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QBE

17 August 2017

The Manager
Market Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Report on results and financial statements for the half year ended 30 June 2017

The Directors of QBE Insurance Group Limited announce the financial results for the half year ended 30 June 2017.

The following documents are attached:

1. Appendix 4D – half year report; and

2. QBE's half year report including financial statements for the half year ended 30 June 2017.

Yours faithfully

Carolyn Scobie
Company Secretary

Attachments

QBE Insurance Group Limited
Appendix 4D – Half Year Report for the period ended 30 June 2017

Results for announcement to the market

	UP / DOWN	% CHANGE	2017 US$M	2016 US$M
Revenue from ordinary activities	up	5%	**8,253**	7,890
Profit from ordinary activities after income tax attributable to equity holders of the company	up	30%	**345**	265
Net profit for the period attributable to ordinary equity holders of the company	up	30%	**345**	265

Net profit after tax for the period to 30 June 2017 was $345 million, up from a profit of $265 million for the same period last year.

The Group's underwriting result was a profit of $154 million compared with a profit of $54 million last year, reflecting a combined operating ratio of 97.5% compared with 99.0%. The result benefited from a stronger underwriting performance in both the North American and Australian & New Zealand Operations, partly offset by the impact of increased claims activity in Emerging Markets.

The net claims ratio was 65.3% compared with 64.8% for the same period last year. The current period claims ratio was impacted by the cost of the Ogden decision ($154 million) which was foreshadowed in our year end 2016 results announcement to the market and a reduction in the level of favourable prior accident year claims development ($145 million excluding Ogden compared with $218 million for the same period last year). The prior period ratio was adversely impacted by a significant reduction in risk-free rates used to discount outstanding claims ($283 million).

The combined commission and expense ratio was down compared with the same period last year (32.2% compared with 34.2%) primarily due to changes in business mix and the benefit of expense initiatives.

Excluding the benefit of higher risk-free rates and the one-time impact of the Ogden decision, the combined operating ratio would have been 95.3%, which is around the mid-point of our revised target range of 94.5%-96.0% advised to the market on 21 June 2017.

DIVIDENDS	AMOUNT PER SECURITY (AUSTRALIAN CENTS)	FRANKED AMOUNT PER SECURITY (AUSTRALIAN CENTS)
Interim dividend	**22**	**6.6**

The Dividend Reinvestment Plan will be satisfied by the acquisition of shares on-market with no discount applicable. The Bonus Share Plan will be satisfied by the issue of new shares with no discount applicable. The unfranked part of the dividend is declared to be conduit foreign income.

The share issue price for the Dividend Reinvestment Plan and the Bonus Share Plan will be based on a volume weighted average in the 10 trading days between Tuesday, 29 August 2017 and Monday, 11 September 2017 (both dates inclusive).

The record date for determining shareholder entitlements to the dividend is 25 August 2017.

The last date for receipt of election notices applicable to either the Dividend Reinvestment Plan or Bonus Share Plan will be 28 August 2017.

The interim dividend will be paid on 29 September 2017.

Additional disclosures

Additional Appendix 4D disclosure requirements can be found in the QBE Insurance Group Limited Half Year Report for the period ended 30 June 2017 (Attachment A). The Half Year Report should be read in conjunction with any market or public announcements made by QBE Insurance Group Limited during the period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules. The independent auditor's review report is included at page 59 of the Half Year Report.

Other information

During the period, QBE Insurance Group Limited held an interest in Pacific Re Limited (30.97%) and Raheja QBE General Insurance Company (49%). The Group's aggregate share of profits of these entities is not material.

QBE Insurance Group Limited
Attachment A: Half year report for the period ended 30 June 2017

QBE Insurance Group Limited

2017 Half Year Report

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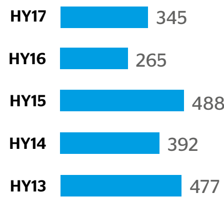
All amounts in this report are US dollars unless otherwise stated.

2017 half year snapshot [1]

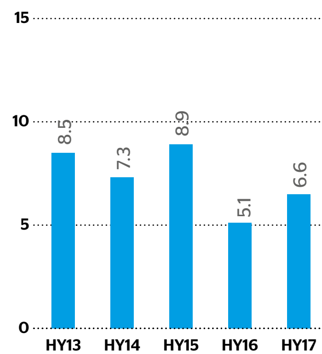
Performance

Net profit after income tax (US$M)

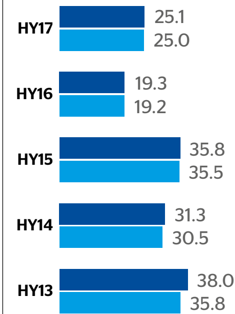


30%

Return on average shareholders' funds (%)



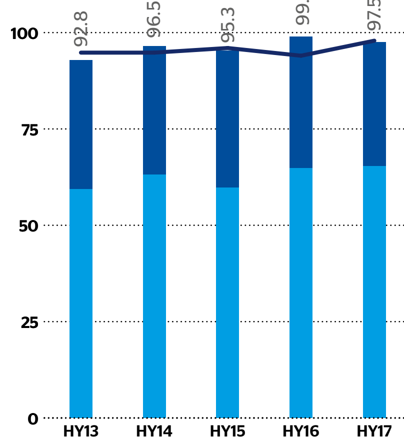
Earnings per share (EPS) (US¢)



Basic EPS 30%

Diluted EPS 30%

Combined operating ratio (COR) (%)

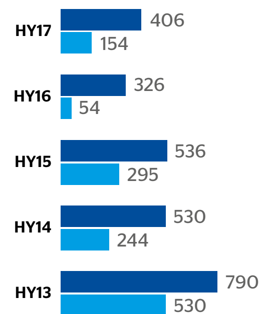


Combined commission and expense ratio

Net claims ratio

COR excluding discount rate adjustment

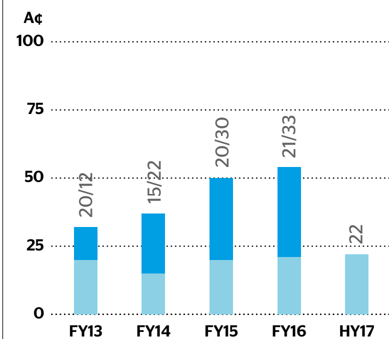
Insurance profit and underwriting result (US$M)



Insurance profit 25%

Underwriting result 185%

Dividend per share (A¢)



5% on 1H 2016

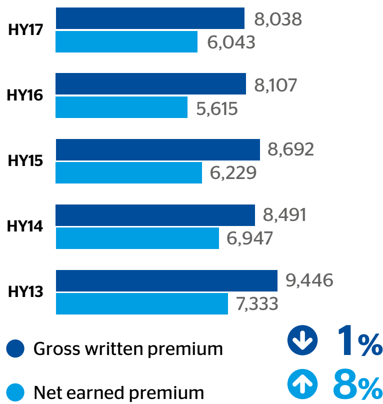
Dividend per share (A¢) final

Dividend per share (A¢) interim

1 The information in the tables above is extracted or derived from the Group's financial statements. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against targets provided to the market.

Profile

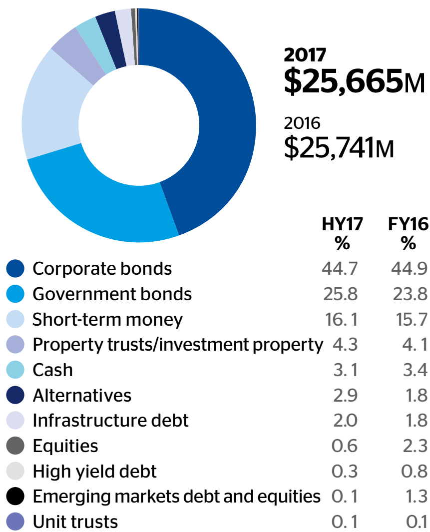
Gross written premium and net earned premium (US$M)



Gross written premium ↓ 1%

Net earned premium ↑ 8%

Investments and cash at 30 June (US$M)

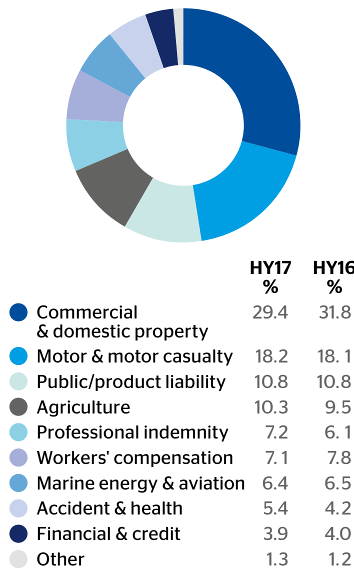


2017
$25,665M

2016
$25,741M

	HY17 %	FY16 %
Corporate bonds	44.7	44.9
Government bonds	25.8	23.8
Short-term money	16.1	15.7
Property trusts/investment property	4.3	4.1
Cash	3.1	3.4
Alternatives	2.9	1.8
Infrastructure debt	2.0	1.8
Equities	0.6	2.3
High yield debt	0.3	0.8
Emerging markets debt and equities	0.1	1.3
Unit trusts	0.1	0.1

Gross earned premium by class of business



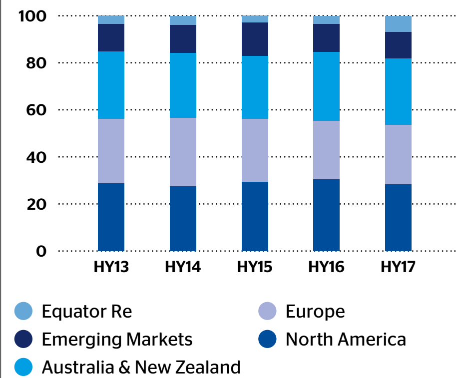
	HY17 %	HY16 %
Commercial & domestic property	29.4	31.8
Motor & motor casualty	18.2	18.1
Public/product liability	10.8	10.8
Agriculture	10.3	9.5
Professional indemnity	7.2	6.1
Workers' compensation	7.1	7.8
Marine energy & aviation	6.4	6.5
Accident & health	5.4	4.2
Financial & credit	3.9	4.0
Other	1.3	1.2

Net earned premium by type

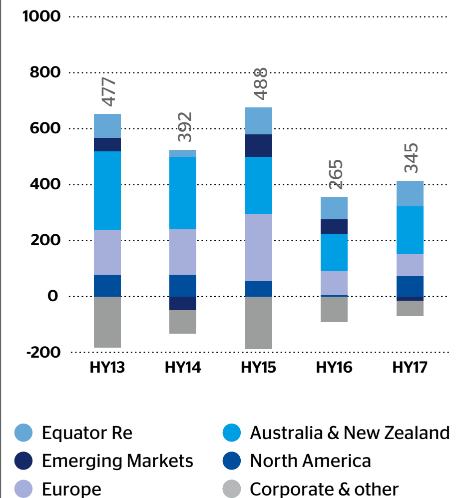
93% direct and facultative insurance

7% inward reinsurance

Divisional analysis of net earned premium (%)



Net profit after tax by division (US$M)



First half 2017 in review

We started 2017 determined to deliver further improvement in QBE's underlying performance through successful execution of our strategy and a focus on underwriting excellence. Against this backdrop, it is disappointing that a material decline in the performance of our Emerging Markets division detracted from the Group's interim result while QBE's larger underwriting divisions delivered results in line with expectations. Our plans to improve underwriting performance across Emerging Markets are progressing while QBE's strong and diversified global franchise will continue to drive shareholder value.

General overview

Our 2017 business plan was constructed on the basis that neither interest rates, insurance pricing nor economic growth would provide a meaningful tailwind for QBE, and everything we have seen to date has been consistent with these assumptions.

Notably, we anticipated that insurance pricing in markets other than Australia would be broadly flat this year, and that is what we are seeing in our major underwriting divisions, with North American Operations recording modest average rate increases for the half year while our European Operations continued to experience rate declines, albeit at a reduced level relative to the prior period.

Our 2017 targets for gross written premium, combined operating ratio and investment returns were provided to the market in February. Dealing with each of these targets in turn, it is pleasing to report that QBE returned to top-line premium growth during the half. Gross written premium growth of 3% [1] on a constant currency basis was slightly ahead of "relatively stable" expectations. Net earned premium growth of 6% [2] on the same basis reflects the increase in gross earned premium coupled with reinsurance cost savings achieved following the restructure of the Group's 2017 reinsurance protections.

We anticipated that continued successful strategy execution, including in relation to operating expense reductions and claims savings, would contribute to a 2017 combined operating ratio of 93.5%–95.0% [3,4]. While our larger underwriting divisions delivered interim results in line with initial expectations, in late June it became necessary to revise our target combined operating ratio range up by 1% to 94.5%–96.0% [3,4] due to heightened claims activity in Emerging Markets. The Group's first half combined operating ratio of 95.3% [3,4] is consistent with this revised range.

During the first half, the investment portfolio delivered an annualised return of 3.6% net of expenses, thereby contributing to increased confidence that the full year investment return will be at the top end of the 2.5%–3.0% target range.

Notwithstanding the disappointing Emerging Markets performance, the interim net profit after tax of $464 million [3] was up 76% from $263 million [2] in the prior period. The improvement included a significant turnaround in the impact of risk-free rates used to discount net outstanding claims with a small positive contribution to the 2017 interim result compared with a material charge in the prior period. In a further demonstration of the quality of QBE's reserving, the half year result includes $107 million [3,5] of favourable prior accident year claims development. While lower than the $196 million [2,5] of favourable development recorded in the same period last year, this is the sixth consecutive half year in which positive development has contributed to QBE's bottom line.

1 Excludes M&LS fronting. Refer page 11 for details.
2 Excludes transactions to reinsure UK long-tail liabilities. Refer page 11 for details.
3 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK. Refer page 11 for details.
4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes favourable Crop development. Refer page 9 for details.

QBE's priorities

To achieve our performance targets for 2017 and beyond, we are focused on delivering against three overarching priorities.

Firstly, we need to focus on the foundations of QBE; building critical capabilities to drive earnings growth over the medium term. These foundational activities include ongoing improvement in underwriting and pricing processes and accelerating our claims transformation work to improve underwriting profitability. Using technology to reduce costs and enable our business priorities is a non-negotiable and we are also working to further refine our QBE culture and develop our talent bench strength.

Secondly, we are committed to optimising the QBE business – taking considered actions to improve profitability. We see opportunity in areas such as how we allocate capital to maximise returns, finding innovative reinsurance mechanisms to lower costs and managing our investment portfolio to deliver improved returns while maintaining appropriate risk settings.

Finally, there are initiatives that will differentiate QBE from other insurers, thereby building our competitive advantage. These include our efforts to be the partner of choice for brokers and customers in identified market segments, together with the accelerated adoption of advanced analytics across our business.

While these priorities form the basis of a multi-year agenda, we are focused on six key areas in 2017.

1. Continued performance improvement across QBE's operations in North America, Australia & New Zealand and Emerging Markets is fundamental to an improved underlying financial result in 2017.

Significant and sustainable progress has been made in Australia & New Zealand over the last year, assisted by the division's market-leading position in each of the broker, underwriting agency and affinity distribution channels. A focus on premium rate increases, tightened terms and conditions, improved underwriting discipline and claims management initiatives has underpinned a significantly improved performance with a 4.2% improvement in the attritional claims ratio (excluding LMI).

The performance improvement in North American Operations continued in the first half, with an underwriting profit of $28 million representing a $96 million uplift on the prior period. The division benefited from continued positive performance in Crop, while actions taken last year to address legacy issues, particularly exiting mono-line commercial auto business, contributed to an improved claims ratio.

As previously noted, the performance of Emerging Markets was a major disappointment, with the interim result impacted by adverse claims experience in numerous portfolios across the division. A detailed review is underway to effect appropriate remediation activities to improve underwriting performance in the second half of 2017 and beyond. We are already implementing tighter underwriting controls and discipline across the business, together with initiatives focused on specific portfolios.

To facilitate a heightened focus on individual portfolios, Emerging Markets will revert to two separate operating divisions in Asia Pacific and Latin America, with both subject to ongoing review of contribution and performance in each of these geographies. This review is a necessary response to increasingly competitive and more politically challenging conditions in key markets, and will include analysis of our strategic footprint in Latin America with a view to a narrower focus in the future.

Any discussion of QBE's underwriting performance would be incomplete without noting European Operations' successful navigation of an extraordinarily difficult trading environment. The division's first half combined operating ratio of 91.3% [1,2] is a reflection of the team's commitment to underwriting discipline and performance oversight.

2. Continued delivery against our **operational efficiency** and **claims excellence** targets remains a focus, including the achievement of $150 million in expense savings and $200 million in claims run-rate savings by the end of 2018.

Substantial progress was made in realising further operational efficiency benefits during the first half of the year, as reflected by the Group's expense ratio improving to 15.2% from 16.1% [3] in the prior period. Based on successes to date and projects underway, we are on track to achieve our published target by the end of 2018.

Claims transformation benefits are also being delivered as planned. During the half, significant contributions were generated by anti-fraud, supply chain management and recoveries initiatives. These initiatives help to hedge against claims inflation in the current competitive pricing landscape, with the benefits initially emerging in the profit and loss by way of positive prior accident year claims development.

3. Given an expectation that ongoing softness in reinsurance pricing would provide an opportunity to renegotiate the pricing and structure of QBE's reinsurance protections, **optimising reinsurance arrangements** was an important focus for 2017.

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes transactions to reinsure UK long-tail liabilities.

Effective 1 January 2017, annualised reinsurance cost savings in excess of $350 million were achieved through a combination of premium rate reductions, program refinements and restructuring and scale efficiencies, together with increased use of our captive reinsurer, Equator Re. Importantly, the reduction in reinsurance cost was achieved without a significant increase in the Group's retained risk profile.

4. Customer and partner-led growth – a return to top-line premium growth [1] was a highlight of the half year result and follows a concentrated effort to further improve QBE's market position and relationships with distribution partners.

While our cross-cycle target of 3% premium growth per annum will not be easy to achieve, particularly while pricing conditions remain challenging, our customer-centric growth strategies are bearing fruit. For example, European Operations reported meaningful cross-class new business wins as brokers and clients respond positively to an enhanced customer proposition supported by a revised structure whereby the International Markets and Retail businesses were combined under single leadership to provide easier access to a more comprehensive set of customer solutions. Elsewhere, North American Operations grew underlying gross written premium 4% [2] with strong growth in Specialty and Crop more than offsetting an 11% reduction in our refocused Property & Casualty business, while Australian & New Zealand Operations reported stable customer retention despite average premium rate increases of 5.2%.

5. Improved investment returns were identified as an area of opportunity for 2017, with a target range of 2.5%–3.0% representing an increase over the 2.4% return in full year 2016. Tactical asset allocation changes during the period with respect to growth asset allocation and fixed income duration contributed to a strong first half annualised investment return of 3.6% net of costs. We now expect the full year 2017 net investment return to be at the top end of the target range.

