DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

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 year ended 31 December 2003.

Directors

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

LF Bleasel AM
EJ Cloney (Chairman)
CP Curran AO
The Hon NF Greiner AC
BJ Hutchinson
CLA Irby
IYL Lee
FM O'Halloran

Details of the directors and their qualifications are set out on page 39.

Results

	2003 $M	2002 $M
Revenue		
Premium revenue	7,816	7,197
Other revenue	1,424	1,304
Unrealised gains on investments	122	–
Investment income – ABC investments pledged for funds at Lloyd's	5	–
	9,367	8,501
Expenses	8,515	7,974
Unrealised losses on investments	–	143
Borrowing costs expense	80	73
Borrowing costs expense – ABC securities for funds at Lloyd's	7	–
Profit from ordinary activities before income tax	765	311
Income tax expense attributable to profit from ordinary activities	188	33
Profit from ordinary activities after income tax	577	278
Net profit (loss) attributable to outside equity interests	5	(1)
Net profit attributable to members of the company	572	279
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	(109)	(11)
Total changes in equity other than those resulting from transactions with owners as owners	463	268

Profit

The directors are pleased to announce a profit after tax for the year ended 31 December 2003 of $572 million compared with $279 million last year. The increase came from substantially improved insurance profits in all divisions and stronger equity markets.

Dividends

The directors are also pleased to announce a final dividend of 22.0 cents per share, 30% franked, for the year ended 31 December 2003. The total dividend for 2003 is 42.0 cents per share compared with 35.0 cents per share for the year ended 31 December 2002. The final dividend payout, including shares issued under the Dividend Election and Reinvestment Plans, will be $148 million compared with $114 million last year. The Dividend Election and Reinvestment Plans continue at a discount rate of 2.5%.

The franking account balance on a tax paid basis, after taking into account the final dividend franked at 30%, will be a surplus of $84 million.

Activities

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

Review of operations

Gross earned premium was $7,816 million, an increase of 9% on last year. Growth was achieved through strong premium rate increases across most classes of business, higher retention of business and an increase in new business due to acquisitions in 2002, partly offset by the effect of translation to the stronger Australian dollar. Net earned premium increased 7% to $6,036 million. Reinsurance costs increased from 22% to 23% of gross earned premium, mainly because of proportional reinsurance treaties with overriding commissions purchased on new business written in the US and additional reinsurance covers purchased to reduce our retention in the event of a major catastrophe.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 93.8% compared with 97.7% last year. The claims ratio of 63.3% decreased from 67.6% last year due to the higher premium rates and a lower claims frequency from improved policy terms and conditions. The commission ratio increased from 17.7% last year to 18.2% reflecting a change in mix of business and higher profit commissions paid on agency business due to improved underwriting profitability. The expense ratio decreased from 12.4% to 12.3% as a result of synergies from acquisitions and higher premium rates partly offset by higher staff incentive costs, increased superannuation contributions, new systems and higher costs of regulatory compliance.

Australian general insurance combined operating ratio was 92.8% compared with 97.1% last year. The strong underwriting result reflects solid premium rate increases, improved terms and conditions and a strong focus on responsible claims management. Net earned premium of $1,425 million was up 17% from last year, reflecting improved retention ratios, new business acquisitions and higher premium rates. The claims ratio decreased from 72.1% to 67.2% and the commission ratio increased to 11.1% from 10.5% due to changes in business mix from acquisitions in 2002. The expense ratio remained stable at 14.5%.

Asia-Pacific general insurance combined operating ratio was 90.0% compared with 95.9% last year, reflecting the focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions. The stronger Australian dollar had a significant impact on net earned premium, which decreased 2% to $430 million. The claims ratio decreased from 55.1% to 50.0% reflecting a lower frequency of catastrophes and the continuing action taken to improve the performance in some classes of business. The commission ratio improved from 20.4% to 18.8% and the expense ratio increased to 21.2% from 20.4% last year reflecting the higher incentive payments to staff due to improved profitability, new information systems and the stronger Australian dollar.

the Americas reported net earned premium growth of 10% to $740 million, due to new general insurance agency business with a proven track record and higher premium rates for all classes of business. The combined operating ratio was 93.1% compared with 99.6% last year. The improvements were achieved in both the general insurance and reinsurance businesses. The claims ratio improved from 68.4% to 63.4% due to higher premium rates and the significant improvements in policy terms and conditions. The commission ratio decreased from 24.7% to 23.5% and the expense ratio decreased from 6.5% to 6.2%.

European company operations benefited from a year of further premium rate increases across most lines of business and new business opportunities resulting from the withdrawal of capacity in the market. Despite the stronger Australian dollar, net earned premium increased 10% to $1,908 million. The division produced a combined operating ratio of 94.7% compared with 98.9% last year. This reflected a reduced claims ratio of 66.7% from 72.2% due to a lower claims frequency, higher premium rates and improved policy terms and conditions. The commission ratio increased from 14.7% last year to 15.6% reflecting a change in the mix of business, and the expense ratio increased from 12.0% last year to 12.4%, due to higher staff incentives for improved results and greater costs of regulatory compliance.

Lloyd's division combined operating ratio was 95.1% compared with 96.6% last year, reflecting continued focus on core products together with further premium rate increases and improved terms and conditions for most classes of business. Net earned premium decreased 3% to $1,533 million, impacted by the strong Australian dollar. The claims ratio reduced from 62.1% to 59.2%, benefiting from a below average level of major catastrophes and risk losses during 2003. The commission ratio increased from 22.8% to 25.4% as a result of changes in the mix of business and a small correction due to the understatement of commissions in the prior year. The expense ratio was 10.5% compared with 11.7% last year.

The provision for **outstanding claims** is determined for the substantial majority of Group entities after consultation with internal and external actuaries. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. As in previous years, the directors consider that substantial 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 our 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 substantially exceed this requirement.

Investment income increased 117% to $393 million, reflecting a substantial improvement in equity markets, particularly in the US. The result includes net realised and unrealised gains on investments of $110 million ($151 million loss last year) and foreign exchange losses of $13 million ($22 million gain last year). The gross investment yield before borrowing costs, goodwill amortisation, exchange gains and losses and investment expenses increased from 2.5% to 4.6%.

Income tax expense for the year was 24.6% of profit before tax, primarily as a result of increased profits in higher tax paying countries and the one-off benefits included in the 2002 income tax charge.

Group indemnities

Article 115 of the company's constitution provides that the company indemnifies past and present directors, secretaries or executive officers against any liability for serving in those capacities for the company or its controlled entities. This indemnity does not apply to any liability (excluding legal costs):

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

The indemnity extends to legal costs other than where:

- an exclusion above applies;
- the person is subject to civil or criminal penalties; or
- the court does not grant relief after an application under the *Corporations Act 2001* that the person acted honestly and having regard to all the circumstances ought fairly to be excused for negligence, default, breach of trust or breach of duty in civil proceedings.

Article 115 was approved at the 2003 AGM.

Directors' and officers' insurance

The consolidated entity pays a premium each year in respect of a contract insuring directors, secretaries and executive officers of the consolidated entity together with any natural person who is a trustee of a superannuation fund established for the benefit of the consolidated entity's employees against liabilities past, present or future. The officers of the consolidated entity covered by the insurance contract include the directors listed on page 39, the secretary, DA Ramsay, and assistant secretaries, NG Drabsch and PE Barnes. Other officers covered by the insurance contract are directors and secretaries of controlled entities who are not also directors and secretaries of the ultimate parent and executive officers of the consolidated entity ("excluded officers").

The functions of the excluded officers are management of insurance related operations and finance, investment and corporate services. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

Significant changes

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Events subsequent to balance date

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2003 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the consolidated entity's state of affairs in future financial years.

Likely developments

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

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or state legislation.

Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/0100 relating to the "rounding off" of amounts in the directors' report. Amounts have been rounded off in the directors' report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

Directors' and executives' remuneration

As noted in the statement of corporate governance on pages 5 to 13, the remuneration committee of the board oversees remuneration practices for the consolidated entity.

The remuneration of non-executive directors for directors' fees and related committee costs amounted to $1,220,000 (2002 $931,000). The amount approved at the 2003 AGM was $1,500,000 per annum. The amount paid to individual non-executive directors is based on external advice and may vary according to specific responsibilities, including involvement on the committees of the board. The consolidated entity aims to provide an appropriate level of remuneration for non-executive directors comparable to its peers, which include multi-national financial institutions.

Non-executive director remuneration reflects the consolidated entity's desire to attract and retain high quality directors and to ensure their active participation in the company's affairs for the purposes of corporate governance, regulatory compliance and other matters. Non-executive directors also receive superannuation. However, non-executive directors do not receive any performance based remuneration such as cash bonuses or equity incentives. Under the company's constitution, non-executive directors are also entitled to be paid all reasonable travel, hotel and other expenses whilst on company business.

Non-executive directors previously received a retirement allowance based on period of service. The allowance was limited to the aggregate of the director's fees in the last three years of service, subject to a minimum of 10 years' service. Where service was less than 10 years, a pro rata amount was paid. With effect from 31 December 2003, the board has terminated the retirement allowance to non-executive directors. They will instead receive fees increased by 30% to compensate. Accrued retirement benefits of $1,535,000 at 31 December 2003 are preserved until retirement and will be subject to an annual increase benchmarked against the average five year Australian government bond rate. Shareholders will be asked to approve an increase in non-executive directors' remuneration and to recognise this change at the 2004 AGM.

Executive directors and senior executives may receive cash bonuses based on the achievement of specific goals relating to the performance of the consolidated entity and entities comprising the consolidated entity. The remuneration committee reviews the performance related remuneration criteria annually. Executives, including executive directors, are also eligible to participate in the Employee Share and Option Plan ("the Plan") and the Senior Executive Equity Scheme ("the SEES").

Remuneration packages contain the following key elements:

(a) base salary;

(b) short term incentives;

(c) long term incentives;

(d) other benefits including superannuation, motor vehicle, the deemed value of interest on loans provided to acquire shares in the company and other benefits; and

(e) retirement benefits.

As described in note 18(d) to the financial statements, the long term profit share incentive for senior executives comprises share based remuneration in the form of conditional rights to fully paid shares and options to receive shares at the market value on the grant date. Both the conditional rights and the options can be exercised after three years, although for any 2004 option allocations this will increase to five years. The relevant senior executives become entitled to the long term incentives each year only after they have already achieved or exceeded financial targets, principally return on equity, entitling them to a short term profit share incentive.

As an example, the chief executive officer's (Mr O'Halloran's) short term and long term incentives are based on the achievement of the following range of target returns on equity for the 2003 financial year on the company's seven year spread basis of accounting, which spreads realised and unrealised gains on equities and properties over seven years.

	TARGET ROE	SHORT TERM INCENTIVE AS % OF SALARY
Minimum	13.0%	15.0%
Maximum	20.0%	134.0%
Achieved	18.4%	106.5%

Subject to approval at the AGM, Mr O'Halloran, on a basis consistent with other senior executives, is also entitled to receive conditional rights to fully paid shares under the SEES equal to 60%, and an option to purchase shares equal to 40%, of two thirds of his short term incentive.

Conditional rights and options relating to a financial year are granted in March of the following year.

