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15 August 2019

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 2019

The Directors of QBE Insurance Group Limited announce the financial results for the half year ended 30 June 2019.

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 2019.

Yours faithfully

Carolyn Scobie
Company Secretary

Attachments

QBE Insurance Group Limited
Appendix 4D – Half year report for the period to 30 June 2019

Results for announcement to the market

FOR THE HALF YEAR ENDED 30 JUNE	UP / DOWN	% CHANGE	2019 US$M	2018 US$M
Revenue from ordinary activities from continuing operations	down	2%	**7,231**	7,347
Profit from ordinary activities after income tax attributable to equity holders of the company from continuing operations	up	29%	**479**	370
Net profit for the period attributable to ordinary equity holders of the company from continuing operations	up	29%	**479**	370

Net profit after income tax for the half year ended 30 June 2019 was $463 million, up from a profit of $358 million for the prior period.

The Group's remaining operations in Latin America continue to be separately reported as a discontinued operation, details of which are provided in note 5.2.1 to the financial statements. Commentary below reflects the performance of our continuing operations.

The Group reported an underwriting loss of $24 million compared with a $260 million underwriting profit in the prior period, equating to a combined operating ratio of 100.4% compared with 95.4%. The current period result includes a material reduction in risk-free rates used to discount net outstanding claims liabilities ($231 million) and the impact of the Ogden decision in the UK ($62 million discounted), which added 4.1% and 1.1%, respectively, to the combined operating ratio. Excluding the impacts of changes in risk-free rates in both periods, the Ogden decision in the current period and the Hong Kong construction workers' compensation reinsurance transaction in the prior period, the combined operating ratio was 95.2% compared with 95.8% in the prior period.

Net investment and other income was $755 million compared with $287 million in the prior period. Fixed income returns benefited from significant mark-to-market gains from lower sovereign bond yields and narrower credit spreads while growth assets also significantly outperformed during the period.

The Group's effective tax rate was 16%, reflecting the mix of corporate rates in the jurisdictions in which QBE operates. The prior period effective tax rate of 7% was materially impacted by the recognition of previously unrecognised tax losses in the US tax group following structural change in Equator Re as a result of US tax reform.

DIVIDENDS	AMOUNT PER SECURITY (AUSTRALIAN CENTS)	FRANKED AMOUNT PER SECURITY (AUSTRALIAN CENTS)
Interim dividend	**25**	**15**

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 Friday 30 August 2019 and Thursday 12 September 2019 (both dates inclusive).

The record date for determining shareholder entitlements to the dividend is 23 August 2019.

The last date for receipt of election notices applicable to the Bonus Share Plan and the Dividend Reinvestment Plan will be 26 August 2019.

The interim dividend will be paid on 4 October 2019.

Additional disclosures

Additional Appendix 4D disclosure requirements can be found in the QBE Insurance Group Limited Half Year Report for the period to 30 June 2019 (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 51 of the Half Year Report.

Other information

During the period, QBE Insurance Group Limited held an interest in Pacific Re Limited (30.97%), Raheja QBE General Insurance Company (49%) and RiskGenius (11.6%). 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 2019

2019 HALF YEAR REPORT

QBE INSURANCE GROUP LIMITED

This is an interactive PDF designed to enhance your experience. The best way to view this report is with Adobe Acrobat Reader. Click on the links on the contents pages or use the home button in the footer to navigate the report.

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2019 half year snapshot[1]

Shareholder highlights

Dividend per share (A¢)

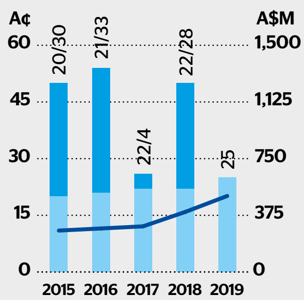
25¢

14% from HY18

Total shareholder payout (A$M)[2]

503

27% from HY18



- Dividend per share (A¢) final
- Dividend per share (A¢) interim
- Interim total shareholder payout (A$M)

Basic earnings per share (US¢)

34.9¢

HY18 **26.4¢**

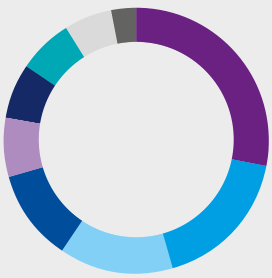
Financial highlights[3]

Adjusted combined operating ratio (COR)[4]

95.2%

HY18 **95.8%**

Gross written premium by class of business (%)



	HY19 %	HY18 %
Commercial & domestic property	28.3	27.8
Agriculture	17.3	16.7
Motor & motor casualty	14.0	14.7
Public/product liability	11.2	11.1
Marine energy & aviation	7.1	6.8
Professional indemnity	6.8	6.2
Workers' compensation	6.5	6.8
Accident & health	6.0	5.8
Financial & credit	2.8	3.2
Other	-	0.9

Net earned premium (US$M)

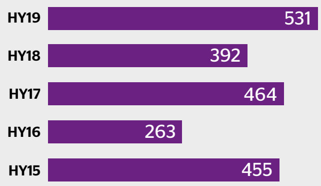
5,671

3% from HY18[5]

Adjusted net profit after income tax (US$M)

531

35% from HY18



Adjusted insurance profit (US$M)

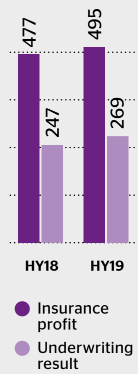
495

HY18 **477**

Adjusted underwriting result (US$M)[4]

269

HY18 **247**



Net earned premium by type

92% direct and facultative insurance

8% inward reinsurance

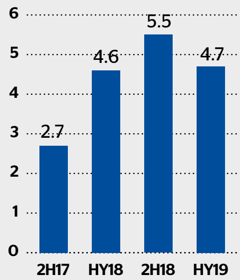
1 The information in the tables above is extracted or derived from the Group's half year financial statements on pages 30 to 49 of this Half Year Report. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against 2019 targets provided to the market.
2 Total shareholder payout for 2018 and 2019 includes shares purchased on market under the terms of QBE's share buyback facility.
3 Continuing operations basis (with the exception of HY15 and HY16).
4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
5 Constant currency basis.

Operational highlights

Group-wide average premium rate increases (%)[6]

4.7%

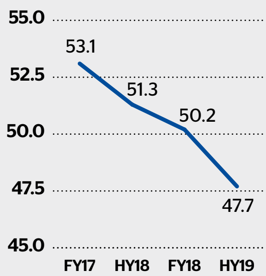
HY18 **4.6%**



Attritional claims ratio (%)[7]

47.7%

HY18 **51.3%**



Annualised net investment yield

6.8%

HY18 **2.1%**

Adjusted cash profit return on equity (RoE)[8]

13.4%

HY18 **9.6%**

Sustainability highlights

Focus on sustainability

Joined

RE 100

Targeting

100%

renewable energy by 2025

Women in senior management

33%

2018 **31%**

Gender diversity

53% **Female**

47% **Male**

Australian Workplace Equality Index (AWEI)

AWEI GOLD EMPLOYER 2019

We are proud to be recognised as Gold Tier Employer status in the AWEI for LGBTI inclusion.

Inclusive LGBTI workplace

Stonewall DIVERSITY CHAMPIONS

We are a member of the Stonewall Global Diversity champions programme fostering an inclusive LGBTI workplace. Stonewall provides tailored guidance to support us with our workplace equality goals and objectives.

6 Excludes premium rate changes relating to Australian compulsory third party motor (CTP).
7 Excludes Crop and LMI.
8 2019 cash profit RoE excludes material non-recurring items such as gains (losses) on disposals, the impact of the Ogden decision in the UK and restructuring costs. 2018 cash profit RoE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.

A stronger and simpler QBE

We began 2019 with a clear strategy to drive further performance improvements across the business and deliver greater shareholder value. We have made good progress through the first half, with premium rate increases averaging almost 5%[1], a further 3.6%[2,3] improvement in our attritional claims ratio, 3%[3,4] underlying gross written premium growth, an interim combined operating ratio comfortably within our full year target range and a double digit return on equity.

Overview

Our combined operating ratio of 95.2%[3,5,6] compares with 95.8%[3,5,7] in the prior period and is better than the midpoint of our full year target range.

The Group's attritional claims ratio continues to improve and is down nearly 7%[2,3] since peaking in the second half of 2017, with all three divisions continuing their positive trend over the period.

Improved pricing conditions resulted in an average Group-wide premium rate increase of 4.7%[1] during the half, while underlying gross written premium grew by 3%[3,4].

1 Excludes premium rate changes relating to CTP.
2 Excludes Crop and LMI.
3 Continuing operations basis.
4 Constant currency basis adjusted for LMI normalisation and the repositioning of corporate and excess & surplus lines in North America.
5 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
6 Excludes one-off impact of the Ogden decision in the UK.
7 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

The investment portfolio performed strongly during the period, delivering an annualised net return of 6.8% (including mark-to-market gains), up significantly from 2.1% in the prior period. The Group's fixed income portfolio delivered a return of 2.7% compared with 0.6% in the prior period while growth assets delivered a return of 7.6% compared with 4.5% in the prior period.

Our statutory net profit after tax of $463 million is up 29% from $358 million in the same period last year, while cash profit after tax of $520 million is up 35% on the prior period. Our cash profit return on equity was 13.4% [1], up from 9.6% [1] in the prior period.

Our dividend policy is designed to ensure we reward shareholders relative to cash profit while maintaining sufficient capital for future investment and growth in the business. Consistent with this framework, the Board has declared an interim dividend of 25 Australian cents per share, up 14% from the prior period. This reflects the Board's confidence in the strength of the balance sheet and equates to a payout of A$329 million or 45% of cash profit. When combined with A$174 million of QBE shares repurchased during the period, the payout for the first half of 2019 is A$503 million, up 27% on the A$397 million payout in the prior period.

Delivering the 2019 plan

A rigorous performance management focus, centred around the cell review process, is now embedded within the culture of QBE and is key to continually improving both the quality and consistency of our earnings. We believe that we can continue to evolve and improve the overall process, expanding discussions to include a sharper focus on expense management and capital allocation, while also sharing best practices across the Group.

At the same time, our new operating model has streamlined the business into three operating divisions: North America, International and Australia Pacific, to generate efficiencies across the Group as we work towards our three-year cost out target.

Pleasingly, over $20 million in underlying savings have been achieved year to date, as we consolidate technology tools, reduce IT run costs and re-engineer and automate processes, as well as reduce third party consulting and travel costs. Reduced travel has also contributed to a significant reduction in our overall operational greenhouse gas emissions.

Brilliant Basics

Our Brilliant Basics program will be a hallmark of QBE and, combined with the cell review process, will be a key driver of long-term performance improvement.