6. Capital management initiatives are an important tool for rewarding shareholders and, in QBE's case, are made possible by continued strong divisional cash dividend remittances to Group head office and Standard & Poor's Global Ratings assessment that the Group's capital position is "well above the AA level". We announced a three-year cumulative on-market share buyback facility of up to A$1 billion with the full year result in February 2017 and look forward to commencing the acquisition of shares under this program in the second half of the year.

We have also been active across a wide range of activities which are supporting the aforementioned areas of focus. Particularly promising is the work underway in Data & Analytics, which was only established as a global function last year but is already making a significant contribution. Right across the business, better utilisation of data science techniques is leading to improvements in pricing and risk selection, claims anti-fraud activity and customer service.

Closely related to our Data & Analytics activity is the work that is underway to see QBE partner with and invest in early-stage Insurtech companies. We committed to this path at the start of the year and have now grouped this activity under the banner "QBE Ventures".

QBE Ventures has been charged with regularly scouring the Insurtech universe for companies that have developed technology that could be put to work within QBE to improve the way we do business, and build stronger partnerships with customers. Already this year we have screened 242 companies with solutions that may be beneficial for our business. Our bias is towards analytics, digital and Internet of Things solutions that have the potential to add value to our underwriting and claims processes, providing efficiency and service benefits for QBE and for our customers.

After meeting with 22 start-up companies, seven were short-listed and reviewed at an internal investment summit held in San Jose, California in April 2017. Importantly, the structured and committed manner in which QBE approached the Insurtech sector, including our preparedness to bring senior leaders to the table at an early stage, received strong feedback from the innovators with whom we engaged. The potential benefit of entering into well-structured partnering arrangements is tremendously exciting and we expect to commence several partnerships, which will include an investment component, in the next three months.

1 Excludes M&LS fronting.
2 Excludes Latin American premium fronted on behalf of Equator Re in 2016.

Interim dividend

Our dividend policy is designed to ensure we reward shareholders relative to cash profit while maintaining sufficient capital for future investment in and growth of the business.

The Board has declared an interim 2017 dividend of 22 Australian cents per share, franked at 30%, up 5% from the 21 Australian cents declared at the same time last year.

The payout for the 2017 interim dividend is A$302 million, or 61% of cash profit, consistent with the Board's full year policy of "up to 65% of cash profit" to be paid out as dividends.

Cash generation remains strong and our balance sheet and expected retained earnings growth is more than capable of supporting our 3% per annum cross-cycle premium growth target together with implementation of the on-market share buyback program.

Looking forward

QBE maintains a clear focus on driving improved performance in 2017 and beyond. Our three largest underwriting divisions are more streamlined and focused than ever before, and are responding to the challenges of their markets with precise strategy execution and a commitment to customer-centricity.

Plans are well advanced to manage our continental European businesses from Belgium (our European Operations will remain headquartered in London) to ensure no disruption for our business partners and customers in a post-Brexit Europe.

We have set out the first stages of a plan to restore satisfactory profitability in Emerging Markets; however, there is more work to be done to ensure our underwriting controls, disciplines, footprint and operating structures are matched to the opportunity that exists across the disparate markets of the Latin America and Asia Pacific regions.

The restructure of our Emerging Markets business into two operating divisions in Asia Pacific and Latin America sees Jason Brown (previously Group Chief Risk Officer) and Carola Fratini (previously CEO of Argentina) respectively assume the role of CEO for these two divisions. As a result, David Fried will leave QBE in mid-2018, after supporting the transition of QBE's emerging markets businesses. I am grateful to David for his support and commitment over the last five years.

In June 2017, we foreshadowed that the disappointing performance of our Emerging Markets division will add approximately 1% to our full year combined operating ratio and this remains the case. Having regard to the deterioration in Emerging Markets and year-to-date performance, our combined operating ratio is expected to be towards the upper end of our revised target range of 94.5%–96.0% [1,2].

In closing, I would like to thank our customers, our people, our shareholders and business partners for their ongoing support. Through continued commitment to strengthening the foundations of QBE, while also optimising performance and building differentiation, I am confident that we will deliver on the potential of our strong and diversified global franchise.

John Neal
Group Chief Executive Officer

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Financial and operations overview

A disappointing Emerging Markets performance detracted from strong results in our main divisions, including further improvement in both North America and Australia & New Zealand. Top-line growth, reduced expenses and a strong investment return contributed to a higher insurance margin of 9.3%[1] and an improved ROE of 8.8%[1].

General overview

As I usually do, I have commented below on three broad areas of focus:

1. Financial performance
2. Investment strategy and performance
3. Financial strength and capital management

1. Financial performance

The Group reported a statutory net profit after tax of $345 million, up 30% from $265 million in the first half of 2016, while cash profit after tax also increased by 30% to $374 million from $287 million in the prior period.

Adjusted net profit after tax increased by 76% to $464 million[1]. On the same adjusted basis and excluding the impact of changes in risk-free rates used to discount net outstanding claims, the Group's combined operating ratio increased slightly to 95.3%, from 94.5% in the prior corresponding period. This outcome is consistent with our revised 2017 interim and full year combined operating ratio target range of 94.5%-96.0% communicated in our ASX release of 21 June 2017.

Return on average shareholders' funds increased to 8.8%[1] from 5.1% in the prior period.

From my perspective, the key themes to emerge from the 2017 half year result are set out below:

(a) Solid results in Europe and North America

Despite particularly challenging market conditions, our European business again produced a solid underwriting result reporting a combined operating ratio of 91.3%[1,2]. The result was underpinned by $131 million[1] of favourable prior accident year claims development, broadly consistent with the prior period.

While premium rates reduced further during the half, the pace of decline is showing signs of moderating.

North America delivered further improvement in financial performance achieving a 2.3% reduction in its combined operating ratio to 98.2%[2] from 100.5%[2] in the prior period. The improved underwriting result was driven by a reduction in both the net claims and commission ratios.

After an extended period of contraction due to non-core asset sales and portfolio remediation, North America achieved a milestone during the half by returning to top-line growth. Gross written premium was up 4%[3] on an underlying basis.

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes Latin American premium income fronted on behalf of Equator Re in 2016.

(b) Further improvement in Australia & New Zealand

Remediation in Australia & New Zealand has focused on premium rate increases, tightened terms and conditions, improved underwriting discipline and claims management initiatives. During the half, premium rate increases averaged 5.2% across the portfolio while we held policy retention stable at just over 83%.

As expected, our Lenders' Mortgage Insurance (LMI) business reported a higher combined operating ratio consistent with a cyclical slowdown in the Australian mortgage insurance industry. Notwithstanding reduced LMI earnings, Australian & New Zealand Operations' combined operating ratio improved to 92.2% [1] from 93.9% [1] in the prior period, underpinned by a 3.3% improvement in the attritional claims ratio or 4.2% excluding LMI.

(c) Deterioration in Emerging Markets' performance

Consistent with our ASX release of 21 June 2017, Emerging Markets reported a disappointing combined operating ratio of 110.8% [1], up from 99.5% [1] in the prior period. The result includes a material increase in attritional claims activity across numerous portfolios and territories, especially in Asia Pacific, as well as adverse prior accident year development in Hong Kong workers' compensation and an increased frequency of individual risk claims, particularly in Latin America.

While we have been able to identify unique factors that contributed to the heightened attritional claims activity in specific portfolios and specific territories, the deterioration is also reflective of the competitive market landscape, especially in Hong Kong and Singapore, as well as a notable increase in exposure to higher hazard risks, particularly in property and marine.

(d) Reserving – six consecutive halves of positive prior accident year claims development

Excluding $38 million (1H16 $22 million) of favourable Crop development that is offset by an additional reinsurance cession to the US Government under the Federal crop reinsurance arrangement, the Group reported $107 million [2] or 1.8% of favourable prior accident year claims development, down from $196 million [3] or 3.4% in the prior period.

Our European and Australian & New Zealand Operations once again reported significant positive development, with a small net strengthening across the rest of the Group.

(e) Cost reduction initiatives ongoing

A real reduction in expenses coupled with a return to net earned premium growth delivered a meaningful improvement in the Group's expense ratio to 15.2% from 16.1% [3] in the prior period. Gross cost savings recognised during the first half are estimated at around $47 million. As foreshadowed, some of the cost savings achieved during the period were reinvested in longer term expense reduction and growth initiatives.

(f) Cash remittances from the divisions remain strong

Cash remittances from the operating divisions remained strong at $653 million for the half compared with $648 million in the prior period and represent 175% of cash profit. Dividend coverage remains very strong at 1.9x.

Group head office cash flows

FOR THE HALF YEAR ENDED	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Opening head office cash balance	**1,007**	845
Total divisional remittances	**653**	648
Net interest on parent entity borrowings	**(34)**	(45)
Gross organic cash flow	**619**	603
Dividends paid	**(335)**	(312)
Net organic cash flow	**284**	291
Other (including asset sales)	**(302)**	(342)
Closing head office cash balance	**989**	794

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
3 Excludes transactions to reinsure UK long-tail liabilities.

2. Investment strategy and performance

Our investments delivered an annualised net return of 3.6% for the half compared with 3.3% in the prior period.

Fixed income returns were boosted by capital gains from tighter credit spreads, supplemented by proactive tactical management of duration. With credit spreads having tightened to new post-GFC lows, we have taken some profits on longer dated, higher beta and structured credit holdings. These monies have been redeployed into shorter dated, more defensive credit to reduce the sensitivity to potentially wider spreads moving forward, whilst limiting the fall in portfolio yield. In June, yields fell to their lowest levels this year and, accordingly, we reduced the modified duration of the fixed income portfolio slightly to 1.6 years. We remain well positioned if yields move higher.

Exposure to growth assets peaked at 13.2% of total investment assets in April but after an especially strong performance has been reduced in recent months to end the half at 8.2%.

Based on returns achieved year-to-date, current fixed income yields and an estimate of second half growth asset returns, we expect the full year 2017 return to be around 3%.

3. Financial strength and capital management

The Group's capital position remains extremely strong when measured against both regulatory and rating agency capital requirements. Our APRA PCA multiple was broadly stable at 1.69x relative to 30 June 2016; however, our excess over Standard & Poor's AA equivalent capital further increased during the half.

As at 30 June 2017, the probability of adequacy of outstanding claims is unchanged from 31 December 2016 at 89.5%.

As noted with the release of our 2016 full year result, QBE has established a three-year cumulative on-market share buyback facility of up to A$1 billion, with a current target of not more than A$333 million in any one calendar year. We expect to be active in the market during the second half of 2017.

Operating and financial performance

Summary income statement

FOR THE HALF YEAR ENDED	STATUTORY RESULT		ADJUSTMENTS		ADJUSTED RESULT	
	30 JUNE 2017 US$M	30 JUNE 2016 US$M	30 JUNE 2017 US$M	30 JUNE 2016 US$M	30 JUNE 2017 [1,2] US$M	30 JUNE 2016 [2,3] US$M
Gross written premium	**8,038**	8,107	**(6)**	215	**8,044**	7,892
Gross earned premium	**6,973**	6,876	**65**	226	**6,909**	6,650
Net earned premium	**6,043**	5,615	**(2)**	(176)	**6,045**	5,791
Net claims expense	**(3,944)**	(3,637)	**(154)**	178	**(3,790)**	(3,815)
Net commission	**(1,025)**	(993)	**–**	–	**(1,025)**	(993)
Underwriting and other expenses	**(920)**	(931)	**–**	–	**(920)**	(931)
Underwriting result	**154**	54	**(156)**	2	**310**	52
Net investment income on policyholders' funds	**252**	272	**–**	–	**252**	272
Insurance profit	**406**	326	**(156)**	2	**562**	324
Net investment income on shareholders' funds	**205**	165	**–**	–	**205**	165
Losses on sale of subsidiaries	**(3)**	–	**–**	–	**(3)**	–
Financing and other costs	**(165)**	(125)	**–**	–	**(165)**	(125)
Share of net profits of associates	**1**	–	**–**	–	**1**	–
Amortisation and impairment of intangibles	**(22)**	(19)	**–**	–	**(22)**	(19)
Profit before income tax	**422**	347	**(156)**	2	**578**	345
Income tax expense	**(78)**	(80)	**37**	–	**(115)**	(80)
Profit after income tax	**344**	267	**(119)**	2	**463**	265
Non-controlling interest	**1**	(2)	**–**	–	**1**	(2)
Net profit after income tax	**345**	265	**(119)**	2	**464**	263

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes M&LS fronting.
3 Excludes transactions to reinsure UK long-tail liabilities.

Overview of the 2017 interim result

The 2017 interim statutory profit in the preceding table is presented after excluding the following items, the effect of which is to materially distort key performance indicators:

- a $154 million one-off increase in the Group's net central estimate of outstanding claims reflecting the increase in statutory discount rates applicable to UK personal injury liabilities and a related $2 million reinsurance charge (the Ogden decision); and
- M&LS was sold in 2015; however, we continued to front this business on a progressively reducing basis until March 2017, with no impact on net premium or profit.

Similarly, the 2016 interim statutory profit in the table above is presented after excluding the following items which also materially distort key performance indicators:

- transactions undertaken to reinsure long-tail UK liabilities which reduced net earned premium by $176 million and net claims expense by $178 million. Although only having a minor impact on net profit, the transactions impact half-on-half comparisons of net earned premium and underwriting ratios, depressing the net claims ratio and inflating the combined commission and expense ratio; and
- M&LS business written by North American Operations consistent with the 2017 adjustment.

Unless otherwise stated, the profit and loss and underwriting result commentary following refers to the Group's result on the basis described above.

The Group reported a 2017 interim net profit after tax of $464 million, up 76% from $263 million in the prior period, largely reflecting a $29 million pre-tax benefit associated with higher risk-free rates used to discount net outstanding claims compared with a $267 million pre-tax charge in the prior period.

Return on average shareholders' funds increased to 8.8% from 5.1% in the prior period.

Excluding amortisation of intangibles and other non-cash items, cash profit after tax for the half was $374 million, up 30% from $287 million reported in the prior period.

On a constant currency basis, gross written premium increased by 3% while net earned premium grew by 6%, reflecting top line growth coupled with reduced reinsurance expense.

The combined operating ratio improved to 94.9% from 99.1% in the prior period, largely due to a material reversal in the impact of risk-free rates. Excluding this impact, the combined operating ratio increased to 95.3% from 94.5%, reflecting an increase in the attritional claims ratio coupled with a reduced level of positive prior accident year claims development, which more than offset an improved combined commission and expense ratio.

The annualised net investment return on policyholders' funds reduced to 3.3% from 3.4% in the prior period, contributing 4.2% to the insurance profit margin compared with 4.7% in the first half of 2016. Significantly stronger growth asset returns during the half were more than offset by a reduced level of mark-to-market gains on sovereign and corporate bonds and foreign exchange losses, while the prior period also benefited from significant foreign exchange gains.

The Group reported an insurance profit of $562 million, up 73% from $324 million in the prior period, largely due to the previously noted risk-free discount rate impact. The insurance profit margin improved to 9.3% from 5.6% in the prior period.

Investment income on shareholders' funds increased 24% to $205 million from $165 million in the prior period, largely due to significantly stronger growth asset returns that more than offset lower fixed income returns.

Financing and other costs increased to $165 million from $125 million in the prior period, due to additional debt issuance and debt restructuring related charges coupled with costs associated with the purchase of additional corporate insurance.

The effective tax rate fell to 20% from 23% in the prior period, largely reflecting an increased profit contribution from North America where QBE has unrecognised tax losses.

Cash profit

FOR THE HALF YEAR ENDED	2017 US$M	2016 US$M
Cash profit before tax	**463**	378
Tax expense on cash profit	**(90)**	(89)
Loss (profit) attributable to non-controlling interest	**1**	(2)
Net cash profit after tax	**374**	287
Losses on sale of entities after tax	**(2)**	–
Amortisation and impairment of intangibles after tax [1]	**(27)**	(22)
Net profit after income tax	**345**	265
Return on average shareholders' funds	**6.6%**	5.1%
Basic earnings per share – cash basis (US cents)	**27.3**	20.9
Dividend payout ratio (percentage of cash profit) [2]	**61%**	74%

1 $17 million of pre-tax amortisation expense is included in underwriting expenses (2016 $12 million).

2 Dividend payout ratio is calculated as the total AUD dividend divided by cash profit converted to AUD at the average rate during the period.

Premium income

Despite the stronger US dollar (especially against sterling), gross written premium increased 2% to $8,044 million from $7,892 million in the prior corresponding period.

On an average basis and compared with the first half of 2016, sterling and euro depreciated against the US dollar by 12% and 4% respectively while the Australian dollar appreciated by 3%. Currency movements adversely impacted gross written premium by $85 million relative to the prior period.

On a constant currency basis, gross written premium increased by 3%, largely due to growth in Australia & New Zealand as well as Emerging Markets, while premium income was relatively stable in North America (although up 4% [1] on an underlying basis) and Europe, the latter reflecting an especially competitive premium pricing landscape.

Assisted by firming market conditions in Australia and New Zealand, overall premium rate momentum turned positive during the half. Group-wide premium rate increases averaged 1.7% compared with a reduction of 1.3% in the prior period and a reduction of 0.1% experienced across full year 2016. While pricing remains highly competitive in Europe and Asia, pricing conditions have improved in Australia and New Zealand and appear to be stabilising in North America.

After an extended period of non-core asset sales and major portfolio remediation, North American Operations reported underlying gross written premium growth of 4% [1], including a 0.9% increase in average premium rates compared with a 0.3% decline in the prior period. Continued strong growth in Specialty coupled with increased Crop premium income on the back of higher commodity prices and growth in policy count were partially offset by a reduction in Property & Casualty income following the decision taken in 2016 to exit mono-line commercial auto insurance.

European Operations reported gross written premium growth of 0.4% on a constant currency basis. This is a solid outcome given the competitive pricing landscape that saw average premium rate reductions of 1.1% during the half, albeit slightly better than the average premium rate reduction of 3.0% experienced in the prior period.

Australian & New Zealand Operations reported gross written premium growth of 5% on a constant currency basis, consistent with an average premium rate increase of 5.2% and broadly stable retention. The premium pricing environment has recovered appreciably relative to the average premium rate reduction of 0.3% experienced in the prior period.

Emerging Markets achieved gross written premium growth of 3% on a constant currency basis, with a 1% contraction in Asia Pacific more than offset by inflation driven growth of 6% in Latin America. Asia Pacific experienced an average premium rate reduction of 3.9% compared with 3.0% in the prior period while Latin America saw an average premium rate increase of 10.5% compared with a 2.7% reduction in the prior period.