Details of the nature and amount of each element of the remuneration of each director of the company and each of the five officers of the consolidated entity receiving the highest remuneration are:

DIRECTORS OF THE COMPANY	DIRECTORS' FEES/BASE SALARY $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES $000	OTHER BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	TOTAL 2003 $000	TOTAL 2002 $000
LF Bleasel AM	131	–	–	–	12	143	111
EJ Cloney	300	–	–	–	27	327	254
CP Curran AO	143	–	–	–	13	156	114
The Hon NF Greiner AC	136	–	–	–	12	148	116
BJ Hutchinson	137	–	–	–	12	149	118
CLA Irby	153	–	–	–	–	153	108
IYL Lee	132	–	–	–	12	144	76
FM O'Halloran* **	911	1,192	202	204	137	2,646	2,403
MJ Phillips (retired 18 April 2002)***	–	–	–	–	–	–	433

* Mr O'Halloran's long term incentives are subject to the approval of shareholders.

** The value of conditional rights in the current year is shown in accordance with proposed international accounting standards on the recognition of share based payments as required by draft guidelines issued by ASIC during 2003. The value attributed to the conditional rights and options for the year is calculated using established valuation techniques.

Mr O'Halloran is entitled to the full amount of conditional rights and options immediately on retirement. The amount to be granted to Mr O'Halloran for the 2003 year, subject to approval by shareholders at the AGM, is $626,000. This amount is not required to be included in 2003 long term incentives under proposed international accounting standards. The 2002 comparatives include the full amount of conditional rights and options granted in respect of the 2002 year.

*** Comparative includes $399,000 retirement allowance in connection with Mr Phillips' retirement as a director of the company.

DIRECTORS OF THE COMPANY	CURRENT YEAR RETIREMENT BENEFIT $000	ACCUMULATED RETIREMENT BENEFIT $000
LF Bleasel AM	39	95
EJ Cloney	134	415
CP Curran AO	60	336
The Hon NF Greiner AC	55	332
BJ Hutchinson	59	213
CLA Irby	49	83
IYL Lee	40	61

OFFICERS OF THE CONSOLIDATED ENTITY	BASE SALARY $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES $000	OTHER BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	TOTAL $000
PE Grove	823	2,405	160	179	247	3,814
SP Burns	873	1,162	106	42	137	2,320
TM Kenny	792	1,068	188	201	32	2,281
MD ten Hove	920	997	116	95	74	2,202
PE Glen	783	1,052	132	69	163	2,199

Mr Kenny is located in New York and Messrs Grove, Burns, ten Hove and Glen are located in London. Their remuneration has been converted to Australian dollars using the average rate of exchange for the year.

The long term incentives have been calculated in accordance with proposed international accounting standards as described above.

Retirement benefit arrangements – FM O'Halloran

Mr O'Halloran joined QBE in June 1976. Six of his years with the consolidated entity have been in the position of chief executive officer, with four years as director of operations, seven years as director of finance, five years as chief financial officer and the remainder as Group financial controller.

A controlled entity has entered into a retirement benefit arrangement with Mr O'Halloran, which is in addition to his entitlement under the Group staff superannuation plan. If Mr O'Halloran remains with the consolidated entity until after May 2004, or if he retires earlier through ill health, he will receive a lump sum payment of 150% of his total cash remuneration, being his annual base salary plus the short term incentive bonus, for the financial year prior to the date of his retirement. As a condition of this arrangement, Mr O'Halloran has entered into a non-compete agreement to apply for three years from the date of his retirement.

Share options

Details of the Plan and the SEES are included in note 18(d) to the financial statements. The names of all persons who currently hold options granted under the Plan and conditional rights granted under the SEES are entered in the registers kept by the company pursuant to section 173 of the *Corporations Act 2001* and the registers may be inspected free of charge.

There have been no options granted or exercised between the balance date and the date of this report.

Number of conditional rights and options granted in the year

	CONDITIONAL RIGHTS	OPTIONS
Directors of the company		
FM O'Halloran	43,435	110,884
Officers of the consolidated entity		
PE Grove	44,448	113,470
SP Burns	30,634	78,206
TM Kenny	56,699	144,747
MD ten Hove	24,794	63,298
PE Glen	33,774	86,220

Number of shares and options held by directors

	SHARES	OPTIONS	CONDITIONAL RIGHTS	DIRECTOR RELATED ENTITIES' SHARES
LF Bleasel AM	24,000	–	–	18,168
EJ Cloney	770,025	–	–	–
CP Curran AO	54,563	–	–	416,349
The Hon NF Greiner AC	42,030	–	–	10,000*
BJ Hutchinson	7,320	–	–	20,126
CLA Irby	15,000	–	–	–
IYL Lee	10,062	–	–	–
FM O'Halloran	866,597	310,884	43,435	51,192

* Warrants to purchase shares

Meetings of directors

	FULL MEETINGS* OF DIRECTORS	MEETINGS OF COMMITTEES			
		CHAIRMAN'S	AUDIT	REMUNERATION	INVESTMENT
NUMBER OF MEETINGS HELD	9	2	4	4	3
	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED
LF Bleasel AM	9	–	4	4	–
EJ Cloney	9	2	–	4	3
CP Curran AO	9	2	–	4	3
The Hon NF Greiner AC	9	–	4	4	–
BJ Hutchinson	9	–	4	–	3
CLA Irby	9	–	–	–	3
IYL Lee	9	–	4	–	3
FM O'Halloran	9	2	4	–	3

* Included a five day mid term review meeting in London

In addition, further meetings occurred during the year including meetings of the chairman and chief executive officer, meetings of the directors with management and special sub-committee meetings to discuss current issues.

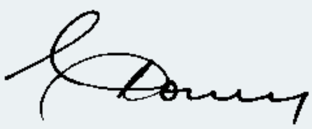
Directors

The Hon NF Greiner AC and LF Bleasel AM retire by rotation and offer themselves for re-election.

Auditor

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

Signed in SYDNEY this 25th day of February 2004 in accordance with a resolution of the directors.



EJ Cloney
Director

FM O'Halloran
Director

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Revenue					
Premium revenue		–	–	7,816	7,197
Other revenue		488	221	1,424	1,304
Unrealised gains on investments		–	–	122	–
Investment income – ABC investments pledged for funds at Lloyd’s	27	–	–	5	–
	2	488	221	9,367	8,501
Expenses		92	3	8,515	7,974
Unrealised losses on investments		–	68	–	143
Borrowing costs expense		25	3	80	73
Borrowing costs expense – ABC securities for funds at Lloyd’s	27	–	–	7	–
Profit from ordinary activities before income tax	3	371	147	765	311
Income tax (credit) expense attributable to profit from ordinary activities	4	(24)	(3)	188	33
Profit from ordinary activities after income tax		395	150	577	278
Net profit (loss) attributable to outside equity interests		–	–	5	(1)
Net profit attributable to members of the company	19	395	150	572	279
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	19	–	–	(109)	(11)
Total changes in equity other than those resulting from transactions with owners as owners	19	395	150	463	268
				CENTS	CENTS
Basic earnings per share	29			86.5	42.7
Diluted earnings per share	29			77.5	43.4

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
CURRENT ASSETS					
Cash		1	–	717	745
Receivables	6	1,458	775	2,954	3,380
Reinsurance and other recoveries on outstanding claims	15	–	–	772	1,137
Deferred insurance costs	7	–	–	1,167	1,131
Investments	9	–	–	4,078	4,592
Tax assets		–	–	46	62
Other		–	–	3	7
TOTAL CURRENT ASSETS		1,459	775	9,737	11,054
NON-CURRENT ASSETS					
Reinsurance and other recoveries on outstanding claims	15	–	–	2,113	2,529
Investments	9	3,141	2,732	7,028	6,167
ABC investments pledged for funds at Lloyd's	27	–	–	731	–
Plant and equipment	12	–	–	110	133
Intangibles	13	–	–	511	516
Deferred tax assets		–	–	116	146
Other	8	18	–	132	90
TOTAL NON-CURRENT ASSETS		3,159	2,732	10,741	9,581
TOTAL ASSETS		4,618	3,507	20,478	20,635
CURRENT LIABILITIES					
Trade and other creditors	14	1,047	1,545	956	1,199
Outstanding claims	15	–	–	3,011	3,511
Unearned premium		–	–	3,320	3,180
Borrowings	16	–	–	86	251
Current tax liabilities		80	3	155	68
TOTAL CURRENT LIABILITIES		1,127	1,548	7,528	8,209
NON-CURRENT LIABILITIES					
Outstanding claims	15	–	–	7,469	8,149
Borrowings	16	332	–	1,248	1,205
ABC securities for funds at Lloyd's	27	–	–	731	–
Deferred tax liabilities		646	30	117	33
Provisions	17	–	–	17	18
TOTAL NON-CURRENT LIABILITIES		978	30	9,582	9,405
TOTAL LIABILITIES		2,105	1,578	17,110	17,614
NET ASSETS		2,513	1,929	3,368	3,021
EQUITY					
Share capital	18	2,340	1,926	2,340	1,926
Convertible preference shares	18	–	–	–	274
Equity component of hybrid securities	16	–	–	59	59
Reserves	19	–	–	(119)	(10)
Retained profits	19	173	3	1,033	705
EQUITY attributable to members of the company		2,513	1,929	3,313	2,954
OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES	11	–	–	55	67
TOTAL EQUITY	19	2,513	1,929	3,368	3,021

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
OPERATING ACTIVITIES					
Premium received		–	–	7,897	7,685
Reinsurance and other recoveries received		–	–	1,248	1,343
Outward reinsurance paid		–	–	(1,646)	(1,770)
Claims paid		–	–	(3,996)	(4,462)
Insurance costs paid		–	–	(1,499)	(1,414)
Other underwriting costs		–	–	(222)	(157)
Interest received		5	–	375	354
Dividends received		347	28	45	31
Other operating income		–	–	2	4
Other operating payments		(3)	–	(39)	(15)
Interest paid		(23)	–	(54)	(60)
Income taxes paid		(3)	–	(22)	(28)
CASH FLOWS from operating activities	31	323	28	2,089	1,511
INVESTING ACTIVITIES					
Proceeds on sale of equity investments		–	–	706	597
Proceeds on sale of properties		–	–	2	11
Proceeds on sale of plant and equipment		–	–	1	3
Payments for purchase of equity investments		–	–	(925)	(837)
Proceeds from foreign exchange transactions		–	–	90	–
Payments for purchase of other investments		–	–	(1,883)	(1,682)
Payments for purchase of ABC investments		–	–	(777)	–
(Payments for purchase) proceeds from sale of controlled entities and business acquired (consolidated is net of cash acquired)		(485)	(443)	(3)	23
Payments for purchase of properties		–	–	(3)	(10)
Payments for purchase of plant and equipment		–	–	(31)	(53)
CASH FLOWS from investing activities		(485)	(443)	(2,823)	(1,948)
FINANCING ACTIVITIES					
(Payments to) proceeds from controlled entities		(402)	384	–	–
Proceeds from issue of shares		301	122	–	91
Proceeds from borrowings		378	–	461	1,170
Proceeds from issue of ABC securities		–	–	777	–
Repayment of borrowings		–	–	(268)	(443)
Dividends paid		(114)	(91)	(133)	(115)
CASH FLOWS from financing activities		163	415	837	703
INCREASE IN CASH HELD		1	–	103	266
Cash at the beginning of the financial year		–	–	745	459
Effect of exchange rate changes on cash		–	–	(131)	20
CASH AT THE END OF THE FINANCIAL YEAR		1	–	717	745

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

1 Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the *Corporations Act 2001*. It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by QBE Insurance Group Limited ("the company") as at 31 December 2003 and the results of all controlled entities for the financial year then ended. The company and its controlled entities together are referred to in this financial report as the "consolidated entity". The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which the control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

(b) Premium revenue

Direct and inward reinsurance premium comprises amounts charged to policyholders excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account based upon the pattern of booking of renewals and new business.