Across the business, Group Underwriting Standards, Group Pricing Standards and Group Claims Standards are being embedded, with oversight from the Group Chief Underwriting Office, Group Underwriting Committee and a newly established Global Claims Performance and Assurance Group.

Our teams are increasing the use of data science, particularly in relation to external unstructured data, drawing insights for pricing and targeted risk selection.

Through targeted de-risking we are reducing catastrophe exposures in both peak and non-peak zones, reducing commercial property hazard grade profiles and reducing line sizes in areas such as property and financial lines.

At the same time, we are improving the sophistication of QBE's technical pricing models.

Managing risk

Commencing 1 January 2019, we moved to a simpler, more sustainable and conventional reinsurance structure, which takes advantage of our stronger and more disciplined underwriting approach.

Combined with better risk selection and targeted de-risking activities, driven by Brilliant Basics, large individual risk claims reduced by 5% [2] relative to the prior period. Overall, the total net cost of large individual risk and catastrophe claims was broadly as anticipated.

We continue to build a stronger risk culture within QBE, with an enhanced risk framework and improved monitoring and evaluation tools, as well as a sharpened focus on environmental, social and governance (ESG) and emerging risks.

Dividend per share (A$)

25¢

14% from HY18

Dividend payout (A$M)

329

11% from HY18

Share buyback (A$M)

174

74% from HY18

Total shareholder payout (A$M) [3]

503

27% from HY18

1 2019 cash profit RoE excludes material non-recurring items such as gains (losses) on disposals, the impact of the Ogden decision in the UK and restructuring costs. 2018 cash profit RoE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.
2 On a like-for-like basis assuming the same Group reinsurance as 2018.
3 Total shareholder returns comprise cash dividends and shares purchased on market under the terms of QBE's share buyback facility.

Customer focus

Through the rollout of our global customer commitment program, and replication of best practice across the Group, we continue to look for ways to deliver better customer outcomes and improved claims experiences.

Across our operations, our teams are focused on identifying solutions for our customers' current and emerging needs, by strengthening their sector knowledge and industry expertise. We want to evolve our business and deepen relationships with both customers and partners.

Future focus

Technology plays an increasingly important role in our business and is integral to delivering better customer outcomes. We continue to execute against our technology strategy, including decommissioning legacy applications, strengthening our cyber security, building out capability in key areas and driving modernisation of our technology infrastructure including a focus on cloud.

Our artificial intelligence (AI) chatbot tool in our Australian business operates 24/7 and helps brokers with common inquiries, alleviating the need to wait until business hours to make contact with their relationship managers for simple requests and significantly improving the user experience.

Further improvements to this tool will be deployed later this year, along with the launch of our new claims Property Workbench. The Workbench will allow partners and customers to lodge and track claims through an online portal, providing a transparent end-to-end solution for quickly lodging a claim and getting suppliers engaged and assigned for repairs.

We are also leveraging our enhanced data and analytics capabilities to augment human decision-making and mitigate fraud and other inappropriate behaviour. We are taking advantage of insurtech partnerships, with Cytora helping to drive greater use of third-party data in our pricing models for example. Our partnership with HyperScience is driving greater use of automation to deliver efficiencies in our claims processes and improve customer experiences.

Talent and culture

We are focused on talent and culture within the organisation and continue to bring the QBE DNA to life, including through a new performance management system "Me@QBE". Me@QBE provides a simpler and more modern approach to performance management, focused on regular quality conversations and feedback. Through ME@QBE, our people align their personal goals with QBE's strategic priorities, providing a stronger connection between individual performance and the success of the business. ME@QBE also incorporates feedback on how individual performance aligns with our QBE DNA behaviours.

I am also pleased with the progress towards our Group-wide target of 35% of women in leadership by 2020. At 30 June 2019, we reached 33% women in leadership, up from 31 December 2018.

Operating sustainably

During the half we made further progress towards our sustainability commitments, as we seek to have a positive impact on key economic, social and environmental issues.

In March 2019, we published our Group Energy Policy, to provide shareholders, customers and the wider community with a clear explanation of the Group's approach to investing in and underwriting energy projects, now and into the future. Due to the high emissions intensity of thermal coal, QBE will maintain zero direct financial investment in thermal coal from 1 July 2019, and will phase out all direct insurance services for thermal coal customers by 1 January 2030.

In June 2019, we marked World Environment Day, by joining the RE100 initiative and committing to source 100 per cent renewable electricity across our global operations by the end of 2025. RE100 brings together more than 170 of the world's most influential businesses and QBE was the first Australian headquartered insurance business to join this initiative.

These are important commitments that align with our support for the objectives of the Paris Agreement and our commitment to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Looking ahead

With a strong first half now behind us, good pricing momentum and our full year targets unchanged, we will continue to build on the good progress we have made against our priorities in the second half of 2019.

Through the remainder of 2019, we will maintain the performance management rigour of the cell reviews and continue to execute on our Brilliant Basics program while further sharpening our focus on our core strategic pillars – performance, customer focus, talent and culture and innovation and technology.

While staying true to our purpose of giving people the confidence to achieve their ambitions, we will further evolve our strategy as we build the QBE of the future.

Pat Regan
Group Chief Executive Officer

2019 priorities

DRIVING PERFORMANCE

Deliver the 2019 plan

Continue to drive a rigorous performance management focus through cell reviews and deliver our 2019 target combined operating ratio. Reduce operational costs by $130 million (net) over a three-year period.

Talent and culture

Bring our QBE DNA to life, which is essential to our ability to deliver for our people, customers, communities and our shareholders. Reward and celebrate our people and create an environment that supports diversity, inclusiveness and flexibility.

Brilliant Basics

Drive the next phase of the Brilliant Basics agenda, building on our early successes in upgrading our capabilities in the core areas of underwriting, pricing and claims. Further enhance our underwriting governance and pricing capability through the newly established Group Chief Underwriting Office.

Customer focus

Bring our new customer commitment program to life, delivering a consistent level of outstanding service to our customers and partners. Through technical expertise and know-how, we will provide solutions for our customers' current and emerging needs.

Future focus

Build a successful QBE for the future and a strong platform for sustainable and targeted growth. Leverage our enhanced data and analytics capabilities, technology roadmap and leading Insurtech partnerships. Continue our focus on reducing complexity, increasing automation and simplifying processes.

Managing risk

Build a stronger and more resilient QBE by continuing to invest in managing our risks in an increasingly dynamic environment.

Operating sustainably

Continue our focus on sustainability and making positive contributions where we operate by working with our customers, partners and communities to address key economic, social and environmental issues.

Operating and financial review

QBE delivered a strong 2019 interim result with the combined operating ratio improving to 95.2%[1,2,3] from 95.8%[1,2,4] in the prior period. A further significant improvement in the attritional claims ratio was partly offset by the anticipated increase in the net cost of large individual risk and catastrophe claims following the restructuring of the Group's reinsurance program. Strong rate momentum coupled with encouraging progress on Brilliant Basics and operational efficiency bodes well for further sustainable margin expansion.

Overview

I am pleased with the continued improvement in the quality and resilience of our earnings profile as well as the successful execution of our portfolio rationalisation and simplification initiatives.

The strong improvement in the Group's attritional claims ratio demonstrates the success of the cell review performance management discipline and the Brilliant Basics program.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Continuing operations basis.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Cell reviews provide a direct link and alignment between our commercial activity and our financial returns, and enable us to hold each cell accountable for delivering an appropriate return on capital. Remediation work over the last 18 months has dramatically improved the results of cells delivering sub-optimal returns and we believe there is further opportunity to optimise our return on capital.

The Brilliant Basics program continues to improve our underwriting governance, risk selection, pricing tools and claims efficiency. This activity is translating into better underlying profitability and reduced earnings volatility. We now have tightly defined risk appetites in place, a clear line of sight on the business we are underwriting and better science supporting expected risk-adjusted returns.

We have made a pleasing start to the implementation of the operational efficiency initiatives we announced to the market in December 2018; these initiatives will complement continuing work on the underwriting account to support further sustainable margin expansion.

Portfolio rationalisation and simplification

During 2018, we announced numerous asset sales and/or portfolio exits that will materially reduce complexity and simplify QBE. Transactions announced last year that completed during the current period include:

- On 1 February 2019, we completed the sale of our Colombian operations. Annual gross written premium was around $58 million with the results of this business reported in discontinued operations.
- On 2 May 2019, we completed the sale of our Indonesian operations. Annual gross written premium was around $22 million.
- On 13 May 2019, we completed the sale of our Australian and New Zealand travel insurance business. Annual gross written premium was around $55 million.
- On 31 May 2019, we completed the sale of our insurance business in the Philippines. Annual gross written premium was around $21 million.

We finalised the sale of our operations in Puerto Rico on 6 August 2019. Annual gross written premium was around $53 million.

Policy conversion as a result of the disposal of renewal rights in relation to our North American personal lines business continues (annual gross written premium of around $230 million), while Farmers Union Insurance sale (annual gross written premium of around $184 million) closed on 1 August 2019.

In addition to embedding the cell review process and the Brilliant Basics program, simplification of our operations has been critical to improving the quality and consistency of our underwriting profits and I am pleased we have successfully completed all announced asset sales.

Divisional reporting and consolidation

As announced on 31 October 2018, to further simplify our operations and build a more streamlined, agile and customer-oriented business, effective 1 January 2019 QBE's operations comprise three divisions:

International – includes European Operations and Asia (Hong Kong, Singapore, Malaysia and Vietnam).

Australia Pacific – includes Australia, New Zealand and the Pacific.

North America – continues as is.

This restructure will contribute to the Group's efficiency agenda with much of the administration and governance of the former standalone Asia Pacific Operations absorbed by the larger and better resourced International and Australia Pacific divisions.

Consistent with the divisional redefinition, we have also simplified the way we communicate our segmental results to the market. Equator Re is no longer separately reported; the captive's results have instead been folded back into the relevant divisional results to provide a more holistic view of performance in each of the operating segments – North America, International and Australia Pacific.

Operational efficiency program

During the half we commenced a three-year operational efficiency program targeting more than $200 million of gross cost savings by 2021, translating into net savings of $130 million over the same time horizon after allowing for underlying inflation and further investment in the Brilliant Basics program, technology and digitisation.

From our 2018 cost base of $1.8 billion [1,2] and an expense ratio of 15.2% [1,2], we are targeting an expense ratio of less than 14% by 2021.

Although only six months into a three-year schedule of work, the efficiency program is progressing as planned. Meaningful progress has been achieved in a number of areas including completing 15% of our technology application rationalisation program, sale of our retail personal lines business in North America and simplifying the organisational structure in Australia and New Zealand. We have also achieved a meaningful reduction in third party consulting and travel costs.