On a constant currency basis, net earned premium increased 6%, reflecting gross earned premium growth coupled with reduced reinsurance spend following the renegotiation and restructuring of the Group's 2017 reinsurance protections.

1 Excludes Latin American premium income fronted on behalf of Equator Re in 2016.

Underwriting performance

Key ratios – Group

FOR THE HALF YEAR ENDED	30 JUNE 2017		30 JUNE 2016	
	STATUTORY %	ADJUSTED [1] %	STATUTORY %	ADJUSTED [2] %
Net claims ratio	**65.3**	**62.7**	64.8	65.9
Net commission ratio	**17.0**	**17.0**	17.7	17.1
Expense ratio	**15.2**	**15.2**	16.5	16.1
Combined operating ratio	**97.5**	**94.9**	99.0	99.1
Adjusted combined operating ratio [3]	**97.9**	**95.3**	94.0	94.5
Insurance profit margin	**6.7**	**9.3**	5.8	5.6

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes transactions to reinsure UK long-tail liabilities.
3 Excludes the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

Divisional performance

Contributions by region

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE PROFIT BEFORE INCOME TAX	
FOR THE HALF YEAR ENDED	30 JUNE 2017 US$M	30 JUNE 2016 US$M	30 JUNE 2017 US$M	30 JUNE 2016 US$M	30 JUNE 2017 %	30 JUNE 2016 %	30 JUNE 2017 US$M	30 JUNE 2016 US$M
North American Operations	**2,803**	2,818	**1,712**	1,710	**98.3**	104.0	**71**	(26)
European Operations	**2,393**	2,508	**1,532**	1,561	**88.7**	98.6	**231**	81
Australian & New Zealand Operations	**2,007**	1,861	**1,705**	1,654	**92.5**	95.9	**209**	148
Emerging Markets	**857**	850	**679**	655	**110.9**	99.5	**(48)**	36
Equator Re	**1,375**	1,125	**419**	197	**80.6**	70.1	**91**	74
Equator Re elimination	**(1,375)**	(1,125)	**–**	–	**–**	–	**–**	–
Corporate adjustments	**(16)**	(145)	**(2)**	14	**–**	–	**8**	11
Group adjusted	**8,044**	7,892	**6,045**	5,791	**94.9**	99.1	**562**	324
Ogden adjustment [1]	**–**	–	**(2)**	–	**2.6**	–	**(156)**	–
M&LS fronting	**(6)**	215	**–**	–	**–**	–	**–**	–
Reinsurance transactions [2]	**–**	–	**–**	(176)	**–**	(0.1)	**–**	2
Group statutory	**8,038**	8,107	**6,043**	5,615	**97.5**	99.0	**406**	326
Direct and facultative	**7,298**	7,471	**5,645**	5,251	**97.5**	99.2	**378**	296
Inward reinsurance	**740**	636	**398**	364	**97.2**	96.7	**28**	30
Group statutory	**8,038**	8,107	**6,043**	5,615	**97.5**	99.0	**406**	326

1 One-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 One-off transactions to reinsure UK long-tail liabilities.

Incurred claims

The Group's net claims ratio improved to 62.7% from 65.9% in the prior period, reflecting a significant turnaround in the impact of risk-free rates used to discount net outstanding claims, partly offset by an increase in the attritional claims ratio and a reduced level of favourable prior accident year claims development.

Excluding the impact of risk-free rates, the net claims ratio deteriorated to 63.1% from 61.3% in the prior period, reflecting deterioration in European Operations and Emerging Markets which were partially offset by improvement in North America and Australian & New Zealand Operations.

The table below provides a summary of the major components of the net claims ratio.

Analysis of net claims ratio

FOR THE HALF YEAR ENDED	30 JUNE 2017		30 JUNE 2016	
	STATUTORY %	ADJUSTED [1] %	STATUTORY %	ADJUSTED [2] %
Attritional claims	**53.3**	**53.3**	54.5	52.8
Large individual risk and catastrophe claims	**9.7**	**9.7**	9.8	9.5
Claims settlement costs	**3.1**	**3.0**	3.0	2.9
Claims discount	**(1.8)**	**(1.8)**	(1.3)	(1.3)
Net incurred central estimate claims ratio (current accident year)	**64.3**	**64.2**	66.0	63.9
Changes in undiscounted prior accident year central estimate	**0.1** [3]	**(2.4)** [3]	(7.1) [4]	(3.9) [4]
Changes in discount rates	**0.5**	**0.5**	5.0	4.6
Other (including unwind of prior year discount)	**0.4**	**0.4**	0.9	1.3
Net incurred claims ratio (current financial year)	**65.3**	**62.7**	64.8	65.9

1 Excludes one-off adverse impact on the Group's claims incurred due to the Ogden decision in the UK.
2 Excludes transactions to reinsure UK long-tail liabilities.
3 Net of discount movement ($17 million cost) due to long tail classes including dust disease in Australia and motor third party bodily injury in Argentina, where the level of assumed claims inflation is directly linked to the discount rate.
4 Net of discount movement ($50 million cost) due to long tail classes including dust disease in Australia and motor third party bodily injury in Argentina, where the level of assumed claims inflation is directly linked to the discount rate.

As presented in the table below, excluding Crop insurance, the attritional claims ratio increased to 51.5% from 51.1% in the prior period. A significant improvement in Australian & New Zealand Operation's attritional claims ratio following repricing coupled with strengthened underwriting discipline and claims initiatives, were more than offset by deterioration in Emerging Markets and European Operations.

Emerging Markets' attritional claims ratio increased due to the competitive market landscape as well as a notable increase in higher hazard business which contributed to an increased frequency in medium sized attritional claims, particularly in Asia Pacific.

The increase in European Operations' attritional claims ratio reflected numerous factors including the devaluation of sterling, whereby premium written in currencies other than sterling was earned at higher historical rates relative to related claims expense, coupled with the impact of some additional one-off reinsurance expense. Excluding these temporary impacts, European Operations' attritional claims ratio increased due to the impact of the Ogden decision on the current accident year where the impact could not be fully recouped through rate increases, coupled with business mix changes and higher underlying attritional claims activity in segments of the property portfolio.

Analysis of attritional claims ratio

FOR THE HALF YEAR ENDED	30 JUNE 2017		30 JUNE 2016	
	NEP US$M	ATTRITIONAL %	NEP US$M	ATTRITIONAL %
Rest of world	**5,672**	**51.5**	5,484	51.1
Crop insurance	**373**	**80.6**	307	83.1
QBE Group adjusted	**6,045**	**53.3**	5,791	52.8

Large individual risk and catastrophe claims net of reinsurance are summarised in the table below.

Large individual risk and catastrophe claims

FOR THE HALF YEAR ENDED	30 JUNE 2017		30 JUNE 2016	
	COST US$M	% OF NEP	COST US$M	% OF NEP
Total catastrophe claims	**219**	**3.6**	231	4.0
Total large individual risk claims	**368**	**6.1**	320	5.5
Total large individual risk and catastrophe claims	**587**	**9.7**	551	9.5

The total net cost of large individual risk and catastrophe claims was $587 million or 9.7% of net earned premium compared with $551 million and 9.5% in the prior period.

The total net cost of catastrophe claims fell slightly to $219 million or 3.6% of net earned premium from $231 million or 4.0% in the prior period, with adverse experience in Australian & New Zealand Operations (largely due to Cyclone Debbie) more than offset by especially benign experience in Europe.

The total net cost of large individual risk claims increased to $368 million or 6.1% of net earned premium from $320 million or 5.5% in the prior period, reflecting heightened large risk claims activity in Europe and Emerging Markets partially offset by reduced activity in Australian & New Zealand Operations.

The full year 2017 net cost of large individual risk and catastrophe claims is capped (in the majority of circumstances) at around $1.15 billion representing the attachment point of the Group's large individual risk and catastrophe aggregate reinsurance program.

As summarised in the table below, the currency weighted average risk-free rate (excluding the Argentine peso) used to discount net outstanding claims liabilities increased from 1.33% as at 31 December 2016 to 1.42% as at 30 June 2017. Movements in risk-free rates varied by currency; US dollar, sterling and euro risk-free rates increased while Australian dollar risk-free rates fell.

Movement in weighted average risk-free rates

CURRENCY		30 JUNE 2017	31 DECEMBER 2016	30 JUNE 2016	31 DECEMBER 2015
Australian dollar	%	**2.17**	2.26	1.77	2.37
US dollar	%	**2.15**	2.04	1.20	1.80
Sterling	%	**0.89**	0.68	0.56	1.47
Euro	%	**0.45**	0.19	(0.16)	0.59
Group weighted average (ex Argentine peso)	%	**1.42**	1.33	0.92	1.62
Estimated impact of discount rate benefit (charge) [1]	$M	**29**	(80)	(267) [2]	38

1 Excludes discount rate impact due to changes in yields for our Australian dust disease and Argentine peso denominated liabilities, where the level of assumed inflation is directly linked to the discount rate.
2 Excludes $16 million of discount associated with transactions to reinsure UK long-tail liabilities.

The increase in risk-free rates gave rise to a favourable underwriting impact of $29 million that reduced the net claims ratio by 0.5% compared with a $267 million charge in the prior period that increased the net claims ratio by 4.6%.

The result included $145 million of positive prior accident year claims development that benefited the claims ratio by 2.4% compared with $218 million or 3.9% of favourable development in the prior period.

This is the sixth consecutive half of positive development which has averaged $130 million or 2.1% of net earned premium per half over that period.

Excluding a small corporate adjustment, the Group's overall positive prior accident year claims development of $145 million comprised:

- North America recorded $2 million of favourable development compared with $34 million of adverse development in the prior period, with positive development in Crop offset by adverse development mainly in commercial classes within P&C;
- European Operations recorded $131 million of positive development compared with $119 million in the prior period, with a significant strengthening in financial lines more than offset by releases emerging across several portfolios and accident years;
- Australian & New Zealand Operations reported $78 million of positive development compared with $83 million in the prior period, partly reflecting the continuing absence of any notable claims inflation across most long-tail classes;
- Emerging Markets reported $12 million of adverse development compared with $17 million of favourable development in the prior period, primarily reflecting adverse development in Hong Kong workers' compensation; and
- Equator Re reported $49 million of adverse development largely relating to movements on Group aggregate reinsurance recoveries.

The result also included a risk margin charge of $13 million compared with a release of $13 million in the prior period.

Commission and expenses

The Group's combined commission and expense ratio improved to 32.2% from 33.2% in the prior corresponding period.

The commission expense ratio improved marginally to 17.0% compared with 17.1% in the prior period. The benefit of business mix changes in North America, primarily growth in lower commission paying Specialty and Crop, was largely offset by a higher commission rate in European Operations impacted by increased reinsurance spend and commission adjustments on prior years.

The Group's expense ratio improved to 15.2% from 16.1% in the prior period, due to a 1% half-on-half reduction in underwriting expenses coupled with 6% growth in net earned premium. Gross cost savings earned during the period are estimated at around $47 million. As expected, some of the additional cost savings achieved during the half were reinvested in longer term expense reduction and growth initiatives.

Income tax expense

The Group's statutory income tax expense of $78 million compared with $80 million in the prior period equated to an effective tax rate of 18% compared with 23% in the prior period. The current rate reflects the mix of statutory tax rates in the jurisdictions in which QBE operates coupled with benefits from the re-recognition of deferred tax assets in North America due to the continued (and growing) profitability of the business.

During the half, QBE paid $60 million in corporate income tax to tax authorities globally, including $37 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A$255 million as at 30 June 2017. The Group is therefore capable of fully franking A$595 million of dividends.

Following the increase in the Group's payout ratio policy to "up to 65%" of cash profit effective for calendar 2016 and having regard to the increased profitability of non-Australian operations, shareholders should expect the franking account percentage to reduce to around 30% in 2017 and 2018.

Foreign exchange

As a significant proportion of our underwriting activity is denominated in US dollars, the Group's financial statements are presented in this currency. Assets and liabilities of all our foreign operations that have a functional currency different from the Group's presentation currency are translated to US dollars at the closing balance date rates of exchange and income and expenses are translated at the cumulative average rates of exchange for the period, with the foreign exchange movements reported through the foreign currency translation reserve (component of equity).

QBE is also exposed to currency translation risk in relation to the ultimate parent entity's net investment in foreign operations (NIFO) to its functional currency of Australian dollars. QBE does not ordinarily seek to use derivatives to mitigate this risk for the following reasons:

- currency translation gains and losses generally have no cash flow;
- currency translation gains and losses are accounted for in the foreign currency translation reserve and therefore do not impact profit or loss unless related to the disposal of an entity; and
- management of translation risk needs to be balanced against the impact on capital requirements and liquidity risk.

In periods of extraordinary volatility that are expected to persist for an extended period, QBE may elect to utilise derivatives to mitigate currency translation risk in order to preserve capital. Brexit is considered such an example and, since July 2016, the Group has elected to utilise derivatives in hedging its sterling net investment in foreign operations.

The Group is exposed to foreign exchange risk from its various activities in the normal course of writing insurance business and aims to minimise the impact on profit or loss through the timely matching of currency assets and liabilities, with the use of currency derivatives to manage residual exposures. Foreign exchange gains or losses arising from such foreign currency exposures are reported in profit or loss, consistent with the gains or losses from related forward foreign exchange contracts.

The Group's major currencies varied against the USD as summarised in the table below:

FOR THE HALF YEAR ENDED	30 JUNE 2017		30 JUNE 2016	
	SPOT USD	AVERAGE USD	SPOT USD	AVERAGE USD
1 AUD	**0.77**	**0.75**	0.75	0.73
1 GBP	**1.30**	**1.26**	1.33	1.43
1 EUR	**1.14**	**1.08**	1.11	1.12

The impact of operational exchange movements in the period was a pre-tax loss of $24 million compared with a gain of $39 million in the prior period.

The table below shows the statutory interim result and balance sheet on a constant currency basis, separately identifying the impact of foreign exchange.

Impact of exchange rate movements

	2017 ACTUAL US$M	2017 AT 2016 EXCHANGE RATES [1] US$M	EXCHANGE RATE IMPACT US$M	EXCHANGE RATE IMPACT %
Gross written premium	8,038	8,123	(85)	(1)
Gross earned premium	6,973	7,031	(58)	(1)
Net earned premium	6,043	6,116	(73)	(1)
Net profit after tax	345	332	13	4
Total investments and cash	25,665	24,490	1,175	5
Total assets	45,993	43,789	2,204	5
Gross outstanding claims provision	20,065	19,087	978	5
Total liabilities	35,277	33,471	1,806	5
Net assets	10,716	10,318	398	4

1 Income statement items are restated to 30 June 2016 average rates of exchange and balance sheet items to 31 December 2016 closing rates of exchange.

Balance sheet

Capital management summary

Consistent with a significantly strengthened capital position, Standard & Poor's lifted the Group's outlook from "stable" to "positive" during 2016, and subsequently re-affirmed this position in May 2017 retaining the "positive" outlook.

On 13 July 2017, A.M Best upgraded the Group's long-term issuer credit rating from bbb to bbb+. On 20 July 2017, Fitch Rating's lifted the Group's outlook from "stable" to "positive". Additionally, on 28 July 2017, Moody's Investors Services initiated coverage on a number of our core operating subsidiaries assigning a rating of A1 "stable".

The Group undertook a number of capital management initiatives during the first half of 2017, essentially retiring legacy grandfathered tier 1 debt.

Capital summary

AS AT	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Net assets	10,716	10,334
Less: intangible assets	(3,737)	(3,627)
Net tangible assets	6,979	6,707
Add: borrowings	3,498	3,474
Total capitalisation	10,477	10,181

AS AT	30 JUNE 2017 [1] US$M	31 DECEMBER 2016 [2] US$M
QBE's regulatory capital base	9,384	9,277
APRA's Prescribed Capital Amount (PCA)	5,556	5,281
PCA multiple	1.69x	1.76x

1 Indicative APRA PCA multiple at 30 June 2017.
2 APRA PCA multiple as at 31 December 2016 is presented consistent with APRA returns finalised subsequent to year end.

At 30 June 2017, the Group's indicative APRA PCA multiple was 1.69x, down from 1.76x at year end but up fractionally from 1.67x at 30 June 2016.

Notwithstanding the seasonal reduction in our APRA PCA multiple, the Group's excess over and above Standard & Poor's minimum AA capital requirement further increased during the half. Accordingly, we remain comfortable with our regulatory capital position at around 1.7x our PCA.

Key financial strength ratios

	BENCHMARK	30 JUNE 2017	31 DECEMBER 2016
Debt to equity	25% to 35%	**32.8%**	33.8%
Debt to tangible equity		**50.5%**	52.2%
PCA multiple [1]	1.6x to 1.8x	**1.69x**	1.76x
Premium solvency [2]		**60.7%**	60.6%
Probability of adequacy of outstanding claims	87.5% to 92.5%	**89.5%**	89.5%

1 APRA PCA multiple as at 31 December 2016 is presented consistent with APRA returns finalised subsequent to year end.
2 Premium solvency is calculated as the ratio of net tangible assets to rolling 12 month net earned premium.

Borrowings

As at 30 June 2017, the Group's total borrowings stood at $3,498 million, up $24 million or 0.7% from $3,474 million at 31 December 2016.

During the half, QBE established the QBE Green Bond Framework that allows us to issue securities in a green format, providing an opportunity to demonstrate industry leading "green credentials" while further diversifying our investor base.

The Group was also active in the capital markets during the first half, executing the following transactions:

- the issuance of $300 million of senior unsecured debt securities due 21 October 2022. These securities were issued within the Group's $4 billion medium term note issuance program and in accordance with the Group's Green Bond Framework. This was the first green bond issued by an insurance company globally;
- notified holders of our $550 million perpetual capital securities of our intention to call these securities on their first call date. QBE already owned $249 million of these securities; and
- purchased £7 million of our £325 million tier 2 subordinated debt securities due 24 May 2041. QBE already owned £291 million of these securities.

The issuance of the $300 million senior unsecured debt securities and the calling of the $550 million of perpetual capital securities both layered additional duration into our first call maturity profile and further normalised the Group's annual funding requirements going forward.

Subsequent to 30 June 2017, the Group amended and extended the $600 million committed syndicated revolving credit facility, which was due to mature on 31 March 2018. The amended facility matures on 27 July 2020 and was undrawn at the balance date.

At 30 June 2017, QBE's ratio of borrowings to shareholders' funds was 32.8%, down slightly from 33.8% at 31 December 2016 and within our benchmark range of 25%-35%. Debt to tangible equity was 50.5%, also down marginally from 52.2% at 31 December 2016.

Our cash cost of borrowings for the period was $105 million, down 5% from $109 million for the same period last year. Importantly, the weighted average annual cash cost of borrowings outstanding at the balance sheet date reduced by 33bps from 5.85% at 31 December 2016 to 5.52% at 30 June 2017.