(c) Unearned premium

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten using either the daily pro rata method or the 24ths method.

(d) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance date.

(e) Claims

Outstanding claims and reinsurance and other recoveries are assessed by reviewing individual claims and making allowance for claims incurred but not reported, foreseeable events, past experience and trends. The majority of outstanding claims are reviewed by independent actuaries.

Outstanding claims and reinsurance and other recoveries include allowances for inflation, superimposed inflation and expenses of runoff and are discounted for investment income using market risk related returns. Prudential margins are included for uncertainties and latency claims.

(f) Acquisition costs

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(g) Investment income

Investment income is taken into account on an accruals basis with the exception of dividends, which are taken into account when due. Investment income includes unrealised gains and losses on investments. Investment income also includes investment income on ABC investments pledged for funds at Lloyd's, which is separately identified.

(h) Taxation

Tax effect accounting procedures are followed whereby the income tax expense in the statements of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is carried forward as an asset only if the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

1 Summary of significant accounting policies continued

(i) Investments

(i) Basis of valuation

Investments are valued at net market value. Net market values are determined as follows:

Quoted investments	– by reference to market quotations
Unquoted investments	– directors' valuation based on current economic conditions and the latest available information
Properties	– lower of independent valuation and directors' valuation
Controlled entities	– lower of cost or recoverable amount

Where material, estimated costs of realisation are deducted.

(ii) Policyholders' and shareholders' funds

Policyholders' funds are those investments which are held to fund the insurance liabilities of the consolidated entity. The remaining investments, primarily comprising equities and 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.

(iii) Recoverable amount

The expected net cash flows included in determining recoverable amounts for controlled entities of the company are not discounted to present value.

(iv) Derivatives

Gains and losses on foreign currency derivatives, being forward foreign exchange contracts and foreign currency options, are brought to account as they arise and are measured at net market value at balance date by reference to movements in forward exchange rates. Gains and losses on equity and fixed interest derivatives, being put and call options, are measured at net market value by reference to movements in the underlying securities and brought to account as they arise.

Gains and losses on derivative transactions undertaken to hedge exchange gains and losses arising on transactions within self-sustaining controlled entities are recognised in the statements of financial performance. Gains and losses on derivative transactions undertaken to hedge exchange rate movements on the translation of self-sustaining overseas controlled entities into Australian currency are taken directly to the foreign currency translation reserve.

(j) Intangibles

Intangible assets are valued at cost unless there has been a permanent diminution in value, in which case they are valued at residual value. The excess of book value over residual value of intangibles including goodwill is amortised using the straight line method over no more than 20 years.

(k) Depreciation

Fixed assets, comprising motor vehicles, office equipment and fixtures, are depreciated using the straight line method over the estimated useful life to the consolidated entity of each class of asset.

(l) Borrowings

Bank loans are carried at their principal amounts. Eurobonds, subordinated debt and ABC securities are carried at their converted principal amounts in the currency of repayment. Borrowing costs are recognised as expenses in the period in which they are incurred.

On issue of hybrid securities, the fair value of the liability component, being the obligation to make future payments of principal and interest to investors, is calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the fair value of the conversion option, is included in equity with no recognition of any change in the value of the option in subsequent periods. The liability is included in borrowings and carried on an amortised cost basis with interest on the securities recognised as borrowing costs on an effective yield basis until the liability is extinguished on conversion or maturity of the securities.

Costs incurred in originating the consolidated entity's principal borrowings and the ABC securities are accrued and amortised over the term of the borrowings.

1 Summary of significant accounting policies continued

(m) Foreign currencies

Foreign currency transactions are translated into Australian currency at the rate of exchange at the date of the transaction. 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 statements of financial performance. The assets and liabilities of overseas controlled entities are translated into Australian currency at the financial period end rates of exchange and their revenues and expenses are translated at the average rate of exchange during the year. Exchange gains and losses on the translation of the financial statements of self-sustaining overseas controlled entities are taken to the foreign currency translation reserve in the statement of financial position. Exchange gains and losses on transactions undertaken to hedge exchange rate movements on the translation of self-sustaining overseas controlled entities into Australian currency are taken directly to the foreign currency translation reserve.

(n) Cash

Cash includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding bank overdrafts.

(o) Equity

Ordinary share capital and mandatory convertible preference shares are recognised at the issue price, net of costs of issue.

The equity component of hybrid securities is calculated and disclosed as set out in note 1(l).

(p) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, adjusted for the cost of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares, and adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

(q) Dividends

Dividends are recognised when declared or determined. No provision is made for a proposed dividend.

(r) Superannuation

QBE participates in a number of superannuation plans across the Group 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. Contributions are expensed as incurred.

(s) Rounding of amounts

The company is of a kind referred to in class order 98/0100, issued by ASIC, relating to the "rounding off" of amounts in the financial report.

Amounts in the financial report have been rounded off in accordance with that class order to the nearest million dollars or, in certain cases, to the nearest thousand dollars.

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M

2 Revenue

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Revenue from ordinary activities				
Premium revenue				
Direct	–	–	5,606	5,062
Inward reinsurance	–	–	2,210	2,135
	–	–	7,816	7,197
Outward reinsurance revenue				
Reinsurance and other recoveries	–	–	997	870
Investment revenue				
Investment income	478	221	427	412
Exchange gains	10	–	–	22
	488	221	427	434
Unrealised gains on investments	–	–	122	–
Investment income – ABC investments pledged for funds at Lloyd's	–	–	5	–
Total revenue	488	221	9,367	8,501

3 Profit from ordinary activities before income tax

(a) Profit from ordinary activities before income tax (consolidated)

	NOTE	2003 $M	2002 $M
Gross written premium		8,350	7,723
Unearned premium movement		(534)	(526)
Gross earned premium		7,816	7,197
Outward reinsurance premium		1,809	1,627
Deferred reinsurance premium movement		(29)	(72)
Outward reinsurance premium expense		1,780	1,555
Net earned premium		6,036	5,642
Gross claims incurred		4,680	4,562
Claims settlement expenses		140	120
Reinsurance and other recoveries		(997)	(870)
Net claims incurred	5	3,823	3,812
Net commission		1,100	998
Other acquisition costs		397	387
Underwriting and other expenses		344	315
		5,664	5,512
UNDERWRITING PROFIT		372	130
Investment income on policyholders' funds		255	276
INSURANCE PROFIT		627	406
Investment income on shareholders' funds		138	(95)
PROFIT FROM ORDINARY ACTIVITIES before income tax		765	311

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
3 Profit from ordinary activities before income tax continued				
(b) Investment and other income				
Dividends from controlled entities	441	209	–	–
Dividends from non-related entities	–	–	46	30
Interest received or receivable from controlled entities	32	12	–	–
Interest received or receivable from non-related entities	–	–	365	365
Other income	5	–	16	17
	478	221	427	412
Exchange gains (losses)	10	(3)	(13)	22
Realised (losses) gains on investments				
Equities and properties	(79)	–	(13)	(29)
Fixed interest and other	–	–	1	21
	409	218	402	426
Interest paid or payable to controlled entities	(8)	(1)	–	–
Interest paid or payable to non-related entities	(17)	(2)	(80)	(73)
Investment income – ABC investments pledged for funds at Lloyd's	–	–	5	–
Borrowing costs expense – ABC securities for funds at Lloyd's	–	–	(7)	–
Other investment expenses*	(13)	–	(49)	(29)
INVESTMENT AND OTHER INCOME before unrealised gains (losses) on investments	371	215	271	324
Unrealised (losses) gains on investments				
Shares in controlled entities	–	(68)	–	–
Equities and properties	–	–	176	(172)
Fixed interest and other	–	–	(54)	29
	371	147	393	181
Investment income on policyholders' funds			255	276
Investment income on shareholders' funds			138	(95)
			393	181

* Includes amortisation of goodwill and write-off of intangibles of $20 million (2002 $8 million).

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
(c) Specific items				
Payments on operating leases	–	–	23	34
Depreciation of assets	–	–	36	40
Bad debts written off	–	–	6	2
Increase in provision for employee entitlements	–	–	4	2
Increase in provision for doubtful debts	–	–	19	14
Amortisation of goodwill and write-off of intangibles	–	–	20	8
Loss on sale of plant and equipment	–	–	1	1

4 Income tax

(a) Reconciliation of prima facie tax to income tax expense

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Profit from ordinary activities before income tax	371	147	765	311
Prima facie tax payable at 30%	111	44	229	93
Tax effect of permanent differences:				
Rebateable dividends	(132)	(63)	(11)	(7)
Differences in tax rates	7	7	(3)	(1)
Market value adjustments	–	12	–	(41)
Income tax expense related to current and deferred tax transactions of the wholly-owned controlled entities in the tax-consolidated group	74	–	–	–
Recovery of income tax expense under tax sharing agreement	(74)	–	–	–
Other, including non-allowable expenses and non-taxable income	(4)	–	(3)	2
Prima facie tax adjusted for permanent differences	(18)	–	212	46
Future income tax benefit not recognised	–	–	4	(1)
Over provision in prior years	(6)	(3)	(28)	(12)
Income tax (credit) expense attributable to profit from ordinary activities	(24)	(3)	188	33

(b) Future income tax benefit relating to tax losses

The consolidated entity has a cumulative income tax benefit not brought to account of $2 million (2002 $3 million), which includes the benefit arising from tax losses in overseas countries. This benefit will only be brought to account when the directors are virtually certain that it will be realised. This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Included in deferred tax assets is $4 million (2002 $58 million) relating to tax losses which the directors are virtually certain will be realised.

(c) Tax consolidation

The directors have determined that the company will be the head entity in a tax-consolidated group comprising the company and all of its Australian wholly-owned controlled entities ("Australian entities") from the implementation date of 1 January 2003, and have applied UIG 52: Income tax accounting under the tax consolidation system. The financial effect of this change has been brought to account in the financial statements for the company and the consolidated entity for the year ended 31 December 2003 as set out above.

The directors of the company and its Australian entities have agreed in principle to enter into a tax sharing and tax funding agreement ("the agreement"), that requires the Australian entities to make contributions to the company for tax liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation. The contributions are allocated by reference to the notional taxable income of each Australian entity. The assets and liabilities arising under the agreement are recognised as intercompany assets and liabilities in the statement of financial position of each Australian entity.

At the time of this report, a statement has not yet been made to formally notify the Australian Taxation Office that the tax consolidation regime has been adopted by the Australian entities.

Tax consolidation legislation requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders as at 31 December 2003 has been recognised under the new legislation. Refer note 18(f).

	2003 $M	2002 $M

5 Claims incurred (consolidated)

(a) Claims analysis

	2003 $M	2002 $M
Gross claims incurred and related expenses		
Direct	3,507	3,388
Inward reinsurance	1,313	1,294
	4,820	4,682
Reinsurance and other recoveries		
Direct	843	657
Inward reinsurance	154	213
	997	870
Net claims incurred	3,823	3,812

(b) Claims development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years.

