report on results

QBE Insurance Group Limited

Half year report to 30 June 2001

QBE Insurance Group Limited
ACN 008 485 014

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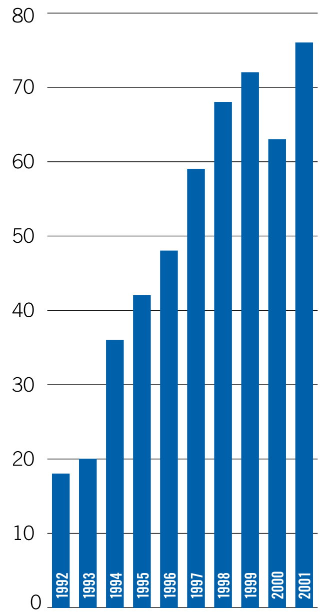
HIGHLIGHTS
for the half year ended 30 June 2001

PROFIT AND DIVIDEND PAYOUT

- Net profit after tax from our operations in 43 countries increased 56.4% to $122 million.
- The interim dividend increased to 16.5 cents per share, franked at 25%. The dividend payout is $76 million, up 20.6% from the September 2000 dividend.
- Shareholders' funds increased 21.2% to $2,072 million, including $273 million of additional capital placed in April 2001.



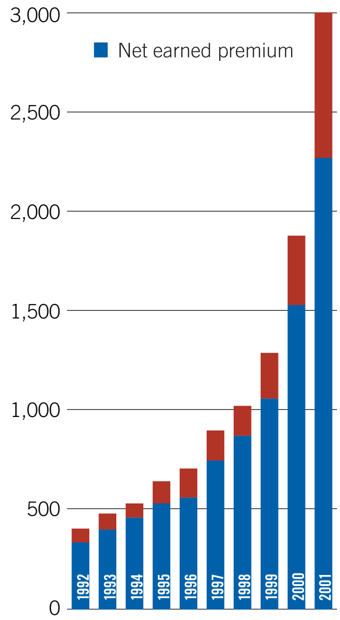
Dividend payout $M

GROUP OPERATING PERFORMANCE

- Insurance profit was $126 million, up 43.2% on last year.
- Insurance profit as a percentage of net earned premium was 5.5% (5.7% last year).
- Gross earned premium increased 59.9% to $3,005 million, assisted by acquisitions, premium rate increases and a weak Australian dollar.
- The combined operating ratio of 102.2% (102.1% last year) was satisfactory considering the need to upgrade prior years' outstanding claims in London, Dublin and the USA.

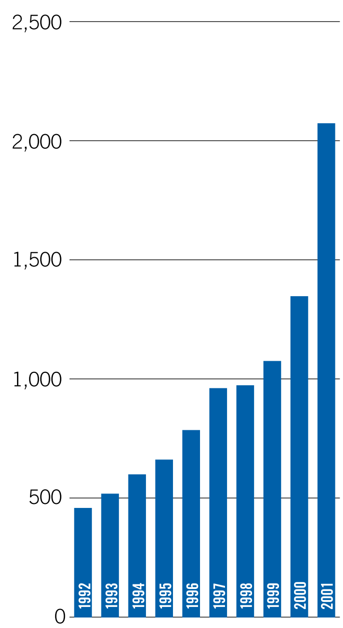
DIVISIONAL OPERATING PERFORMANCE

- Australian general insurance recorded a combined operating ratio of 100.5% reflecting higher premium rates for most classes, cancellation of consistently unprofitable business and a lower expense ratio.
- Asia-Pacific general insurance recorded a combined operating ratio of 99.7% (99.0% last year). Gross earned premium was up 18.1% to $200 million, reflecting a number of acquisitions in the past 18 months and organic growth.
- the Americas achieved significant premium growth from acquisitions, specialist agency business and premium rate increases. Gross earned premium was $288 million, up 101.4% on last year. The combined operating ratio decreased to 102.6% (105.9% last year), despite upgrades of prior years' claims provisions.
- European company operations' combined operating ratio was 104.7% (103.4% last year). Gross earned premium increased 16.1% to $1,026 million, assisted by premium rate increases and foreign exchange movements.



Gross earned premium $M

- Lloyd's division recorded substantial premium growth as a result of the acquisition of Limit plc (Limit) in August 2000. Gross earned premium was $933 million, up from $141 million last year. The combined operating ratio was 101.1% (102.2% last year).
- Investment income increased 47.2% to $181 million due to the increase of $1 billion in invested funds, mainly from acquisitions and increased capacity at Lloyd's.
- Investment income includes realised and unrealised investment gains of $18 million ($10 million last year). This includes $18 million of unrealised losses on fixed interest securities which have reversed since 30 June.
- Group cash flow from operations was $110 million compared with $37 million last year.
- Group solvency, based on net tangible assets at market value, is 41.0% compared with 40.0% at 31 December 2000.
- Income tax at 6.8% of profit before tax (11.0% last year) benefited from a number of one off adjustments, including a reduction of corporate tax in Australia and an increase in profit in countries with lower tax rates.



Shareholders' funds $M

QBE HISTORY

	HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
	2001	2000	1999	1998	1997	**2000**	1999	1998	1997	1996
Gross written premium $M	3,795	2,210	1,493	1,196	1,059	4,406	2,877	2,409	2,054	1,561
Gross earned premium $M	3,005	1,879	1,288	1,021	897	4,399	2,692	2,266	1,902	1,479
Net earned premium $M	2,274	1,532	1,060	873	748	3,456	2,204	1,914	1,609	1,204
Claims ratio %	69.8	71.7	71.7	66.8	68.7	71.2	70.1	68.1	68.6	67.0
Commission ratio %	20.0	17.6	19.6	18.0	16.8	18.3	19.9	18.3	17.1	17.3
Expense ratio %	12.4	12.8	13.8	13.7	13.7	13.0	13.9	13.9	13.8	15.0
Combined operating ratio %	102.2	102.1	105.1	98.5	99.2	102.5	103.9	100.3	99.5	99.3
Investment income										
before movement in unrealised gains $M	202	145	131	90	81	335	266	185	174	140
after movement in unrealised gains $M	181	123	105	57	151	308	241	163	162	181
Insurance profit (loss) $M	126	88	(1.5)	78	56	186	56	147	116	101
Insurance profit (loss)/net earned premium %	5.5	5.7	(0.1)	9.0	7.5	5.4	2.5	7.7	7.2	8.4
Operating profit										
before tax $M	132	91	51	70	156	220	156	157	170	189
after tax and outside equity interest $M	122	78	52	69	105	179	132	141	131	150
Number of shares on issue millions	459	422	388	377	292	429	395	383	374	288
Shareholders' funds $M	2,072	1,346	1,074	972	960	1,709	1,135	1,057	968	875
Total assets $M*	16,948	9,535	6,411	5,708	4,854	14,283	9,017	6,027	5,102	4,140
Basic earnings per share cents**	27.6	18.7	13.6	18.5	28.8	42.6	33.8	37.3	35.6	42.2
Diluted earnings per share cents**	25.2	18.7	13.6	18.5	28.8	41.0	33.8	37.3	35.6	42.2
Return on average shareholders' funds %***	12.9	12.5	9.8	14.3	22.8	12.6	12.0	13.9	14.2	18.4
Dividend per share cents**	16.5	15.0	18.5	18.0	16.0	31.0	32.5	26.5	24.0	20.8
Dividend payout $M	76	63	72	68	58	132	130	101	88	74

* adjusted to exclude New South Wales workers' compensation managed fund
** adjusted for bonus issues
*** includes convertible preference shares

RESULTS

OPERATING PROFIT

The directors are pleased to announce an increase in profit after tax of 56.4% to $122 million. This profit was achieved on a substantial increase in premium, with gross earned premium growing 59.9% to $3,005 million and net earned premium up 48.4% to $2,274 million.

Insurance profit was $126 million, or 5.5% of net earned premium, compared with $88 million (5.7% of net earned premium) for the previous corresponding period. The increased insurance profit was achieved after upgrading prior year outstanding claims in London, Dublin and the USA. It is also after increasing the Group's prudential margins on outstanding claims provisions.