The weighting of the Group's debt towards regulatory capital qualifying tier 2 within the overall borrowing mix remained unchanged at 74% as at 30 June 2017, with incremental duration built in to the term structure.

Borrowings maturity[1]

AS AT	30 JUNE 2017 %	31 DECEMBER 2016 %
Less than one year	**17**	9
One to five years	**21**	27
More than five years	**62**	64

1 Based on first call date.

Borrowings profile

AS AT	30 JUNE 2017 %	31 DECEMBER 2016 %
Subordinated debt	**74**	74
Senior debt	**26**	17
Capital securities	**–**	9

Further details of borrowings are set out in note 4.1 to the financial statements.

Net outstanding claims liabilities

AS AT	30 JUNE	31 DECEMBER			
	2017 US$M	2016 US$M	2015 US$M	2014 US$M	2013 US$M
Net central estimate	**13,626**	12,693	14,119	15,595	16,643
Risk margin	**1,149**	1,088	1,260	1,353	1,565
Net outstanding claims	**14,775**	13,781	15,379	16,948	18,208
	%	%	%	%	%
Probability of adequacy of outstanding claims	**89.5**	89.5	89.0	88.7	90.7
Weighted average discount rate	**1.5**	1.5	1.9	1.7	2.8
Weighted average term to settlement (years)	**2.9**	2.9	3.0	2.8	3.0

The table above summarises our provision for net outstanding claims, separately identifying the net central estimate and risk margin.

As required by Australian Accounting Standards, net outstanding claims liabilities are discounted by applying sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate on our investments.

The probability of adequacy of outstanding claims was unchanged at 89.5%.

As at 30 June 2017, risk margins in net outstanding claims were $1,149 million or 8.4% of the net central estimate of outstanding claims compared with $1,088 million or 8.6% of the net central estimate of outstanding claims at 31 December 2016. The $61 million increase in risk margins during the half reflects foreign exchange of $48 million and an increase in risk margins of $13 million compared with a release of $13 million in the prior period.

Notwithstanding the slight reduction in the level of risk margins as a percentage of the central estimate, the probability of adequacy remained constant at 89.5%.

Intangible assets

As at 30 June 2017, the carrying value of intangible assets (identifiable intangibles and goodwill) was $3,737 million, up from $3,627 million at 31 December 2016.

During the half year, the carrying value of intangibles increased by $110 million, primarily due to a $113 million foreign exchange impact with amortisation expense essentially offsetting additions. Additions in the period comprised the capitalisation of expenditure in relation to various information technology projects across the Group such as the Guidewire policy and claims administration platform in Australian & New Zealand Operations.

At 30 June 2017, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard. A detailed impairment test was completed in relation to our North American goodwill balance ($1,543 million), which indicated headroom at the balance date of $123 million compared with $98 million at 31 December 2016 and $79 million at 30 June 2016. The valuation remains highly sensitive to a range of assumptions, particularly increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and long-term investment assumptions.

Details of the sensitivities associated with this valuation are included in note 1.2.2 to the financial statements.

Investment performance and strategy

The investment portfolio delivered an annualised net return of 3.6% for the half, with both the fixed income book and growth assets delivering stronger than anticipated gains, returning 2.6% and 12.6% respectively.

Fixed income returns were boosted by mark to market capital gains from tighter credit spreads, supplemented by proactive tactical management of duration throughout the period. Growth assets enjoyed continued support across the spectrum, with equities, emerging markets debt and equity and property contributing strongly to returns, supported by a synchronised upturn in global growth and earnings in an ongoing environment of central bank support.

Notwithstanding the two interest rate hikes from the US Federal Reserve in the first half of the year and expectations of further policy normalisation, global bond yields finished the half near levels seen as we entered 2017. Accordingly, we have reduced fixed income portfolio duration, partially to protect gains made earlier this year but also to position ourselves to take advantage of higher yields in the second half of the year should they eventuate.

With credit spreads having tightened to new post-GFC lows, we have taken some profits on longer dated, higher beta and structured credit holdings. These monies have been redeployed into shorter dated, more defensive credit to reduce the sensitivity to potentially wider spreads moving forward, whilst limiting the fall in portfolio yield. In June, yields fell to their lowest levels this year and, accordingly, we reduced the modified duration of the fixed income portfolio slightly to 1.6 years.

Realised and unrealised gains on fixed income amounted to $46 million during the half, down from $154 million in the prior period, including $30 million in policyholders' funds compared with $96 million in the prior period.

As at 30 June 2017, the running yield of the fixed income portfolio was 1.8%.

Exposure to growth assets peaked at 13.2% of total investment assets in April but has been reduced in recent months to end the half at 8.2%, reflecting the strong returns achieved year to date. Our largest growth asset exposures include unlisted property (4.2%) and infrastructure assets (2.7%) while developed market equities represented only 0.6% of the portfolio at the balance date.

We anticipate an improving nominal GDP environment will support continued earnings growth. Consequently, there is scope for equity markets to continue to rally, albeit at a slower pace than seen recently given reasonably full valuations.

Based on returns achieved year-to-date, current fixed income yields and an estimate of second half growth asset returns, we expect the full year 2017 return to be around 3%.

Total net investment income

FOR THE HALF YEAR ENDED 30 JUNE	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
	2017 US$M	2016 US$M	2017 US$M	2016 US$M	2017 US$M	2016 US$M
Income on growth assets	**104**	6	**85**	13	**189**	19
Fixed interest, short-term money and cash income	**183**	243	**124**	153	**307**	396
Gross investment income [1]	**287**	249	**209**	166	**496**	415
Investment expenses	**(8)**	(7)	**(5)**	(4)	**(13)**	(11)
Net investment income	**279**	242	**204**	162	**483**	404
Foreign exchange gain (loss)	**(24)**	34	**–**	5	**(24)**	39
Other income (expenses)	**(3)**	(4)	**1**	(2)	**(2)**	(6)
Net investment income and other income	**252**	272	**205**	165	**457**	437

1 Includes total realised and unrealised gains on investments of $178 million (2016 $149 million) comprising gains on investments supporting policyholders' funds of $103 million (2016 $88 million) and shareholders' funds of $75 million (2016 $61 million).

Annualised gross and net investment yield

FOR THE HALF YEAR ENDED 30 JUNE	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
Gross investment yield [1]	**3.8**	3.1	**4.1**	3.2	**3.9**	3.2
Net investment yield [2]	**3.7**	3.0	**4.0**	3.1	**3.8**	3.1
Net investment income and other income yield [3]	**3.3**	3.4	**4.0**	3.2	**3.6**	3.3

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

2 Net yield is calculated with reference to gross investment income less investment management expenses as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

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

Total investments and cash

AS AT	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Cash and cash equivalents	**433**	438	**369**	409	**802**	**847**
Short-term money	**2,462**	2,215	**1,674**	1,739	**4,136**	**3,954**
Government bonds	**3,829**	3,621	**2,788**	2,375	**6,617**	**5,996**
Corporate bonds	**6,941**	6,952	**4,532**	4,387	**11,473**	**11,339**
Infrastructure debt	**314**	290	**190**	173	**504**	**463**
Unit trusts	**12**	19	**8**	12	**20**	**31**
Strategic equities	**–**	–	**76**	118	**76**	**118**
Other equities	**52**	289	**31**	172	**83**	**461**
Emerging market equity	**4**	21	**3**	13	**7**	**34**
Emerging market debt	**22**	191	**13**	114	**35**	**305**
High yield debt	**42**	127	**26**	75	**68**	**202**
Alternatives	**458**	278	**279**	165	**737**	**443**
Property trusts	**680**	644	**413**	384	**1,093**	**1,028**
Investment properties	**9**	9	**5**	5	**14**	**14**
Total investments and cash	**15,258**	15,094	**10,407**	10,141	**25,665**	**25,235**

Interest bearing financial assets

SECURITY RATING AS AT	30 JUNE 2017 %	31 DECEMBER 2016 %
S&P rating		
AAA	**19**	16
AA	**33**	37
A	**37**	36
<A	**11**	11

CURRENCY MIX AS AT	MARKET VALUE OF GROWTH ASSETS 30 JUNE 2017 %	MARKET VALUE OF GROWTH ASSETS 31 DECEMBER 2016 %	MARKET VALUE OF TOTAL INVESTMENTS AND CASH 30 JUNE 2017 %	MARKET VALUE OF TOTAL INVESTMENTS AND CASH 31 DECEMBER 2016 %
US dollar	**56**	49	**27**	32
Australian dollar	**35**	28	**32**	31
Sterling	**4**	11	**19**	18
Euro	**5**	12	**10**	8
Other	**–**	–	**12**	11

Interim dividend

Our dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business.

The interim dividend for 2017 is 22 Australian cents per share, up 5% from the 2016 interim dividend of 21 Australian cents per share.

The dividend will be 30% franked and is payable on 29 September 2017. The dividend reinvestment programs remain at a nil discount with any demand for shares under the Dividend Reinvestment Plan to be satisfied by acquisition of shares on-market.

The 2017 interim dividend payout is A$302 million or 61% of cash profit calculated by converting cash profit to Australian dollars at the average exchange rate during the period. The calculation of cash profit is shown on page 12.

Closing remarks

There are some clear financial objectives for the Group for the second half of the year:

- maintain improvement in Australian & New Zealand Operations;
- execute on profit improvement plans in North America;
- maintain underwriting discipline in challenging European markets;
- drive the necessary actions to improve profitability in Asia Pacific and Latin America;
- demonstrate continued positive prior accident year claims development;
- deliver a 2017 full year combined operating ratio within the recently announced target range of 94.5%-96.0%; [1,2]
- maintain the Group's strong capital position; and
- deliver divisional cash remittances to the Group head office of greater than $1 billion for 2017.

Pat Regan
Group Chief Financial Officer

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

North American Operations business review

"North America posted an improved underwriting result during the half reflecting the diversity of our P&C, Specialty and Crop businesses and early benefits from the strategic actions taken in 2016. Our more focused Property & Casualty portfolio and distribution, coupled with a rigorous drive on efficiency, should deliver ongoing margin improvement."

Russ Johnston

Chief Executive Officer • North American Operations

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit US$ million
2,803	1,712	28	71
↓ 1% from 2016	Flat from 2016	↑ $96M from 2016	↑ $97M from 2016
		Combined operating ratio[1] 98.2% (2016 100.5%)	Insurance profit margin 4.1% (2016 loss of 1.5%)

2017 overview

North American Operations is a commercial, speciality insurance and reinsurance franchise focused on four key business units: Property & Casualty, Specialty, Crop and Assumed Reinsurance, with the latter a component of QBE's global reinsurance business headquartered in London.

North American Operations remains focused on delivering a comprehensive suite of products through a limited and preferred distribution model. Actions taken to address legacy issues, including reinsuring program business run-off liabilities with a third party and exiting our mono-line commercial auto business in 2016, see North America well-placed for further performance improvement as we focus on our target mix of product and capability.

The pricing environment is showing signs of stabilising with the portfolio recording an average premium rate increase of 0.9% during the half compared with a rate reduction of 0.3% in the prior corresponding period. We continue to select and price risk prudently while we focus on our integrated product suite.

North America continues to grow its Specialty business, with the launch of new products supplementing further market penetration in previously established product lines. Improved performance in our core program and commercial and personal insurance products through selective and targeted growth and remediation actions is benefiting our Property & Casualty business. Our Crop business is performing well from both a growth and profitability perspective. We also continue to develop our regional QBE Re franchise.

1 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Operating and financial performance

Underwriting performance

North American Operations reported an improved combined operating ratio of 98.3% compared with 104.0% in the prior period. Excluding the impact of lower risk-free rates used to discount net outstanding claims, the combined operating ratio improved to 98.2% from 100.5% in the prior period.

The interim result was impacted by $2 million or 0.1% of favourable prior accident year claims development compared with $34 million or 2.0% of adverse development in the prior period, mainly due to favourable experience in Crop which more than offset adverse development in parts of the Property & Casualty and Specialty portfolios.

Current accident year underwriting profitability in our key segments remains stable. Despite some emerging drought pressure within a narrow geography, the Crop business appears on track to achieve an average underwriting year. We continue to build a leading Specialty franchise underpinned by strong and profitable organic growth, particularly in professional liability, specialty programs and general aviation.

North American Operations' expense ratio increased slightly during the period reflecting increased staff incentives associated with improved performance coupled with reinvestment in technology and longer-term expense reduction and growth initiatives. We are targeting further cost efficiencies through our focused distribution model and concentration on our major trading partners, including our recently announced partnership with Arrowhead focused on small commercial business.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2017	2016	2015[1]	2014[1]	2013[1]
Gross written premium	US$M	**2,803**	2,818	3,109	2,472	2,750
Gross earned premium	US$M	**2,187**	2,184	2,309	2,259	2,598
Net earned premium	US$M	**1,712**	1,710	1,832	1,917	2,115
Net incurred claims	US$M	**1,144**	1,225	1,145	1,152	1,293
Net commission	US$M	**266**	288	329	357	395
Expenses	US$M	**274**	265	361	377	412
Underwriting result	US$M	**28**	(68)	(3)	31	15
Net claims ratio	%	**66.8**	71.6	62.5	60.1	61.1
Net commission ratio	%	**15.5**	16.8	18.0	18.6	18.7
Expense ratio	%	**16.0**	15.5	19.7	19.7	19.5
Combined operating ratio	%	**98.3**	104.0	100.2	98.4	99.3
Adjusted combined operating ratio[2]	%	**98.2**	100.5	100.6	–	–
Insurance profit margin	%	**4.1**	(1.5)	1.6	2.9	1.8

1 Comparability of data prior to 2015 is diminished as a result of the sale of M&LS and the adoption of a significantly revised crop premium earning pattern in 2015.

2 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management results were not reported on this basis in the first half of 2014 and prior.

Premium income

While headline gross written premium fell 0.5% to $2,803 million, excluding $120 million of Latin American business fronted on behalf of Equator Re in 2016, gross written premium grew 4%. After an extended period of non-core asset sales and major portfolio remediation which saw gross written premium decline by 13% during the period 2012–2016, this return to top-line growth is a significant milestone for North American Operations.

Specialty continued its growth trajectory with gross written premium up 27% compared with the prior period. New business across the segment reflected growth generated across a diversified management liability and professional lines portfolio as well as new products and programs introduced to the specialty programs portfolio in 2016.

Crop gross written premium increased 17% compared with the first half of 2016, reflecting the combined impact of higher corn and soybean prices, favourable buying patterns and market share growth with the policy count up by 3.5%.

Property & Casualty gross written premium fell 11% compared with the first half of 2016, reflecting continued underwriting action in underperforming areas including our decision to exit mono-line commercial auto business and certain risk management programs. Conversely, our go forward commercial, homeowners and affiliated businesses are growing as a result of our focused distribution and targeted pricing. Our affiliated agency business grew 4% during the half driven by our largely exclusive homebuilder distribution channel.

Net earned premium was stable at $1,712 million, with new business growth offset by additional Crop reinsurance cessions to the US government as a result of favourable prior year claims development.

Gross earned premium by class of business

FOR THE HALF YEAR ENDED 30 JUNE	2017 %	2016 %
Commercial & domestic property	**30.2**	34.2
Agriculture	**27.3**	25.6
Motor & motor casualty	**9.9**	11.7
Public/product liability	**8.4**	7.8
Workers' compensation	**8.3**	9.3
Professional indemnity	**7.5**	4.1
Accident & health	**6.1**	5.3
Marine energy & aviation	**1.3**	1.1
Financial & credit	**1.0**	0.9

Claims expense

North American Operations reported a first half net claims ratio of 66.8% compared with 71.6% in the prior period. Excluding the impact of movements in risk-free rates, the net claims ratio improved to 66.7% from 68.1% in the prior period, largely reflecting improved prior accident year claims development.

The attritional claims ratio increased 0.3% over the prior period reflecting strong growth in Crop insurance. Excluding Crop, the attritional claims ratio improved by 0.3%, largely reflecting an improvement in the Specialty portfolio.

The total net cost of large individual risk and catastrophe claims was relatively stable at 7.3% of net earned premium compared with 7.2% in the prior period, with both periods impacted by severe winter weather as well as a heightened level of hail activity in the south that adversely impacted the homeowners portfolio.

The claims ratio benefited from $2 million of positive prior accident year claims development with favourable experience in Crop largely offset by modest adverse development in pockets of the Property & Casualty and Specialty portfolios. This compared with $34 million of adverse development in the prior period primarily due to higher claims frequency and severity trends in commercial auto, most of which was not renewed; the in-force commercial auto portfolio was fully reinsured in the second half of 2016.

Commission and expenses

The combined commission and expense ratio improved to 31.5% from 32.3% last year, reflecting prudent expense management as well as business mix changes due to underwriting actions and the launch of new products.

The commission ratio decreased to 15.5% from 16.8% largely reflecting growth in businesses with lower acquisition costs such as Crop and Specialty relative to program business within the Property & Casualty portfolio. Absent business mix changes, commission rates were broadly unchanged relative to the prior period.

The expense ratio increased to 16.0% from 15.5% reflecting higher staff incentives driven by improved performance coupled with reinvestment in technology and longer-term expense reduction and growth initiatives, together more than offsetting the realisation of implemented cost savings during the period.

Summary

North American Operations remains focused on building an integrated specialist franchise that delivers profitable organic growth by building market leading and proprietary products tailored to customer needs. Our brand in the North American market leverages QBE's global reach and key trading relationships around the world.

Extensive product development has contributed to a well-diversified Specialty portfolio. The product set continues to be enhanced with automation of our underwriting processes including the recent launch of aviation on our new Specialty platform. The Property & Casualty franchise continues to gain momentum with a more focused regional distribution footprint developing deeper relationships, thereby allowing us to reinforce our brand with an experience of excellence. In addition, our recently established and cost effective partnership with Arrowhead with respect to small commercial business positions the segment well for profitable growth by combining the strengths of both companies. Our value proposition is centred on the scale of our Specialty and Property & Casualty product offerings and the delivery of integrated capabilities to customers. Our high quality Crop and Reinsurance businesses are also integral, providing additional portfolio diversification.

Our regional footprint and focus provides us with opportunities to optimise costs. Our claims, analytics and human capital initiatives are benefiting our results while our investment in technology provides a strong platform for future growth. Continued development of a performance-driven and results-focused culture, while building in-house technical expertise through the launch of our underwriting academy, further underpins our confidence in delivering on our medium-term financial targets.

European Operations business review

"European Operations continues to carefully navigate very difficult trading conditions, recording another strong result while at the same time enhancing the capability of the business. Over the past half we witnessed some moderation in the pace of premium rate decline."