	2003			2002		
	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M
Gross claims incurred and related expenses						
Undiscounted	4,740	(27)	4,713	4,698	(82)	4,616
Discount	(321)	428	107	(284)	350	66
	4,419	401	4,820	4,414	268	4,682
Reinsurance and other recoveries						
Undiscounted	866	17	883	818	(70)	748
Discount	(46)	160	114	(40)	162	122
	820	177	997	778	92	870
Net claims incurred						
Undiscounted	3,874	(44)	3,830	3,880	(12)	3,868
Discount	(275)	268	(7)	(244)	188	(56)
	3,599	224	3,823	3,636	176	3,812

6 Receivables – current

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Trade debtors				
Premium	–	–	696	853
Reinsurance and other recoveries	–	–	643	732
Unclosed premium	–	–	1,188	1,335
	–	–	2,527	2,920
Doubtful debts provision*				
Premium	–	–	(23)	(34)
Reinsurance and other recoveries	–	–	(75)	(69)
	–	–	2,429	2,817
Other debtors	–	–	330	461
Treasury receivables	–	–	94	5
Investment receivables	4	–	101	97
Amounts due from controlled entities	1,454	775	–	–
	1,458	775	2,954	3,380

* A doubtful debts provision against reinsurance and other recoveries on outstanding claims of $86 million (2002 $89 million) is included in note 15.

	2003 $M	2002 $M
7 Deferred insurance costs (consolidated)		
Deferred reinsurance premium	534	472
Deferred net commission	463	466
Deferred acquisition costs	170	193
	1,167	1,131

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
8 Other non-current assets				
Loans secured by shares	–	–	76	69
Accrued borrowing costs	18	–	34	21
Other	–	–	22	–
	18	–	132	90

	2003 $M	2002 $M
9 Investments – market value (consolidated)		
Interest bearing securities		
Short term money	3,499	3,549
Fixed interest securities and other	6,209	6,048
Mortgages	7	25
	9,715	9,622
Equities		
Quoted	1,245	908
Unquoted	27	118
	1,272	1,026
Properties	119	111
	11,106	10,759
Current	4,078	4,592
Non-current	7,028	6,167
	11,106	10,759

Refer to note 27(c) for details of ABC investments pledged for funds at Lloyd's.

(a) Properties

The principal properties are valued by the directors based on the independent valuation of various qualified employees of Knight Frank (Australia) Pty Limited. Minor properties are included at the independent valuation of other licensed valuers.

All properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows.

(b) Investments maturing within twelve months

Non-current investments include amounts maturing within twelve months of $1,403 million (2002 $1,618 million) which, in the normal course of business, will be reinvested and not used for working capital.

(c) Charges over investments and other assets

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of QBE's corporate members at Lloyd's of London as described in note 23. Details of the fixed and floating charges over ABC investments pledged for funds at Lloyd's are set out in note 27(c).

10 Financial instruments (consolidated)

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset and liability is set out below:

	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL MARKET VALUE	
	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M
(i) Net interest bearing financial assets (excluding ABC investments and ABC securities)										
Interest bearing securities	2,612	2,279	3,723	3,891	3,259	3,288	121	164	9,715	9,622
Weighted average interest rate	3.0%	2.8%	4.3%	4.6%	4.8%	4.5%	5.5%	4.6%	4.1%	4.0%
Borrowings	–	–	(86)	(251)	(1)	(44)	(1,247)	(1,161)	(1,334)	(1,456)
Weighted average interest rate	–	–	4.2%	5.6%	5.0%	4.4%	4.9%	4.6%	4.9%	4.8%
Net interest bearing financial assets	2,612	2,279	3,637	3,640	3,258	3,244	(1,126)	(997)	8,381	8,166
(ii) ABC investments and ABC securities										
ABC investments pledged for funds at Lloyd's	–	–	–	–	731	–	–	–	731	–
Weighted average interest rate	–	–	–	–	3.5%	–	–	–	3.5%	–
ABC securities for funds at Lloyd's	–	–	–	–	(731)	–	–	–	(731)	–
Weighted average interest rate	–	–	–	–	4.7%	–	–	–	4.7%	–

The consolidated entity's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. The company is exposed to interest rate risk in respect of the ABC securities. Refer note 27(c). Accordingly, the company has entered into an interest rate swap agreement with a financial institution under which it is obliged to pay interest at a variable rate and receive interest at a fixed rate. Contractual amounts outstanding for the interest rate swap at the balance date are a net receivable of $3 million (2002 $nil). The contract requires settlement of net interest receivable or payable every six months.

	2003 $M	2002 $M
(iii) Reconciliation of net financial assets to net assets		
Net financial assets		
Interest bearing	8,381	8,166
ABC investments pledged for funds at Lloyd's	731	–
ABC securities for funds at Lloyd's	(731)	–
Non-interest bearing and other	2,310	2,119
Net insurance liabilities	(7,943)	(8,026)
Net non-financial assets	620	762
Net assets	3,368	3,021

(b) Foreign exchange and market risk

The consolidated entity's primary business is that of providing insurance by way of contracts that expose the consolidated entity to identified risks of loss from events or circumstances occurring or discovered within a specified year. Derivatives are one of the means used to manage risks which arise as a consequence of the management of policyholders' funds and shareholders' funds, particularly in relation to the overseas operations of the consolidated entity. The information provided below is specific to derivatives only.

(i) The consolidated entity is exposed to foreign exchange risk on its net position in foreign currencies. The consolidated entity uses derivatives to help manage this exposure by entering into forward foreign exchange contracts and currency options, some of which involve the exchange of two foreign currencies according to the needs of controlled foreign entities. Contractual amounts for foreign exchange derivatives outstanding at balance date include forward foreign exchange contracts to purchase $4,061 million (2002 $2,550 million).

The maturity profile of these derivatives is as follows:

	2003 $M	2002 $M
Not later than one year	2,932	1,823
Later than one but less than five years	604	–
Later than five years	525	727
	4,061	2,550

10 Financial instruments (consolidated) continued

(b) Foreign exchange and market risk continued

(ii) The consolidated entity is exposed to market risk on its investment in equities and fixed interest securities and uses forward contracts and options to help manage this exposure. All derivative positions entered into by the consolidated entity are for hedging purposes. No speculative positions are entered into. Contractual amounts for written options outstanding at the balance date were $nil (2002 $13 million). There were no amounts outstanding for purchased options (2002 $nil).

(iii) The derivative risk management process is subject to regular internal audit and close senior management scrutiny, including regular board and other management reporting. All derivative transactions entered into are subject to authority levels provided to management and the levels of exposure are reviewed on an ongoing basis by the investment committee of the board. This committee is responsible for overviewing the process of derivative risk management whilst the audit committee monitors internal control procedures relating to derivative transactions.

(c) Credit risk

The credit risk on financial assets of the consolidated entity is generally the carrying amount, which is net of any provisions. The consolidated entity only uses derivatives in highly liquid markets. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with each counterparty. The consolidated entity does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security to support derivatives.

11 Shares in controlled entities (parent company)

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	EQUITY HOLDING 2002 %
QBE Insurance Group Limited	Australia		
Atlasz Utasbiztosítási Egyes Ügynöki Kft	Hungary	100.00	100.00
Atlasz Real Estate and Management Limited	Hungary	100.00	100.00
Australian Aviation Insurance Group (Agency) Pty Limited	Australia	100.00	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	100.00	100.00
Bankside Insurance Holdings Limited	UK	100.00	100.00
Bankside Services (Americas) Inc	USA	100.00	100.00
Bankside Services Limited	UK	100.00	100.00
Bankside Syndicates Limited (liquidated)	UK	–	100.00
Bankside Underwriting Agencies Limited	UK	100.00	100.00
Bates Cunningham Underwriting Limited	UK	100.00	100.00
Belgravia Facilities Limited (liquidated)	UK	–	100.00
BIDV – QBE Insurance Company Limited*	Vietnam	50.00	50.00
Compania Internationale de Asigurari QBE ASITO SA	Moldova	72.60	72.60
DA Constable Syndicate Limited	UK	100.00	100.00
DA Constable Syndicate Pty Limited	Australia	100.00	100.00
DA Constable Syndicate (Ireland) Limited	Ireland	100.00	100.00
Energy Insurance Services Limited	UK	100.00	100.00
Equator Investments Pty Limited	Australia	100.00	100.00
Equator Reinsurances Limited	Bermuda	100.00	100.00
FAI Insurances (Fiji) Limited	Fiji	100.00	100.00
Garwyn Ireland Limited	Ireland	100.00	100.00
Garwyn Limited	UK	100.00	100.00
Hyfield Company Limited*	Thailand	49.00	49.00
Insurance Consult SRL	Moldova	100.00	100.00
Insure IT Services Pty Limited	Australia	100.00	100.00
Iron Trades Management Services Limited	UK	100.00	100.00
IT Insurance Company Limited (liquidated)	UK	–	100.00
IT Investments (1990) Limited (liquidated)	UK	–	100.00
Janson Green Holdings (Canada) Inc	Canada	100.00	100.00
Janson Green Holdings Limited	UK	100.00	100.00
Janson Green Holdings Special Trust Limited	UK	100.00	100.00
Limit (Insurance and Reinsurance) Services Limited	UK	100.00	100.00
Limit No 1 Limited	UK	100.00	100.00
Limit No 2 Limited	UK	100.00	100.00

11 Shares in controlled entities (parent company) continued

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	2002 %
Limit No 3 Limited	UK	100.00	100.00
Limit No 4 Limited	UK	100.00	100.00
Limit No 5 Limited	UK	100.00	100.00
Limit No 6 Limited	UK	100.00	100.00
Limit No 7 Limited	UK	100.00	100.00
Limit No 10 Limited	UK	100.00	100.00
Limit No 12 Limited	UK	100.00	100.00
Limit No 14 Limited	UK	100.00	100.00
Limit No 17 Limited	UK	100.00	100.00
Limit Corporate Members Limited	UK	100.00	100.00
Limit Group Employee Benefits Trustee Ltd	UK	100.00	100.00
Limit Holdings Limited	UK	100.00	100.00
Limit plc	UK	100.00	100.00
Limit Properties Limited	UK	100.00	100.00
Limit Technology and Commercial Underwriting Limited	UK	100.00	100.00
Limit Underwriting Limited	UK	100.00	100.00
Mantis Reef Limited***	Cayman Is	–	–
Mantis Reef Pledge Limited***	Cayman Is	–	–
Minster Court Asset Management Limited	UK	100.00	100.00
Pitt Nominees Pty Limited	Australia	100.00	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	60.00	60.00
QBE ART SA	Argentina	83.00	83.00
QBE Atlasz Biztosito Rt	Hungary	100.00	100.00
QBE Australia Pty Limited	Australia	100.00	100.00
QBE Brasil Seguros SA	Brazil	100.00	100.00
QBE Capital Limited	Jersey	100.00	100.00
QBE Corporate Capital Holdings plc	UK	100.00	100.00
QBE Corporate Holdings Ltd	UK	100.00	100.00
QBE Corporate Limited	UK	100.00	100.00
QBE Finance Pty Limited	Australia	100.00	100.00
QBE Funding Limited	Jersey	100.00	100.00
QBE Funding II Limited	Jersey	100.00	100.00
QBE Funding Trust	USA	100.00	100.00
QBE Funding Trust II	USA	100.00	100.00
QBE Group (Investments) Limited (in liquidation)	Australia	100.00	100.00
QBE Holdings (Australia) Pty Limited	Australia	100.00	100.00
QBE Holdings Inc	USA	100.00	100.00
QBE Holdings (UK) Limited	UK	100.00	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	74.47	74.47
QBE Insurance (Australia) Limited	Australia	100.00	100.00
QBE Insurance Company (UK) Limited	UK	100.00	100.00
QBE Insurance Corporation	USA	100.00	100.00
QBE Insurance (Hong Kong) Limited (in liquidation)	Hong Kong	100.00	100.00
QBE Insurance (International) Ltd	Australia	100.00	100.00
QBE Insurance (Philippines) Inc	Philippines	59.00	59.00
QBE Insurance (PNG) Limited	PNG	100.00	100.00
QBE Insurance (Thailand) Co Ltd*	Thailand		
Thai resident entities		25.08	25.08
Non-Thai resident entities		24.87	24.87
QBE Insurance (Vanuatu) Limited	Vanuatu	100.00	100.00
QBE International Holdings Limited	Hong Kong	100.00	100.00
QBE International Holdings (UK) plc	UK	100.00	100.00
QBE International Insurance Limited	UK	100.00	100.00
QBE International (Investments) Pty Limited	Australia	100.00	100.00
QBE Investments (North America) Inc	USA	100.00	100.00
QBE Investments Pty Limited	Australia	100.00	100.00