Supporting the improved profit for the half year was higher investment income on investment funds that have grown considerably due to positive cash flow from operations and acquisition activity over the past 18 months, including additional capacity for our Lloyd's syndicates for 1999. Investment income was $181 million, up 47.2% on the previous corresponding period. Invested funds and cash net of borrowings have grown to $7.4 billion at 30 June 2001, compared with $6.4 billion at 31 December 2000 and $4.8 billion at 30 June 2000.

INTERIM DIVIDEND

The directors have declared an interim dividend of 16.5¢ per share, which represents an increase on the 15.0¢ per share paid in September 2000. The dividend payout is up 20.6% from the September 2000 dividend to $76 million. Books close for the interim dividend on 7 September 2001. The dividend reinvestment programmes continue at a rate of 2.5%.

SHAREHOLDERS' FUNDS

Shareholders' funds have increased 21.2% since 31 December 2000 to $2,072 million. The placement of 25 million shares at $11.00 per share and the substantial reinvestment of the dividend paid in April 2001 assisted the increase. The Group's solvency ratio, being the ratio of shareholders' funds at market value (excluding intangible assets) to net earned premium, is 41.0%, or 50.0% including the subordinated debt.

Proposed standards by the Australian Prudential Regulation Authority under new legislation for Australian general insurers will require a more comprehensive, risk based approach to the calculation of the minimum capital requirement for licensed insurers. Based on our understanding of the proposed standards as they are currently drafted we estimate that, on a Group basis, QBE's solvency at 30 June 2001 is more than 1.4 times the minimum capital requirement.

Financial highlights

	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Net profit after tax $M	122	78
Basic earnings per share cents	27.6	18.7
Diluted earnings per share cents	25.2	18.7
Dividend payout $M	76	63
Dividend per share cents	16.5	15.0
Net tangible assets per share $	3.66	2.91
Invested funds and cash net of borrowings $M	7,385	4,790
Total assets $M	16,948	9,535
Return on average shareholders' funds %	12.9	12.5
Shareholders' funds at net market value $M	2,072	1,346
Borrowings to shareholders' funds %	37.3	22.4
Solvency ratio at market value %	41.0	46.9

GROUP OPERATING RESULTS

The combined operating ratio was 102.2%, compared with 102.1% for the previous corresponding period. This is a particularly pleasing result considering the increase in prior year claims in London, Dublin and the USA and the increase in prudential margins. Our acquisitions and other initiatives over the past 18 months are now having a positive impact with a significant increase in the insurance profit and the size of our business as well as the profile of the Group throughout the world's insurance markets.

The substantial growth in gross earned premium for the six months was greatly assisted by acquisitions, particularly of our interest in Lloyd's through Limit in August 2000, the appreciation of sterling and the US dollar against the Australian dollar and, most importantly, the substantial premium rate increases now being achieved by most of our operations around the world.

Over the past 18 months, we have cancelled a considerable amount of consistently unprofitable business and tightened underwriting authorities and levels for accepting business. The insurance profit, while showing appreciable growth, does not yet fully reflect the increased premium rates and the improvements made to the business. These benefits are expected to flow through in the second half of 2001 and in 2002.

Gross written premium increased in all divisions. Notable growth was achieved from acquisitions of businesses and portfolios in Australia and New Zealand, particularly the rights to renew HIH's corporate business, and a number of acquisitions in the Asia-Pacific region. The Americas has nearly doubled its premium volume, mainly from growth in its general insurance business. Growth for our European company operations has slowed due to management action in cancelling business from consistently unprofitable portfolios. Although substantial rate increases are now being achieved in most classes of business, the benefits will only flow through to earned premium over the next 12 months. The Lloyd's division achieved sizeable premium growth of over 500% from the acquisition of Limit.

The size of our reinsurance business relative to the Group's total written premium has decreased from 37.4% to 32.2% as a result of the acquisition of Limit and a number of primary operations over the past 18 months. Despite the need to increase outstanding claims provisions on some unprofitable portfolios, the net profit after tax from our reinsurance business increased to $31 million.

Reinsurance costs increased as a percentage of gross written premium as a result of generally higher reinsurance premium rates and higher costs, particularly for new specialist products in Asia-Pacific, a quota share for Central and Eastern Europe and the alternative risk transfer portfolio in London. This also impacted deferred reinsurance costs in the balance sheet, which increased as a percentage of gross unearned premium.

The claims ratio decreased to 69.8% despite the upgrade of prior year outstanding claims provisions in London, Dublin and the USA. Recoveries on reinsurance have remained high due to recoveries on prior year upgrades, particularly for the Lloyd's division where reinsurance recoveries exceeded the premium expense by $140 million.

The commission ratio increased, as expected, from 17.6% to 20.0% resulting from the change in the mix of our business and higher reinsurance costs, particularly for some specialist portfolios.

The expense ratio decreased from 12.8% to 12.4% mainly due to the considerable synergies created by acquisitions. Total expenses were up 44.4% to $283 million. However, the growth in expenses is substantially less than the growth in premium.

Investment income for the half year, excluding realised and unrealised gains and losses on investments, was up 44.2% to $163 million. This is a pleasing result considering the lower interest rate environment in the period. Lower interest rates have meant that part of the benefit of the substantial cash flow generated from acquisitions and profits in the past few years has not all flowed through to profit. Cash flow from operations increased to $110 million ($37 million last year).

The income tax expense benefited from a number of one-off adjustments, including the reduction of corporate tax in Australia, and the increase in profit in countries with lower tax rates.

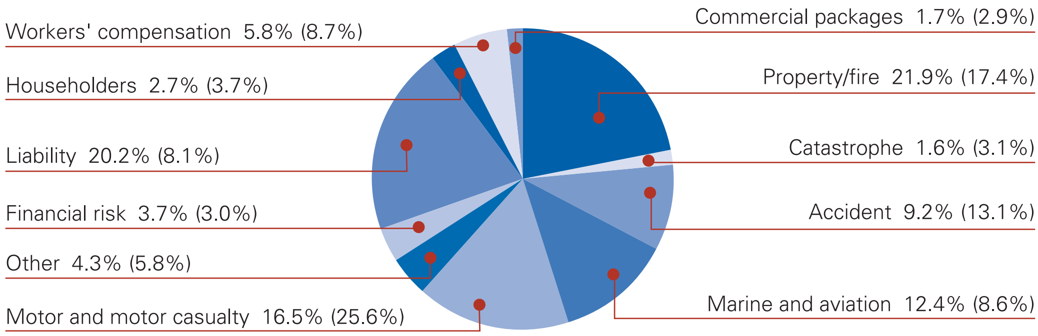
The table on page 6 shows the contributions to the results of each of the five operating divisions and separately the results from general insurance and inward reinsurance.

The seven year spread basis of accounting for realised and unrealised investment gains and losses on equities and properties is used by QBE to measure the performance of its management and staff. Profit after tax for the six months on this basis was $138 million, compared with $111 million for the previous corresponding period.

Key ratios - Group

	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	3,795	2,210
Gross earned premium $M	3,005	1,879
Net earned premium $M	2,274	1,532
Claims ratio %	69.8	71.7
Commission ratio %	20.0	17.6
Expense ratio %	12.4	12.8
Combined operating ratio %	102.2	102.1

WORLDWIDE PORTFOLIO MIX
GROSS EARNED PREMIUM



RESULTS

RISK MANAGEMENT

QBE has in place a comprehensive risk management framework. This framework is supported by detailed business plans and monitoring procedures to ensure compliance. Underwriting year and accident year statistics by product are maintained and reviewed regularly. This, together with detailed actuarial analysis on trends, pricing and claims reserving, enables us to take action on unprofitable portfolios at an early stage and to focus on growing profitable business.

Provisions for outstanding claims are assessed by actuaries and include substantial prudential margins over central estimates to cover uncertainties. The level of our prudential margins has increased and, consistent with previous periods, it is considered that there is a probability in excess of 85% that the Group's provisions for outstanding claims will be adequate to meet claims as they become payable in the future.

We mentioned at the last annual general meeting that we have increased the Group's net retained exposure to major catastrophes and risk losses. However, this increase is in line with the growth in the size of our business. We continue to carry extensive reinsurance protection against a high frequency of catastrophes such as we experienced in 1999. QBE continues its policy of not entering into financial reinsurance transactions.