Richard Pryce

Chief Executive Officer • European Operations

Gross written premium	Net earned premium	Underwriting result[1]	Insurance profit[1]
US$ million	US$ million	US$ million	US$ million
2,393	1,532	172	231
↓ 5% from 2016[2]	↓ 2% from 2016[3,4]	↑ $150M from 2016	↑ $150M from 2016
		Combined operating ratio[5]	Insurance profit margin
		91.3% (2016 88.3%)[3]	15.1% (2016 5.2%)[3]

2017 overview

While trading conditions have continued to deteriorate, the pace of premium rate decline moderated in most product lines and geographies over the last six months. We recorded a further average renewal rate reduction of 1.6% during the half; however, adjusting for the re-pricing required for the change in the discount rate on UK personal injury claims (the Ogden decision), the average rate decline improves to 1.1%. Encouragingly, some loss affected sectors and geographies are starting to experience modest rate increases.

Since the Ogden decision in late February, our underwriting teams have been proactive in ensuring that any affected business is re-priced and/or restructured. Whilst we have been successful in securing improved terms, there is more to be accomplished to negate the significant adjustment to the discount rate. Disappointingly, the response from our competitors has been mixed. Following industry consultation with the government there is some cause for optimism that the discount rate will be revised upwards; however, the amount and timing of any possible revision remains highly uncertain.

Separately, we continue to develop our customer proposition across the business and I am pleased to report some significant cross-class new business wins already this year.

In May 2017, we announced the combination of our two insurance businesses, International Markets and Retail, under the leadership of Sam Harrison. This is a natural evolution following the changes implemented in 2013. All the insurance businesses will now operate as one team ensuring that our underwriting activities are entirely consistent and that we are able to offer a more comprehensive set of solutions to our customers. The reaction to this development from brokers and clients has been very positive.

1 Excludes a $156 million one-off adverse impact on the underwriting result due to the Ogden decision in the UK.
2 Up 0.4% on a constant currency basis.
3 Adjusted to exclude transactions to reinsure UK long-tail liabilities.
4 Up 2% on a constant currency basis.
5 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Operating and financial performance

Underwriting performance

The Ogden decision to reduce the UK bodily injury discount rate from 2.5% to -0.75% adversely impacted the first half underwriting performance by $156 million.

The 2017 and 2016 interim profits in the table below are also presented on an adjusted basis after excluding the impact of the Ogden decision and transactions undertaken to reinsure UK long-tail liabilities, as discussed in detail on page 11. Unless otherwise stated, the profit and loss and underwriting commentary following refers to the result on this basis.

Excluding the beneficial impact of higher risk-free rates used to discount net outstanding claims, the combined operating ratio increased to 91.3% from 88.3% in the prior period.

All business units reported strong results during the half reflecting our unrelenting commitment to underwriting excellence combined with the ongoing benefits from our claims management and analytics initiatives. Although we proactively manage any underperforming accounts and/or portfolios, we saw some increase in the current accident year claims ratio due to the compound impact of continued rate reductions.

Over the last nine months, we experienced adverse development in financial lines and so strengthened prior accident year claims reserves in certain parts of this portfolio during the most recent reserve review. Notwithstanding this, the underwriting result benefited from $131 million of net positive prior accident year claims development overall, broadly consistent with the prior period and a feature of the business historically.

The insurance profit for the half was $231 million, up 185% from $81 million in the prior period, largely reflecting a material turnaround in the impact of risk-free rates used to discount net outstanding claims.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2017	2017 [1] ADJUSTED	2016	2016 [2] ADJUSTED	2015	2014	2013
Gross written premium	US$M	**2,393**	2,393	2,508	2,508	2,659	2,705	3,154
Gross earned premium	US$M	**1,915**	1,915	1,930	1,930	2,112	2,471	2,469
Net earned premium	US$M	**1,530**	1,532	1,385	1,561	1,660	2,033	2,003
Net incurred claims	US$M	**971**	817	812	990	815	1,214	1,230
Net commission	US$M	**296**	296	279	279	312	383	383
Expenses	US$M	**247**	247	270	270	297	319	277
Underwriting result	US$M	**16**	172	24	22	236	117	113
Net claims ratio	%	**63.5**	53.3	58.6	63.4	49.1	59.7	61.4
Net commission ratio	%	**19.3**	19.3	20.1	17.9	18.8	18.8	19.1
Expense ratio	%	**16.1**	16.1	19.5	17.3	17.9	15.7	13.8
Combined operating ratio	%	**98.9**	88.7	98.3	98.6	85.8	94.2	94.3
Adjusted combined operating ratio [3]	%	**101.5**	91.3	85.6	88.3	88.0	–	–
Insurance profit margin	%	**4.9**	15.1	6.0	5.2	16.7	8.9	8.4

1 Excludes a $156 million one-off adverse impact on the underwriting result due to the Ogden decision in the UK.
2 Adjusted for transactions to reinsure UK long tail liabilities.
3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management results were not reported on this basis in the first half of 2014 and prior.

Premium income

Headline gross written premium fell by 5% to $2,393 million from $2,508 million in the prior period and was again impacted by significantly weaker sterling. On a constant currency basis, gross written premium grew by 0.4%.

Pleasingly, we are seeing targeted growth in areas identified in our strategic plan, most notably across our Continental European insurance business and short-term life reinsurance in QBE Re. As the quality of new business in the London market continues to decline, we are benefiting from our extended distribution platform in Continental Europe and Canada.

New business volumes are down only slightly on the prior period as we consciously ensure a consistent pricing and risk selection approach across new and renewal business.

The retention ratio continues to track in line with the prior period as we proactively seek to retain our quality portfolio. In this respect, we are starting to see the benefits of our data science activities and are employing new techniques to ensure early identification of accounts that may be at risk of non-renewal.

Net earned premium is down slightly on the corresponding period primarily due to the weaker sterling as well as the purchase of additional reinsurance protection.

Gross earned premium by class of business

FOR THE HALF YEAR ENDED 30 JUNE	2017 %	2016 %
Commercial & domestic property	**25.1**	25.6
Public/product liability	**19.0**	20.3
Marine energy & aviation	**14.3**	14.9
Professional indemnity	**14.0**	14.0
Motor & motor casualty	**13.0**	12.6
Workers' compensation	**4.9**	5.2
Other	**3.9**	3.9
Accident & health	**3.8**	1.6
Financial & credit	**2.0**	1.8

Claims expense

The net claims ratio benefited from positive prior accident year claims development of $131 million or 8.6% of net earned premium, a slight improvement on $119 million or 7.6% in the prior period. The favourable claims development emerged across several portfolios and accident years.

European Operations' attritional claims ratio increased materially during the half. Weaker sterling coupled with the purchase of additional reinsurance protection adversely impacted the attritional claims ratio by 2.8%, while the current year impact of the Ogden decision on UK motor and casualty business coupled with business mix changes (primarily growth in QBE Re life business) contributed a further 1.2% to the headline deterioration. The remaining deterioration largely reflects increased attritional claims activity, particularly in property, due to cumulative pricing pressure.

The net cost of large individual risk and catastrophe claims fell slightly to 14.0% of net earned premium from 15.6% in the prior corresponding period. Increased large individual risk claim activity was more than offset by relatively benign catastrophe activity, especially in QBE Re.

Risk-free rates used to discount net outstanding claims increased during the half, giving rise to a $40 million or 2.6% benefit to the claims ratio compared with a $161 million or 10.3% adverse impact in the prior period.

Commission and expenses

The net commission ratio increased to 19.3% from 17.9% in the prior period. Increased reinsurance expense drove 0.8% of the increase while the remainder is due to commission adjustments on prior underwriting years. The current accident year gross commission ratio is tracking to plan albeit we continue to experience commission pressure especially with London Market insurance business.

The expense ratio improved to 16.1% from 17.3% in the prior period, reflecting ongoing expense reduction and operational efficiency initiatives coupled with a positive foreign exchange impact.

Summary

While some industry commentators and competitors are starting to publicly speculate about a potential upturn in industry pricing, there is still far too much surplus capital and insufficient market discipline for this scenario to occur in the near future.

We remain committed to underwriting discipline and enhanced performance oversight to ensure that we continue to sensibly navigate the extraordinarily difficult trading environment. Pleasingly, we are starting to benefit from better utilisation of data science techniques to improve pricing and risk selection. At the same time, we remain focused on our customers and on ensuring that we deliver the best solutions possible supported by claims excellence, our risk solutions team and a newly enhanced multi-national offering.

Delivering a sustainable Brexit solution remains an additional management priority over the next 12 months. As previously announced, we intend to establish a new legal entity in Belgium to ensure continuity for our customers and colleagues across the European Union. Our project team is in place, plans are progressing as expected and we should be able to provide more detail with the release of our full year 2017 results.

Australian & New Zealand Operations business review

> Premium rate increases, tightened terms and conditions, improved underwriting discipline and claims management initiatives have delivered a strong turnaround in performance including reduction in our attritional claims ratio of 4.2%[1]."

Pat Regan
Chief Executive Officer • Australian & New Zealand Operations

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
2,007	1,705	129	209
↑ 8% from 2016[2]	↑ 3% from 2016[3]	↑ $62M from 2016	↑ $61M from 2016
		Combined operating ratio[4] 92.2% (2016 93.9%)	Insurance profit margin 12.3% (2016 8.9%)

2017 overview

We took decisive action in the second half of 2016 to address deterioration in performance and implemented a comprehensive remediation plan covering specific actions for each of our 50 business 'cells'. A strong governance framework has supported plan execution with each cell regularly reviewed to ensure the new underwriting plans and remediation actions are being implemented and are generating the desired outcome.

Remediation progress has been encouraging. Pricing initiatives have delivered an average premium rate increase of 5.2% across our portfolio compared with a 0.3% reduction in the prior period, with higher rate increases achieved across our short-tail personal and commercial lines. We have also tightened policy terms and conditions (including for example increased policy deductibles for clients with poor claims history), improved risk selection and implemented tighter control over claims expenses through greater use of preferred suppliers and increased salvage and subrogation.

Strong distribution partnerships have enabled us to lead the market in taking remedial action. Policy retention has remained broadly stable at over 80% and is a testament to the strength of our franchise. We have targeted lower retention in selected lines such as commercial property where we have reduced our exposure to high hazard risks including those with highly combustible assets.

While competition remains strong in the commercial insurance market, the SME and mid-market segments are transitioning out of a soft market in most classes of business. There have been a number of amalgamations and new entrants in the intermediated market and the outlook for the high-end corporate and multinational segments remains challenging, particularly in property.

1 Excluding LMI.
2 Up 5% on a constant currency basis.
3 Up 0.2% on a constant currency basis.
4 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

There is ongoing Government interest in affordability and reform across States and Territories and at a Federal level. This has been most evident in NSW with new Government leadership revising reforms to CTP and the Emergency Services Levy. There is also heightened regulatory attention following reviews of the broader financial services industry with commissions, product suitability and customer value viewed as being of particular interest.

Operating and financial performance

Underwriting performance

Australian & New Zealand Operations reported a combined operating ratio of 92.5%, down from 95.9% in the prior period. Excluding the impact of changes in risk-free rates used to discount net outstanding claims, the combined ratio improved to 92.2% from 93.9%, reflecting a material improvement in the attritional claims ratio partially offset by an increase in the expense ratio largely due to reduced fee income.

The underwriting result benefited from $78 million of positive prior accident year claims development equating to 4.6% of net earned premium, slightly lower than the $83 million or 5.0% reported in the same period last year.

While the gross cost of catastrophe claims was higher than plan due to Tropical Cyclone Debbie and the February storms in NSW, the net cost of large individual risk and catastrophe claims was in line with expectations and the prior period due to recoveries under the Group's aggregate reinsurance.

As broadly expected, our lenders' mortgage insurance (LMI) business reported a combined operating ratio of 45%, up from 35% in full year 2016. While we did not see a material increase in arrears rates, both the rate of conversion of arrears to claims and average claims severity increased slightly relative to the prior period.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2017	2016	2015	2014	2013
Gross written premium	US$M	**2,007**	1,861	1,928	2,275	2,517
Gross earned premium	US$M	**2,024**	1,871	1,913	2,192	2,406
Net earned premium	US$M	**1,705**	1,654	1,668	1,916	2,106
Net incurred claims	US$M	**1,084**	1,120	1,050	1,134	1,238
Net commission	US$M	**255**	250	235	267	293
Expenses	US$M	**237**	217	230	274	343
Underwriting result	US$M	**129**	67	153	241	232
Net claims ratio	%	**63.6**	67.7	62.9	59.2	58.8
Net commission ratio	%	**15.0**	15.1	14.1	13.9	13.9
Expense ratio	%	**13.9**	13.1	13.8	14.3	16.3
Combined operating ratio	%	**92.5**	95.9	90.8	87.4	89.0
Adjusted combined operating ratio [1]	%	**92.2**	93.9	90.7	–	–
Insurance profit margin	%	**12.3**	8.9	14.8	17.2	16.4

1 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management results were not reported on this basis in the first half of 2014 and prior.

Premium income

Gross written premium increased 8% to $2,007 million from $1,861 million a year earlier.

On a constant currency basis, gross written premium increased 5%, primarily due to the significant premium rate increases implemented across the business. Effective July 2016, we entered the South Australian CTP market and this business is now contributing to written premium growth. We have also seen moderately higher levels of new business in LMI, albeit mortgage lenders are applying stricter lending criteria and remain under regulatory pressure to reduce the level of growth in the investor and interest only segments of the market.

We achieved an average premium rate increase of 5.2% on business renewed during the first half of 2017 compared with an average rate reduction of 0.3% over the same period last year. Higher rate increases have been achieved in many of our short-tail lines of business. Importantly and despite our focus on portfolio remediation, policy retention levels remained broadly in line with prior period at above 80%.

New business levels have fallen relative to the prior period, particularly in our short-tail personal and commercial lines and in trade credit as we have instilled greater pricing and risk selection discipline.

Net earned premium is broadly in line with the prior period on a constant currency basis.

Gross earned premium by class of business

FOR THE HALF YEAR ENDED 30 JUNE	2017 %	2016 %
Commercial & domestic property	**32.8**	34.2
Motor & motor casualty	**27.6**	24.8
Financial & credit	**9.7**	11.3
Public/product liability	**8.0**	7.8
Workers' compensation	**7.1**	7.6
Agriculture	**5.1**	4.8
Accident & health	**4.6**	4.2
Marine energy & aviation	**2.7**	2.8
Professional indemnity	**2.3**	2.3
Other	**0.1**	0.1

Claims expense

The net claims ratio decreased to 63.6% from 67.7% in the prior year, primarily due to a 4.2% improvement in our attritional claims ratio (ex LMI), coupled with a reduced impact from lower risk-free rates used to discount net outstanding claims.

The reduction in our attritional claims ratio was driven by improvements in NSW CTP, trade credit and a broad-based improvement in the profitability of all our short-tail personal and commercial lines. While we are pleased with progress to date, the profitability of a number of our core products including private & commercial motor, segments of our householders book, commercial property and workers' compensation require further improvement.

The gross cost of catastrophe claims was significantly higher than the prior period and our plan allowance due to Tropical Cyclone Debbie and the February storms in NSW. Although also higher than plan, the gross cost of large individual risk claims was lower than the prior period driven by remediation initiatives. Not surprisingly, the net cost of large individual risk and catastrophe claims was broadly in line with the prior period due to recoveries under our aggregate reinsurance.

Positive prior accident year claims development of $78 million or 4.6% of net earned premium was down slightly from $83 million or 5.0% reported in the prior period. Continued positive claims development reflects more favourable claims experience and lower claims cost inflation than is currently factored into the reserving assumptions for our long-tail products including NSW CTP, workers' compensation, liability and professional indemnity.

Commission and expenses

The commission ratio improved slightly to 15.0% from 15.1% in the prior period, reflecting minor movements in product mix including growth in non-commission products such as CTP.

The expense ratio deteriorated to 13.9% from 13.1% a year earlier. On a constant currency basis, underwriting expenses were $14 million higher than the prior period driven by investment in claims and underwriting initiatives coupled with lower workers' compensation fee income following the non-renewal of our Victorian WorkSafe contract and changes to our NSW managed fund contract.

We remain extremely focused on further improving the efficiency of our business through a series of initiatives targeted at operational excellence. Over the past year, divisional FTE has reduced by around 8% to 2,742. In the near-term, efficiency savings are likely to be offset by additional investment in improving our core capabilities in claims, pricing, underwriting, data and analytics and the expense ratio will be pressured by a further expected reduction in fee income following non-renewal of our claims management contract with NSW iCare, effective from December 2017.

Summary

Over the past year we have achieved significant and sustainable premium rate increases. Coupled with tightened terms and conditions and improved risk selection, these measures have materially improved business profitability. Our market leading position in each of the broker, underwriting agency and affinity distribution channels placed us in good stead as we progressed remediation actions across underperforming product lines.

We have further work to do to improve the profitability of many of our short-tail personal and commercial lines products. Alongside our ongoing remediation activities, we are refreshing our divisional strategy to establish our medium-term investment priorities which will be oriented around improving our core capabilities (pricing, underwriting, claims service), delivering distinctive propositions to our customers and building a more dynamic culture. Consistent with our heightened focus on core businesses, we also executed an agreement for the sale of QBE Life (Australia) Limited.

There have been changes to our leadership team and I am particularly pleased to welcome Inder Singh to the role of Chief Financial Officer and Mark Baxter to the role of Chief Risk Officer. The leadership team has been further strengthened with the promotion of LMI CEO, Phil White, and the appointment of Pita Williams as General Counsel from 1 October 2017.

Our ongoing commitment to our customers has led to the creation of the Chief Customer Officer role and I was delighted when Bettina Pidcock agreed to assume this role. Further recognising our commitment to the end consumer, we have renamed our previous Corporate Partners & Direct team to Consumer & Retail Partnerships. In recognition of the depth and breadth of his role, Steve Raynor's title has been expanded to Chief Operating Officer from EGM Transformation previously.

I would like to thank everyone for their efforts and commitment and I remain excited and optimistic about the future.

Emerging Markets business review

"Increased attritional claims frequency, particularly in Asia Pacific property and marine classes, coupled with higher risk claims in Latin America and adverse prior accident year claims development, contributed to a disappointing result. We are acutely focused on remediation initiatives, including the restoration of underwriting and pricing discipline, while at the same time re-examining the extent of our emerging markets footprint."

John Neal

Group Chief Executive Officer

Gross written premium US$ million	Net earned premium US$ million	Underwriting result US$ million	Insurance profit (loss) US$ million
857	679	(74)	(48)
↑ 1% from 2016[1]	↑ 4% from 2016[2]	↓ $77M from 2016	↓ $84M from 2016
		Combined operating ratio[3] 110.8% (2016 99.5%)	Insurance profit margin (7.1)% (2016 5.5%)

2017 overview

Emerging Markets' first half result was impacted by adverse claims experience in numerous portfolios across Latin America and Asia Pacific which contributed to a combined operating ratio of 110.8%[3] compared with 99.5%[3] in the prior period. A heightened level of medium-sized attritional claims, particularly in Asia Pacific, coupled with prior accident year claims development in Hong Kong workers' compensation and increased large individual risk claims frequency, contributed to a combined operating ratio of 109.1% and 112.4% in Asia Pacific and Latin America respectively.