11 Shares in controlled entities (parent company) continued

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	2002 %
QBE Makedonija**	Macedonia	65.03	65.03
QBE Management (Bermuda) Limited	Bermuda	100.00	–
QBE Management Inc	USA	100.00	100.00
QBE Management Services Pty Ltd	Australia	100.00	100.00
QBE Management (UK) Limited	UK	100.00	100.00
QBE Marine Underwriting Agency Pte Limited	Singapore	70.00	70.00
QBE-MBF Insurans Berhad	Malaysia	51.00	51.00
QBE Nominees (PNG) Pty Limited	PNG	100.00	100.00
QBE Nominees Pty Limited	Australia	100.00	100.00
QBE Pacific Insurance Limited	PNG	100.00	100.00
QBE (PNG) Pty Limited	PNG	100.00	100.00
QBE Poistovna AS	Slovakia	100.00	100.00
QBE Re Services Pty Limited	Australia	100.00	100.00
QBE Reinsurance Administration Pty Ltd	Australia	100.00	100.00
QBE Reinsurance Corporation	USA	100.00	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	100.00	100.00
QBE Reinsurance (Europe) Limited	Ireland	100.00	100.00
QBE Reinsurance (UK) Limited	UK	100.00	100.00
QBE Securities Pty Limited (in liquidation)	Australia	100.00	100.00
QBE Specialty Insurance Company	USA	100.00	100.00
QBE Trade Indemnity Pty Limited (in liquidation)	Australia	100.00	100.00
QBE-UGPB Insurance*	Ukraine	50.00	50.00
QBE Underwriting Agency Ltd	UK	100.00	100.00
QBE WorkAble Limited	NZ	100.00	100.00
QBE Workers Compensation (NSW) Limited	Australia	100.00	100.00
Queensland Insurance (Australia) Pty Limited	Australia	100.00	100.00
Queensland Insurance (Fiji) Limited	Fiji	100.00	100.00
Queensland Insurance (Investments) Limited	Fiji	100.00	100.00
Reinsurers Investments Pty Limited (in liquidation)	Australia	100.00	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	100.00	100.00
Sandsale Limited	UK	100.00	100.00
Sinkaonamahasarn Company Limited*	Thailand	49.00	49.00
Star Trust***	Cayman Is	–	–
Strakh-Consult	Ukraine	100.00	100.00
Sydney Reinsurance Group Pty Limited (in liquidation)	Australia	100.00	100.00
TII Insurance Brokers Pty Limited	Australia	100.00	100.00
Torch Dedicated Corporate Member Limited	UK	100.00	100.00
Torch Holdings	UK	100.00	100.00
Travelon Pty Limited	Australia	100.00	100.00
TII Pty Limited	Australia	100.00	100.00
Universal Management Limited	Ireland	100.00	100.00
WQBE Pty Limited (in liquidation)	Australia	100.00	100.00

* The following special conditions exist with respect to the consolidated entity's equity holdings:

For accounting purposes, the consolidated entity has effective control of QBE Insurance (Thailand) Co Ltd, QBE-UGPB Insurance and BIDV-QBE Insurance Company Limited.

The issued share capital of Hyfield Company Limited and Sinkaonamahasarn Company Limited owned by the consolidated entity is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.

** The shareholding in QBE Makedonija equates to 73.28% (2002 73.28%) of the voting rights.

*** In accordance with the requirements of UIG 28: Consolidation – special purpose entities, Mantis Reef Limited, Mantis Reef Pledge Limited and Star Trust have been included in the consolidated financial statements. Refer note 27(c).

11 Shares in controlled entities (parent company) continued

(a) Change of name

Controlled entity	Former name
DA Constable Syndicate (Ireland) Limited	RJ Wallace Syndicates (Ireland) Limited
DA Constable Syndicate Pty Limited	Limit (Australia) Pty Limited
QBE Insurance Company (UK) Limited	Iron Trades Insurance Company Limited

	2003 $M	2002 $M
(b) Outside equity interests in controlled entities (consolidated)		
Ordinary share capital	57	56
Reserves	(13)	4
Retained profits	11	7
	55	67

(c) Undistributed profits of overseas controlled entities

Undistributed profits of overseas controlled entities amount to $456 million (2002 $167 million). Some of these profits may be subject to assessment for Australian tax (less overseas taxes paid) if distributed as dividends.

(d) Equity

All equity in controlled entities is held in the form of shares or through contractual arrangements.

(e) Acquisitions

There were no material acquisitions during 2003 or 2002.

	2003 $M	2002 $M
12 Plant and equipment (consolidated)		
Cost	297	308
Accumulated depreciation	(187)	(175)
	110	133
13 Intangibles (consolidated)		
Goodwill at cost, less amounts written off	200	102
Accumulated amortisation	(38)	(18)
	162	84
Identifiable intangibles	349	432
	511	516

During 2003, intangibles of $90 million were transferred from identifiable intangibles to goodwill and are being amortised over a period not exceeding 20 years.

	THE COMPANY		CONSOLIDATED	
	2003 $M	2002 $M	2003 $M	2002 $M
14 Trade and other creditors				
Trade creditors	–	–	624	800
Amounts due to controlled entities	1,030	1,545	–	–
Other creditors and accrued expenses	12	–	273	301
Treasury creditors	4	–	19	95
Investment creditors	1	–	40	3
	1,047	1,545	956	1,199

	2003 $M	2002 $M

15 Outstanding claims (consolidated)

	2003 $M	2002 $M
Gross outstanding claims including prudential margins	12,001	13,215
Discount to present value	(1,521)	(1,555)
	10,480	11,660
Current	3,011	3,511
Non-current	7,469	8,149
	10,480	11,660
Reinsurance and other recoveries on outstanding claims	3,241	4,100
Discount to present value	(356)	(434)
	2,885	3,666
Current	772	1,137
Non-current	2,113	2,529
	2,885	3,666
NET OUTSTANDING CLAIMS	7,595	7,994
Net outstanding claims by geographic segment		
Australian general insurance	1,615	1,251
Asia-Pacific general insurance	372	419
the Americas	465	590
European company operations	2,518	2,859
Lloyd's division	2,625	2,875
	7,595	7,994

Prudential margins have been taken up to partially offset the effect of the discount on outstanding claims.

Reinsurance and other recoveries on outstanding claims are shown net of a doubtful debts provision of $86 million (2002 $89 million).

(a) Inflation and discount rates

The following range of inflation rates (normal and superimposed) and discount rates were used in the measurement of outstanding claims and reinsurance and other recoveries on outstanding claims:

	2003 %		2002 %	
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR	SUBSEQUENT YEARS
Australian general insurance				
Inflation rate	4.00–11.00	4.00–11.00	3.50–10.50	3.50–10.50
Discount rate	5.87–6.10	5.84–6.55	5.25	5.25–6.20
Asia-Pacific general insurance				
Discount rate	0.02–10.24	0.23–12.60	0.03–13.50	0.16–13.50
the Americas				
Discount rate	1.70	1.70	2.50	2.50
European company operations				
Discount rate	0.90–5.40	1.30–5.70	2.00–5.25	2.50–6.20
Lloyd's division				
Discount rate	4.50	4.50	4.50	4.50

The inflation rate used for all business other than Australian long tail portfolios is the rate implicit in past statistics.

15 Outstanding claims (consolidated) continued

(b) Weighted average term to settlement

The weighted average term to settlement of outstanding claims from the balance date is estimated to be:

	2003 YEARS	2002 YEARS
Australian general insurance	3.1	2.8
Asia-Pacific general insurance	1.7	1.8
the Americas	2.1	2.2
European company operations	3.0	2.9
Lloyd's division	3.2	3.2
Consolidated entity	3.0	2.9

16 Borrowings

Borrowings are repayable as follows:

		THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Bank loans					
1 March 2003	MKD39 million	–	–	–	1
31 March 2003	A$150 million	–	–	–	150
19 June 2003	US$20 million	–	–	–	36
14 October 2003	US$6 million	–	–	–	11
21 November 2003	US$30 million	–	–	–	53
21 January 2004	US$30 million	–	–	40	–
27 April 2004	US$6 million	–	–	8	–
15 October 2004	EUR16 million	–	–	27	30
21 December 2004	US$8 million	–	–	11	14
11 July 2005	EUR1 million	–	–	1	–
		–	–	87	295
Eurobonds*					
2 August 2010	A$150 million/GBP58 million	–	–	138	168
2 August 2010	A$20 million/GBP8 million	–	–	18	22
2 August 2010	EUR115 million/GBP70 million	–	–	145	177
		–	–	301	367
Hybrid securities**					
15 April 2022	US$816 million	–	–	614	794
Subordinated debt					
1 July 2023	US$250 million	332	–	332	–
Total borrowings		332	–	1,334	1,456
Current		–	–	86	251
Non-current		332	–	1,248	1,205
		332	–	1,334	1,456

Refer to note 27(c) for details of ABC securities for funds at Lloyd's.

* Eurobonds are fixed at GBP amounts until 2010 at which point they will revert to the original Australian dollar and Euro amounts shown. The facility can be extended for a further 10 years to 2020.

** Hybrid securities are shown net of the fair value of the equity conversion option. The principal amounts shown are the amounts payable at the end of the 20 year term. Refer note 16(b).

16 Borrowings continued

(a) Security and facility arrangements

In the normal course of business, bank loans are made to controlled entities and secured by guarantees or letters of comfort given by the company.

The Eurobonds are issued by a controlled entity and secured by guarantees given by the company and another controlled entity. The claims of bondholders pursuant to those guarantees will be subordinated in right of payment to the claims of all senior creditors, including policyholders, of the controlled entity.