As a result of these initiatives, we have achieved more than $20 million of underlying cost savings which contributed to a 0.2% improvement in our expense ratio during the half, and we remain on-track to achieve net cost savings of around $40 million in 2019.

To support the program and as previously foreshadowed, we incurred a $15 million restructuring charge that was not reported as part of the Group's underwriting results. Further restructuring charges of up to $80 million are anticipated as the program builds momentum.

2019 interim result

With respect to the 2019 interim result, I would like to discuss three broad areas:

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

1. Financial performance

QBE reported a net profit after tax of $463 million, up 29% from $358 million in the same period last year. Cash profit after tax was up 35% to $520 million from $385 million in the prior period.

Excluding gains (losses) on disposals, the impact of the Ogden decision and restructuring costs, the adjusted cash profit was $565 million which equates to a return on equity of 13.4%.

The Group's combined operating ratio improved to 95.2% [1,3,4] from 95.8% [1,2,3] in the prior period.

Despite normalisation in lenders' mortgage insurance (LMI) and a weather-impacted Crop result, the attritional claims ratio improved by 2.4% as a result of firming pricing conditions coupled with ongoing benefits from cell reviews and the Brilliant Basics program. The improved attritional claims ratio was partly offset by the anticipated increase in the net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program.

Gross written premium increased by 1% [1,5] with premium rate increases partly offset by disposals, contraction in LMI and portfolio repositioning in North America.

Net earned premium grew 3% [1,5] reflecting gross written premium growth coupled with reinsurance cost savings following the restructure of the Group's reinsurance program.

Gross written premium (US$M)

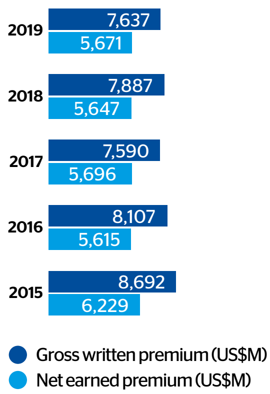
7,637

1% from HY18 [1,5]

Net earned premium (US$M)

5,671

3% from HY18 [1,5]



1 Continuing operations basis.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
3 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
4 Excludes one-off impact of the Ogden decision in the UK.
5 Constant currency basis.

Looking briefly at divisional performance, the key themes to emerge from the 2019 interim result are set out below.

Improved current accident year performance in North America despite a more challenging period for Crop

North America reported an improved current accident year combined operating ratio of 98.8% [1] compared with 99.6% [1] in the prior period. This was despite Crop insurance being booked at a current accident year combined operating ratio of 97.7% compared with 92.6% in the prior period to reflect the elevated risk of claims resulting from challenging planting conditions following a particularly wet spring.

The combined operating ratio benefited from a 0.8% improvement in the attritional claims ratio (3.0% excluding Crop) reflecting portfolio repositioning coupled with the gradually improving pricing environment. Strict cost control coupled with modest net earned premium growth resulted in an improved expense ratio which fell to 13.8% from 15.3% in the prior period.

Premium rate momentum accelerated during the half with North America achieving an average premium rate increase of 4.1% compared with 3.1% in the prior period.

International's improved current accident year profitability underpinned by a lower attritional claims ratio and improved efficiency

International recorded a strong result with the combined operating ratio improving to 94.3% [1,2] from 96.8% [1,3] in the prior period due to a 2.9% improvement in the attritional claims ratio coupled with a 1.3% reduction in the total acquisition cost ratio, which more than offset an increase in the net cost of large individual risk and catastrophe claims.

Primary market pricing momentum is building with an average renewal premium rate increase of 5.0% achieved in European Operations' insurance business, up from 4.4% in the prior period. Reflecting the improved pricing environment and emerging new business opportunities, gross written premium grew 4% on a constant currency basis, including 5% growth in European Operations.

Given significant uncertainty surrounding Brexit, it is pleasing to report that our fully operational and well-capitalised Belgian-licensed insurance and reinsurance company continues to successfully renew business in continental Europe.

Strong result in Australia Pacific despite adverse catastrophe experience and further LMI normalisation

Despite adverse catastrophe experience and further moderation in LMI earnings, Australia Pacific delivered another very strong result reporting a combined operating ratio of 90.5% [1], up slightly from 89.0% [1] in the prior period. The result included a 2.9% improvement in the attritional claims ratio (3.5% excluding LMI) which was more than offset by higher catastrophe costs which increased the combined operating ratio by 4.3% relative to the prior period. Pleasingly, the net cost of large individual risk claims continues to decline reflecting improved pricing and risk selection initiatives stemming from the Brilliant Basics program.

Pricing momentum remains strong with premium rate increases averaging 6.8% [4] in the half compared with 6.4% [4] in the prior period.

The combined operating ratio of our LMI business increased to 58.5% from 50.6% in the prior period, primarily due to the impact of significant premium contraction on both the net claims and expense ratios. Although lending practices continue to improve and arrears rates and new delinquencies fell during the half, claims costs increased due to lower cure rates, fewer nil claims and some adverse large claims experience emanating from the unwind of the mining boom which drove up average claims sizes in regional Queensland and Western Australia.

2. Investment performance and strategy

Our investment portfolio delivered an annualised net return of 6.8% in the first half of 2019, up significantly from 2.1% in the prior period, with most asset classes delivering better than expected returns following especially volatile markets in the final quarter of 2018.

Fixed income assets generated a 2.7% return compared with 0.6% in the prior period. Returns benefited from significant mark-to-market gains from lower sovereign bond yields and narrower global credit spreads. Active duration management enhanced fixed income returns as we extended duration, thereby generating substantial mark-to-market gains as risk-free rates fell in conjunction with central banks signalling rate cuts during the second quarter of 2019.

Growth asset returns also significantly outperformed the prior half, increasing to 7.6% from 4.5% in the prior period. Significant mark-to-market gains were generated by our growth assets which finished the half at 13.5% of the portfolio, up from 11.8% at 30 June 2018 but broadly in line with 13.7% at 31 December 2018.

As at 30 June 2019, the running yield of the fixed income portfolio was 1.6%, down from 2.2% at 31 December 2018, reflecting the significant bond market rally and spread narrowing experienced during the half. During 2019, we intend to manage fixed income duration in a 2.0–2.5 year range and growth assets at around 15% of total cash and investments which, together with a strong start to the year, supports our unchanged 2019 net investment return target range of 3.0%–3.5% [5].

3. Financial strength and capital management

Our capital position remains strong when measured against both regulatory and rating agency capital requirements. The Group's indicative APRA PCA multiple was 1.75x at 30 June 2019 and remains towards the upper end of the Group's 1.6–1.8x target PCA range while the Group retains an excess above Standard & Poor's (S&P) 'AA' minimum capital levels.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
4 Excludes premium rate changes relating to CTP.
5 Assumes risk-free rates as at 31 December 2018.

The slight reduction in the Group's PCA multiple was primarily due to a higher insurance risk charge reflecting the impact of lower risk-free rates, a higher asset risk charge as a result of extended fixed interest duration and an increased exposure to growth assets. Regulatory capital increased modestly during the period with the $520 million interim cash profit largely offset by the 2018 final dividend of $266 million and the A$174 million share buyback undertaken during the half.

As announced in February 2017, QBE established a three-year cumulative on-market share buyback facility of up to A$1 billion, with a target of acquiring not more than A$333 million in any one calendar year. During the first half of 2019, QBE purchased A$174 million of QBE shares resulting in the cancellation of 14.4 million shares or 1.1% of issued capital. Since commencement of the buyback, QBE has purchased A$646 million of QBE shares resulting in the cancellation of 58.6 million shares or 4.3% of issued capital.

At 30 June 2019, QBE's debt to equity ratio was 36.8%, down from 38.0% at 31 December 2018 and slightly above the benchmark range of 25%–35%, primarily reflecting retained profits coupled with the senior debt repurchased during the period; these were partly offset by the share buyback and the adoption of AASB 9.

The probability of adequacy (PoA) of outstanding claims was stable at 90.1%, the mid-point of our targeted PoA range of 87.5%–92.5%.

Operating and financial performance

Summary income statement

	STATUTORY RESULT		ADJUSTMENTS		ADJUSTED RESULT	
FOR THE HALF YEAR ENDED 30 JUNE	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019[1] US$M	2018[2] US$M
Gross written premium	**7,637**	7,887	**–**	–	**7,637**	7,887
Gross earned premium	**6,458**	6,697	**–**	–	**6,458**	6,697
Net earned premium	**5,671**	5,647	**–**	190	**5,671**	5,837
Net claims expense	**(3,944)**	(3,564)	**62**	(166)	**(3,882)**	(3,730)
Net commission	**(912)**	(947)	**–**	1	**(912)**	(946)
Underwriting and other expenses	**(839)**	(876)	**–**	2	**(839)**	(874)
Underwriting result	**(24)**	260	**62**	27	**38**	287
Net investment income on policyholders' funds	**457**	190	**–**	–	**457**	190
Insurance profit	**433**	450	**62**	27	**495**	477
Net investment income on shareholders' funds	**298**	97	**–**	–	**298**	97
Financing and other costs	**(129)**	(135)	**–**	–	**(129)**	(135)
Gains on sale of entities and businesses	**16**	2	**–**	–	**16**	2
Share of net losses of associates	**(1)**	–	**–**	–	**(1)**	–
Restructuring costs	**(15)**	–	**–**	–	**(15)**	–
Amortisation and impairment of intangibles	**(32)**	(20)	**–**	–	**(32)**	(20)
Profit before income tax from continuing operations	**570**	394	**62**	27	**632**	421
Income tax expense	**(92)**	(29)	**(10)**	(5)	**(102)**	(34)
Profit after income tax from continuing operations	**478**	365	**52**	22	**530**	387
Loss after income tax from discontinued operations	**(16)**	(12)	**–**	–	**(16)**	(12)
Non-controlling interests	**1**	5	**–**	–	**1**	5
Net profit after income tax	**463**	358	**52**	22	**515**	380

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Overview of the 2019 interim result

The Group reported a 2019 statutory net profit after tax of $463 million compared with $358 million in the prior period, with the material improvement primarily due to significantly stronger investment returns. Continuing operations reported a statutory net profit after tax of $479 million compared with $370 million in the prior period while discontinued operations reported a statutory net loss after tax of $16 million in 2019 compared with a $12 million loss in the prior period, primarily as a result of a $12 million non-cash foreign currency translation reserve reclassification.

The Group's effective tax rate was 16%, materially up from 7% in the prior period. The low effective tax rate in the prior period reflects the one-time recognition of additional deferred tax assets following a structural change in operations for Equator Re.