Although the sale of the Chilean operations to TMS Sp.A completed during the period, flooding claims incurred prior to closure of the sale contributed to the disappointing interim result. Excluding the now sold Chilean business, the Latin American and Emerging Markets' combined operating ratios would have been 110.2% and 109.7% respectively.

A detailed review has been undertaken to determine the remediation activities required to improve underwriting performance in the second half of 2017 and beyond. In addition to a tightening of underwriting controls and discipline across the division more broadly, improved pricing models are being introduced in Asia (most notably in property, marine and workers' compensation classes), exposure to higher hazard property classes reduced, enhanced reinsurance protections with Equator Re are being enacted and cost reduction plans have been put in place.

At the same time, we will continue to assess the strategic merits of our broad geographical footprint across the emerging markets. In the meantime, we have decided to reposition Emerging Markets as two operating divisions in Asia Pacific and Latin America to more naturally support and align with the geographical model applicable elsewhere across QBE. Our governance and board structures are being adjusted to support this change.

1 Up 3% on a constant currency basis.
2 Up 6% on a constant currency basis.
3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Operating and financial performance

Underwriting performance

Premium growth was subdued relative to previous periods reflecting the increasingly competitive premium pricing landscape, particularly in Asia Pacific.

On a constant currency basis, gross written and net earned premium increased by 3% and 6% respectively, with gross written premium down marginally in Asia Pacific and up in Latin America due to high levels of inflation in countries such as Argentina and Brazil.

Emerging Markets' underwriting performance deteriorated sharply during the first half of 2017.

Excluding the impact of changes in risk-free rates used to discount net outstanding claims, the division reported a combined operating ratio of 110.8%, up from 99.5% in the prior period, reflecting the competitive pricing landscape coupled with adverse attritional claims experience, including increased medium-sized attritional claims activity in Asia Pacific property and marine portfolios, increased risk claims activity in Latin America, adverse claims experience in Colombian SOAT and medium-sized risk claims in Mexican liability and property books.

The underwriting result was also impacted by adverse catastrophe experience in Latin America including a material crop claim in Ecuador, as well as adverse prior accident year claims development, primarily in the Hong Kong workers' compensation portfolio following a detailed claims review undertaken during the period.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2017	2016	2015[1]	2014[1]	2013[1]
Gross written premium	US$M	**857**	850	929	896	987
Gross earned premium	US$M	**804**	793	864	855	860
Net earned premium	US$M	**679**	655	741	718	712
Net incurred claims	US$M	**441**	359	417	432	405
Net commission	US$M	**162**	152	170	173	171
Expenses	US$M	**150**	141	150	130	127
Underwriting result	US$M	**(74)**	3	4	(17)	9
Net claims ratio	%	**64.9**	54.8	56.4	60.2	56.9
Net commission ratio	%	**23.9**	23.2	22.9	24.1	24.0
Expense ratio	%	**22.1**	21.5	20.2	18.1	17.8
Combined operating ratio	%	**110.9**	99.5	99.5	102.4	98.7
Adjusted combined operating ratio[2]	%	**110.8**	99.5	99.5	–	–
Insurance profit margin	%	**(7.1)**	5.5	4.6	1.5	3.1

1 Excludes Argentine workers' compensation business which was sold in 2015.
2 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management results were not reported on this basis in the first half of 2014 and prior.

Premium income

Emerging Markets' gross written premium increased 1% to $857 million from $850 million in the prior period. On a constant currency basis, gross written premium increased by 3%, well down from the 10% constant currency growth recorded in the first half of 2016.

Asia Pacific gross written premium fell by 2% to $409 million from $419 million in the prior period. On a constant currency basis, gross written premium fell by 1% compared with growth of 2% in the prior period. Strong growth was recorded across the Philippines, Vietnam, Fiji and Papua New Guinea which was more than offset by challenging market conditions in Hong Kong and Singapore.

Asia Pacific experienced an average premium rate reduction of 3.9% compared with 3.0% in the prior period, driven by especially competitive conditions in Hong Kong and Singapore.

In Latin America, gross written premium increased 4% to $448 million from $431 million in the prior period. On a constant currency basis, gross written premium increased 6% compared with growth of 16% in the prior period. Strong growth in Argentina (largely due to inflation), Brazil and, to a lesser degree, Mexico, was partially offset by a recession driven contraction in Ecuador, flat income levels in Colombia and Puerto Rico and the sale of the Chilean operations.

Driven by Argentina and Brazil, Latin America experienced an average premium rate increase of 10.5% compared with a 2.7% reduction in the prior period.

Net earned premium increased 6% on a constant currency basis, reflecting 3% gross written premium growth coupled with reduced reinsurance spend following the renegotiation and restructuring of the Group's reinsurance protections effective 1 January 2017.

Gross earned premium by class of business

FOR THE HALF YEAR ENDED 30 JUNE	2017 %	2016 %
Motor & motor casualty	**29.0**	29.0
Commercial & domestic property	**28.4**	28.3
Marine energy & aviation	**10.9**	11.9
Workers' compensation	**9.7**	9.6
Accident & health	**8.9**	8.4
Public/product liability	**5.6**	5.2
Professional indemnity	**2.4**	2.5
Other	**2.1**	2.0
Financial & credit	**1.8**	1.4
Agriculture	**1.2**	1.7

Claims expense

Emerging Markets' net claims ratio deteriorated to 64.9% from 54.8% in the prior period, reflecting an increase in attritional and individual risk claim activity across both Latin America and Asia Pacific, coupled with adverse prior accident year development, largely in Asia Pacific.

The attritional claims ratio increased to 53.4% from 50.4% in the prior period, largely reflecting a heightened level of medium-sized claims frequency, particularly in Asia Pacific. While we have identified specific factors that contributed to the deterioration in specific portfolios and specific territories, the deterioration is also reflective of the competitive market landscape, especially in Hong Kong and Singapore, as well as an increase in exposure to higher hazard risks. This contributed to an increase in fire related claims across Asia and marine claims in Singapore and Indonesia. The attritional claims ratio in Latin America was also impacted by adverse experience in certain legacy portfolios across Colombian SOAT, Mexico, Brazil and Ecuador, as well as increased weather-related motor, property and marine claims frequency stemming from significantly higher than average rainfall experience in Argentina, Ecuador and Chile.

The combined cost of large individual risk and catastrophe claims increased to 4.4% of net earned premium from 3.9% in the prior period. While catastrophe experience overall was down relative to the prior period due to benign experience in Asia Pacific, catastrophe claims increased in Latin America relative to the prior period notwithstanding the prior period including significant costs associated with the earthquake in Ecuador. In addition to flood losses in Argentina and Chile, an armyworm infestation impacted the agriculture portfolio in Ecuador and gave rise to an $11 million claim that is not protected by the Group's aggregate reinsurance. Large individual risk claims increased across both Latin America and Asia Pacific relative to the prior period but most notably in Latin America with two large fire claims in Mexico.

The result was also adversely impacted by $12 million or 1.8% of prior accident year claims development compared with $17 million or 2.6% of favourable development in the same period last year. A detailed review of our Hong Kong workers' compensation business identified the need to strengthen claims provisions by $18 million, reflecting higher than anticipated claims frequency coupled with the need to increase case estimates on reported claims due to increased access to common law damages. This review also contributed to the rise in Asia Pacific's attritional claims ratio.

Commission and expenses

Emerging Markets' commission ratio increased slightly to 23.9% from 23.2% in the prior period, mostly due to business mix changes.

The underwriting expense ratio also increased to 22.1% from 21.5% in the prior period, reflecting some higher staff costs in Latin America along with one-off provisioning including doubtful debts, software impairments and property revaluation taxes. On a constant currency basis, expenses remained flat overall as expense management initiatives continued across the division.

Summary

The decision to revert to two geographically focused operating divisions sees the appointment of Jason Brown (currently Group Chief Risk Officer) and Carola Fratini (currently CEO of Argentina) as CEO for Asia Pacific and Latin America respectively. These appointments will be followed by the appointment of a dedicated Chief Underwriting Officer and Chief Risk Officer in each of Asia Pacific and Latin America.

Due to the restructure, David Fried will be leaving QBE in mid-2018, after supporting the transition plans.

Remediation actions include further improvement to our underwriting governance framework along with the implementation of improved pricing models for property, marine and workers' compensation insurance, together comprising 56% of gross written premium in Asia Pacific.

We are progressing an ongoing review of our Emerging Markets' footprint to benchmark the strategic importance of each country to QBE (including economic prospects and political risk) against the strategic positioning of our portfolio and medium-term profitability expectations, all of which will be completed by year end. Early decisions include the likely exiting of our business in Thailand and the withdrawal from SOAT/motor insurance business in Colombia.

Cost reduction initiatives are also underway targeting meaningful savings in 2018; however, a modest restructuring charge is likely to be incurred in the second half of 2017.

Equator Re business review

"Equator Re plays a pivotal role in supporting the growth ambitions of QBE's operating divisions and optimising the Group's reinsurance and capital requirements."

Jim Fiore
Group Chief Reinsurance Officer & President • Equator Re

Gross written premium	Net earned premium	Underwriting result	Insurance profit
US$ million	US$ million	US$ million	US$ million
1,375	419	81	91
↑ 22% from 2016	↑ 113% from 2016	↑ $22M from 2016	↑ $17M from 2016
		Combined operating ratio[1] 79.9% (2016 63.5%)	Insurance profit margin 21.7% (2016 37.6%)

2017 overview

Equator Re continues to expand its important role in bridging the gap between the Group risk appetite and that of each of the operating divisions while also supporting divisional growth ambitions and facilitating optimisation of the Group's reinsurance and capital requirements.

As part of the Group's overall reinsurance expense saving initiative in 2017, Equator Re is now participating in an increased number of divisional quota share reinsurance protections that were previously placed directly with external reinsurers.

Growth in Equator Re's proportional income has numerous benefits including increasing the stability of Equator Re's result (proportional business is typically less volatile than excess of loss business), further diversifying the portfolio which assists in limiting the additional capital required relative to the growth in business volume and reducing the overall Group reinsurance expense without generating any significant increase in risk or volatility. However, the increase in proportional business relative to large individual risk and catastrophe exposures written on an excess of loss basis does increase Equator Re's attritional claims and commission ratios, with the commission ratio impacted by the typically far higher commissions payable on quota share reinsurance.

1 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Operating and financial performance

Underwriting performance

The majority of Equator Re's portfolio renewed on 1 January 2017. Reflective of trends in the broader reinsurance market and facilitated by savings generated in the placement of our external reinsurance program, Equator Re's gross book renewed on average at rates lower than the prior year.

Equator Re's combined operating ratio increased to 80.6% from 70.1% in the prior period, largely reflecting growth in proportional business coupled with adverse prior accident year claims experience, partially offset by more benign catastrophe experience and the non-recurrence of a material risk margin strengthening in the prior period.

Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2017	2016	2015	2014	2013
Gross written premium	US$M	**1,375**	1,125	976	607	775
Gross earned premium	US$M	**798**	583	485	404	417
Net earned premium	US$M	**419**	197	182	280	266
Net incurred claims	US$M	**288**	116	106	267	197
Net commission	US$M	**41**	18	13	5	11
Expenses	US$M	**9**	4	6	4	4
Underwriting result	US$M	**81**	59	57	4	54
Net claims ratio	%	**68.7**	58.9	58.2	95.4	74.0
Net commission ratio	%	**9.8**	9.1	7.1	1.8	4.1
Expense ratio	%	**2.1**	2.0	3.3	1.4	1.7
Combined operating ratio	%	**80.6**	70.1	68.6	98.6	79.8
Adjusted combined operating ratio [1]	%	**79.9**	63.5	70.8	–	–
Insurance profit margin	%	**21.7**	37.6	47.8	9.0	21.8

1 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management results were not reported on this basis in the first half of 2014 and prior.

Premium income

Gross written premium grew by $250 million or 22% to $1,375 million and was largely driven by an increase in proportional business underwritten as part of the Group's refreshed reinsurance strategy. Growth is largely from new or increased participation in Europe's marine and energy programs, an increased share of crop business in North America and additional quota shares with Australia for capital management purposes. In addition, Equator Re was able to leverage existing external reinsurance covers to write new bespoke treaties with the divisions, further increasing gross written premium in 2017 without materially increasing net exposure.

Net earned premium increased by $222 million or 113% to $419 million, largely due to growth in the proportional book and the new bespoke treaties noted above earning more quickly than the general earnings pattern of existing business.

Despite the growth in both gross written and gross earned premium, reinsurance costs remained flat in dollar terms. This drove a material reduction in the reinsurance expense ratio to 47.5% from 66.2% in the prior period. While the core external reinsurance programs were renewed at a net saving on the prior comparative period, this was partly offset by an increase in the external whole account quota share reinsurance from 30% to 35% and the continued earn out of the 2016 risk attaching reinsurance program.

Claims expense

Although better than plan, Equator Re's net claims ratio deteriorated to 68.7% from 58.9% in the same period last year, largely reflecting the aforementioned growth in proportional business coupled with adverse prior accident year claims development partially offset by the non-recurrence of a material risk margin strengthening taken up in the prior period.

The attritional claims ratio increased by 9.9% relative to the prior period due to the strong growth in proportional business as previously discussed.

The net cost of large individual risk and catastrophe claims fell to 30.3% of net earned premium from 34.6% in the prior period. Catastrophe experience was slightly better than plan and the prior corresponding period. The prior period was impacted by the earthquake in Ecuador and cyclone Winston in Fiji while the only noteworthy event during the recent half was Cyclone Debbie which impacted Northern Australia in March. On a gross basis, large individual risk claims experience was more severe than the prior corresponding period due to increased frequency of large property risk and marine claims; however, the net result was largely protected by our external reinsurance program.

The 2017 interim result was adversely impacted by $49 million of prior accident year claims development compared with $34 million of favourable development in the first half of 2016 and largely reflects deterioration on the aggregate contracts, much of which is offset by favourable development in the divisions.

Equator Re's underwriting result also included a $3 million adverse impact from lower risk-free rates used to discount net outstanding claims compared with a $13 million adverse impact in the prior period; the prior period also included $34 million of risk margin strengthening.

Commission and expenses

The combined commission and expense ratio increased to 11.9% from 11.1% in the prior period, reflecting a 0.7% increase in the net commission ratio as a result of the increased volume of proportional business underwritten during 2017. Including the Crop quota share, proportional business now comprises 55% of Equator Re's net earned premium compared with 37% for the same period last year.

The mix impact of growth in generally higher commission-paying proportional business on the overall commission ratio was partly offset by a reduction in the actual commission rate on new proportional contracts (25% in 2017 compared with 34% in the same period last year). The new proportional contracts operate at lower commission ratios than the existing book due to the lower costs incurred by the divisions in acquiring the underlying direct business. This is particularly the case with respect to the Crop quota share written in 2017 where the exchange commission is very low relative to other classes of business.

Total underwriting expenses increased in line with net earned premium growth to maintain a relatively consistent expense ratio half on half.

Summary

The Group's external reinsurance program was reviewed ahead of the 2017 placement with the aim of achieving $350–$400 million of cost savings, including a significant bottom-line benefit, without any material increase in risk.

The desired outcome was achieved largely through restructuring the interaction between our traditional per risk and catastrophe covers and our Group large individual risk and catastrophe aggregate cover, as well as revised US crop quota share reinsurance with most of the top-line and bottom-line benefits captured within Equator Re.

At the same time, Equator Re has locked in more than half of its external reinsurance program for 2018 which provides certainty around costs and availability of reinsurance protection for the next 18 months.

During 2017, Equator Re has been in constant contact with our divisional customers to discuss additional reinsurance solutions in response to their evolving needs. Our knowledge of and relationship with each division continues to strengthen and we are optimistic about our ability to further enhance and optimise shareholder returns. I would like to thank the entire Global Reinsurance operations team for their support and collaboration in delivering another strong half year performance.

Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2017

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2017.

Directors

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

Marty Becker (Chairman)
Stephen Fitzgerald
John M Green (Deputy Chairman)
Margaret Leung (retired on 30 March 2017)
Kathryn Lisson
John Neal
Sir Brian Pomeroy
Patrick Regan
Jann Skinner
Rolf Tolle
Michael Wilkins AO

Consolidated results

FOR THE HALF YEAR ENDED	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Gross written premium	**8,038**	8,107
Gross earned premium revenue	**6,973**	6,876
Net earned premium	**6,043**	5,615
Net claims expense	**(3,944)**	(3,637)
Net commission	**(1,025)**	(993)
Underwriting and other expenses	**(920)**	(931)
Underwriting result	**154**	54
Net investment income on policyholders' funds	**252**	272
Insurance profit	**406**	326
Net investment income on shareholders' funds	**205**	165
Financing and other costs	**(165)**	(125)
Losses on sale of entities	**(3)**	–
Share of net profits of associates	**1**	–
Amortisation and impairment of intangibles	**(22)**	(19)
Profit before income tax	**422**	347
Income tax expense	**(78)**	(80)
Profit after income tax	**344**	267
Net loss (profit) attributable to non-controlling interests	**1**	(2)
Net profit after income tax	**345**	265

Result

Net profit after tax for the period to 30 June 2017 was $345 million, up from a profit of $265 million for the same period last year.

Net earned premium of $6,043 million was up 8% compared with the same period last year, principally reflecting reduced reinsurance expense in the current half year. The reduction occurred because 2016 included a one-time cost to reinsure long tail liabilities in European Operations and fronting of the Mortgage & Lender Services business which QBE sold in 2015 but which we continued to front on behalf of the purchaser on a progressively reducing basis until March 2017.

The Group's underwriting result was a profit of $154 million compared with a profit of $54 million for the same period last year, reflecting a combined operating ratio of 97.5% compared with 99.0%. The result benefited from a stronger underwriting performance in both the North American and Australian & New Zealand Operations, partly offset by increased claims activity in Emerging Markets. The underwriting result is net of a cost of $156 million resulting from the Ogden decision in the UK which was foreshadowed in our year end 2016 results announcement to the market.

The net claims ratio was 65.3% compared with 64.8% for the same period last year. The current period claims ratio was impacted by the aforementioned Ogden decision as well as other favourable prior accident year claims development of $145 million, down from $218 million for the same period last year. The prior period claims expense was adversely impacted by $283 million due to a reduction in risk-free rates used to discount outstanding claims. The combined commission and expense ratio was down compared with the same period last year (32.2% compared with 34.2%) primarily due to changes in business mix and the benefit of expense initiatives.