(b) Hybrid securities

In 2002, a controlled entity issued US$471 million of 20 year hybrid securities. Interest accumulates on the securities and is payable at the end of the 20 year term. In the event of redemption, repurchase, conversion or maturity, QBE can elect to pay either cash or the equivalent value in QBE shares, or a combination of both. Investors can request repurchase at the end of years 2, 3, 5, 10 and 15 from the date of issue. QBE can redeem the securities at any time after three years from the date of issue. Investors have the option to convert the security if:

(i) QBE calls for their redemption;

(ii) the market value of the security is less than the market value of the underlying QBE shares for two consecutive trading days; or

(iii) on certain corporate transactions occurring (e.g. change in control).

The hybrid securities are guaranteed by the company and a controlled entity. The claims of investors under these guarantees in general will rank equally with all existing and future unsecured and unsubordinated indebtedness of the company and the controlled entity.

The fair value of the liability component of the securities, being the obligation to make future payments of principal and interest to investors, is included in borrowings, and the fair value of the equity conversion option is included in equity.

In the event of conversion, up to 102 million shares will be issued.

17 Provisions – non-current (consolidated)

	2003 $M	2002 $M
Long service leave	7	6
Other provisions	9	11
Amounts payable under acquisition agreements	1	1
	17	18

	2003 $M	2002 $M

18 Share capital (company and consolidated)

	2003 $M	2002 $M
(a) Issued ordinary shares, fully paid	2,340	1,926

(b) Movements in issued ordinary share capital

	NUMBER OF SHARES 000	$M
Issued and fully paid at 1 January 2002	585,319	1,732
Shares issued under Employee Share and Option Plan	3,595	26
Employee options exercised	867	5
Share placement	13,157	91
Shares issued under Dividend Reinvestment Plan	10,348	72
Shares issued under Dividend Election Plan	2,202	–
Issued and fully paid at 31 December 2002	615,488	1,926
Shares issued under Employee Share and Option Plan	2,935	24
Employee options exercised	422	3
Vendor options exercised	251	2
Conversion of convertible preference shares	35,926	274
Shares issued under Dividend Reinvestment Plan	12,666	111
Shares issued under Dividend Election Plan	2,600	–
Shares issued to holders of hybrid securities	1,318	–
Shares issued under the Senior Executive Equity Scheme	41	–
Issued and fully paid at 31 December 2003	671,647	2,340

(c) Convertible preference shares

On 18 August 2000, a controlled entity issued 3,150,000 mandatory convertible preference shares of US$50 each, fully paid. Costs of $10 million associated with the issue of the shares were applied against the proceeds of the equity raising. These shares converted to 35,926,397 ordinary shares in the company on 18 August 2003.

The convertible preference shares were entitled to a non-cumulative dividend of 8% per annum, payable on 18 February and 18 August.

(d) Employee share schemes

(i) Employee Share and Option Plan

The company, at its 1981 Annual General Meeting, approved the issue of shares from time to time under an Employee Share and Option Plan ("the Plan"), up to 5% of the issued ordinary shares in the capital of the company. Any full-time or part-time employee of the consolidated entity or equally owned joint ventures who is offered shares or options pursuant to the offer document of the Plan is eligible to participate in the Plan.

Under the Plan, ordinary shares of QBE are offered at the weighted average market price during the five trading days up to the date of the offer. Likewise, the exercise price for options offered under the Plan is the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, interest free loans are granted to employees to subscribe for shares issued under the Plan. The terms of the loans are either personal recourse or non-recourse and are repayable in certain circumstances as set out in the Plan, such as termination of employment or breach of condition.

(ii) Senior Executive Equity Scheme

Senior management are invited to participate in the Senior Executive Equity Scheme ("the SEES"). Under the SEES, the directors can issue conditional rights to shares and grant options to senior management who have already achieved pre-determined performance criteria.

The conditional rights entitle employees to receive shares on the third anniversary of the grant of the rights. Further shares are issued in relation to the conditional rights to reflect dividends paid on ordinary shares of QBE in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights are issued without payment being made by senior management.

Options granted under the SEES are subject to the terms and conditions of the Plan, and are exercisable three years after the grant date, although for any 2004 entitlements this period will increase to five years. They must be exercised within a 12 month period. Interest free loans are granted on the terms permitted by the Plan to persons who hold options under the SEES to fund the exercise of the options.

18 Share capital (company and consolidated) continued

(d) Employee share schemes continued

The shares pursuant to the conditional rights and options will only be issued if the individual has remained in the company's service throughout this period (except if they leave due to redundancy, retirement through ill health or age, or death), is not subject to disciplinary proceedings on that date and, in certain circumstances, if the financial year results for which the conditional rights were granted have not deteriorated significantly since the grant of the conditional rights.

(iii) Options

During the year, the company granted to 263 (2002 74) qualifying employees options to subscribe for 3,354,901 (2002 982,695) ordinary shares with a total market value of $27 million (2002 $7 million), being the quoted price at the date the options were granted.

At 31 December 2003, 6,811,500 (2002 4,528,059) options were outstanding with an exercise price of $57 million (2002 $38 million). The market value of the options outstanding at balance date is $72 million (2002 $37 million), calculated by reference to the quoted market value of the underlying shares at that date. During the financial year, 422,234 (2002 867,164) options were exercised, resulting in the issue of 422,234 (2002 867,164) shares. Details of options issued, exercised and lapsed or cancelled during the year are as follows:

GRANT DATE	EXERCISE PRICE	BALANCE AT START OF YEAR	ISSUED DURING YEAR	EXERCISED DURING YEAR	CANCELLED/ LAPSED DURING YEAR	BALANCE AT END OF YEAR
15 December 1998	$6.60	392,600	–	61,300	331,300	–
1 October 1999	$5.84	267,200	–	71,100	–	196,100
1 June 2000	$6.53	30,000	–	10,000	–	20,000
1 July 2000	$7.62	40,000	–	–	–	40,000
1 October 2000	$8.63	210,620	–	108,760	–	101,860
1 November 2000	$8.90	50,000	–	–	–	50,000
1 January 2001	$9.76	25,000	–	15,000	–	10,000
2 April 2001	$10.72	132,406	–	6,364	4,200	121,842
19 April 2001	$11.45	200,000	–	–	–	200,000
25 May 2001	$10.65	707,500	–	–	52,500	655,000
1 June 2001	$10.69	175,000	–	–	20,000	155,000
30 June 2001	$11.50	200,000	–	–	50,000	150,000
6 July 2001	$11.20	30,000	–	–	–	30,000
10 December 2001	$7.27	1,095,000	–	25,000	105,000	965,000
28 February 2002	$7.79	30,000	–	6,000	–	24,000
18 March 2002	$7.49	842,733	–	15,822	21,962	804,949
14 November 2002	$7.37	100,000	–	–	–	100,000
13 March 2003	$8.04	–	3,344,901	102,888	64,264	3,177,749
3 November 2003	$10.14	–	10,000	–	–	10,000
		4,528,059	3,354,901	422,234	649,226	6,811,500

The options outstanding at the balance date are as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE OPTIONS	REGULAR OPTIONS	SEES OPTIONS	TOTAL OPTIONS
2004	819,000	47,100	–	866,100
2005	340,000	211,860	–	551,860
2006	731,000	161,842	474,949	1,367,791
2007	965,000	24,000	3,036,749	4,025,749
	2,855,000	444,802	3,511,698	6,811,500

The future performance options have been issued subject to the achievement of specific performance criteria. An example of such criteria is set out on page 43 of the directors' report.

Regular options issued under the Plan based on the achievement of past performance are exercisable at 20% per annum. If an employee is entitled to exercise options in a particular year but does not, then the employee may exercise the options in the following year. These options expire if not exercised within five years from the date of issue.

The details of options issued under the SEES are set out in note 18(d)(ii) above.

18 Share capital (company and consolidated) continued

(e) Dividend Reinvestment and Dividend Election Plans

Shareholders can elect to take their dividend entitlement by way of shares at a 2.5% discount on the weighted average market price calculated over the five trading days beginning on the first day of ex-dividend trading.

The last date for receipt of election notices applicable to the final dividend is 8 March 2004 for the Dividend Reinvestment Plan and 24 February 2004 for the Dividend Election Plan.

	2003 $M	2002 $M
(f) Dividends		
Previous year final dividend paid on ordinary shares		
Franked at 30% – 2.22 cents (2002 2.02 cents)	14	12
Unfranked – 16.28 cents (2002 11.48 cents)	100	68
	114	80
Interim dividend paid on ordinary shares		
Franked at 30% – 3.0 cents (2002 1.98 cents)	20	25
Unfranked – 17.0 cents (2002 14.52 cents)	113	74
	133	99
Dividend reinvested under the Dividend Election Plan	(22)	(16)
Total dividend paid on ordinary shares	225	163
Preference dividend paid	19	24
Total dividend paid	244	187

The interim dividend of $133 million was paid on 25 September 2003. On 25 February 2004, the directors declared a 30% franked final dividend of $148 million (2002 12% franked final dividend of $114 million).

The franking account balance on a tax paid basis as at the balance date was a surplus of $103 million (2002 $nil). Changes in Australian income tax legislation require franking accounts to be maintained on a tax paid basis rather than an after-tax profits basis and the comparatives have been restated accordingly.

19 Reserves

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
General				
Balance brought forward	–	–	5	5
Transfer to retained profits	–	–	–	–
Balance at the end of the year	–	–	5	5
Realised capital profits				
Balance brought forward	–	–	6	30
Transfer to retained profits	–	–	–	(24)
Balance at the end of the year	–	–	6	6
Foreign currency translation				
Balance brought forward	–	–	(21)	(10)
Deficit for the year	–	–	(109)	(11)
Balance at the end of the year	–	–	(130)	(21)
Total reserves at the end of the year	–	–	(119)	(10)

19 Reserves continued

(a) Retained profits

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Retained profits at the beginning of the year	3	16	705	589
Transfer from reserves	–	–	–	24
Net profit after tax attributable to members of the company	395	150	572	279
Total available for appropriation	398	166	1,277	892
Dividends paid	(225)	(163)	(244)	(187)
Retained profits at the end of the year	173	3	1,033	705

(b) Nature and purpose of reserves

(i) General reserve – established prior to 1989 for general purposes.
(ii) Realised capital profits reserve – realised capital profits arising prior to the introduction of capital gains tax.
(iii) Foreign currency translation reserve – exchange gains and losses on translation of self-sustaining controlled entities. Refer note 1(m).

(c) Equity

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
General					
Equity at the beginning of the year		1,929	1,748	3,021	2,668
Changes in equity recognised in the statements of financial performance		395	150	463	268
Transactions with owners as owners					
Dividends paid	18(f)	(225)	(163)	(244)	(187)
New ordinary shares issued	18(b)	414	194	414	194
Conversion of convertible preference shares	18(c)	–	–	(274)	–
Equity component of hybrid securities	16(b)	–	–	–	59
Changes in outside equity interests	11(b)	–	–	(12)	19
Equity at the end of the year		2,513	1,929	3,368	3,021

	THE COMPANY 2003 $000	THE COMPANY 2002 $000	CONSOLIDATED 2003 $000	CONSOLIDATED 2002 $000

20 Remuneration of directors and executives

	THE COMPANY 2003 $000	THE COMPANY 2002 $000	CONSOLIDATED 2003 $000	CONSOLIDATED 2002 $000
(a) Income paid or payable, or otherwise made available, to directors of the company and entities comprising the consolidated entity	3,866	3,334	4,874	4,481

(b) The number of directors of the company whose remuneration was within the following bands is:

$000	2003	2002
30–40*	–	1
70–80	–	1
100–110	–	1
110–120	–	4
140–150	4	–
150–160	2	–
250–260	–	1
320–330	1	–
2,400–2,410	–	1
2,640–2,650**	1	–

* Comparative information excludes $399,000 prescribed benefit paid to Mr Phillips in connection with his retirement as a director of the company.