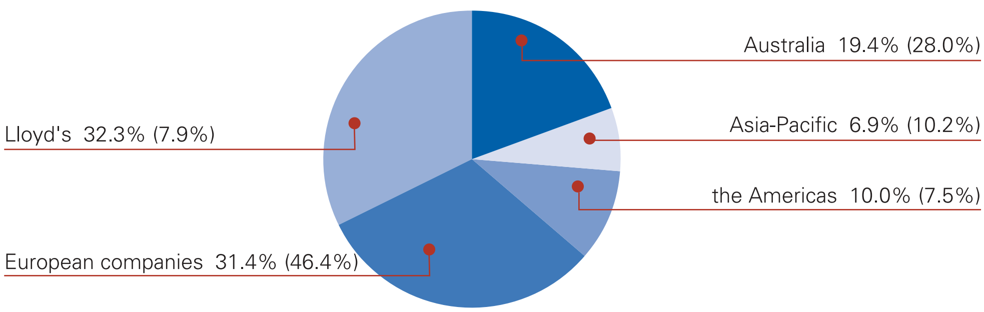
The Group has a thorough process for the approval of reinsurance security. All major reinsurance programmes are approved by the Group's head office, as is the calculation of aggregates and the allocation to the various operations. QBE's bad and doubtful debt experience for reinsurance recoveries and other debts has been very low by industry standards over many years. Most of the Group's doubtful debts provision relates to acquisitions where provisions were held at acquisition for doubtful premium and reinsurance recovery collections.

The Group continues its conservative policy of investment in value and growth equities and quality fixed interest securities. Approximately 98% of QBE's investment portfolio is liquid, with the remaining 2% held in company occupied properties and unlisted equities. Our exposure to equities was further reduced during the six months, with equities comprising 11.9% of total investments at 30 June 2001 compared with 13.9% at 31 December 2000.

Contributions by region – for the six months to 30 June

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		NET PROFIT AFTER TAX		COMBINED OPERATING RATIO	
	2001 $M	2000 $M	2001 $M	2000 $M	2001 $M	2000 $M	2001 %	2000 %
Australian general insurance	615	549	460	479	45	40	100.5	100.1
Asia-Pacific general insurance	210	172	153	137	12	11	99.7	99.0
the Americas	335	165	222	120	11	13	102.6	105.9
European company operations	1,286	1,108	707	686	33	16	104.7	103.4
Lloyd's division	1,349	216	732	110	21	(2)	101.1	102.2
Group	3,795	2,210	2,274	1,532	122	78	102.2	102.1
General insurance	2,574	1,384	1,642	1,079	91	86	100.3	103.5
Inward reinsurance	1,221	826	632	453	31	(8)	106.9	98.6
Group	3,795	2,210	2,274	1,532	122	78	102.2	102.1

GEOGRAPHIC SEGMENT GROSS EARNED PREMIUM



ACHIEVEMENTS

The many initiatives undertaken over the past 18 months have had a significant positive impact on the growth and profitability of the Group. A summary of the major initiatives undertaken are set out below:

- Acquisition of Iron Trades Insurance Company Limited (Iron Trades), giving QBE a large share of the employers' liability market in the United Kingdom.
- Acquisition of Limit, giving QBE access to over 8% of the Lloyd's insurance market and management of a number of consistently profitable specialist underwriting syndicates.
- Increase in QBE's share of capacity provided to our Lloyd's syndicates from 54.6% to 72.4% for the 2001 underwriting year.
- Acquisition of a state owned insurance company in Macedonia, giving QBE almost 95% of the insurance market in that country.
- Acquisition of two insurance businesses in Singapore to more than double the size of our Singapore operations.
- Acquisition of two businesses in PNG, which increased our market share to over 50% in that country.
- Acquisition of businesses in Latin America which are expected to generate $150 million of gross written premium in a full year.
- Acquisition of the rights to renew HIH corporate insurance business in Australia, producing approximately $250 million gross written premium in a full year.
- Acquisition of the HIH general insurance portfolio in New Zealand, which will increase QBE's annual gross written premium in that country fourfold to $150 million.
- Acquisition of an insurance portfolio in Malaysia to double the size of our Malaysian operations.
- Acquisition of two general aviation businesses in Australia, which adds approximately $55 million of gross written premium and represents a substantial share of that market.
- Achievement of substantial premium rate increases in most of our operations.
- Cancellation of consistently unprofitable business.
- Introduction of stricter parameters for certain lines of business.
- Merger of our two companies in Hong Kong expected to produce cost savings of approximately $5 million per annum.
- Merger of QBE's Lloyd's business into Limit to save approximately $13 million of costs per annum.
- Merger of the HIH and QBE business in New Zealand to save approximately $8 million of costs in 2002.
- Merger of our systems in Australia to produce substantial savings in 2002.

These initiatives have ensured that QBE is well placed to take advantage of the current up cycle in the global insurance markets.

Contributions by region

	NET ASSETS		TOTAL ASSETS		TOTAL REVENUE	
	30 JUNE 2001 $M	30 JUNE 2000 $M	30 JUNE 2001 $M	30 JUNE 2000 $M	HALF YEAR TO 30 JUNE 2001 $M	HALF YEAR TO 30 JUNE 2000 $M
Australian general insurance	310	431	2,528	2,252	728	688
Asia-Pacific general insurance	324	245	1,071	637	253	196
the Americas	373	218	1,531	838	369	198
European company operations	523	400	6,060	5,135	1,432	1,186
Lloyd's division	542	52	5,758	673	1,340	214
Group	2,072	1,346	16,948	9,535	4,122	2,482
General insurance	1,632	872	11,097	5,297	2,774	1,493
Inward reinsurance	440	474	5,851	4,238	1,348	989
Group	2,072	1,346	16,948	9,535	4,122	2,482

OUTLOOK

Subject to an unforeseen frequency and severity of catastrophes, we expect a further increase in profit in the second half. We also expect the strong cash flow achieved in the first half of 2001 to continue and our premium targets of $6.4 billion gross earned and $4.5 billion net earned to be achieved.

We are confident that the premium rate increases and actions we have taken will substantially improve insurance profitability over the next two to three years, subject, of course, to a normal frequency of catastrophes unlike those experienced in 1999.

Lower investment yields from a reduction in interest rates in Australia, the USA and Europe will have an impact on overall investment income for the second half of 2001. However, we expect this to be more than offset by the higher cash flow generated from our operations and acquisitions.

We have lowered the risk profile of the Group's investment portfolios over the past 18 months due to our concerns about overvalued equity markets and bond market volatility. We will review our position over the next six months and, subject to favourable economic conditions, we will take advantage of opportunities to increase our weighting in value equities and fixed interest securities.

Based on our projections of profit for the next 18 months and with a continued high level of dividend reinvestment, the Group is expected to have sufficient shareholders' funds to finance the premium growth that will come from the initiatives mentioned above and the higher premium rates.

AUSTRALIAN GENERAL INSURANCE

The first half of 2001 will be remembered in Australia for the significant upheaval and substantial rationalisation in the general insurance industry. The importance of responsible pricing and strong risk management has been highlighted in a dramatic way.

The combined operating ratio of 100.5% for Australian general insurance operations is a significant achievement. The excellent result is due primarily to higher premium rates for most classes of business, actions taken on unprofitable portfolios and distribution channels and a restructure of our businesses.

Gross written premium increased by 12.0% to $615 million, mainly from the acquisition of the rights to renew HIH's corporate insurance business and premium rate increases. Gross earned premium increased 3.1% to $558 million. Premium growth from the HIH business and premium rate increases will flow into earned premium over the next 12 to 18 months. Net earned premium was marginally lower at $460 million as a result of the low gross earned premium growth and increased reinsurance costs.

Gross premium written and earned from the renewal of HIH's corporate insurance business were $72 million and $22 million respectively. We expect approximately $250 million of gross written premium in a full year from this initiative. This is less than we expected at the time of due diligence because we were unable to renew the expected level of business at rates and terms necessary to deliver a satisfactory return for our shareholders. QBE's ultimate cost for the renewal rights will depend on the actual level of premium renewed.

The workers' compensation portfolios have shown improved results. Our clients are becoming aware that consistent high inflation in claims costs will cause further rate increases. Initiatives to reduce accidents in the work place are actively encouraged.