QBE's 2017 full year combined operating ratio guidance to the market in both February and June 2017 specifically excluded the impact of discount rate movements (consistent with our usual practice) and the cost of the Ogden decision. Adjusting our reported statutory underwriting result for both of these factors, the combined operating ratio would have been 95.3% which is around the mid-point of our revised (June 2017) target range of 94.5% - 96.0%.

Net investment income was $457 million compared with $437 million in the same period last year. The fixed income book benefited from tighter credit spreads and proactive management of duration throughout the period whilst growth assets performed strongly across the portfolio.

The tax rate was 18% of net profit, down from 23%, reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates coupled with the benefit of deferred tax assets recognised in North American Operations due to the improved profitability of that division.

Dividends

The directors are pleased to announce an interim dividend of 22 Australian cents per share for the period ended 30 June 2017 up 5% from 21 Australian cents per share for the period ended 30 June 2016. The interim dividend will be franked at 30% (2016 50%). The total interim dividend payout is A$302 million (2016 A$288 million) reflecting a dividend payout ratio of 61%.

Our objective is to deliver a stable and growing dividend to our shareholders. Our current dividend policy sets the full year dividend payout ratio at up to 65% of cash profit.

Operating and financial review

Information on the Group's results, operations, business strategies, prospects and financial position is set out on pages 4 to 37 of this half year report.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the Group Chief Actuary after consultation with internal actuaries at 30 June and both internal and external actuaries at the 31 December balance date. The assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries and future interest and inflation factors.

As in previous years, the directors consider that substantial risk margins are required to mitigate inherent uncertainty in the actuarial central estimate. The probability of adequacy of the outstanding claims liability at 30 June 2017 was 89.5%, unchanged from 89.5% at 31 December 2016. APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Material business risks

As a global insurance and reinsurance business, QBE is subject to a substantial variety of business risks. The Board believes that effective management of these risks is critical to delivering value for QBE's stakeholders. It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of QBE's governance structure, broader business processes and, most importantly, culture.

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity and operational risks. Explanations of these risks and their mitigations are set out in more detail in note 4 to the Group's financial statements for the year ended 31 December 2016, which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report and the section of the Corporate Governance Statement addressing the Corporate Governance Council's Principle 7: Recognise and Manage Risk, both of which are included in the 2016 Annual Report.

QBE's 2016 Annual Report and Corporate Governance Statement are available on the QBE website at www.qbe.com.

Commentary on significant judgements and estimates impacting the half year result and balance sheet, with particular emphasis on the limited headroom in relation to goodwill in our North American Operations, is included in note 1.2 to the financial statements for the half year ended 30 June 2017.

Events after balance date

Other than the declaration of the interim dividend, no matter or circumstance has arisen since 30 June 2017 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial periods. The execution of a sale agreement for QBE Life (Australia) Limited is not expected to have a material impact on the Group.

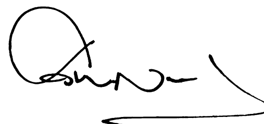
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 41.

Rounding of amounts

The company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.* 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 instrument.

Signed in SYDNEY on 17 August 2017 in accordance with a resolution of the directors.



WM Becker
Director

JD Neal
Director

Auditor's independence declaration

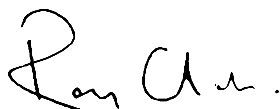
FOR THE HALF YEAR ENDED 30 JUNE 2017

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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



RJ Clark
Partner, PricewaterhouseCoopers

Sydney
17 August 2017

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2017

	NOTE	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Gross written premium		**8,038**	8,107
Unearned premium movement		**(1,065)**	(1,231)
Gross earned premium revenue	2.1	**6,973**	6,876
Outward reinsurance premium		**(1,772)**	(1,577)
Deferred reinsurance premium movement		**842**	316
Outward reinsurance premium expense		**(930)**	(1,261)
Net earned premium (a)		**6,043**	5,615
Gross claims expense	2.2	**(5,054)**	(4,486)
Reinsurance and other recoveries revenue	2.1	**1,110**	849
Net claims expense (b)	2.2	**(3,944)**	(3,637)
Gross commission expense		**(1,195)**	(1,158)
Reinsurance commission revenue	2.1	**170**	165
Net commission (c)		**(1,025)**	(993)
Underwriting and other expenses (d)		**(920)**	(931)
Underwriting result (a)+(b)+(c)+(d)		**154**	54
Investment and other income – policyholders' funds	3.1	**260**	279
Investment expenses – policyholders' funds	3.1	**(8)**	(7)
Insurance profit		**406**	326
Investment and other income – shareholders' funds	3.1	**210**	169
Investment expenses – shareholders' funds	3.1	**(5)**	(4)
Financing and other costs		**(165)**	(125)
Losses on sale of entities	5.1	**(3)**	–
Share of net profits of associates		**1**	–
Amortisation and impairment of intangibles		**(22)**	(19)
Profit before income tax		**422**	347
Income tax expense		**(78)**	(80)
Profit after income tax		**344**	267
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**(117)**	(307)
Net movement in cash flow hedges		**(1)**	(4)
Income tax relating to these components of other comprehensive income		**13**	5
Items that will not be reclassified to profit or loss			
Gains (losses) on remeasurement of defined benefit superannuation plans		**5**	(25)
Income tax relating to these components of other comprehensive income		**(1)**	1
Other comprehensive income after income tax		**(101)**	(330)
Total comprehensive income after income tax		**243**	(63)
Profit after income tax attributable to:			
Ordinary equity holders of the company		**345**	265
Non-controlling interests		**(1)**	2
		344	267
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**244**	(65)
Non-controlling interests		**(1)**	2
		243	(63)

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	30 JUNE 2017 US CENTS	30 JUNE 2016 US CENTS
Basic earnings per share	4.5	**25.1**	19.3
Diluted earnings per share	4.5	**25.0**	19.2

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

Consolidated balance sheet

AS AT 30 JUNE 2017

	NOTE	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Assets			
Cash and cash equivalents		**802**	847
Investments	3.2	**24,849**	24,374
Derivative financial instruments	4.2	**212**	151
Trade and other receivables		**6,926**	4,831
Current tax assets		**34**	51
Deferred insurance costs		**2,985**	1,965
Reinsurance and other recoveries on outstanding claims	2.3	**5,290**	4,540
Other assets		**7**	8
Assets held for sale		**26**	85
Defined benefit plan surpluses		**30**	27
Property, plant and equipment		**257**	257
Deferred tax assets		**794**	778
Investment properties		**14**	14
Investment in associates		**30**	28
Intangible assets		**3,737**	3,627
Total assets		**45,993**	41,583
Liabilities			
Derivative financial instruments	4.2	**214**	147
Trade and other payables		**2,922**	2,139
Current tax liabilities		**139**	73
Liabilities held for sale		**9**	72
Unearned premium		**8,142**	6,763
Outstanding claims	2.3	**20,065**	18,321
Provisions		**149**	69
Defined benefit plan deficits		**85**	85
Deferred tax liabilities		**54**	106
Borrowings	4.1	**3,498**	3,474
Total liabilities		**35,277**	31,249
Net assets		**10,716**	10,334
Equity			
Share capital	4.3	**8,903**	8,350
Treasury shares held in trust		**(50)**	–
Reserves		**(1,784)**	(1,654)
Retained profits		**3,599**	3,588
Shareholders' funds		**10,668**	10,284
Non-controlling interests		**48**	50
Total equity		**10,716**	10,334

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

Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2017

2017	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January	**8,350**	**–**	**(1,654)**	**3,588**	**10,284**	**50**	**10,334**
Profit after income tax	**–**	**–**	**–**	**345**	**345**	**(1)**	**344**
Other comprehensive income	**–**	**–**	**(105)**	**4**	**(101)**	**–**	**(101)**
Total comprehensive income	**–**	**–**	**(105)**	**349**	**244**	**(1)**	**243**
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	**–**	**(122)**	**–**	**–**	**(122)**	**–**	**(122)**
Share-based payment expense	**–**	**–**	**33**	**–**	**33**	**–**	**33**
Shares vested and/or released	**–**	**73**	**(73)**	**–**	**–**	**–**	**–**
Contributions of equity, net of transaction costs and tax	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Net changes in non-controlling interests	**–**	**–**	**1**	**–**	**1**	**(1)**	**–**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(342)**	**(342)**	**–**	**(342)**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**4**	**4**	**–**	**4**
Foreign exchange movement	**552**	**(1)**	**14**	**–**	**565**	**–**	**565**
As at 30 June	**8,903**	**(50)**	**(1,784)**	**3,599**	**10,668**	**48**	**10,716**

2016	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January	8,440	–	(1,248)	3,313	10,505	55	10,560
Profit after income tax	–	–	–	265	265	2	267
Other comprehensive income	–	–	(306)	(24)	(330)	–	(330)
Total comprehensive income	–	–	(306)	241	(65)	2	(63)
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	–	(38)	–	–	(38)	–	(38)
Share-based payment expense	–	–	40	–	40	–	40
Shares vested and/or released	–	37	(37)	–	–	–	–
Contributions of equity, net of transaction costs and tax	1	–	–	–	1	–	1
Reclassification on disposal of owner occupied property	–	–	(4)	4	–	–	–
Dividends paid on ordinary shares	–	–	–	(317)	(317)	–	(317)
Foreign exchange movement	197	–	2	–	199	2	201
As at 30 June	8,638	(1)	(1,553)	3,241	10,325	59	10,384

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

Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2017

	NOTE	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Operating activities			
Premium received		**6,257**	6,638
Reinsurance and other recoveries received		**774**	610
Outward reinsurance paid		**(1,315)**	(1,399)
Claims paid		**(4,010)**	(3,701)
Acquisition and other underwriting costs paid		**(2,153)**	(1,858)
Interest received		**235**	220
Dividends received		**36**	24
Other operating income		**14**	14
Other operating payments		**(67)**	(90)
Interest paid		**(113)**	(121)
Income taxes paid		**(60)**	(121)
Net cash flows from operating activities		**(402)**	216
Investing activities			
Proceeds on sale of growth assets		**2,136**	2,068
Payments for purchase of growth assets		**(1,431)**	(1,223)
Net proceeds on (payments for) foreign exchange transactions		**72**	(7)
Net proceeds on (payments for) purchase and sale of interest bearing financial assets		**54**	(620)
Payments for purchase of intangible assets		**(36)**	(18)
Payment for purchase of entities (net of cash acquired)		**–**	(18)
Proceeds on disposal of entities (net of cash disposed)		**16**	11
Proceeds on sale of investment property		**–**	2
Proceeds on sale of property, plant and equipment		**–**	10
Payments for purchase of property, plant and equipment		**(19)**	(23)
Net cash flows from investing activities		**792**	182
Financing activities			
Purchase of treasury shares		**(122)**	(66)
Proceeds from settlement of staff share loans		**1**	1
Proceeds from borrowings		**306**	4
Repayment of borrowings		**(320)**	(5)
Dividends paid		**(319)**	(289)
Net cash flows from financing activities		**(454)**	(355)
Net movement in cash and cash equivalents		**(64)**	43
Cash and cash equivalents at 1 January		**847**	662
Effect of exchange rate changes		**19**	58
Cash and cash equivalents at 30 June		**802**	763

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

Notes to the financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2017

1. OVERVIEW

1.1 Basis of preparation

This general purpose consolidated financial report for the half year ended 30 June 2017 (Half Year Financial Report) has been prepared in accordance with AASB 134 *Interim Financial Reporting* as issued by the Australian Accounting Standards Board, IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board and the *Corporations Act 2001*.

The Half Year Financial Report does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with QBE's Annual Report for the financial year ended 31 December 2016 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

New and amended accounting standards adopted by the Group

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2017.

TITLE	
AASB 2016–1	Recognition of Deferred Tax Assets for Unrealised Losses
AASB 2016–2	Disclosure Initiative: Amendments to AASB 107
AASB 2017–2	Further Annual Improvements 2014–2016 Cycle

The adoption of these new or revised standards did not materially affect the Group's accounting policies or Half Year Financial Report.

IFRS 17 *Insurance Contracts*

On 18 May 2017, after around 20 years of development, the International Accounting Standards Board issued IFRS 17, a new accounting standard for insurance contracts. IFRS 17 will be effective for reporting periods beginning on or after 1 January 2021 and will be applicable to general, life and health insurance business. The Australian Accounting Standards Board adopted an Australian equivalent standard on 19 July 2017. Given the complexity and broad scope, the impact of IFRS 17 on the consolidated Group's financial statements is still being determined; however, significant disclosure changes and some impact on profit or loss are expected. In particular, IFRS 17 introduces a new primary measurement model for accounting for insurance contracts but permits the application of a simplified measurement model (similar to the current basis on which general insurance is brought to account under AASB 1023) where the profit measurement is reasonably expected to approximate the result under the main measurement model.

The Group has initiated a project to assess the impact of this change on both the financial statements and the broader business, with a view to achieving full compliance for the first applicable reporting date, being the half year ending 30 June 2021.

1.2 Critical accounting judgements and estimates

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities. Noted below are the most material judgements and estimates that should be considered when reviewing the financial statements for the half year ended 30 June 2017.

1.2.1 Outstanding claims liability

The determination of the amounts that the Group will ultimately pay for claims arising under insurance and inward reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- changing social, political and economic trends, for example price and wage inflation.

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the central estimate on the Group's profit or loss are summarised in note 2.3.7 to the consolidated financial statements for the year ended 31 December 2016.

1.2.2 Intangible assets

QBE monitors goodwill and identifiable intangible assets for indicators of impairment at each reporting date in accordance with the Group's policy, which is set out in note 7.2 to the consolidated financial statements for the year ended 31 December 2016.

At 30 June 2017, QBE has reviewed all material intangible assets for indicators of impairment and has completed detailed impairment tests where indicators of impairment were identified. No impairment charge resulted from the analysis undertaken.

A detailed impairment test was completed in respect of goodwill in QBE's North American Operations. The headroom (being the excess of recoverable value over carrying value) at the balance date increased slightly to $123 million compared with $98 million at 31 December 2016. The valuation continues to be highly sensitive to a range of assumptions, in particular, to increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and long-term investment return assumptions.

If the terminal value of the combined operating ratio was increased by 1.0% compared with QBE's estimate (94.2% to 95.2%), the impairment charge would be $234 million. If the post-tax discount rate was increased by 1.0% (9.25% to 10.25%), the impairment charge would be $424 million. If the long-term investment return was reduced by 1.0% (4.25% to 3.25%), the impairment charge would be $374 million.

1.2.3 Recoverability of future tax losses

In North American Operations, a deferred tax asset (DTA) of $573 million continues to be recognised. Uncertainty continues to exist in relation to the recoverability of this DTA, which is subject to there being sufficient future taxable profits over the period of time in which the losses can be utilised. QBE has made a judgement that North American Operations will be able to generate sufficient taxable profits over the foreseeable future, based on its future business plans. Losses expire over the next 19 years, with the majority expiring between 2030 and 2034. The uncertainty around the recognition of the DTA will be resolved in future years assuming that taxable profits are generated.

Recovery of the DTA remains sensitive to changes in the forecast combined operating ratio, premium growth and investment yield assumptions as these items are the key drivers of future taxable income.

There is prevailing uncertainty about potential changes to the North American corporate tax rate. If this was reduced by 5%, all else being equal, the North American Operations DTA recognised would be reduced by $82 million.

1.2.4 Liability adequacy test

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The assessment is carried out at the operating segment level (refer note 1.3), being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio, with the exception of Emerging Markets where the risks are broadly similar within each of the Latin American and Asia Pacific geographic regions rather than across the operating segment as a whole.

Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2017

1.3 Segment information

QBE provides segment information by operating division to assist an understanding of the Group's performance. The Group's operating segments are consistent with the basis on which information is provided to the Group Executive for measuring performance and determining the allocation of capital, being the basis upon which the Group's underwriting products and services are managed within the various markets in which QBE operates.

30 JUNE 2017	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	EMERGING MARKETS US$M	EQUATOR RE US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER[1] US$M	TOTAL US$M
Gross written premium	2,803	2,393	2,007	857	1,375	9,435	(1,397)	8,038
Gross earned premium revenue – external	2,187	1,894	2,023	804	–	6,908	65	6,973
Gross earned premium revenue – internal	–	21	1	–	798	820	(820)	–
Outward reinsurance premium expense	(475)	(385)	(319)	(125)	(379)	(1,683)	753	(930)
Net earned premium	1,712	1,530	1,705	679	419	6,045	(2)	6,043
Net claims expense	(1,144)	(971)	(1,084)	(441)	(288)	(3,928)	(16)	(3,944)
Net commission	(266)	(296)	(255)	(162)	(41)	(1,020)	(5)	(1,025)
Underwriting and other expenses	(274)	(247)	(237)	(150)	(9)	(917)	(3)	(920)
Underwriting result	28	16	129	(74)	81	180	(26)	154
Net investment income on policyholders' funds	43	59	80	26	10	218	34	252
Insurance profit (loss)	71	75	209	(48)	91	398	8	406
Net investment income on shareholders' funds	29	22	39	32	16	138	67	205
Financing and other costs	–	–	–	–	–	–	(165)	(165)
Losses on sale of entities	–	–	–	–	–	–	(3)	(3)
Share of net profits of associates	–	–	–	–	–	–	1	1
Amortisation and impairment of intangibles	–	–	(7)	–	–	(7)	(15)	(22)
Profit (loss) before income tax	100	97	241	(16)	107	529	(107)	422
Income tax (expense) credit	(28)	(17)	(71)	1	(15)	(130)	52	(78)
Profit (loss) after income tax	72	80	170	(15)	92	399	(55)	344
Net loss attributable to non-controlling interests	–	–	–	–	–	–	1	1
Net profit (loss) after income tax	72	80	170	(15)	92	399	(54)	345

1 Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals; borrowings; financing costs; and amortisation of any intangibles which are not allocated to a specific operating segment. It also includes consolidation adjustments and internal reinsurance eliminations.

