005, the directors declared a 50% franked interim dividend of $254 million (2004 50% franked interim dividend of $164 million). The dividend is payable on 16 September 2005.

The company operates a Dividend Reinvestment Plan ("DRP") and a Dividend Election Plan ("DEP") which currently allow shareholders to elect to take their dividend entitlement by way of shares at a 2.5% discount on the average market price calculated over the five trading days beginning on the first day of ex-dividend trading. The directors have decided to suspend the discount for future dividends, commencing March 2006.

The last date for receipt of election notices applicable to the interim dividend is 29 August 2005 for the DRP and 17 August 2005 for the DEP.

5. ISSUED ORDINARY SHARE CAPITAL

	NUMBER OF SHARES 000	$M
Issued and fully paid at 1 January 2004 under previous AGAAP	671,647	2,340
ESOP shares subject to non-recourse loans, derecognised under AIFRS	(10,276)	(76)
Deferred tax adjustment on capitalised share issue costs	–	4
Issued and fully paid at 1 January 2004 under AIFRS	661,371	2,268
Shares issued under ESOP	1,333	11
Vendor options exercised	50	1
Shares issued under DRP	6,257	69
Shares issued under DEP	1,546	–
Shares issued under the Senior Executive Equity Scheme	14	–
Issued and fully paid at 30 June 2004	670,571	2,349
Issued and fully paid at 1 January 2005 under previous AGAAP	745,333	2,866
ESOP shares subject to non-recourse loans, derecognised under AIFRS	(10,724)	(90)
Deferred tax adjustment on capitalised share issue costs	–	4
Issued and fully paid at 1 January 2005 under AIFRS	734,609	2,780
Shares issued under ESOP	2,257	19
Vendor options exercised	865	–
Shares issued under DRP	6,639	97
Shares issued under DEP	1,610	–
Shares issued to holders of hybrid securities	12,324	69
Shares issued under the Senior Executive Equity Scheme	356	–
Issued and fully paid at 30 June 2005	758,660	2,965
Shares notified to the Australian Stock Exchange	768,321	3,046
Less: ESOP shares subject to non-recourse loans, derecognised under AIFRS	(9,661)	(81)
Issued and fully paid at 30 June 2005	758,660	2,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2005

6. CONTINGENT LIABILITIES

	2005 $M	2004 $M
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	**235**	294

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 is $319 million ($398 million at 31 December 2004). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets of those controlled entities in favour of Lloyd's of London.

7. EARNINGS PER SHARE

	2005 CENTS	2004 CENTS
Basic earnings per share	**64.6**	50.7
Diluted earnings per share[1]	**60.8**	44.8
	$M	**$M**
Reconciliation of earnings used in calculating earnings per share		
Net profit attributable to members of the company, used in calculating basic earnings per share	**491**	343
Net profit attributable to members of the company	**491**	343
Add: borrowing cost of hybrid securities	**3**	7
Earnings used in calculating diluted earnings per share	**494**	350
	MILLIONS	**MILLIONS**
Weighted average number of ordinary shares used as the denominator in calculating:[2]		
Basic earnings per share	**760**	677
Diluted earnings per share	**812**	782

1 Hybrid securities have been treated as dilutive if the contingent conversion conditions are met at the balance date. If all hybrid securities had been considered dilutive at 30 June 2005, diluted earnings per share would have been 59.2 cents (2004 44.8 cents).

2 Weighted average number of ordinary shares reflects shares notified to the Australian Stock Exchange. Basic earnings per share calculated with reference to issued share capital adjusted to exclude ESOP shares subject to non-recourse loans would have been 65.4 cents. Refer to note 5.

8. SEGMENT INFORMATION

	TOTAL ASSETS		TOTAL REVENUE		NET PROFIT AFTER TAX	
	2005 $M	2004 $M	2005 $M	2004 $M	2005 $M	2004 $M
Australia	**6,451**	5,558	**1,375**	1,053	**138**	135
Pacific Asia Central Europe	**1,751**	1,573	**410**	353	**34**	16
QBE Insurance (Europe)	**7,037**	6,121	**1,302**	1,107	**164**	93
Lloyd's division	**9,615**	10,268	**1,369**	1,334	**120**	76
the Americas	**2,511**	2,058	**809**	788	**35**	23
Total	**27,365**	25,578	**5,265**	4,635	**491**	343

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 18 to 30:

(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 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

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

Signed in SYDNEY this 17th day of August 2005 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of QBE Insurance Group Limited for the half year ended 30 June 2005 included on the web site of QBE Insurance Group Limited. The directors are responsible for the integrity of the QBE Insurance Group Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. 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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of QBE Insurance Group Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the QBE Insurance Group (defined below) as at 30 June 2005 and of its performance for the half year ended on that date; and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of recognised income and expense, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the QBE Insurance Group (the consolidated entity), for the half year ended 30 June 2005. The consolidated entity comprises both QBE Insurance Group Limited (the company) and the entities it controlled during that half year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel; and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

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

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

RD Deutsch, Partner

Sydney, 17 August 2005

Liability is limited by the Accountant's Scheme under the *Professional Standards Act 1994 (NSW)*.

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