** Details of Mr O'Halloran's incentives are included in the directors' report. These incentives are subject to the approval of shareholders.

Remuneration includes salary, incentives, personal expense reimbursement, the deemed value of interest rate concessions on share and other loans, the deemed value of the provision of motor vehicles, the fringe benefits tax cost to the consolidated entity on all the foregoing and the value of the non-contributory superannuation benefits provided to employees. It also includes a deemed value for options granted in the year or, in the case of the conditional rights and options issued under the SEES (refer note 18(d)), earned in the year.

Long term incentives have been calculated based on proposed international accounting standards on the recognition of share based payments. In accordance with draft guidelines issued by ASIC, the value attributed to the conditional rights and options earned in the year is calculated using established valuation techniques. Comparative information includes the value of conditional rights and options granted during the period in respect of the 2002 year.

Details of shares and options held by directors are included in the directors' report and details of loans issued under the Plan are included in (c) below.

(c) A total of $13,088,000 (2002 $13,364,000) is owed to controlled entities by 83 (2002 85) executives who are directors of entities in the consolidated entity by way of loans relating to shares taken up under the Plan ranging from $8,000 to $2,046,000. The terms and conditions of these loans are the same as those provided to other employees.

The following executives who were directors of the company or controlled entities at 31 December 2003 received or repaid loans for employee shares during the year: A Ajmanwra, B Bailey, M Brooker, A Broome, J Buckley, D Carroll, M Chalmers, I Chapman, R Chapman, KS Cheng, T Clarke, B Cotterill, I Davey, N Drabsch, J Fiore, C Fish, S Flore, D Fogarty, S Ford, K Hamann, P Haran, J Hunt, F Hynes, D Johnson, R Jones, T Kenny, J La Cava, P Laming, Law Po Tung, T Lawrence, J Lui, P May, E Miller, V McLenaghan, G McSwain, K Morris, M Peat, V Phunthikaphadr, J Price, S Price, D Ramsay, J Rudkin, J Rumpler, M Sheppard, M Sherwood, R Sparks, Tai Lee Heng, S Tandjung, M ten Hove, J Thanupubrungsun, G Tollifson, D Treanor, I Turner, P Turner, N Van der Venne, R Wallace, G Watson, J White, Yong Cho Choon. Loans advanced during the year for employee shares totalled $1,262,000 (2002 $3,659,000). Loans repaid during the period totalled $267,000 (2002 $2,342,000) for employee shares and $nil (2002 $293,000) for housing purposes.

20 Remuneration of directors and executives continued

	2003 $000	2002 $000
(d) Aggregate of remuneration received, or due and receivable, by Australian based executive officers of the consolidated entity, including directors, whose remuneration* was at least $100,000	14,758	13,741

	2003	2002
(e) The number of Australian based executive officers of the consolidated entity, including directors, whose remuneration* was at least $100,000 is:		
$000		
180–190	–	1
240–250	–	1
250–260	1	–
300–310	1	–
310–320	–	1
320–330	1	2
350–360	1	1
370–380	1	–
380–390	1	1
390–400	2	–
400–410	–	2
410–420	1	–
430–440	–	1
440–450	1	–
460–470	–	1
510–520	1	–
520–530	1	–
540–550	–	1
600–610	2	–
620–630	–	1
670–680	–	1
790–800	–	1
830–840	–	1
840–850	1	–
920–930	–	1
930–940	1	–
1,280–1,290	1	–
1,480–1,490	–	1
1,560–1,570	1	–
1,580–1,590	1	–
1,610–1,620	–	1
2,400–2,410	–	1
2,640–2,650	1	–
	20	20

* Remuneration is defined in note 20(b)

(f) The company acts as a holding company for the consolidated entity and does not provide remuneration in its own right. All remuneration is paid by other entities within the consolidated entity.

21 Superannuation commitments (consolidated)

Entities in the consolidated entity participate in a number of superannuation plans which have been established and are sponsored by those entities. A number of these plans provide defined benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation.

The accounting policy is set out in note 1(r). Contributions are made to the plans by employees and entities typically as a percentage of salary and within the rules of the plans, and are based on funding schedules prepared by independent actuaries on the dates specified below. In addition, the consolidated entity continues to meet applicable statutory minimum funding requirements set out by legislation in the United Kingdom. The contribution rate in respect of defined benefit plans is agreed between the relevant controlled entity and the plans' trustees and actuaries.

No liability has been recognised in the consolidated statement of financial position as the consolidated entity has no present obligation to make payments in respect of deficits on its defined benefit plans over and above its actuarially determined contributions to these plans.

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Towers Perrin, AON Consulting and Watson Wyatt Worldwide. All valuations have been updated for information available at 31 December 2003.

2003	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 02	31 Dec 02	1 Jan 03	1 Apr 02		
Present value of employees' accrued benefits	141	209	11	122	8	491
Net market value of assets held by the plans	159	214	8	100	8	489
Excess (shortfall) of net assets over accrued benefits	18	5	(3)	(22)	–	(2)
Vested benefits*	141	202	11	122	6	482

2002	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 00	31 Dec 99	1 Jan 01	1 Apr 02		
Present value of employees' accrued benefits	125	232	12	137	6	512
Net market value of assets held by the plans	139	233	7	88	9	476
Excess (shortfall) of net assets over accrued benefits	14	1	(5)	(49)	3	(36)
Vested benefits*	124	224	1	137	5	491

* Vested benefits are not conditional upon continued membership of the plans (or any other factor except resignation from the plans) and include benefits which members were entitled to receive had they terminated their plan membership at the balance date.

22 Remuneration of auditors

	2003 $000	2002 $000
PricewaterhouseCoopers – Australian firm*		
Audit or review of financial reports of the parent entity	628	539
Audit of financial reports of controlled entities	1,452	1,269
Audit of statutory returns	459	175
Other audit assurance services	393	312
Taxation services	153	240
Systems consulting	–	2
Other consulting and advisory services	73	18
	3,158	2,555
Related practices of PricewaterhouseCoopers – Australian firm*		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports of controlled entities	2,821	2,911
Audit of statutory returns	1,216	1,440
Other audit assurance services	184	444
Taxation services	358	409
Systems consulting	–	1,832
Other consulting and advisory services	76	36
Actuarial services	19	165
Legal services	1,895	1,645
	6,569	8,882
	9,727	11,437
Audit and assurance services	7,153	7,090
Other services	2,574	4,347
	9,727	11,437
Other auditors		
Audit of financial reports of controlled entities	842	844

* From 1 January 2003, QBE may engage PricewaterhouseCoopers for non-audit services, subject to the general principle that fees for non-audit services should not exceed 30% of the total of all fees in any one year. Consistent with prior periods, PricewaterhouseCoopers cannot provide the excluded services of preparing accounting records or financial reports, asset or liability valuations, acting in a management capacity, acting as a custodian of assets or acting as share registrar.

23 Contingent liabilities

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
The company and the consolidated entity had the following unsecured contingent liabilities:				
Guarantees of borrowings by controlled entities	649	989	–	–
Guarantees of forward foreign exchange contracts entered into by controlled entities	–	88	–	–
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	36	736	84	794
Letters of credit issued in support of insurance liabilities of controlled entities	222	87	–	–
Guarantees to investors in hybrid securities	654	851	–	–
Guarantees to investors in ABC securities for funds at Lloyd's	731	–	–	–

A controlled entity has entered into a number of deeds of covenant in respect of its controlled entities to meet part of their obligations to Lloyd's of London. The total guarantee given under these deeds of covenant amounts to $581 million (2002 $1,106 million). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets in favour of Lloyd's of London (note 9).

Details of the guarantees to investors in Eurobonds and hybrid securities and security arrangements in respect of borrowings are set out in note 16.

Refer to note 27(c) for details of contingent liabilities in respect of ABC securities for funds at Lloyd's.

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M

24 Capital commitments

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Estimated capital commitments (not later than one year)	–	–	6	5

25 Commitments for expenditure

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Operating leases				
Aggregate amounts contracted but not provided for in the financial report				
Not later than one year	–	–	27	23
Later than one but less than five years	–	–	66	59
Later than five years	–	–	72	97
	–	–	165	179

26 New South Wales workers' compensation managed funds (consolidated)

A controlled entity is a licensed insurer under the *New South Wales Workers Compensation Act 1987* ("the Act"). In accordance with the requirements of the Act, the controlled entity has established and maintains statutory funds in respect of the issue and renewal of policies of insurance.

The application of the statutory funds is restricted to the payment of claims, related expenses and other payments authorised under the Act. WorkCover New South Wales advises that the licensed insurer has no liability under the Act in the event of a deficiency in statutory funds and the Australian Taxation Office confirmed that the statutory funds are exempt from income tax as WorkCover New South Wales holds a vested interest in the income of the statutory funds. For these reasons, the statutory funds are of a separate and distinct nature and therefore it is not appropriate to include the assets and liabilities of these funds with the other assets and liabilities of the consolidated entity. Accordingly, the income and expenses of the statutory funds have been excluded from the consolidated statement of financial performance and the assets and liabilities of the funds have been excluded from the consolidated statement of financial position.

Under the Act, the controlled entity is required to have an actuarial valuation of the financial position of the statutory funds, including a valuation of liabilities, at least once in each three year period or such other period as may be prescribed by Regulation. Accordingly, a fund method of accounting is adopted whereby the balance of the statutory funds is carried forward until the financial positions of the statutory funds are determined after actuarial investigation. Following this determination, WorkCover New South Wales may direct the transfer of any surplus in accordance with the Act, including transfers to other statutory funds of the controlled entity or to the statutory funds of another licensed insurer.

ASIC has by class order 00/321 exempted the controlled entity and the consolidated entity from compliance with the *Corporations Act 2001* to the extent it is necessary to adopt the above method of fund accounting.

	2003 $M	2002 $M
Statutory fund statement of financial position		
Current assets		
Cash and short term deposits	772	692
Debtors	148	142
Non-current assets		
Investments – market value	319	265
TOTAL ASSETS	1,239	1,099
Current liabilities		
Creditors	31	35
Unearned premium	199	186
Statutory funds to meet outstanding claims and statutory transfers	1,009	878
TOTAL LIABILITIES AND STATUTORY FUNDS	1,239	1,099

27 Lloyd's division (consolidated)

(a) Non-aligned syndicates

A controlled entity acquired Limit plc and its controlled entities ("Limit") in August 2000. From 1994 to 2000, Limit participated in the results of a number of syndicates managed by other managing agents at Lloyd's (non-aligned syndicates). In 2000, Limit sold its right to participate in the results of these syndicates after 31 December 2000. In 2001, Limit sold the rights to manage syndicate 318, previously managed by its controlled managing agency, to another managing agent at Lloyd's. The result of Limit's participation on this syndicate has also been included as non-aligned. Lloyd's operates on a three year accounting basis and at the end of the third year the underwriting account is normally closed by reinsurance into the following year of account. Therefore the runoff of these syndicates is expected to complete by 31 March 2005. The consolidated entity is expected to have to fund its share of the net outstanding liabilities of these operations, as shown below, and therefore the assets and liabilities are included on a net basis in outstanding claims in the statement of financial position. The net liability has decreased during the year due to the close out of prior underwriting years. The re-estimation of outstanding claims liabilities of non-aligned syndicates at the acquisition date of Limit has been adjusted against intangibles in note 13.