30 JUNE 2016	NORTH AMERICAN OPERATIONS US$M	EUROPEAN OPERATIONS US$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US$M	EMERGING MARKETS US$M	EQUATOR RE US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER[1] US$M	TOTAL US$M
Gross written premium	2,818	2,508	1,861	850	1,125	9,162	(1,055)	8,107
Gross earned premium revenue – external	2,136	1,913	1,865	793	–	6,707	169	6,876
Gross earned premium revenue – internal	48	17	6	–	583	654	(654)	–
Outward reinsurance premium expense	(474)	(545)	(217)	(138)	(386)	(1,760)	499	(1,261)
Net earned premium	1,710	1,385	1,654	655	197	5,601	14	5,615
Net claims expense	(1,225)	(812)	(1,120)	(359)	(116)	(3,632)	(5)	(3,637)
Net commission	(288)	(279)	(250)	(152)	(18)	(987)	(6)	(993)
Underwriting and other expenses	(265)	(270)	(217)	(141)	(4)	(897)	(34)	(931)
Underwriting result	(68)	24	67	3	59	85	(31)	54
Net investment income on policyholders' funds	42	59	81	33	15	230	42	272
Insurance (loss) profit	(26)	83	148	36	74	315	11	326
Net investment income on shareholders' funds	26	21	42	40	7	136	29	165
Financing and other costs	–	–	–	–	–	–	(125)	(125)
Amortisation and impairment of intangibles	–	–	–	–	–	–	(19)	(19)
Profit (loss) before income tax	–	104	190	76	81	451	(104)	347
Income tax credit (expense)	5	(19)	(56)	(25)	–	(95)	15	(80)
Profit (loss) after income tax	5	85	134	51	81	356	(89)	267
Net profit attributable to non-controlling interests	–	–	–	–	–	–	(2)	(2)
Net profit (loss) after income tax	5	85	134	51	81	356	(91)	265

1 Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals; borrowings; financing costs; and amortisation of any intangibles which are not allocated to a specific operating segment. It also includes consolidation adjustments and internal reinsurance eliminations.

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Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2017

2. UNDERWRITING ACTIVITIES

2.1 Revenue

	NOTE	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Gross earned premium revenue			
Direct and facultative		**6,488**	6,465
Inward reinsurance		**485**	411
		6,973	6,876
Other revenue			
Reinsurance and other recoveries revenue	2.2	**1,110**	849
Reinsurance commission revenue		**170**	165
		8,253	7,890

2.2 Net claims expense

	NOTE	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Gross claims and related expenses		**5,054**	4,486
Reinsurance and other recoveries revenue	2.1	**(1,110)**	(849)
Net claims expense		**3,944**	3,637

2.2.1 Prior accident year claims development

The result for the half year ended 30 June 2017 includes the benefit of prior accident year net undiscounted central estimate releases of $145 million (before taking into account the $154 million cost of the Ogden decision in the UK which was foreshadowed in our 2016 results announcement to the market). This compares with a $218 million release for the same period last year (excluding $178 million of recoveries from the reinsurance of certain UK long-tail liabilities).

Our European and Australian & New Zealand Operations reported significant favourable claims development, with a small net strengthening across the rest of the Group.

2.3 Net outstanding claims liability

	NOTE	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Gross discounted central estimate	2.3.1	**18,916**	17,233
Risk margin	2.3.3	**1,149**	1,088
Gross outstanding claims liability		**20,065**	18,321
Reinsurance and other recoveries on outstanding claims	2.3.2	**(5,290)**	(4,540)
Net outstanding claims liability		**14,775**	13,781

2.3.1 Gross discounted central estimate

	NOTE	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Gross undiscounted central estimate excluding claims settlement costs		**19,622**	17,826
Claims settlement costs		**355**	343
Gross undiscounted central estimate		**19,977**	18,169
Discount to present value		**(1,061)**	(936)
Gross discounted central estimate	2.3	**18,916**	17,233

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Reinsurance and other recoveries on outstanding claims – undiscounted [1]		**5,598**	4,816
Discount to present value		**(308)**	(276)
Reinsurance and other recoveries on outstanding claims	2.3	**5,290**	4,540

1 Net of a provision for impairment of $26 million (31 December 2016 $24 million).

2.3.3 Risk margin

The risk margin included in the net outstanding claims liability is 8.4% (31 December 2016 8.6%) of the net discounted central estimate. The probability of adequacy at 30 June 2017 is 89.5% (31 December 2016 89.5%) which is well above APRA's 75% benchmark.

3. INVESTMENT ACTIVITIES

3.1 Investment income

	30 JUNE 2017 US$M	30 JUNE 2016 US$M
Income on growth assets	**189**	19
Income on fixed interest securities, short-term money and cash	**307**	396
Gross investment income [1]	**496**	415
Investment expenses	**(13)**	(11)
Net investment income	**483**	404
Foreign exchange gain (loss)	**(24)**	39
Other income	**2**	–
Other expenses	**(4)**	(6)
Total investment income	**457**	437
Investment and other income – policyholders' funds	**260**	279
Investment expenses – policyholders' funds	**(8)**	(7)
Investment and other income – shareholders' funds	**210**	169
Investment expenses – shareholders' funds	**(5)**	(4)
Total investment income	**457**	437

1 Includes net fair value gains of $178 million (2016 $149 million), interest income of $260 million (2016 $242 million) and dividend income of $58 million (2016 $24 million).

Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2017

3.2 Investment assets

	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Fixed income		
Short-term money	**4,136**	3,954
Government bonds	**6,617**	5,996
Corporate bonds	**11,473**	11,339
Infrastructure debt	**504**	463
Unit trusts	**20**	31
	22,750	21,783
Growth assets		
Developed market equity	**159**	579
Emerging market equity	**7**	34
Emerging market debt	**35**	305
High yield debt	**68**	202
Unlisted property trusts	**1,093**	1,028
Alternatives	**737**	443
	2,099	2,591
Total investments	**24,849**	24,374

3.3 Fair value hierarchy

The Group's investment assets are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of their fair value.

	30 JUNE 2017				31 DECEMBER 2016			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Fixed income								
Short-term money	**846**	**3,290**	**–**	**4,136**	854	3,099	1	3,954
Government bonds	**4,934**	**1,682**	**1**	**6,617**	4,808	1,186	2	5,996
Corporate bonds	**–**	**11,471**	**2**	**11,473**	–	11,339	–	11,339
Infrastructure debt	**–**	**142**	**362**	**504**	–	170	293	463
Unit trusts	**–**	**20**	**–**	**20**	–	31	–	31
	5,780	**16,605**	**365**	**22,750**	5,662	15,825	296	21,783
Growth assets								
Developed market equity	**157**	**–**	**2**	**159**	560	–	19	579
Emerging market equity	**7**	**–**	**–**	**7**	–	34	–	34
Emerging market debt	**16**	**19**	**–**	**35**	–	305	–	305
High yield debt	**15**	**53**	**–**	**68**	–	202	–	202
Unlisted property trusts	**–**	**1,093**	**–**	**1,093**	–	1,028	–	1,028
Alternatives	**–**	**3**	**734**	**737**	–	186	257	443
	195	**1,168**	**736**	**2,099**	560	1,755	276	2,591
Total investments	**5,975**	**17,773**	**1,101**	**24,849**	6,222	17,580	572	24,374

The Group's approach to measuring the fair value of investment assets is described below:

Short-term money

Term deposits are valued at par plus accrued interest and are categorised as level 1 fair value measurements. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are categorised as level 1 fair value measurements. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using QBE's share of the net assets of the entity.

Emerging market equity, emerging market debt, high yield debt, unit trusts and unlisted property trusts

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Alternatives

Alternatives comprise fund of funds vehicles and may include investments in private equity, infrastructure equity and social impact investments. Fair value is based on the net asset value of the vehicle, and the responsibility for the valuation of the underlying securities lies with the external manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. A combination of observable market prices or comparable market prices (where available) and other valuation techniques may be used in the determination of fair value.

Movements in level 3 investments

The following table provides an analysis of investment assets valued with reference to level 3 inputs.

LEVEL 3	30 JUNE 2017 US$M	30 JUNE 2016 US$M
At 1 January	**572**	246
Purchases	**526**	338
Disposals	**(27)**	(12)
Fair value gains (losses) recognised in profit or loss	**7**	(2)
Foreign exchange	**23**	–
At 30 June	**1,101**	570

Notes to the financial statements CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2017

4. CAPITAL STRUCTURE

4.1 Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Bank loans			
21 December 2017	$10 million facility	**8**	10
		8	10
Senior debt			
1 May 2018	$600 million	**599**	599
21 October 2022	$300 million (2016 nil)	**299**	–
		898	599
Subordinated debt			
29 September 2040	A$200 million	**153**	144
24 May 2041	$167 million	**167**	167
24 May 2041	£27 million (2016 £34 million)	**35**	42
24 May 2042	£327 million	**384**	362
24 November 2043	$400 million	**400**	400
2 December 2044	$700 million	**696**	695
12 November 2045	$300 million	**300**	300
17 June 2046	$524 million	**457**	455
		2,592	2,565
Capital securities			
No fixed date	Nil (2016 $301 million)	**–**	300
		–	300
Total borrowings		**3,498**	3,474

Senior notes due 2022

On 21 April 2017, the company issued $300 million of senior notes maturing on 21 October 2022. The notes are unsecured and unsubordinated obligations of the company and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. The securities entitle holders to receive interest at a fixed rate of 3.0% per annum payable semi-annually in arrears. The notes were issued under the QBE Green Bond Framework, details of which can be found on QBE's website.

Subordinated debt due 2041

On 24 May 2011, the Group raised $1,000 million and £325 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 7.25% and 7.5% per annum respectively until 24 May 2021, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 4.05% and 4.0% per annum respectively. The rate will reset again, on the same basis, on 24 May 2031. The securities are redeemable at the option of QBE, with the written approval of APRA, on 24 May 2021, 24 May 2031, 24 May 2041 or in the event of:

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

During 2016, the Group repurchased or exchanged $833 million of the $1,000 million and £291 million of the £325 million.

During 2017, the Group repurchased a further £7 million of these securities for cash.

Capital securities

In 2007, a controlled entity issued $550 million of subordinated capital securities. Between 2008 and 2012, $249 million of capital securities were repurchased by the Group for cash at a discount, and were held on the balance sheets of Group entities as an investment asset. The assets and the corresponding liabilities were eliminated on consolidation in the Group's balance sheet and the interest income and expense was eliminated on consolidation in the profit or loss. On 1 June 2017, QBE repurchased the remaining capital securities and subsequently cancelled them in full.

4.1.1 Fair value of borrowings

The Group's borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently remeasured at amortised cost.

	30 JUNE 2017 US$M	31 DECEMBER 2016 US$M
Bank loans	**8**	10
Senior debt	**899**	601
Subordinated debt	**2,995**	2,833
Capital securities	**–**	304
Total fair value of borrowings	**3,902**	3,748

4.2 Derivatives

Forward foreign exchange contracts are used as a tool to manage the Group's operational foreign exchange exposure and interest rate swaps are used to hedge exposure to interest rate movements in relation to some of the Group's borrowings. QBE does not ordinarily use derivatives to mitigate currency risk on translation to the ultimate parent's functional currency of Australian dollars; however, in periods of extraordinary volatility that are expected to persist for an extended period of time, QBE may elect to utilise derivatives to mitigate currency translation risk in order to preserve capital. The volatility created by the UK referendum decision to leave the European Union (Brexit) is an example of such volatility and, since July 2016, the Group has elected to utilise derivatives in hedging its sterling net investment in foreign operations.

	30 JUNE 2017			31 DECEMBER 2016		
	NOTIONAL AMOUNT US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	NOTIONAL AMOUNT US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**3,918**	**212**	**213**	1,731	151	147
Interest rate swaps	**154**	**–**	**1**	144	–	–

Forward foreign exchange contracts and interest rate swaps are categorised as level 2 in the fair value hierarchy. They are fair valued using present value techniques utilising observable market data including foreign exchange rates, forward rates and yield curves.

4.3 Share capital

	30 JUNE 2017		30 JUNE 2016	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,370**	**8,350**	1,370	8,440
Shares issued under the Employee Share and Option Plan	**–**	**1**	–	1
Shares issued under the Bonus Share Plan	**1**	**–**	–	–
Foreign exchange	**–**	**552**	–	197
Issued ordinary shares, fully paid at 30 June	**1,371**	**8,903**	1,370	8,638
Shares notified to the Australian Securities Exchange	**1,372**	**8,909**	1,371	8,645
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	**(1)**	**(6)**	(1)	(7)
Issued ordinary shares, fully paid at 30 June	**1,371**	**8,903**	1,370	8,638

4.4 Dividends

	2016 FINAL	2016 INTERIM	2015 FINAL
Dividend per share (Australian cents)	33	21	30
Franking percentage	50%	50%	100%
Franked amount per share (Australian cents)	16.5	10.5	30.0
Dividend payout (A$M)	453	288	411
Payment date	13 April 2017	28 September 2016	14 April 2016

On 17 August 2017, the directors declared a 30% franked interim dividend of 22 Australian cents per share, payable on 29 September 2017. The interim dividend payout is A$302 million (2016 A$288 million). The record date is 25 August 2017.

The unfranked part of the dividend is declared to be conduit foreign income. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

4.5 Earnings per share

	30 JUNE 2017 US CENTS	30 JUNE 2016 US CENTS
Basic earnings per share	**25.1**	19.3
Diluted earnings per share	**25.0**	19.2

Earnings used in calculating diluted earnings per share is the net profit after income tax attributable to ordinary equity holders of the company being $345 million (2016 $265 million).

4.5.1 Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	30 JUNE 2017 NUMBER OF SHARES MILLIONS	30 JUNE 2016 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,371**	1,371
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(1)**	(1)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,370**	1,370
Weighted average number of dilutive potential ordinary shares relating to shares issued under the Plan	**9**	9
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,379**	1,379

5. GROUP STRUCTURE

5.1 Disposals

During the period, the Group disposed of QBE Chile Seguros Generales, Blue Ridge Indemnity Company and Southern Guaranty Insurance Company giving rise to a combined loss on sale of $3 million.

6. OTHER

6.1 Contingent liabilities

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability is considered probable and can be reliably estimated, a provision is recognised.

On 9 September 2015, QBE was served with a statement of claim alleging breaches of continuous disclosure and conduct obligations in relation to profit guidance issued for the year ended 31 December 2013. QBE rejects the allegations and is defending the claim.

On 1 October 2015, QBE sold its Mortgage & Lender Services business in the US. Whilst the purchaser assumed responsibility for all potential future litigation in relation to this business, the sale contract specifically excludes liabilities associated with class action litigation and regulatory examinations underway at the time of the sale. This business is subject to litigation and regulatory examinations in the normal course of business.

In the normal course of business, the Group is also exposed to contingent liabilities in relation to claims litigation and regulatory examinations arising out of its insurance and reinsurance activities. The Group may also be exposed to the possibility of contingent liabilities in relation to non-insurance litigation.

As permitted by AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, further information usually required in respect of the above matters is not disclosed if such disclosure may seriously prejudice the Group's position.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 42 to 57 are in accordance with the *Corporations Act 2001*, including:

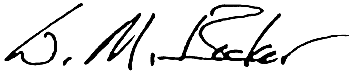
  (i) complying with accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the half year ended on that date; and

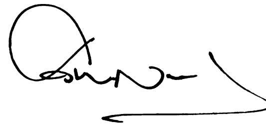
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer recommended under the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

Signed in SYDNEY on 17 August 2017 in accordance with a resolution of the directors.



WM Becker
Director



JD Neal
Director

Independent auditor's review report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED

Report on the Half Year Financial Report

We have reviewed the accompanying Half Year Financial Report of QBE Insurance Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for QBE Insurance Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half year.

Directors' responsibility for the Half Year Financial Report

The directors of the company are responsible for the preparation of the Half Year Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the Half Year Financial Report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Half Year Financial Report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half Year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

RJ Clark
Partner

SJ Hadfield
Partner

Sydney
17 August 2017

Liability limited by a scheme approved under Professional Standards Legislation

Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2017

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2017	2016	2015	2014	2013	2016	2015	2014	2013	2012
Gross written premium	US$M	**8,038**	8,107	8,692	8,491	9,446	14,395	15,092	16,332	17,975	18,434
Gross earned premium	US$M	**6,973**	6,876	7,293	7,819	8,413	14,276	14,922	16,521	17,889	18,341
Net earned premium	US$M	**6,043**	5,615	6,229	6,947	7,333	11,066	12,314	14,084	15,396	15,798
Claims ratio	%	**65.3**	64.8	59.8	63.1	59.4	58.2	60.4	63.2	64.5	66.0
Commission ratio	%	**17.0**	17.7	17.3	17.1	17.8	18.4	17.2	16.8	16.8	16.2
Expense ratio	%	**15.2**	16.5	18.2	16.3	15.6	17.4	17.3	16.1	16.5	14.9
Combined operating ratio	%	**97.5**	99.0	95.3	96.5	92.8	94.0	94.9	96.1	97.8	97.1
Investment income											
before fair value gains/losses	US$M	**282**	291	262	338	367	641	541	676	691	723
after fair value gains/losses	US$M	**457**	437	386	429	388	746	665	814	772	1,227
Insurance profit	US$M	**406**	326	536	530	790	1,075	1,031	1,074	841	1,262
Insurance profit to net earned premium	%	**6.7**	5.8	8.6	7.6	10.8	9.7	8.4	7.6	5.5	8.0
Financing and other costs	US$M	**165**	125	127	150	168	294	244	297	345	324
Operating profit (loss)											
before income tax	US$M	**422**	347	679	487	585	1,072	953	931	(448)	941
after income tax and non-controlling interest	US$M	**345**	265	488	392	477	844	687	742	(254)	761
Number of shares on issue [1]	millions	**1,371**	1,370	1,363	1,276	1,218	1,370	1,370	1,363	1,247	1,194
Shareholders' funds	US$M	**10,668**	10,325	10,949	11,228	11,163	10,284	10,505	11,030	10,356	11,358
Total assets	US$M	**45,993**	43,273	46,101	48,990	49,105	41,583	42,176	45,000	47,271	50,748
Net tangible assets per share [1]	US$	**5.09**	4.96	5.31	5.29	4.59	4.90	5.07	5.32	4.75	4.49
Borrowings to shareholders' funds	%	**32.8**	33.7	32.8	38.4	42.7	33.8	33.6	32.5	44.1	43.4
Basic earnings per share [1]	US cents	**25.1**	19.3	35.8	31.3	38.0	61.6	50.3	57.4	(22.8)	65.1
Basic earnings per share – cash basis [2]	US cents	**27.3**	20.9	34.5	33.2	49.3	65.5	65.3	63.5	62.9	89.1
Diluted earnings per share	US cents	**25.0**	19.2	35.5	30.5	35.8	60.8	49.8	55.8	(22.8)	61.6
Return on average shareholders' funds	%	**6.6**	5.1	8.9	7.3	8.5	8.1	6.4	6.9	(2.3)	7.0
Dividend per share	Australian cents	**22**	21	20	15	20	54	50	37	32	50
Dividend payout	A$M	**302**	288	274	192	244	741	685	492	394	593
Total investments and cash [3]	US$M	**25,665**	25,741	27,903	31,359	29,955	25,235	26,708	28,583	30,619	31,525

1 Reflects shares on an accounting basis.

2 Earnings per share on a cash basis is calculated with reference to cash profit, being profit after tax adjusted for amortisation and impairment of intangibles and other non-cash items net of tax.

3 Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties.

Designed and produced by ArmstrongQ

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