Compulsory third party business in NSW is performing in line with expectations. The trade credit portfolio experienced three large claims and the professional liability portfolio was impacted by an upgrade to prior year claims provisions. Western QBE and Transport Industries Insurance again produced excellent results. The QBE Mercantile Mutual joint venture showed a significant improvement in results, although slightly lower than plan because of the storms in northern NSW and Queensland.

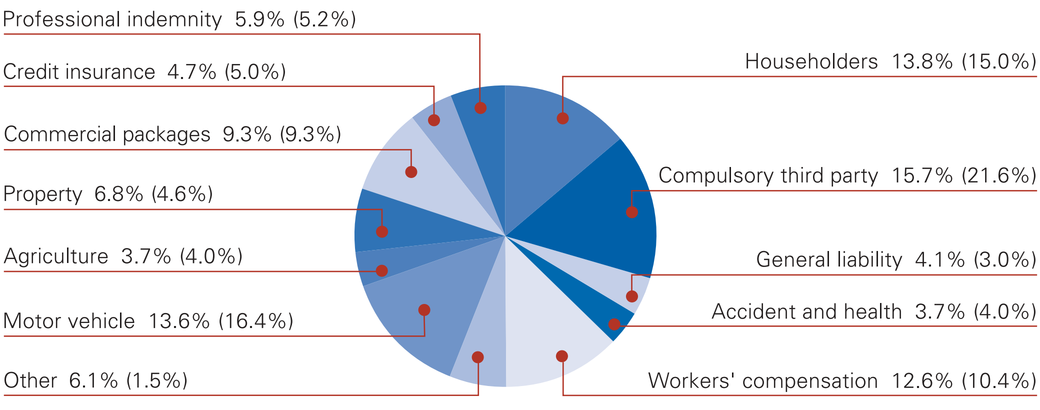
The expense ratio for the six months was 14.6%, down from 16.4% for the previous corresponding period. We expect further improvement in the expense ratio as we achieve full savings from the joint venture rationalisation and from integration of the new HIH business.

Our Australian business has undergone substantial changes in the past few years. The benefits of these changes are now being reflected in our results and further improvements are expected.

Key ratios - Australian general insurance

	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	615	549
Gross earned premium $M	558	541
Net earned premium $M	460	479
Claims ratio %	71.7	71.3
Commission ratio %	14.2	12.4
Expense ratio %	14.6	16.4
Combined operating ratio %	100.5	100.1

AUSTRALIAN GENERAL INSURANCE PORTFOLIO MIX GROSS EARNED PREMIUM



ASIA-PACIFIC GENERAL INSURANCE

Asia-Pacific general insurance, comprising businesses in 18 countries, recorded a combined operating ratio of 99.7%, up slightly from 99.0% for the previous corresponding period. Improvement from corrective actions taken on poor performing portfolios has been offset by higher expenses. The majority of our operations produced excellent profits for the half year; the main exceptions were Malaysia, Singapore and Hong Kong.

Premium growth for the half year was pleasing, with gross written premium increasing by 22.1% to $210 million. The growth is due to acquisitions made over the past 18 months in Japan, Singapore, PNG, New Zealand and the Philippines. There has also been some organic growth and premium rates have increased in a number of markets. Gross earned premium grew 17.6% to $200 million and net earned premium increased by 11.7% to $153 million, reflecting higher reinsurance costs, particularly for our new specialist products.

Premium growth will continue in the second half following the acquisition of the HIH New Zealand general insurance portfolio, the flow on effect of the recent acquisitions in Singapore and the recently announced merger in Malaysia between QBE (51%) and MBf (49%). We also expect further rate increases on a number of portfolios, particularly workers' compensation and motor in Asia.

The claims ratio for the half year was 50.2%, compared with 52.4% for the previous corresponding period. This reflects management action on poor performing portfolios, including the cancellation of consistently unprofitable business. The commission ratio was up from 23.0% to 24.6% due to the higher reinsurance costs and a change in the mix of business. We expect the commission ratio to decrease next year as a result of recent acquisitions, particularly the HIH New Zealand portfolio.

The expense ratio increased from 23.6% to 24.9%, mainly due to costs incurred on new product development, improved systems, the integration of our two operations in Hong Kong and costs related to acquisitions. We expect the expense ratio to decrease going forward, particularly as a result of synergies from the Hong Kong merger and acquisitions.

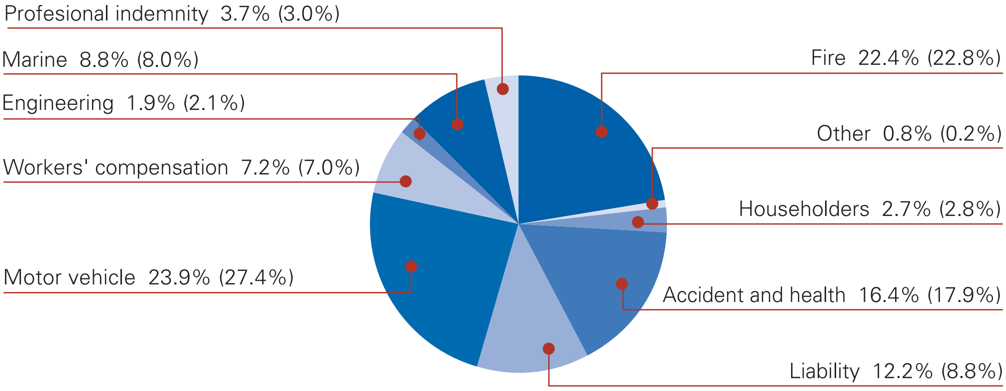
New product development under the banner of "specialised insurance solutions" has resulted in the introduction of professional liability, directors' and officers', medical malpractice, specialist liability, marine liability and trade credit products into a number of Asian markets. A team of specialists, including staff from our London and Sydney operations, support these new products.

QBE has shareholder and management control of all our businesses in Asia-Pacific. This helps us to ensure that we can move quickly to change our business when necessary to achieve the required returns for our shareholders. We are confident that the acquisitions and other initiatives will further improve profitability going forward.

Key ratios - Asia-Pacific general insurance

	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	210	172
Gross earned premium $M	200	170
Net earned premium $M	153	137
Claims ratio %	50.2	52.4
Commission ratio %	24.6	23.0
Expense ratio %	24.9	23.6
Combined operating ratio %	99.7	99.0

ASIA-PACIFIC GENERAL INSURANCE PORTFOLIO MIX GROSS EARNED PREMIUM



THE AMERICAS

Our operations in the Americas now comprise general insurance and reinsurance businesses in the USA, reinsurance businesses in Panama, Mexico and Peru and general insurance businesses in Argentina and Venezuela. Previously announced acquisitions in Brazil and Mexico are in the process of being finalised.

The combined operating ratio improved from 105.9% to 102.6%, primarily due to the substantial changes made to poor performing portfolios and reinsurance recoveries from the Group's extensive reinsurance arrangements offsetting the impact of upgrading prior year claims provisions.

Gross written premium increased 103.0% to $335 million and gross earned premium grew 101.4% to $288 million. The significant growth resulted from higher premium rates, a weaker Australian dollar and a renewal portfolio of general insurance business. This renewal business is written through 12 managing general agents with a proven track record of earning profits for insurers.

We have increased our shareholding in the profitable QBE Del Istmo SA in Panama to 40%, with an ability to acquire slightly over 50% in certain circumstances. The recent acquisition of a controlling interest in HIH Argentina expands our product base and the geographic spread of our portfolio. Agreements have also been signed for acquisitions in Mexico and Brazil and these are awaiting final regulatory approval. These acquisitions provide QBE with an opportunity to expand its business in the largest Latin American markets.

We have carried out a detailed analysis of all portfolios and agreed comprehensive business plans to improve profitability. This has resulted in the cancellation of much of our casualty facultative, accident and international property facultative portfolios. The actions taken will result in substantial improvements to the underwriting results for the 2000 and 2001 underwriting years.