Excluding amortisation of intangibles and other non-cash items, statutory cash profit after tax for the half was $520 million, up 35% from $385 million in the prior period.

Cash profit return on equity was 13.4%[1], up from 9.6%[1] in the prior period.

1 2019 cash profit RoE excludes material non-recurring items such as gains (losses) on disposals, the impact of the Ogden decision in the UK and restructuring costs. 2018 cash profit RoE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.

The preceding table shows the statutory result excluding items which materially distort key performance indicators.

The 2019 adjusted result in the preceding table excludes a $62 million increase in the Group's net central estimate of outstanding claims reflecting the reduction in statutory discount rates applicable to UK personal injury liabilities (the Ogden decision) with an associated $10 million tax impact.

The 2018 adjusted result excludes the one-off transaction to reinsure Hong Kong construction workers' compensation liabilities which reduced net earned premium by $190 million and net claims expense by $166 million, whilst adversely impacting commission and underwriting expenses by $1 million and $2 million respectively. The transaction impacts half-on-half comparison of net earned premium and underwriting ratios, depressing the net claims ratio and inflating the combined commission and expense ratio.

The underwriting results in the preceding table are presented on a continuing operations basis with the results of our Latin America Operations presented separately as discontinued operations for both the current and prior period.

Further details of the Group's disposal activities and discontinued operations are set out in notes 5.1 and 5.2 to the financial statements.

Unless otherwise stated, the commentary following refers to the Group's result on the adjusted basis described above.

On a constant currency basis, gross written premium increased by 1% reflecting premium rate driven growth largely offset by divestments, further LMI contraction and portfolio repositioning, particularly in North America. On the same basis, net earned premium increased by 3% relative to the prior period assisted by reduced reinsurance costs.

The combined operating ratio improved to 95.2% [1] from 95.8% [1] in the prior period, primarily reflecting a further strong improvement in the attritional claims ratio largely offset by reduced profitability in Crop and LMI coupled with an expected increase in the net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program.

The annualised net return on investments backing policyholders' funds increased to 6.7% from 2.1% in the prior period. Fixed income returns were especially strong reflecting mark-to-market gains on sovereign and corporate bonds driven by significantly lower global risk-free rates and a narrowing of credit spreads. Growth asset returns were also extremely strong supported by lower global risk-free rates.

The Group reported an insurance profit of $495 million, up from $477 million in the prior period, reflecting marginally improved underwriting profitability. The insurance profit margin increased to 8.7% from 8.2% in the prior period.

Consistent with the increase in investment income on policyholders' funds, investment income on shareholders' funds was also higher at $298 million compared with $97 million in 2018.

Financing and other costs reduced slightly to $129 million from $135 million in the prior period despite the first-time inclusion of lease liability interest charges associated with implementation of AASB 16.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Reconciliation of cash profit [1]

FOR THE HALF YEAR ENDED 30 JUNE	2019 US$M	2018 US$M
Net profit after tax	**463**	358
Amortisation and impairment of intangibles after tax [2]	**38**	27
Reclassification of foreign currency translation reserve after tax [3]	**19**	–
Net cash profit after tax	**520**	385
Return on average shareholders' funds – cash basis (%) [4]	**13.4**	9.6
Basic earnings per share – cash basis (US cents)	**39.2**	28.5
Dividend payout ratio (percentage of cash profit) [5]	**45%**	59%

1 Cash profit is presented on a statutory basis.
2 $21 million of pre-tax amortisation expense is included in underwriting expenses (2018 $16 million).
3 The sale of operations in Colombia, Indonesia and Philippines gave rise to a foreign currency translation reserve (FCTR) reclassification charge (out of equity into profit or loss). This is a non-cash item and does not impact shareholders' funds or QBE's regulatory or rating agency capital base. Refer Note 5.1 for further details.
4 2019 cash profit RoE excludes material non-recurring items such as gains (losses) on disposals, the impact of the Ogden decision in the UK and restructuring costs. 2018 cash profit RoE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.
5 Dividend payout ratio is calculated as the total AUD dividend divided by cash profit converted to AUD at the period average rate of exchange.

Foreign exchange rates

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

FOR THE HALF YEAR ENDED 30 JUNE	2019		2018	
	SPOT	AVERAGE	SPOT	AVERAGE
AUD	**0.702**	**0.706**	0.735	0.771
GBP	**1.270**	**1.294**	1.308	1.375
EUR	**1.137**	**1.129**	1.157	1.210

Premium income

Gross written premium fell 3% to $7,637 million from $7,887 million in the prior period.

On an average basis and compared with the first half of 2018, the Australian dollar, sterling and euro depreciated against the US dollar by 8%, 6% and 7% respectively. Currency movements adversely impacted gross written premium by $302 million relative to the prior period.

Gross written premium increased 1% on a constant currency basis. This reflects premium rate driven growth in International (despite remediation led contraction in Asia) and Australia Pacific, partly offset by the impact of divestments. Excluding divestments, contraction in LMI and the impact of repositioning North American corporate, underlying growth was 3% on a constant currency basis.

The Group achieved an average premium rate increase of 4.7%[1] compared with 4.6%[1] in the first half of 2018. Strong rate momentum and improved pricing conditions in North America and Australia Pacific were partly offset by reduced headline premium rate increases in International largely due to the non-recurrence of substantial Ogden related reinsurance price increases in the prior period.

North America reported a 3% reduction in gross written premium. An average premium rate increase of 4.1% compared with 3.1% in the prior period was more than offset by the divestment of the personal lines (independent agents) business and premium contraction due to some repositioning of the corporate and excess & surplus lines portfolios. Adjusting for disposals and business intentionally lapsed as we pursue margin over volume, underlying growth was around 3%.

Although broadly stable on a headline basis, International gross written premium was up 4% on a constant currency basis, reflecting underlying growth coupled with an average premium rate increase of 3.8% compared with 4.5% in the prior period. European Operations' insurance business achieved an average premium rate increase of 5.0% compared with 4.4% in the prior period while Asia achieved an average premium rate increase of 2.2% compared with 0.5% in the prior period. Notable growth was achieved in Continental European insurance, London Market business, UK regional and reinsurance. Gross written premium in Asia contracted by 6% on a constant currency basis reflecting disposals coupled with further remediation initiatives that are now largely complete.

Australia Pacific reported a 2% increase in gross written premium on a constant currency basis. An average premium rate increase of 6.8%[1] compared with 6.4%[1] in the prior period was partly offset by the sale of the travel insurance business and a further contraction in LMI premium due to the slowdown in home lending. Adjusting for the disposal of the travel insurance business and contraction in LMI, underlying premium growth was around 3%.

Net earned premium fell 3% to $5,671 million from $5,837 million in the prior period but was up 3% on a constant currency basis reflecting reduced reinsurance costs following the restructure of the Group's reinsurance program effective 1 January 2019.

1 Excludes premium rate changes relating to CTP.

Underwriting performance

Key ratios – Group

FOR THE HALF YEAR ENDED 30 JUNE	2019 STATUTORY %	2019 ADJUSTED[1] %	2018 STATUTORY %	2018 ADJUSTED[2] %
Net claims ratio	**69.5**	**68.4**	63.1	63.9
Net commission ratio	**16.1**	**16.1**	16.8	16.2
Expense ratio	**14.8**	**14.8**	15.5	15.0
Combined operating ratio	**100.4**	**99.3**	95.4	95.1
Adjusted combined operating ratio[3]	**96.3**	**95.2**	96.1	95.8
Insurance profit margin	**7.6**	**8.7**	8.0	8.2

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
3 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Divisional performance

Contributions by region

FOR THE HALF YEAR ENDED 30 JUNE	GROSS WRITTEN PREMIUM 2019 US$M	GROSS WRITTEN PREMIUM 2018 US$M	NET EARNED PREMIUM 2019 US$M	NET EARNED PREMIUM 2018 US$M	COMBINED OPERATING RATIO 2019 %	COMBINED OPERATING RATIO 2018 %	INSURANCE PROFIT BEFORE INCOME TAX 2019 US$M	INSURANCE PROFIT BEFORE INCOME TAX 2018 US$M
North America	**2,804**	2,896	**1,849**	1,753	**99.9**[1]	99.0[1]	**19**	103
International[2,3]	**2,880**	2,896	**2,019**	2,098	**94.3**[1]	96.8[1]	**231**	132
Australia Pacific	**1,960**	2,106	**1,797**	1,926	**90.5**[1]	89.0[1]	**244**	286
Corporate adjustments	**(7)**	(11)	**6**	60	**–**	–	**1**	(44)
Group adjusted	**7,637**	7,887	**5,671**	5,837	**95.2**[1]	95.8[1]	**495**	477
Risk-free rate impact	**–**	–	**–**	–	**4.1**	(0.7)	**–**	–
Ogden adjustment	**–**	–	**–**	–	**1.1**	–	**(62)**	–
Reinsurance transaction	**–**	–	**–**	(190)	**–**	0.3	**–**	(27)
Group statutory	**7,637**	7,887	**5,671**	5,647	**100.4**	95.4	**433**	450
Direct and facultative	**6,711**	7,079	**5,209**	5,250	**100.6**	95.7	**390**	403
Inward reinsurance	**926**	808	**462**	397	**98.7**	91.4	**43**	47
Group statutory	**7,637**	7,887	**5,671**	5,647	**100.4**	95.4	**433**	450

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK in 2019.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities in 2018.

Incurred claims

The Group's net claims ratio increased to 68.4% from 63.9% in the prior year, reflecting a material reduction in risk-free rates used to discount net outstanding claims liabilities. A further strong improvement in the attritional claims ratio was partly offset by an increased net cost of large individual risk and catastrophe claims (following the restructure of the Group's reinsurance program) coupled with reduced profitability in Crop and LMI.

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

FOR THE HALF YEAR ENDED 30 JUNE	2019		2018	
	STATUTORY %	ADJUSTED[1] %	STATUTORY %	ADJUSTED[2] %
Attritional claims	**50.7**	**50.7**	54.9	53.1
Large individual risk and catastrophe claims	**11.4**	**11.4**	10.0	9.7
Impact of reinsurance transaction	**–**	**–**	(0.4)	–
Claims settlement costs	**3.4**	**3.4**	3.4	3.4
Claims discount	**(0.7)**	**(0.7)**	(1.6)	(1.6)
Net incurred central estimate claims ratio (current accident year)	**64.8**	**64.8**	66.3	64.6
Changes in undiscounted prior accident year central estimate	**(2.0)**	**(2.0)**	(0.9)	(0.9)
Impact of reinsurance transaction	**–**	**–**	(2.5)	–
Impact of Ogden	**1.1**	**–**	–	–
Changes in discount rates	**4.1**	**4.1**	(0.7)	(0.7)
Movement in risk margins	**0.6**	**0.6**	0.1	0.2
Other (including unwind of prior year discount)	**0.9**	**0.9**	0.8	0.7
Net incurred claims ratio (current financial year)	**69.5**	**68.4**	63.1	63.9

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

As set out in the table below, excluding Crop insurance and LMI, the attritional claims ratio reduced to 47.7% from 51.3% in the prior period, reflecting significant improvement across all divisions.