	2003 $M	2002 $M
Assets		
Investments – net market value	168	452
Other assets	143	250
TOTAL ASSETS	311	702
Liabilities		
Outstanding claims net of reinsurance recoveries	252	526
Other liabilities	84	210
TOTAL LIABILITIES	336	736
NET LIABILITIES	25	34

(b) Reinsurance to close

Since acquiring Limit in August 2000, QBE has purchased additional capacity in the syndicates managed by Limit, taking its ownership share from 55% in 2000 to 77% for the 2004 underwriting year. These purchases of additional capacity create an obligation for QBE to accept the additional share of insurance liabilities in exchange for an equal amount of investments and other assets. The amounts will be determined when the reinsurance to close is calculated on 31 December 2004 or subsequent dates. It is currently estimated that the amount of the net insurance liabilities and matching assets will exceed $337 million, which will be recognised in the years in which the reinsurance to close is expected to be finalised.

(c) Funds at Lloyd's

In October 2003, the company entered into an arrangement with Mantis Reef Limited (MRL) to issue US$550 million of ABC (asset backed capital) securities to support funds at Lloyd's (FAL) pursuant to Lloyd's collateral requirements. This arrangement substantially replaced bank letters of credit. MRL is a special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The consolidated entity has no ownership interest in MRL. Refer note 11.

Proceeds from the sale of the ABC securities to investors have been used to purchase shares in a wholly-owned subsidiary of MRL, Mantis Reef Pledge Limited (MRPL). MRPL is another special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The proceeds from the sale of shares in MRPL have been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, have been granted to Lloyd's in support of FAL. Details of the eligible investments included in the asset portfolio are shown below as ABC investments pledged for funds at Lloyd's.

The company has also entered into an agreement with MRL and MRPL under which, if the need arises, it can call on MRPL to provide up to US$550 million by the sale or transfer of its investment portfolio to meet the company's cash call requirements from Lloyd's, and at that time the company would assume a loan obligation including servicing of interest payments and repayment of the principal. To achieve this, the company would issue debt securities to MRL with similar terms to the ABC securities. Under the arrangement, the company would make fixed interest payments to MRL and in return would receive the benefit of the earnings from the investment portfolio. The company has entered into a fixed for floating interest rate swap with a third party to service its fixed interest rate obligations. Refer note 10(a)(ii).

		2003 $M	2002 $M
ABC investments pledged for funds at Lloyd's*			
Interest bearing short term money		731	–
ABC securities for funds at Lloyd's			
14 November 2008	US$550 million	731	–

* Under the terms of the ABC securities arrangements, all interest bearing short term money will be reinvested and is therefore included in non-current assets.

28 Related parties

All material information required to be disclosed by Accounting Standard AASB 1017: Related Party Disclosures, has been included in the financial report as follows:

Reference	
Directors' particulars	Page 39
Remuneration of directors	Directors' report and note 20
Directors' retirement allowances	Directors' report
Shares and options held by directors	Directors' report

In the ordinary course of business, various QBE controlled entities receive dividends and purchase and sell investments in shares in public entities in which directors of the company are directors and shareholders.

Mr Curran is non-executive chairman of Perpetual Trustees Australia Ltd, an entity whose controlled entity was used during the year, on an arm's length basis, for share registration services. A controlled entity paid $658,000 (2002 $731,000) for these services.

Controlled entities provide directors and director related entities insurance on the same basis as for all employees and/or other policyholders. Directors received and were entitled to receive dividends from the company on shares held during the year. Certain directors also purchased shares in the company during the year. All transactions were on the same basis as with other shareholders or in accordance with the rules of the Employee Share and Option Plan (refer note 18(d)).

29 Earnings per share (consolidated)

	2003 CENTS	2002 CENTS
Basic earnings per share	86.5	42.7
Diluted earnings per share	77.5	43.4

	$M	$M
Reconciliation of earnings used in calculating earnings per share		
Net profit attributable to members of the company	572	279
Less: dividends paid on mandatory convertible preference shares	(19)	(24)
Earnings used in calculating basic earnings per share	553	255
Net profit attributable to members of the company	572	279
Add: borrowing cost of hybrid securities	20	–
Earnings used in calculating diluted earnings per share	592	279

	MILLIONS	MILLIONS
Weighted average number of ordinary shares used as the denominator in calculating:		
Basic earnings per share	639	599
Diluted earnings per share	764	643

On 18 August 2003, the mandatory convertible preference shares converted to 36 million ordinary shares in the company which are included in the calculation of basic earnings per share from that date. In accordance with the requirements of Accounting Standard AASB 1027: Earnings per Share, the calculation of diluted earnings per share includes 36 million (2002 36 million) potential ordinary shares in respect of the mandatory convertible preference shares up to the date of conversion.

The current economic value of the hybrid securities strongly favours conversion into QBE shares at some time in the near future. Diluted earnings per share in 2003 therefore includes the impact of the potential conversion of these securities. Refer note 16(b).

30 Segment information

(a) Geographical business segments

	AUSTRALIAN GENERAL INSURANCE 2003 $M	ASIA-PACIFIC GENERAL INSURANCE 2003 $M	THE AMERICAS 2003 $M	EUROPEAN COMPANY OPERATIONS 2003 $M	LLOYD'S DIVISION 2003 $M	TOTAL 2003 $M
Total assets	3,943	1,151	1,733	5,804	7,847	20,478
Total liabilities	3,113	798	1,452	4,910	6,837	17,110
Acquisition of plant and equipment, intangibles and other non-current segment assets	21	3	2	12	30	68
Depreciation and amortisation expense	13	8	1	23	11	56
Total revenue	1,892	625	1,441	2,767	2,642	9,367
Gross written premium	1,869	542	1,342	2,441	2,156	8,350
Gross earned premium	1,715	549	1,213	2,302	2,037	7,816
Outward reinsurance premium expense	290	119	473	394	504	1,780
Net earned premium	1,425	430	740	1,908	1,533	6,036
Net claims incurred	959	215	469	1,273	907	3,823
Net commission	158	81	174	297	390	1,100
Underwriting and other expenses	206	91	46	237	161	741
Underwriting result	102	43	51	101	75	372
Investment income on policyholders' funds	76	13	11	60	95	255
Insurance profit	178	56	62	161	170	627
Investment income on shareholders' funds	38	6	4	48	42	138
Profit from ordinary activities before income tax	216	62	66	209	212	765
Income tax	36	20	19	41	72	188
Profit from ordinary activities after income tax	180	42	47	168	140	577
Outside equity interests	–	4	1	–	–	5
Net profit attributable to members of the company	180	38	46	168	140	572

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

30 Segment information continued

(a) Geographical business segments

	AUSTRALIAN GENERAL INSURANCE 2002 $M	ASIA-PACIFIC GENERAL INSURANCE 2002 $M	THE AMERICAS 2002 $M	EUROPEAN COMPANY OPERATIONS 2002 $M	LLOYD'S DIVISION 2002 $M	TOTAL 2002 $M
Total assets	3,241	1,332	1,468	6,199	8,395	20,635
Total liabilities	2,513	954	1,237	5,707	7,203	17,614
Acquisition of plant and equipment, intangibles and other non-current segment assets	26	11	2	19	48	106
Depreciation and amortisation expense	18	5	1	19	5	48
Total revenue	1,636	715	1,017	2,396	2,737	8,501
Gross written premium	1,578	629	991	2,249	2,276	7,723
Gross earned premium	1,448	602	856	2,103	2,188	7,197
Outward reinsurance premium expense	227	161	184	372	611	1,555
Net earned premium	1,221	441	672	1,731	1,577	5,642
Net claims incurred	880	243	459	1,250	980	3,812
Net commission	128	90	166	255	359	998
Underwriting and other expenses	177	90	44	207	184	702
Underwriting result	36	18	3	19	54	130
Investment income on policyholders' funds	54	19	15	93	95	276
Insurance profit	90	37	18	112	149	406
Investment income (loss) on shareholders' funds	(11)	(4)	2	(13)	(69)	(95)
Profit from ordinary activities before income tax	79	33	20	99	80	311
Income tax	(24)	14	6	25	12	33
Profit from ordinary activities after income tax	103	19	14	74	68	278
Outside equity interests	–	1	–	(2)	–	(1)
Net profit attributable to members of the company	103	18	14	76	68	279

(b) External product segments

	GENERAL INSURANCE 2003 $M	GENERAL INSURANCE 2002 $M	INWARD REINSURANCE 2003 $M	INWARD REINSURANCE 2002 $M	TOTAL 2003 $M	TOTAL 2002 $M
Total revenue	6,815	6,009	2,552	2,492	9,367	8,501
Net profit attributable to members of the company	392	212	180	67	572	279
Total assets	13,377	13,078	7,101	7,557	20,478	20,635
Acquisition of plant and equipment, intangibles and other non-current segment assets	50	83	18	23	68	106

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M

31 Reconciliation of cash flows from operating activities to net profit attributable to members of the company

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Cash flows from operating activities	323	28	2,089	1,511
Depreciation of assets	–	–	(36)	(40)
Amortisation of goodwill and write-off of intangibles	–	–	(20)	(8)
Amortisation of premium/discount on fixed interest securities	–	–	(11)	(2)
Loss on sale of plant and equipment	–	–	(1)	(1)
Net exchange gains (losses)	10	(3)	(13)	22
Other (losses) gains on investments	(79)	(68)	110	(151)
Increase in outstanding claims	–	–	(1,209)	(867)
Increase in unearned premium	–	–	(525)	(450)
Increase in deferred insurance costs	–	–	68	74
Increase in net amounts receivable from controlled entities	735	223	–	–
Increase in trade debtors	–	–	402	979
Increase in other operating assets	111	–	61	160
Decrease (increase) in trade and other creditors	–	1	(138)	(702)
Increase in current tax liabilities	(76)	(3)	(105)	(10)
(Increase) decrease in deferred tax liabilities	(616)	(28)	(60)	5
Increase in provisions	(13)	–	(35)	(242)
Outside equity interests	–	–	(5)	1
Net profit attributable to members of the company	395	150	572	279

32 Non-cash financing and investing activities

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan	111	72	111	72
Shares issued under the Employee Share and Option Plan	–	–	27	31

DIRECTORS’ DECLARATION

The directors declare that the financial statements and notes set out on pages 46 to 78:

(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 company’s and consolidated entity’s financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the directors’ opinion, the financial statements are in accordance with the *Corporations Act 2001* and there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in SYDNEY this 25th day of February 2004 in accordance with a resolution of the directors.

EJ Cloney	**FM O’Halloran**
Director	Director

INDEPENDENT AUDIT REPORT

to the members of QBE Insurance Group Limited

Audit opinion

In our opinion, the financial report of QBE Insurance Group Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of QBE Insurance Group Limited and the QBE Insurance Group (defined below) as at 31 December 2003, and of their performance for the year ended on that date; and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both QBE Insurance Group Limited and the QBE Insurance Group (the consolidated entity), for the year ended 31 December 2003. The consolidated entity comprises both the company and the entities it controlled during that 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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

JE Skinner
Partner

Sydney
25 February 2004