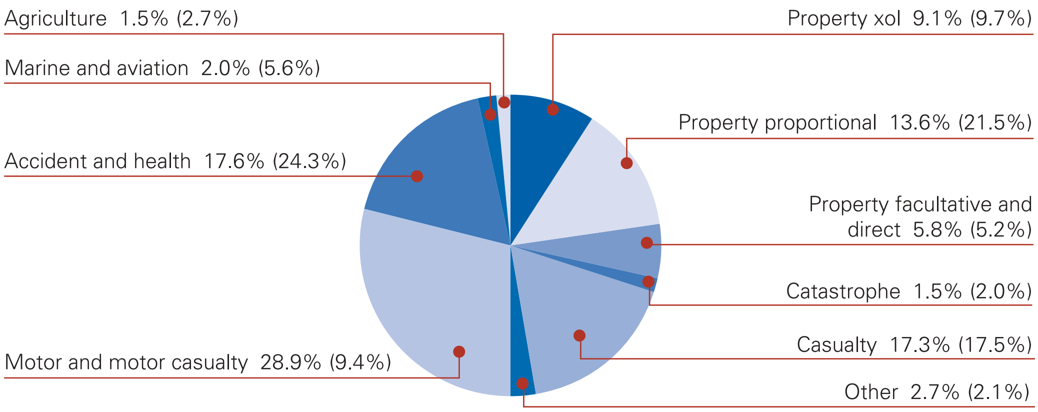
The commission ratio increased marginally to 25.9% due to the change in the mix of business. The expense ratio increased from 6.1% to 6.5% as a result of ongoing business and systems development costs and the strengthening of the risk management and control environment. We now have a highly efficient team supported by good quality systems and management information.

The Americas continues to experience a period of change and carefully controlled growth. The stronger management team, together with the changes to our portfolios and premium rate increases, give us confidence for improvements in profitability for the future.

Key ratios - the Americas

	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	152	42	183	123	335	165
Gross earned premium $M	124	25	164	118	288	143
Net earned premium $M	117	24	105	96	222	120
Claims costs %	67.9	73.9	72.9	74.8	70.2	74.6
Commission costs %	26.7	41.9	25.0	21.0	25.9	25.2
Expenses %	5.7	0.4	7.3	7.5	6.5	6.1
Combined operating ratio %	100.3	116.2	105.2	103.3	102.6	105.9

THE AMERICAS PORTFOLIO MIX GROSS EARNED PREMIUM



EUROPEAN COMPANY OPERATIONS

European company operations, which excludes Lloyd's division, encompasses general insurance and reinsurance operations in London and Paris, reinsurance operations in Dublin, Sydney and Singapore and insurance companies in six countries in Central and Eastern Europe. These operations are managed as four separate divisions, being Central and Eastern Europe, financial risks, reinsurance and primary insurance.

Management's emphasis in European company operations has changed significantly over the past year to focus on risk management, controls and improvements in efficiencies. In the current period, management has concentrated on consolidating the recent acquisitions and monitoring the current business to ensure compliance with the business plans.

Gross written premium grew 16.1% to $1,286 million and gross earned premium increased by 16.1% to $1,026 million. This reflects the acquisition in Macedonia and significant premium rate increases, offset by the impact of cancelling consistently unprofitable business and other management action to correct poor performing portfolios. Net earned premium was up marginally to $707 million as a result of lower earned premium from Iron Trades following the closure of the provincial and retail divisions and higher reinsurance costs, particularly for the alternative risk portfolio.

The combined operating ratio was 104.7% compared with 103.4% for the previous corresponding period, mainly as a result of an increase in expenses offset by a lower claims ratio.

The claims ratio of 73.8% (76.2% for the previous corresponding period) includes recoveries from the Group's extensive reinsurance arrangements. Upgrades were made to provisions for the marine excess of loss, accident and health, property pro rata and professional indemnity portfolios.

The commission ratio is virtually unchanged at 17.9%. The expense ratio increased to 13.0% from 9.4% for the previous corresponding period. The higher expense ratio resulted from an increase in doubtful debt provisions, ongoing systems development and business integration costs and a change in the mix of business.

Considerable progress has been made towards improving the profitability of our reinsurance and primary operations. We are pleased with the way our teams have implemented the focussed business plans developed last year.

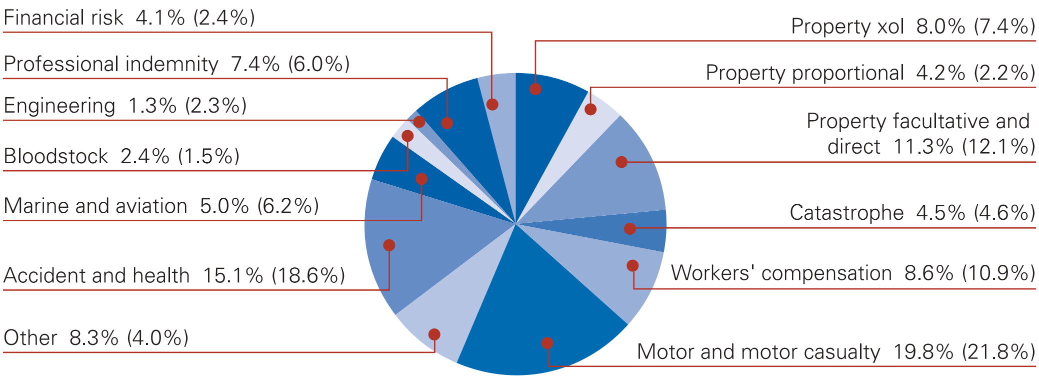
Our operations in Central and Eastern Europe contributed $105 million to gross earned premium and produced an operating profit in line with expectations.

The 2001 underwriting year is on track to deliver an even more positive result than was contemplated in the business plans. Management changes made late in 2000, the enhanced business planning and control processes and significant premium rate increases are already having a beneficial impact on profitability.

Key ratios - European company operations

	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	696	586	590	522	1,286	1,108
Gross earned premium $M	568	505	458	379	1,026	884
Net earned premium $M	381	418	326	268	707	686
Claims ratio %	72.1	79.8	75.8	70.5	73.8	76.2
Commission ratio %	10.3	12.4	26.7	26.3	17.9	17.8
Expense ratio %	15.0	8.4	10.6	10.9	13.0	9.4
Combined operating ratio %	97.4	100.6	113.1	107.7	104.7	103.4

EUROPEAN COMPANY OPERATIONS PORTFOLIO MIX GROSS EARNED PREMIUM



LLOYD'S DIVISION

The Lloyd's division comprises QBE's share of the Lloyd's syndicates managed by Limit. The combined operating ratio was 101.1%, compared with 102.2% for the previous corresponding period. Some of these syndicate results have been affected by upgrades to prior year outstanding claims provisions, consistent with the performance of the Lloyd's market generally. However, these upgrades have been offset by Limit's stop loss reinsurance protections for 1999 and 2000 and the provisions established on acquisition to allow for deterioration above the level of the stop losses. Consequently, the result largely reflects the performance of the 2001 underwriting year.

Gross written premium has increased by 524.5% to $1,349 million as the impact of Limit's business, which is predominantly written in the first half of the year, is included in the division's results. QBE provides 72% of Limit's 2001 aggregate managed syndicate capacity.

The only significant catastrophe claims in the period were the Brazilian oil rig Petrobras and Tropical Storm Allison in the US. The net liability relating to the discontinued, non-aligned syndicate operations did not change in the period. The claims ratio was 68.5%, compared with 66.2% for the previous corresponding period.

The commission ratio decreased from 23.4% to 22.9% as a result of the change in the mix of business.

Merger synergies and economies of scale have contributed to the reduction in the expense ratio from 12.6% to 9.7%. The expense ratio is still slightly higher than our target due to systems rationalisation work plus some residual post-acquisition initiatives that will be ongoing during 2001.

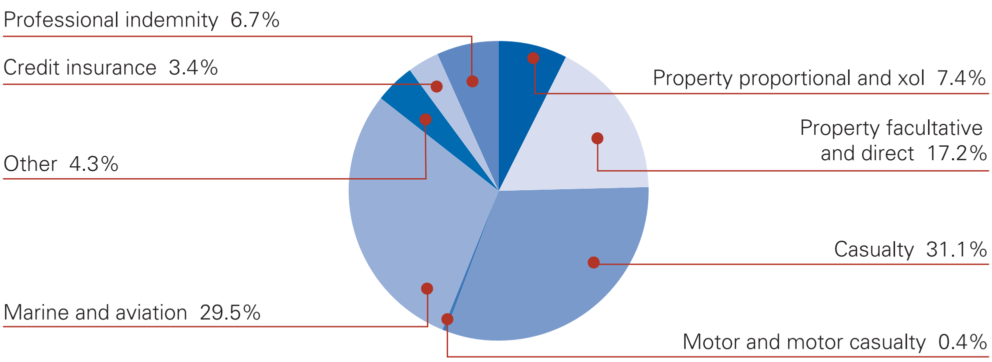
With the substantial increases being achieved in premium rates and new opportunities for 2002, QBE is increasing its underwriting capacity in the highly profitable non-US liability syndicate 386 and providing additional capacity for Limit's other specialty syndicates. This increased underwriting capacity will be partially offset by the withdrawal of capacity from the property and aviation syndicate 318. As part of this rearrangement and redistribution of capital, Limit has reached agreement to sell the rights to manage this syndicate.