Excluding Crop insurance, North America's attritional claims ratio improved 3.0% relative to the prior period reflecting underwriting and pricing initiatives including the sale of the personal lines (independent agency) business with notable improvement in specialty programs, professional lines and financial institutions.

International's attritional claims ratio improved 2.9% relative to the prior period reflecting favourable pricing conditions coupled with significantly reduced reinsurance expense and business mix changes.

Excluding LMI, Australia Pacific's attritional claims ratio fell by 3.5% with improvement observed across most of the portfolio but especially in strata, commercial motor, CTP, workers' compensation and New Zealand.

Analysis of attritional claims ratio

FOR THE HALF YEAR ENDED 30 JUNE	2019		2018	
	NEP US$M	ATTRITIONAL %	NEP US$M	ATTRITIONAL %
Rest of portfolio	**5,160**	**47.7**	5,378	51.3
Crop insurance	**428**	**89.5**	354	87.0
LMI	**83**	**32.5**	105	28.6
QBE Group adjusted	**5,671**	**50.7**	5,837	53.1

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	2019		2018	
	US$M	% OF NEP	US$M	% OF NEP
Total catastrophe claims	**180**	**3.2**	110	1.9
Total large individual risk claims	**468**	**8.2**	455	7.8
Total large individual risk and catastrophe claims	**648**	**11.4**	565	9.7

The increase in the total net cost of large individual risk and catastrophe claims was broadly in line with expectations following changes to the Group's reinsurance effective 1 January 2019.

The net cost of catastrophe claims increased to $180 million or 3.2% of net earned premium compared with $110 million or 1.9% in the prior period. This was slightly below our allowance for the first half with adverse catastrophe experience in Australia Pacific more than offset by benign experience in International.

The net cost of large individual risk claims increased to $468 million or 8.2% of net earned premium from $455 million or 7.8% in the prior period. While we continue to see an underlying improvement in large individual risk claim frequency and severity, the net cost was slightly above our allowance for the first half with reduced large individual risk claim activity in Australia Pacific more than offset by higher than expected activity in International and, to a lesser degree, North America.

Weighted average risk-free rates

As summarised in the table below, the currency weighted average risk-free rate used to discount net outstanding claims liabilities decreased to 1.10% at 30 June 2019 from 1.66% at 31 December 2018. Risk-free rates fell appreciably across all currencies, particularly Australian dollar and euro.

Weighted average risk-free rates

CURRENCY		30 JUNE 2019[1]	31 DECEMBER 2018[1]	30 JUNE 2018[1]	31 DECEMBER 2017[1]
Australian dollar	%	**1.14**	2.06	2.29	2.31
US dollar	%	**2.09**	2.74	2.80	2.36
Sterling	%	**0.80**	1.08	1.10	0.92
Euro	%	**(0.22)**	0.23	0.30	0.42
Group weighted	%	**1.10**	1.66	1.77	1.50
Estimated impact of discount rate (charge) benefit	$M	**(231)**	13	40	68

1 Continuing operations basis.

The significant reduction in risk-free rates gave rise to an underwriting charge of $231 million that increased the net claims ratio by 4.1% compared with a $40 million benefit in the prior period that reduced the net claims ratio by 0.7%. Given the longer duration of our euro denominated net claims liabilities, the fall in euro risk-free rates during the period contributed disproportionately to the overall impact of lower weighted average risk-free rates on the Group's underwriting result.

Prior accident year claims development

The result included $112 million of positive prior accident year claims development that benefited the claims ratio by 2.0% compared with $51 million or 0.9% of favourable development in the prior period.

Excluding $32 million of positive prior accident year claims development pertaining to North American Crop insurance that is matched by additional premium cessions under the MPCI scheme (resulting in a nil profit impact) and a $33 million benefit in International due to the impact of adjusting the UK periodic payment order rate that is matched by a reduced discount benefit (also resulting in a nil profit impact), prior accident year claims development is better stated at $47 million or 0.8% of net earned premium compared with $40 million or 0.7% in the prior period:

- North America recorded $21 million of adverse development compared with $10 million of favourable development in the prior period, reflecting a reduced level of favourable development in Crop (that was not matched by additional premium cessions under the MPCI scheme) coupled with modest adverse development in commercial corporate, specialty programs, personal affiliated and excess & surplus (E&S) lines while adverse development with respect to Hurricane Irma impacted property programs;
- International recorded $28 million of adverse development compared with $33 million of adverse development in the prior period, primarily reflecting adverse development in UK financial lines and commercial motor;
- Australia Pacific reported $88 million of positive development compared with $81 million positive in the prior period, largely reflecting the continuing absence of any notable claims inflation across most long-tail classes; and
- favourable development of $8 million in Corporate reflecting external reinsurance recoveries pertaining to adverse catastrophe development in Latin America Operations recorded in discontinued operations (and resulting in a net nil impact to the Group).

The underwriting result also included a risk margin increase of $32 million or 0.6% of net earned premium compared with $6 million in the prior period.

Commission and expenses

The Group's combined commission and expense ratio reduced to 30.9% from 31.2% in the prior period.

The commission ratio improved slightly to 16.1% from 16.2% in the prior period. International's commission ratio fell due to reduced reinsurance spend and commission reduction actions in the London Market business units. This was partly offset by a higher commission expense ratio in Australia Pacific reflecting a reduced level of exchange commissions following changes to the reinsurance program.

The Group's expense ratio improved to 14.8% from 15.0% in the prior period reflecting a material improvement in North America and International, partly offset by an increase in Australia Pacific primarily due to a further reduction in builders' warranty fee income. The Group's interim expense ratio is broadly in line with our expectations and we remain on track to deliver in accordance with previously advised commitments in relation to the operational efficiency program.

Income tax expense

The Group's income tax expense of $102 million equated to an effective tax rate of 16% compared with tax expense of $34 million or 8% in the prior period. The especially low effective tax rate in 2018 reflects the one-time recognition of additional deferred tax assets following a structural change in operations for Equator Re. The low effective tax rate in 2019 reflects increased profits in North America and Bermuda, which benefit from the utilisation of previously unrecognised tax losses.

During the half, QBE paid $32 million in corporate income tax to tax authorities globally, including $4 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A$168 million as at 30 June 2019. The Group is therefore capable of fully franking A$392 million of dividends. The dividend franking percentage will remain at 60% consistent with the final 2018 dividend and the benchmark franking rule. The franking rate is expected to fall to around 10% in 2020 and thereafter reflecting an anticipated increase in the profit contribution of non-Australian operations.

Balance sheet

Capital management summary

QBE remains committed to maintaining robust capital adequacy.

The Group's indicative APRA PCA multiple of 1.75x remains towards the upper end of the Group's 1.6–1.8x target PCA range while the Group retains an excess above S&P 'AA' minimum capital levels. Although up slightly from the June 2018 multiple of 1.74x, the PCA multiple is down slightly from the December 2018 multiple of 1.78x, largely reflecting the seasonality of unearned premium liabilities. An ongoing focus on reducing gearing back toward the Board's target range of 25%–35% resulted in further liability management activity, the benefit of which was partly offset by the adoption of AASB 9.

Gearing improved to 36.8% at 30 June 2019 from 38.0% as at 31 December 2018 while interest coverage improved appreciably.

Following our 2018 full year results, the major rating agencies revised their outlooks as follows:

- On 11 April 2019, Moody's revised the Group's outlook from "negative" to "stable" and affirmed the 'A3' issuer credit rating (ICR) on QBE Insurance Group Limited (the parent entity) as well as the 'A1' insurer financial strength (IFS) ratings of QBE's main operating entities.
- On 30 May 2019, S&P affirmed the 'A-' long-term ICR on the parent entity and the 'A+' IFS ratings on the Group's core and highly strategic operating entities. The outlook across all entities remained "stable".
- On 18 June 2019, Fitch downgraded QBE Lender's Mortgage Insurance Limited's (QBE LMI) IFS rating to 'A+' from 'AA-' following a sector-wide reassessment by the agency. The outlook remained "stable".
- On 5 July 2019, A.M. Best affirmed the long term ICR of the parent entity and its main operating subsidiaries at 'bbb+' and 'a+' respectively and the IFS of the main operating subsidiaries at 'A' while affirming the outlook of the Group at "stable".
- On 12 July 2019, Fitch affirmed the long-term issuer default rating (IDR) at 'A-' on the parent entity and the IFS ratings of its subsidiaries at 'A+'. The outlook across all entities remained "stable".
- On 25 July 2019 and following a rating methodology change, S&P downgraded QBE LMI to 'A' from 'A+'. The outlook remained "stable". QBE Lender's Mortgage Insurance Asia was placed on CreditWatch Negative, with its rating unchanged at 'A'.

In August 2017, the Group commenced a three-year cumulative on-market share buyback program of up to A$1 billion, with a target of not more than A$333 million to be purchased in any one calendar year. During the first half of 2019, QBE purchased A$174 million of QBE shares resulting in the cancellation of 14.4 million shares or 1.1% of issued capital. Since commencement of the buyback, QBE has purchased A$646 million of QBE shares resulting in the cancellation of 58.6 million shares or 4.3% of issued capital.

Capital summary

AS AT	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Net assets	**8,379**	8,400
Less: intangible assets	**(2,774)**	(2,800)
Net tangible assets	**5,605**	5,600
Add: borrowings	**3,076**	3,188
Total tangible capitalisation	**8,681**	8,788

AS AT	30 JUNE 2019[1] US$M	31 DECEMBER 2018[2] US$M
QBE's regulatory capital base	**8,866**	8,762
APRA's Prescribed Capital Amount (PCA)	**5,056**	4,931
PCA multiple	**1.75x**	1.78x

1 Indicative APRA PCA calculation at 30 June 2019.

2 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.

During the second half of 2019, we will continue to focus on maintaining our PCA within a target range of 1.6–1.8x.

Key financial strength ratios

	BENCHMARK	30 JUNE 2019	31 DECEMBER 2018
Debt to equity	25% to 35%	**36.8%**	38.0%
Debt to tangible equity		**55.0%**	57.1%
PCA multiple	1.6x to 1.8x	**1.75x**	1.78x
Premium solvency[1]		**49.4%**	47.3%
Probability of adequacy of outstanding claims	87.5% to 92.5%	**90.1%**	90.1%

1 Premium solvency ratio is calculated as the ratio of net tangible assets to adjusted net earned premium.

Borrowings

As at 30 June 2019, total borrowings were $3,076 million, down $112 million or 4% from $3,188 million at 31 December 2018.

In March 2019, the Group undertook a tender offer for the buyback of senior unsecured debt securities due 21 October 2022, which resulted in the purchase and cancellation of $195 million of senior debt.

The debt buyback undertaken during the half was partly offset by the adoption of AASB 9 which gave rise to the immediate derecognition of $84 million of capitalised debt exchange premiums, with a corresponding increase in the carrying value of borrowings and decrease in opening retained earnings. The decrease in retained earnings will be offset by reduced financing costs going forward, including a $7 million saving in financing costs in the current half.

Gross interest expense on long term borrowings for the half was $103 million, down from $105 million in the prior period. The average annual cash cost of borrowings outstanding increased to 6.7% at 30 June 2019 from 6.4% at 31 December 2018, reflecting the buyback of the remaining senior debt which had a lower coupon compared with the Group's remaining capital qualifying debt.

As at 30 June 2019, virtually all of the Group's debt counted towards regulatory capital. This is up from 94% as at 31 December 2018, reflecting the buyback and cancellation of almost all the remaining non-qualifying senior unsecured debt during the half.

Borrowings maturity[1]

AS AT	30 JUNE 2019 %	31 DECEMBER 2018 %
Less than one year	**–**	–
One to five years	**38**	42
More than five years	**62**	58

1 Based on first call date.

Borrowings profile

AS AT	30 JUNE 2019 %	31 DECEMBER 2018 %
Senior debt	**–**	6
Subordinated debt	**87**	81
Additional tier 1 securities	**13**	13

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			
	2019 US$M	2018 US$M	2017 US$M	2016 US$M	2015 US$M
Net central estimate	**13,074**	12,870	14,029	12,693	14,119
Risk margin	**1,189**	1,158	1,239	1,088	1,260
Net outstanding claims	**14,263**	14,028	15,268	13,781	15,379
	%	%	%	%	%
Probability of adequacy of outstanding claims (PoA)	**90.1**	90.1	90.0	89.5	89.0
Weighted average discount rate	**1.1**	1.7	1.7	1.5	1.9
Weighted average term to settlement (years)	**3.6**	3.3	3.1	2.9	3.0

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

At 30 June 2019, risk margins in net outstanding claims were $1,189 million or 9.1% of the net central estimate of outstanding claims compared with $1,158 million or 9.0% of the net central estimate at 31 December 2018. Excluding foreign exchange movements, risk margins increased $32 million during the period compared with a $6 million increase in the prior period.

The PoA was stable at 90.1%. The slight increase in risk margins as a percentage of the net central estimate was offset by an increase in the coefficient of variation, primarily due to a minor change in mix of net outstanding claims liabilities.

Intangible assets

The carrying value of identifiable intangibles and goodwill at 30 June 2019 was $2,774 million, down from $2,800 million at 31 December 2018.

During the half, the carrying value of intangibles reduced by $26 million, primarily due to amortisation and impairment expense of $53 million which more than offset net additions in the period which mainly reflected the capitalisation of software in relation to various information technology projects.

At 30 June 2019, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard. No material impairment was identified.

Investment performance and strategy

In the half to 30 June 2019, the investment portfolio delivered an annualised net return of 6.8%, up significantly from 2.1% in the prior period. Excluding the impact of reductions in risk-free rates during the period, the annualised net investment yield was 4.5% which compares favourably with the Group's targeted full year net investment return of 3.0%–3.5% on the same basis.

The Group's fixed income portfolio recorded a very strong return of 2.7% in the first half compared with 0.6% in the prior period. The decision to increase duration above two years benefited the portfolio as central banks globally signalled further rate cuts, resulting in substantial mark-to-market gains. Credit spread narrowing was also a significant contributor to fixed income returns, as demand for higher yielding assets increased.

In response to falling risk-free rates, growth assets also outperformed during the half, particularly developed market equities which returned 18.1%. Our other growth asset classes also delivered strong returns with growth assets overall achieving a return of 7.6%, substantially above expectations and the prior period.

Closing total cash and investments was $23,094 million, up slightly from $22,887 million at 31 December 2018. Growth asset exposure finished the period at 13.5% of the portfolio, up significantly from 11.8% at 30 June 2018 but broadly in line with 13.7% at 31 December 2018.

While still broadly positive, global growth is showing some signs of slowing. Although we expect any slowdown to be somewhat offset by further monetary and fiscal stimulus, the risks are shifting towards the downside. Lower bond yields are expected to curtail fixed income returns in the second half of the year, while growth asset valuations appear to be relatively full and are therefore likely to generate limited further returns. Accordingly, we are maintaining our full year net investment return target range of 3.0–3.5% [1], with a modest skew towards the upper half of the range.

During the second half of 2019 we expect to maintain our growth asset exposure at around 15% of the portfolio, while favouring asset classes with relatively stable cash flows. Fixed Income duration will continue to be managed within a range of 2–2.5 years.

1 Assumes risk-free rates as at 31 December 2018.

Total net investment income [1]

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
FOR THE HALF YEAR ENDED 30 JUNE	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019 US$M	2018 US$M
Fixed interest, short-term money and cash income	**350**	86	**211**	51	**561**	137
Income on growth assets	**134**	78	**90**	46	**224**	124
Gross investment income [1]	**484**	164	**301**	97	**785**	261
Investment expenses	**(6)**	(6)	**(3)**	(3)	**(9)**	(9)
Net investment income	**478**	158	**298**	94	**776**	252
Foreign exchange (loss) gain	**(14)**	8	**–**	–	**(14)**	8
Other (expense) income	**(7)**	24	**–**	3	**(7)**	27
Net investment and other income	**457**	190	**298**	97	**755**	287

1 Includes fair value gains on investments of $482 million (2018 $60 million losses) comprising gains on investments supporting policyholders' funds of $295 million (2018 $37 million losses) and shareholders' funds of $187 million (2018 $23 million losses).

Annualised gross and net investment yield

	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
FOR THE HALF YEAR ENDED 30 JUNE	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Gross investment yield [1]	**6.8**	2.1	**7.0**	2.1	**6.8**	2.1
Net investment yield [2]	**6.7**	2.1	**6.9**	2.0	**6.8**	2.1
Net investment income and other net income yield [3]	**6.4**	2.5	**6.9**	2.1	**6.6**	2.3

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 expenses as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

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

Total cash and investments

	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
AS AT	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Cash and cash equivalents	**425**	536	**253**	327	**678**	863
Short-term money	**792**	796	**473**	487	**1,265**	1,283
Government bonds	**3,087**	3,089	**1,843**	1,886	**4,930**	4,975
Corporate bonds	**7,917**	7,540	**4,727**	4,604	**12,644**	12,144
Infrastructure debt	**283**	308	**169**	187	**452**	495
Developed market equity	**327**	324	**247**	241	**574**	565
Emerging market equity	**169**	180	**101**	109	**270**	289
Emerging market debt	**146**	145	**88**	89	**234**	234
High yield debt	**107**	50	**64**	31	**171**	81
Infrastructure assets	**548**	528	**328**	323	**876**	851
Private equity	**120**	99	**71**	60	**191**	159
Unlisted property trusts	**483**	567	**288**	346	**771**	913
Investment properties	**24**	22	**14**	13	**38**	35
Total investments and cash	**14,428**	14,184	**8,666**	8,703	**23,094**	22,887

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2 Business review
3 Directors' Report
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5 Other information

Interest bearing financial assets – S&P security grading

AS AT	30 JUNE 2019 %	31 DECEMBER 2018 %
S&P rating		
AAA	**12**	14
AA	**40**	40
A	**35**	34
<A	**13**	12

Currency mix of investments

	GROWTH ASSETS		TOTAL CASH AND INVESTMENTS	
AS AT	30 JUNE 2019 %	31 DECEMBER 2018 %	30 JUNE 2019 %	31 DECEMBER 2018 %
US dollar	**52**	47	**32**	32
Australian dollar	**27**	27	**28**	29
Sterling	**8**	14	**16**	18
Euro	**13**	12	**13**	11
Other	**–**	–	**11**	10

Final 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 2019 is 25 Australian cents per share, an increase of 3 Australian cents per share from the 2018 interim dividend. The dividend will be 60% franked and is payable on 4 October 2019. The dividend reinvestment programs remain at a nil discount with any demand for shares under the dividend reinvestment plan to be satisfied by the acquisition of shares on-market.

The 2019 interim dividend payout is A$329 million or 45% of cash profit calculated by converting cash profit to Australian dollars at the average exchange rate during the period. Inclusive of A$174 million of QBE shares repurchased and cancelled, the payout for the 2019 half year is A$503 million, up 27% on the A$397 million payout in the prior period.

Closing remarks

Having set clear operational and financial priorities for the Group in 2019, many of which represent a continuation of priorities established in 2018, we remain focused on the delivery of these priorities:

- maintaining focus on the cell review process while building on the early benefits from the successful rollout of the Brilliant Basics program;
- continuing to execute on profit improvement plans in North America;
- further improving the strong underwriting results achieved in International and Australia Pacific;
- ensuring delivery of year one cost savings in accordance with the three-year efficiency program;
- ensuring the seamless integration (from a governance and reporting perspective) of Asia and Pacific Islands into International and Australia Pacific respectively;
- continuing to maximise divisional cash remittances to the Group head office;
- delivering a 2019 full year combined operating ratio within the target range of 94.5%–96.5% [1,2]; and
- delivering a 2019 full year net investment return within the target range of 3.0%–3.5% [3].

I look forward to reporting on our progress with the release of our 2019 full year result.

Inder Singh
Group Chief Financial Officer

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.
3 Assumes risk-free rates as at 31 December 2018.

North America business review

Successful execution of our integrated specialist strategy coupled with ongoing pricing momentum drove an improved current accident year result despite challenging planting conditions in our Crop business.

Russ Johnston
Chief Executive Officer • North America

Gross written premium (US$M)

2,804

3% from HY18

Net earned premium (US$M)

1,849

5% from HY18

Underwriting result (US$M)[1]

1

94% from HY18

Combined operating ratio[1]

99.9%

HY18 99.0%

Insurance profit margin

1.0%

HY18 5.9%

2019 overview

North America is an integrated specialist insurance and reinsurance franchise with four key business units: Alternative Markets (third-party distribution including programs), Specialty & Commercial (retail agent and broker), Crop and QBE Re (part of QBE's global reinsurance business).