As we expected at the time of the Limit acquisition, 2001 is proving to be a transitional year in the market cycle. Significant rate increases and improved terms and conditions are being achieved in most classes of business. This, together with actions taken on consistently unprofitable portfolios in syndicate 79 and substantial prudential margins, is expected to improve profitability going forward.

Key ratios - Lloyd's division

	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000	HALF YEAR TO 30 JUNE 2001	HALF YEAR TO 30 JUNE 2000
Gross written premium $M	925	67	424	149	1,349	216
Gross earned premium $M	658	51	275	90	933	141
Net earned premium $M	541	43	191	67	732	110
Claims ratio %	69.5	73.4	65.5	61.7	68.5	66.2
Commission ratio %	21.1	20.0	27.9	25.5	22.9	23.4
Expense ratio %	10.1	17.4	8.7	9.5	9.7	12.6
Combined operating ratio %	100.7	110.8	102.1	96.7	101.1	102.2

LLOYD'S DIVISION PORTFOLIO MIX GROSS EARNED PREMIUM*



* prior period comparatives exclude Limit and therefore are not provided

INVESTMENTS

Investment income before realised and unrealised gains was up 44.2% to $163 million. Realised and unrealised gains and losses on investments were $18 million compared with $10 million for the previous corresponding period. The substantial increase in investment income arose mainly from the acquisition of Limit and the higher cash flow from the many initiatives undertaken during the past 18 months.

Insurance profit to net earned premium was 5.5%, compared with 5.7% for the previous corresponding period. The investment yield applied to insurance funds has been determined on a basis consistent with previous periods. Movements in unrealised gains and losses on investments and amortisation of goodwill are included in investment income on shareholders' funds.

Interest on borrowings has increased, mainly due to increased funding to support the Limit acquisition. The interest cost will be lower in the second half as a result of the decrease in borrowings from $915 million at 31 December 2000 to $773 million at 30 June 2001.

The lower value of the Australian dollar compared with the US dollar and sterling, together with general foreign exchange volatility during the period, resulted in a foreign exchange loss of $10 million, compared with a loss of $7 million for the previous corresponding period.

Net invested funds

	30 JUNE 2001 $M	30 JUNE 2001 %	31 DECEMBER 2000 $M	31 DECEMBER 2000 %
Equities*	924	11.9	971	13.9
Short-term deposits	2,433	31.4	2,677	38.3
Other interest bearing securities	4,283	55.3	3,228	46.2
Property	112	1.4	110	1.6
Investments	7,752	100.0	6,986	100.0
Cash (net of overdrafts)	406		348	
Borrowings	(773)		(915)	
Net invested funds	7,385		6,419	

*unrealised gains represent 3.1% (31 December 2000 4.2%) of equities

The last few days of June 2001 saw substantial volatility in the Australian equity market and global fixed interest markets. The short lived increase in yields on fixed interest securities resulted in a reduction in unrealised gains of $18 million before tax in the last week of June. The Australian Accounting Standard AASB 1023 requires all investments, including fixed interest securities, to be included at net market value. Since the end of June, the unrealised loss has been more than recovered and gains are being realised on these securities as opportunities arise.

Investment income

	HALF YEAR TO 30 JUNE 2001 $M	HALF YEAR TO 30 JUNE 2000 $M
Dividends	24	26
Interest	193	105
Property and other	3	10
Exchange losses	(10)	(7)
Interest expense	(38)	(13)
Amortisation of goodwill	(2)	(1)
Other expenses	(7)	(7)
Investment income before realised and unrealised losses	163	113
Realised gains (losses) on fixed interest securities	16	(3)
Realised gains on equities and properties	23	35
Unrealised gains (losses) on fixed interest securities	(18)	6
Unrealised losses on equities and properties	(3)	(28)
Total investment income	181	123

Our equity portfolios, which are mainly held in Australia and the UK, outperformed their respective benchmarks. However, substantial realised and unrealised gains in Australia were offset by the fall in overseas equity markets. The nil cost equity collars put in place in early January 2001 to protect the Group's shareholders' funds from a major downturn in equity markets were beneficial, particularly in the UK. In May 2001, we renewed the nil cost collar on UK equities.

We continue to maintain a low risk investment policy, with reduced exposure to equities and long dated fixed interest securities. Our conservative policy and the lower interest rate environment will influence our investment yields for the second half. However, we expect this to be offset by our higher invested funds and strong cash flows.

Your directors present their report on the consolidated entity consisting of QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2001.

DIRECTORS

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

EJ Cloney (Chairman)	BJ Hutchinson
CP Curran AO	FM O'Halloran
The Hon NF Greiner AC	MJ Phillips AM (Deputy Chairman)

AC Copeman AM retired on 8 March 2001.

LF Bleasel AM was appointed as a director on 17 January 2001 and CLA Irby was appointed as a director on 27 June 2001.

CONSOLIDATED RESULTS

	CONSOLIDATED		
	SIX MONTHS ENDED 30 JUN 2001 $M	SIX MONTHS ENDED 31 DEC 2000 $M	SIX MONTHS ENDED 30 JUN 2000 $M
Revenue	4,122	3,464	2,482
Expenses	(3,931)	(3,294)	(2,356)
Movement in unrealised gains on investments	(21)	(5)	(22)
Borrowing costs expense	(38)	(36)	(13)
Profit from ordinary activities before income tax	132	129	91
Income tax attributable to profit from ordinary activities			
Before movement in unrealised gains on investments	22	27	20
Movement in unrealised gains on investments	(14)	(2)	(10)
Income tax attributable to profit from ordinary activities	8	25	10
Profit from ordinary activities after income tax			
Before movement in unrealised gains on investments	131	107	93
Movement in unrealised gains on investments	(7)	(3)	(12)
Profit from ordinary activities after income tax	124	104	81
Net profit attributable to outside equity interests	2	3	3
Net profit attributable to members of the company			
Before movement in unrealised gains on investments	129	104	90
Movement in unrealised gains on investments	(7)	(3)	(12)
Net profit attributable to members of the company	122	101	78
Net increase in foreign currency translation reserve	8	1	5
Total changes in equity other than those resulting from transactions with owners as owners	130	102	83

Profit for the half year was $122 million, an increase of 56.4% on the previous corresponding period, the six months ended 30 June 2000. The return on average shareholders' funds was 12.9% compared with 13.3% for the six months ended 31 December 2000 and 12.5% for the six months ended 30 June 2000. Earnings per share was 27.6 cents compared with 23.9 cents for the six months ended 31 December 2000 and 18.7 cents for the six months ended 30 June 2000.

INTERIM DIVIDEND

The directors are pleased to announce a 25% franked interim dividend of 16.5 cents for the half year compared with a 30% franked final dividend of 16.0 cents for the six month period ended 31 December 2000, and a 35% franked final dividend of 15.0 cents for the year ended 30 June 2000. The dividend payout is $76 million. The dividend reinvestment programmes continue at a discount rate of 2.5%.

STATEMENT OF FINANCIAL POSITION

In April 2001, the company raised an additional $273 million in equity by a private placement of shares.

REVIEW OF OPERATIONS

Profit after tax for the half year was $122 million, an increase of 20.8% on the six month period to 31 December 2000 and 56.4% on the previous corresponding period. The profit for the period benefited from increased investment income as a result of substantial growth in invested funds following acquisitions over the past 18 months and increased capacity at Lloyd's.

Gross earned premium was $3,005 million, an increase of 19.3% on the six month period to 31 December 2000 and 59.9% on the previous corresponding period. The growth since 31 December 2000 was assisted by acquisitions and other initiatives undertaken across the Group. Net earned premium of $2,274 million increased 18.2% from the six month period to 31 December 2000 and 48.4% from the previous corresponding period. The lower Australian dollar in the period further assisted growth. Over 80% of the company's business is derived from overseas countries.

Reinsurance costs increased as a percentage of gross written premium as a result of generally higher reinsurance premium rates and higher costs, particularly for new specialist products in Asia-Pacific, a quota share for Central and Eastern Europe and the alternative risk transfer portfolio in London. This also impacted deferred reinsurance costs in the balance sheet, which increased as a percentage of gross unearned premium.

The consolidated ratio of claims, commission and expenses to net earned premium (the combined operating ratio) for the half year was 102.2%, compared with 102.9% for the six month period to 31 December 2000 and 102.1% for the previous corresponding period. The claims ratio for the half year was 69.8%, which compares favourably with 70.9% for the six month period to 31 December 2000 and 71.7% for the previous corresponding period. This improvement is after upgrading outstanding claims provisions in European company operations and the Americas. Recoveries on reinsurance have remained high due to recoveries on prior year upgrades, particularly for the Lloyd's division where reinsurance recoveries exceeded the premium expense by $140 million.

The commission ratio increased to 20.0% from 18.8% for the six month period to 31 December 2000 and 17.6% for the previous corresponding period, reflecting the change in the business mix. As expected, synergies from acquisitions and other initiatives have seen the expense ratio improve to 12.4% compared with 13.2% for the six month period to 31 December 2000 and 12.8% for the previous corresponding period.

Insurance profit was $126 million, or 5.5% of net earned premium, compared with $98 million for the six month period to 31 December 2000 and $88 million for the previous corresponding period. This is a pleasing performance given that the Group's prudential margins on outstanding claims provisions have been increased.

Australian general insurance produced a combined operating ratio of 100.5%, compared with 101.3% for the six month period to 31 December 2000 and 100.1% for the previous corresponding period. Gross earned premium was $558 million, a decrease of 0.3% on the six month period to 31 December 2000 and an increase of 3.1% over the previous corresponding period, due to the cancellation of consistently unprofitable business offsetting premium rate increases for most portfolios. The expense ratio improved to 14.6%, from 15.1% for the six month period to 31 December 2000 and 16.4% for the previous corresponding period. Synergies from acquisitions and changes to the business structure have contributed to the improvement in the half year.

Asia-Pacific general insurance recorded an underwriting profit with a combined operating ratio of 99.7%, compared with 102.0% for the six month period to 31 December 2000 and 99.0% for the previous corresponding period. The underwriting profit was largely due to corrective actions taken on poor performing portfolios. Gross earned premium was $200 million, up 17.6% on the previous corresponding period and net earned premium $153 million, up 11.7% on the previous corresponding period. The claims ratio was 50.2%, an improvement on 53.6% for the six month period to 31 December 2000 and 52.4% for the previous corresponding period. The improvement reflects the continued cancellation of consistently unprofitable business. The expense ratio has increased from 23.6% for the previous corresponding period to 24.9%. The increase is due to increased costs on new products, system improvements, and integration costs of our two Hong Kong operations.

the Americas reported a combined operating ratio of 102.6% compared with 101.0% for the six month period to 31 December 2000 and 105.9% for the previous corresponding period. The result includes a further upgrade of claims from prior years, substantial changes to poor performing portfolios and reinsurance recoveries from the Group's extensive reinsurance arrangements. Net earned premium increased by 38.1% from the six month period to 31 December 2000 and 85.0% from the previous corresponding period to $222 million. Premium growth was attributable to higher premium rates, specialist general insurance agencies and a weaker Australian dollar. The expense ratio continues at a relatively low 6.5%.

European company operations' combined operating ratio was 104.7% compared with 105.0% for the six month period to 31 December 2000 and 103.4% for the previous corresponding period. The underwriting loss was primarily due to a higher expense ratio and upgrades on prior year claims offset by recoveries from the Group's extensive reinsurance arrangements. Net earned premium of $707 million was down 18.9% on the six month period to 31 December 2000 and up 3.1% on the previous corresponding period. The closure of the Iron Trades provincial and retail divisions, together with the cancellation of consistently unprofitable business and higher reinsurance costs, has contributed to the reduction in net earned premium. The expense ratio has increased to 13.0% compared with 10.9% for the six month period to 31 December 2000 and 9.4% for the previous corresponding period, as a result of the lower earned premium base, an increase in doubtful debt provisions, ongoing systems development and business integration costs and a change in the mix of business.

Lloyd's division premium growth benefited from the acquisition of Limit in August 2000. Gross earned premium was $933 million, an increase of 115.0% on the six month period to 31 December 2000 and 561.7% over the previous corresponding period. The combined operating ratio was 101.1% compared with 100.6% for the six month period to 31 December 2000 and 102.2% for the previous corresponding period. The successful integration of QBE Lloyd's business with Limit Lloyd's business and the lower expense ratio of Limit has seen the expense ratio reduce to 9.7% compared with 15.2% for the six month period to 31 December 2000 and 12.6% for the previous corresponding period.

Outstanding claims – The liability for outstanding claims is determined for the majority of Group entities after consultation with actuaries. The assessment of outstanding claims provisions takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. The directors believe that substantial prudential margins are required in addition to actuarial central estimates to cover uncertainties such as latency, changes in interest rates and superimposed inflation. The directors consider that there is a probability in excess of 85% that the provision for outstanding claims will be adequate to settle claims as they become payable in the future.

Investment division – Investment income, excluding unrealised and realised gains on investments, was $202 million, an increase of 6.3% on the six month period to 31 December 2000 and 39.3% over the previous corresponding period. Realised and unrealised gains on investments were $18 million compared with a gain of $50 million for the six month period to 31 December 2000 and a gain of $10 million for the previous corresponding period. The result was assisted by increased investment funds from acquisitions and cash flow from operations.

Income tax – The income tax expense for the half year was 6.1% of pre tax profit compared with 19.4% for the six month period to 31 December 2000 and 11.0% for the previous corresponding period. The lower tax rate reflects a number of one off benefits, such as the reduction in the tax rate in Australia and an increase in profits in low tax paying countries.

ROUNDING OF AMOUNTS

The company is of a kind referred to in the Australian Securities and Investments Commission class order 98/0100, relating to the "rounding off" of amounts in the consolidated financial statements and report of the directors. Amounts have been rounded off in the financial report and the directors' report to the nearest million dollars, in accordance with that class order.

Signed in SYDNEY this 29th day of August 2001 in accordance with a resolution of the directors.

EJ Cloney	FM O'Halloran
Director	Director

STATEMENT OF FINANCIAL PERFORMANCE
for the half year ended 30 June 2001

	NOTE	CONSOLIDATED SIX MONTHS ENDED 30 JUN 2001 $M	SIX MONTHS ENDED 31 DEC 2000 $M	SIX MONTHS ENDED 30 JUN 2000 $M
Revenue	2	4,122	3,464	2,482
Expenses		(3,931)	(3,294)	(2,356)
Movement in unrealised gains on investments		(21)	(5)	(22)
Borrowing costs expense		(38)	(36)	(13)
Profit from ordinary activities before income tax	3	132	129	91
Income tax attributable to profit from ordinary activities				
Before movement in unrealised gains on investments		22	27	20
Movement in unrealised gains on investments		(14)	(2)	(10)
Income tax attributable to profit from ordinary activities		8	25	10
Profit from ordinary activities after income tax				
Before movement in unrealised gains on investments		131	107	93
Movement in unrealised gains on investments		(7)	(3)	(12)
Profit from ordinary activities after income tax		124	104	81
Net profit attributable to outside equity interests		2	3	3
Net profit attributable to members of the company				
Before movement in unrealised gains on investments		129	104	90
Movement in unrealised gains on investments		(7)	(3)	(12)
Net profit attributable to members of the company		122	101	78
Net increase in foreign currency translation reserve		8	1	5
Total changes in equity other than those resulting from transactions with owners as owners		130	102	83