Increased underwriting discipline as a result of our continued focus on cell reviews and benefits of the Brilliant Basics program have contributed to improved premium rate adequacy across the portfolio. Coupled with increasingly firming market conditions, we achieved an average premium rate increase of 4.1% during the half compared with 3.1% in the prior period, with around two thirds of the portfolio achieving premium rate increases. Double-digit premium rate increases were achieved in commercial, excess & surplus (E&S), accident & health (A&H), general aviation, public directors & officers (D&O) and healthcare.

Market conditions in the first half of 2019 continue to improve as evidenced not only by rates but also through submission activity, which is up over 40% with our top broker partners, evidencing the heightened level of underwriting activity in the US market.

During the half we launched our first industry verticals: healthcare and financial institutions. This enables us to offer customers access to a single team of dedicated underwriting, claims, risk management, distribution and product professionals, all with a single focus.

Consistent with our integrated specialist strategy, teams will deliver specialised products and bespoke solutions with a streamlined and simplified process and a dedicated QBE contact. This is a significant change in how we work with our preferred distribution network. Through a unique point-of-contact model, distributors will now work with one team to save time and resources and simplify the process of securing end-to-end coverage.

Underwriting initiatives in our E&S, corporate and public D&O portfolios contributed to an improved performance in the first half of 2019. In addition to strong premium rate increases, improved risk selection has contributed to an appreciable reduction in large individual risk claims activity in our public D&O portfolio.

We continue to reposition the corporate portfolio to align with our revised risk appetite resulting in a first half non-catastrophe claims ratio that is 3.7% favourable to the prior period.

While the combination of these actions ensures a more stable and profitable book of business going forward, it was appropriate to strengthen prior accident year claims provisions across a number of portfolios during the first half.

An especially wet spring in the mid-west has increased the risk of preventive planting claims in our Crop business. As a result, we booked Crop to a current accident year combined operating ratio of 97.7% compared with 92.6% in the prior period.

Alternative Markets reported an improved current accident year claims ratio in both the affiliated and program portfolios. The affiliated portfolio current accident year claims ratio improved by 3.6% relative to the prior period while the core commercial portfolio, which includes our workers' compensation programs along with our small commercial business, reported a 1.9% improvement in the current accident year claims ratio.

Operating and financial performance

Underwriting performance

North America reported a combined operating ratio of 99.9%[1], up from 99.0%[1] in the prior period.

A significant improvement in the attritional claims ratio (ex Crop) was more than offset by the aforementioned deterioration in the Crop result coupled with adverse prior accident year claims development and an increase in the net cost of large individual risk claims due to the strengthening of current accident year claims ratios in selected cells. Although in line with budget, the net cost of catastrophe claims increased relative to the prior period following changes to the Group's reinsurance structure effective 1 January 2019.

The underwriting result included a $61 million or 3.3% adverse impact from the decrease in risk-free rates used to discount net outstanding claims compared with a $40 million or 2.3% benefit in the prior period.

Premium income

Reflecting portfolio repositioning and the exit of our underperforming retail personal lines business, gross written premium fell 3% to $2,804 million. Adjusting for disposals and

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

business intentionally lapsed as we pursue margin over volume, underlying growth was around 3% and broadly consistent with average premium rate increases.

Specialty & Commercial gross written premium fell 9% due to repositioning of the commercial corporate and E&S books as we reduce exposure to accounts that no longer meet our underwriting appetite. Premium growth was achieved in aviation, professional lines, industry verticals and credit & surety.

Crop gross written premium increased 1% due to growth in policy count which more than offset lower commodity prices and a reduced volatility factor. Net earned premium increased 22% due to reduced government cessions reflecting changes in the MPCI gain on the 2018 and 2019 underwriting years.

Alternative Markets' gross written premium increased 4%. Premium growth in programs, particularly property and specialty, was partly offset by premium contraction in affiliated due to the planned repositioning of our (non-builder) home insurance portfolio.

Net earned premium grew 5% to $1,849 million, primarily due to growth in Crop coupled with lower reinsurance costs following the restructure of the Group's reinsurance program.

Claims expense

The attritional claims ratio (ex Crop) improved 3.0% to 48.4% from 51.4% in the prior period.

Improvements in professional lines, financial institutions, specialty programs and a reduced contribution from discontinued businesses were partly offset by higher current accident year claims assumptions in property programs and E&S.

The result included headline positive prior accident year claims development of $11 million. Excluding $32 million of favourable Crop development that is matched by additional premium cessions under the MPCI scheme (resulting in a nil profit impact), prior year development is better stated at $21 million adverse or 1.1% of net earned premium compared with positive development of $10 million or 0.6% in the prior period.

Positive development in Crop (that was not matched by additional premium cessions under the MPCI scheme), workers' compensation and A&H was more than offset by adverse development on Hurricane Irma as well as adverse development in commercial corporate, specialty programs, personal affiliated and E&S.

The net cost of large individual risk and catastrophe claims rose to $161 million or 8.7% of net earned premium compared with $136 million or 7.7% in the prior period.

The net cost of large individual risk claims increased due to a shift in mix of business toward management liability lines, changes in reinsurance and strengthened current accident year claims ratios in financial institutions, private D&O and specialty programs, broadly consistent with adverse prior accident year claims development.

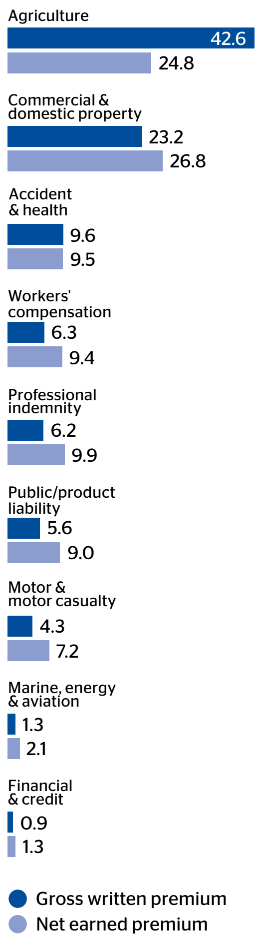
Catastrophe costs increased in line with expectations reflecting the restructuring of the Group's reinsurance program.

Commission and expenses

The net commission ratio was broadly unchanged at 15.7%.

North America's expense ratio improved materially to 13.8% from 15.3% in the prior period, due to rigorous cost management coupled with positive operating leverage driven by net earned premium growth.

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2019	2018	2017
Gross written premium	US$M	**2,804**	2,896	2,803
Gross earned premium	US$M	**2,194**	2,162	2,187
Net earned premium	US$M	**1,849**	1,753	1,832
Net incurred claims	US$M	**1,362**	1,150	1,253
Net commission	US$M	**292**	277	295
Expenses	US$M	**255**	268	277
Underwriting result	US$M	**(60)**	58	7
Net claims ratio	%	**73.7**	65.6	68.4
Net commission ratio	%	**15.7**	15.8	16.1
Expense ratio	%	**13.8**	15.3	15.1
Combined operating ratio	%	**103.2**	96.7	99.6
Adjusted combined operating ratio [1]	%	**99.9**	99.0	99.4
Insurance profit margin	%	**1.0**	5.9	2.8

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

International business review

The International division has made an encouraging start, reflecting good engagement across the teams and more positive trading conditions in most areas.

Richard Pryce
Chief Executive Officer • International

Gross written premium (US$M)

2,880

4% from HY18[1]

Net earned premium (US$M)

2,019

3% from HY18[2,5]

Underwriting result (US$M)[3]

115[4]

74% from HY18[5]

Combined operating ratio[3]

94.3%[4]

HY18 96.8%[5]

Insurance profit margin

11.4%[4]

HY18 6.3%[5]

2019 overview

Trading conditions continue to improve across virtually all business lines albeit at a significantly different pace depending upon product and geography. The London Market continues to demonstrate the most underwriting discipline and rate momentum whilst in Asia we are only seeing early and isolated signs of improving market conditions.

During the first half we achieved an average premium renewal rate increase of 3.9% in European Operations and 2.2% in Asia.

In the UK, both commercial motor and financial lines continue to attract the highest rate increases, particularly the latter where double digit increases are becoming the norm.

The European insurance business has seen an improvement in market conditions during 2019, albeit still relatively minor at this stage.

QBE Re continues to experience a disappointing trading environment apart from the mid-year Japanese and Florida wind renewals that attracted reasonable increases, and the retro market which is seeing an increase in demand for traditional solutions and achieving strong premium rate increases.

Adverse development of prior year catastrophe claims combined with ongoing high levels of large individual risk claims continue to depress industry profitability in the large account and specialty sectors. As a result, we expect the rating momentum in this sector to continue across the remainder of 2019 and into 2020.

Whilst we are witnessing the most encouraging rate environment for some years, our underwriters understand the importance of maintaining focus and driving further improvements in rates, coverage and commission.

Across the International business we continue to invest in pricing tools and data science to improve risk selection.

In both Europe and Asia, we are investing in tools and techniques to enhance underwriting efficiency and customer experience. In Asia, the Qnect system is becoming more central to both underwriting and distribution in SME and personal lines. In the UK and Europe, the Optimum project will redesign many of our underwriting activities over the next few years and deliver enhanced risk analysis and information to our underwriting teams.

We are making good progress with robotic claims processes in UK motor and digital travel claims in Hong Kong which will deliver expense savings and an improved customer experience.

In July 2019, the UK Ministry of Justice revised the discount rate for use in the determination of lump sum payments in relation to UK personal injuries claims (Ogden tables) from -0.75% to -0.25%. As previously announced, this has resulted in a $62 million one-off increase in International's net central estimate of outstanding claims.

The 2019 adjusted result in the table overleaf excludes the impact of the Ogden decision. Similarly, the 2018 adjusted result excludes the one-off transaction to reinsure Hong Kong construction workers' compensation liabilities.

Unless otherwise stated, the profit and loss commentary following refers to the result on this basis.

Operating and financial performance

Underwriting performance

International's combined operating ratio decreased to 94.3%[3] from 96.8%[3] in the prior period, reflecting ongoing improvement in the attritional claims ratio and benign catastrophe experience.

International's attritional claims ratio improved to 43.2% from 46.1% in the prior period. The improvement reflects ongoing targeted underwriting actions across all our portfolios and the more beneficial rating environment over the last 18 months, particularly in European Operations' Insurance business.

QBE Re recorded another strong underwriting result reflecting benign catastrophe experience. Whilst QBE Re benefited from improved pricing following the mid-year catastrophe exposed renewals, it is disappointing to see limited pricing improvements in the reinsurance sector more broadly.