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2001

	CONSOLIDATED		
	30 JUN 2001 $M	31 DEC 2000 $M	30 JUN 2000 $M
CURRENT ASSETS			
Cash	441	370	302
Receivables	3,515	2,912	2,221
Reinsurance and other recoveries on outstanding claims	894	864	398
Deferred insurance costs	1,584	910	833
Investments	2,978	3,202	1,396
Other	11	10	1
TOTAL CURRENT ASSETS	9,423	8,268	5,151
NON-CURRENT ASSETS			
Receivables	41	46	38
Reinsurance and other recoveries on outstanding claims	2,218	1,725	743
Investments	4,774	3,784	3,416
Plant and equipment	100	91	67
Intangibles	392	369	120
TOTAL NON-CURRENT ASSETS	7,525	6,015	4,384
TOTAL ASSETS	16,948	14,283	9,535
CURRENT LIABILITIES			
Trade and other creditors	1,343	1,099	728
Outstanding claims	2,511	2,847	1,696
Unearned premium	3,351	2,241	1,998
Borrowings	191	398	55
Provisions	37	133	126
TOTAL CURRENT LIABILITIES	7,433	6,718	4,603
NON-CURRENT LIABILITIES			
Outstanding claims	6,757	5,268	3,262
Borrowings	582	517	247
Provisions	61	29	47
TOTAL NON-CURRENT LIABILITIES	7,400	5,814	3,556
TOTAL LIABILITIES	14,833	12,532	8,159
NET ASSETS	2,115	1,751	1,376
EQUITY			
Share capital	1,029	714	665
Convertible preference shares	274	275	–
Reserves	45	37	37
Retained profits	724	683	644
EQUITY attributable to members of the company	2,072	1,709	1,346
OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES	43	42	30
TOTAL EQUITY	2,115	1,751	1,376

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

STATEMENT OF CASH FLOWS
for the half year ended 30 June 2001

	CONSOLIDATED		
	SIX MONTHS ENDED 30 JUN 2001 $M	SIX MONTHS ENDED 31 DEC 2000 $M	SIX MONTHS ENDED 30 JUN 2000 $M
OPERATING ACTIVITIES			
Premium received	2,900	2,523	1,893
Reinsurance and other recoveries received	390	324	310
Outwards reinsurance paid	(723)	(379)	(431)
Claims paid	(1,756)	(1,761)	(1,378)
Insurance costs paid	(668)	(521)	(398)
Other underwriting costs	(110)	(21)	(55)
Interest received	199	154	117
Dividends received	23	23	23
Other operating income	3	3	3
Other operating payments	(24)	(52)	(8)
Interest paid	(45)	(23)	(12)
Income taxes paid	(79)	(134)	(27)
CASH FLOWS from operating activities	110	136	37
INVESTING ACTIVITIES			
Proceeds on sale of equity investments	324	1,581	524
Proceeds on sale of properties	3	62	12
Proceeds on sale of plant and equipment	4	3	4
Payments for purchase of equity investments	(216)	(324)	(221)
(Payments for) proceeds on the (purchase) sale of other investments	(601)	339	156
Purchase of controlled entities (net of cash acquired)	40	(833)	(430)
Payments for purchase of plant and equipment	(25)	(16)	(18)
CASH FLOWS from investing activities	(471)	812	27
FINANCING ACTIVITIES			
Proceeds from issue of shares	273	275	163
Proceeds from borrowings	–	727	23
Repayment of borrowings	(187)	(117)	–
Dividends paid	(37)	(26)	(27)
CASH FLOWS from financing activities	49	859	159
(DECREASE) INCREASE IN CASH HELD	(312)	1,807	223
Cash at the beginning of the half year	3,550	1,676	1,409
Effect of exchange rate changes on opening cash	146	67	44
CASH AT THE END OF THE HALF YEAR	3,384	3,550	1,676
Cash at the end of the half year comprises:			
Cash	441	370	302
Investments – current	2,978	3,202	1,396
Bank overdrafts	(35)	(22)	(22)
CASH AT THE END OF THE HALF YEAR	3,384	3,550	1,676
Non-cash financing and investing activities:			
Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan	38	31	24
Shares issued under the Employee Share and Option Plan	4	17	–

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

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

This general purpose consolidated financial report for the half year ended 30 June 2001 has been prepared in accordance with Accounting Standard AASB 1029: Half Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001. It is recommended that this report be read in conjunction with the Annual Report for the financial year (being the six month period) ended 31 December 2000 and any public announcements made by QBE Insurance Group Limited and its controlled entities during the half year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

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

2. REVENUE

	CONSOLIDATED		
	SIX MONTHS ENDED 30 JUN 2001 $M	SIX MONTHS ENDED 31 DEC 2000 $M	SIX MONTHS ENDED 30 JUN 2000 $M
Revenue from ordinary activities			
Premium revenue			
Direct	2,089	1,680	1,246
Inward reinsurance	916	839	633
	3,005	2,519	1,879
Outward reinsurance revenue			
Reinsurance and other recoveries	858	699	430
Investment revenue			
Investment income – interest received or receivable	193	166	105
Investment income – other	27	25	36
Realised gains on investments	39	55	32
	259	246	173
Total revenue	4,122	3,464	2,482

	CONSOLIDATED		
	SIX MONTHS ENDED 30 JUN 2001 $M	SIX MONTHS ENDED 31 DEC 2000 $M	SIX MONTHS ENDED 30 JUN 2000 $M
3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX			
Gross written premium	3,795	2,196	2,210
Unearned premium movement	(790)	323	(331)
Gross earned premium	3,005	2,519	1,879
Outward reinsurance premium	1,079	466	486
Deferred reinsurance premium movement	348	129	(139)
Outward reinsurance premium expense	731	595	347
Net earned premium	2,274	1,924	1,532
Gross claims incurred	2,391	1,991	1,493
Claims settlement expenses	53	72	35
Reinsurance and other recoveries	(858)	(699)	(430)
Net claims incurred	1,586	1,364	1,098
Net commission	454	362	269
Other acquisition costs	142	171	81
Underwriting and other expenses	141	83	116
	2,323	1,980	1,564
UNDERWRITING RESULT	(49)	(56)	(32)
Investment income on policyholders' funds	175	154	120
INSURANCE PROFIT	126	98	88
Investment income on shareholders' funds	6	31	3
PROFIT FROM ORDINARY ACTIVITIES before income tax	132	129	91
Before movement in unrealised gains on investments	153	134	113
Movement in unrealised gains on investments			
Fixed interest securities	(18)	38	6
Equities and properties	(3)	(43)	(28)
Total movement in unrealised gains on investments	(21)	(5)	(22)
PROFIT FROM ORDINARY ACTIVITIES before income tax	132	129	91
4. DIVIDENDS			
Total dividend provided for or paid during the half year	81	62	56

5. EARNINGS PER SHARE

	CONSOLIDATED		
	SIX MONTHS ENDED 30 JUN 2001	SIX MONTHS ENDED 31 DEC 2000	SIX MONTHS ENDED 30 JUN 2000
Basic earnings per share	27.6 cents	23.9 cents	18.7 cents
Diluted earnings per share	25.2 cents	22.2 cents	18.7 cents
Weighted average number of shares outstanding during the half year used in the calculation of basic earnings per share	441 million	424 million	416 million
Potential ordinary shares represent employee options and convertible preference shares issued by a wholly owned controlled entity.			

The directors declare that the financial statements and notes set out on pages 18 to 22:

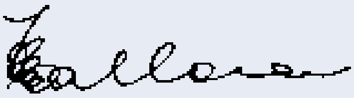
(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the consolidated entity's financial position as at 30 June 2001 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date.

In the directors' opinion there are reasonable grounds to believe that QBE Insurance Group Limited will be able to pay its debts as and when they become due and payable.

Signed in SYDNEY this 29th day of August 2001 in accordance with a resolution of the directors.

EJ Cloney, Director



FM O'Halloran, Director

INDEPENDENT REVIEW REPORT

SCOPE

We have reviewed the financial report of QBE Insurance Group Limited (the company) for the half year ended 30 June 2001 as set out on pages 18 to 23. The company's directors are responsible for the financial report which includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of, or during, the half year. We have performed an independent review of the financial report in order for the company to lodge the financial report with the Australian Securities and Investments Commission. This review was performed in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Half Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

REVIEW STATEMENT

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the company is not in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2001 and of its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 1029: Half Year Accounts and Consolidated Accounts and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

Chartered Accountants

JE Skinner

Partner

SYDNEY, 29 August 2001

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