Encouragingly, International Markets recorded its best underwriting result for some time reflecting significantly better trading conditions in the Lloyd's and global speciality markets.

Asia's underwriting performance showed signs of improvement compared with the

1 Constant currency basis. Down 1% on a reported basis.
2 Constant currency basis. Down 4% on a reported basis.
3 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
4 Excludes one-off impact of the Ogden decision in the UK.
5 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

prior period; however, the improvement was less than expected due to several large individual risk claims, particularly in marine.

Premium income

Headline gross written premium was broadly stable at $2,880 million but increased 4% on a constant currency basis. Whilst European Operations' gross written premium increased by 5% on a constant currency basis, Asian gross written premium decreased by 6% reflecting ongoing remediation and disposal activities combined with more difficult market conditions.

The change in competitor appetite is not only affecting rates; we are also seeing more quality new business opportunities, particularly in the London Market. New business growth year to date has been particularly strong in our London Market business and our European insurance business continues to demonstrate strong growth, especially in France and Spain.

In Asia, we expect the impact of underwriting remediation on premium income will start to moderate in the second half of 2019.

Across International we remain focused on quality engagement with new and existing customers in underwriting, claims and risk management. In those geographies and products where we are seeing the best opportunities our teams are increasing their visibility to ensure that customers and brokers are aware of our products and solutions. More than any time in the last five years we must ensure that QBE is front of mind for customers and brokers.

Net earned premium decreased by 4% to $2,019 million from $2,098 million in the prior period but was up 3% on a constant currency basis.

Claims expense

The net claims ratio improved to 61.8%[1] from 63.0%[1] in the prior period.

The attritional claims ratio improved 2.9% to 43.2% from 46.1% in the prior period, reflecting a combination of factors including underwriting actions in Europe and Asia, the better rating environment and portfolio mix.

Following the restructuring of the Group's reinsurance program, the combined cost of large individual risk and catastrophe claims increased to 15.8% of net earned premium from 13.3% in the prior period. Higher than expected large risk claim frequency was partially offset by benign catastrophe experience.

Headline positive prior accident year claims development was $5 million. Excluding a $33 million benefit due to the impact of adjusting the periodic payment order rate that is offset by a reduced discount benefit (resulting in a nil profit impact), the result included $28 million or 1.4% of underlying adverse prior accident year claims development compared with $33 million or 1.6% of adverse development in 2018 on similar basis.

UK financial lines and commercial motor developed adversely while Asia reported favourable development following a significant strengthening in the prior period.

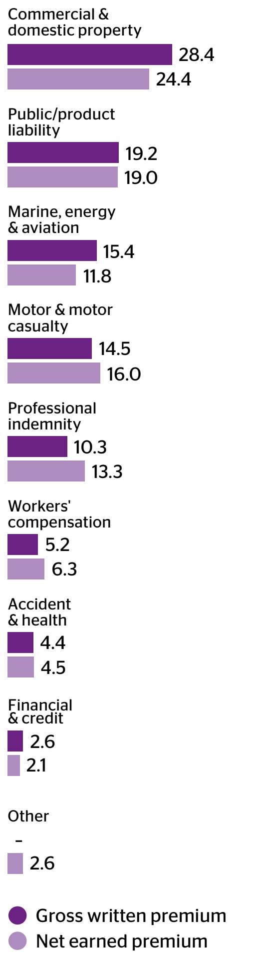
Lower risk-free rates used to discount net outstanding claims liabilities adversely impacted the underwriting result by $115 million or 5.7% of net earned premium.

Commission and expenses

The net commission ratio improved to 17.3% from 18.1% in the prior period reflecting reduced reinsurance spend and commission reduction actions in the London Market business units. Asia still attracts a high commission ratio due to the nature of its distribution channels.

The expense ratio improved to 15.2% from 15.7% in the prior period. Expense reduction and efficiency initiatives remain an ongoing focus in International and the savings anticipated as a result of the restructuring and repositioning of Asia are being realised.

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2019	2019 ADJUSTED[2]	2018 ADJUSTED[3]	2017 ADJUSTED[2]
Gross written premium	US$M	**2,880**	2,880	2,896	2,738
Gross earned premium	US$M	**2,319**	2,319	2,435	2,229
Net earned premium	US$M	**2,019**	2,019	2,098	1,922
Net incurred claims	US$M	**1,425**	1,363	1,318	1,008
Net commission	US$M	**350**	350	380	359
Expenses	US$M	**306**	306	329	311
Underwriting result	US$M	**(62)**	–	71	244
Net claims ratio	%	**70.6**	67.5	62.8	52.4
Net commission ratio	%	**17.3**	17.3	18.1	18.7
Expense ratio	%	**15.2**	15.2	15.7	16.2
Combined operating ratio	%	**103.1**	100.0	96.6	87.3
Adjusted combined operating ratio[1]	%	**97.4**	94.3	96.8	89.3
Insurance profit margin	%	**8.4**	11.4	6.3	15.9

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Australia Pacific business review

Despite significant catastrophe activity, Australia Pacific recorded a strong combined operating ratio of 90.5%[1]. Positive pricing momentum coupled with the benefit of cell reviews and Brilliant Basics contributed to a further 3.5%[2] improvement in the attritional claims ratio.

Vivek Bhatia
Chief Executive Officer • Australia Pacific

Gross written premium (US$M)

1,960

↑ **2%** from HY18[3]

Net earned premium (US$M)

1,797

↑ **2%** from HY18[4]

Underwriting result (US$M)[1]

170

↓ **19%** from HY18

Combined operating ratio[1]

90.5%

HY18 89.0%

Insurance profit margin

13.6%

HY18 14.8%

2019 overview

Pricing in Australia Pacific remains strong with most product lines moving closer to levels supporting an appropriate and sustainable return on equity. Market-wide rate momentum coupled with QBE specific pricing initiatives stemming from the Brilliant Basics program resulted in an average premium rate increase of 6.8%[5] in the half, up from 6.4%[5] in the prior period. Premium retention remained stable at around 83%.

The cell review process continues to improve with an increasing focus on exposure management and other more sophisticated lead indicators. This granular monthly performance management discipline allows for efficient decision making and course correction where appropriate.

In addition to pricing, we continue to implement Brilliant Basics claims and underwriting initiatives. These initiatives have been key in ensuring that we are underwriting within our risk appetite while simultaneously providing a more consistent experience for our customers and distribution partners.

Claims management initiatives aimed at improving customer experience as well as enhancing our supply chain and operational processing capabilities continue to benefit performance across numerous portfolios.

The Australian financial services sector remains under significant scrutiny due, in part, to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. QBE is supportive of the regulatory stance and is working to incorporate regulatory changes and cultural reform into our business in a sustainable manner. In this regard, a key focus is on delivering an improved customer experience as well as addressing capability gaps within our business.

To this end, a number of initiatives are currently underway aimed at improving product, distribution and claims processes in the eyes of our customers along with refreshing and revitalising our culture.

Operating and financial performance

Underwriting performance

Australia Pacific reported a combined operating ratio of 90.5%[1] compared with 89.0%[1] in the prior period. A further material improvement in the attritional claims ratio coupled with an ongoing reduction in the net cost of large individual risk claims were more than offset by increased catastrophe costs and further LMI margin normalisation.

The attritional claims ratio improved 3.5%[2] to 52.8% from 56.3% in the prior period due to enhanced risk selection and more sustainable pricing. Notable improvements were achieved in strata, commercial motor, CTP, workers' compensation and New Zealand.

The net cost of catastrophe claims increased significantly to $116 million or 6.5% of net earned premium compared with $42 million or 2.2% in the prior period. Significant events in the half included the Townsville floods, storms in Queensland and New South Wales and bushfires in Tasmania.

Large individual risk claims fell to 3.4% of net earned premium from 4.4% in the prior period due to improved underwriting discipline and risk selection. The risk profile of our commercial property portfolio has improved appreciably in recent years.

The combined operating ratio of our LMI business increased to 58.5% from 50.6% in the prior period, primarily due to the impact of significant premium contraction on both the net claims and expense ratios. On a constant currency basis, gross written and net earned premium fell 15% and 13% respectively, reflecting a further material slowdown in home loan new business lending, the recently adopted change in the premium earning pattern, reduced earnings from prior years as the portfolio contracts, a reduction in policy terminations and the decision to purchase 30% quota share reinsurance on the 2019 underwriting year.

Although lending practices continue to improve and arrears rates and new delinquencies fell during the half, claims costs increased due to lower cure rates, fewer nil claims and some adverse large claims experience emanating from the unwind of the mining boom which drove up average claims sizes in regional Queensland and Western Australia.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes LMI.
3 Constant currency basis. Down 7% on a reported basis.
4 Constant currency basis. Down 7% on a reported basis.
5 Excludes premium rate changes relating to CTP.

Premium income

Gross written premium fell 7% to $1,960 million from $2,106 million in the prior period due to the weaker Australian dollar. On a constant currency basis and adjusting for the sale of the travel insurance business, gross written premium increased 3%, reflecting premium rate increases across the majority of the portfolio and targeted growth in selected portfolios.

Premium growth was adversely impacted by a reduction in home loan demand which affected LMI and the householders portfolio sold through our bancassurance partners. Premium income in our commercial property portfolio also declined as we continue to reposition the portfolio.

Brilliant Basics pricing initiatives continued, focusing on portfolios where premium rates remain below technical levels. We achieved an average premium rate increase of 6.8% [1] during the half, up from 6.4% [1] in the prior period. Commercial lines achieved an average premium rate increase of 7.5% in the first half, up from 7.0% in the prior period, underpinned by a 17% rate increase in commercial property, 10% in strata, 8% in commercial motor and 6% in commercial packages.

Retention levels remained stable at around 83% while a decline in new business was mainly attributable to reduced volumes in LMI and householders as discussed above.

Net earned premium reduced by 7% to $1,797 million from $1,926 million in the prior period but was up 2% on a constant currency basis. This was due to a combination of reduced reinsurance spend following the restructuring of the Group's external reinsurance program coupled with the earning of 2018 premium growth.

Claims expense

The net claims ratio increased to 64.4% from 61.0% in the prior period, entirely attributable to the net cost of Australian catastrophe events during the first quarter of 2019, particularly the Townsville floods.

Excluding LMI, the attritional claims ratio improved 3.5% to 52.8% from 56.3% in the prior period. Reflecting improved pricing, risk selection and claims management, the attritional claims ratio (excluding Pacific) has improved by 9.4% since June 2016.

While the net cost of catastrophe claims increased to 6.5% of net earned premium from 2.2% in the prior period, the net cost of large individual risk claims continues to decline, falling from 5.2% of net earned premium in 1H17 to 4.4% in 1H18 and 3.4% in the current half.

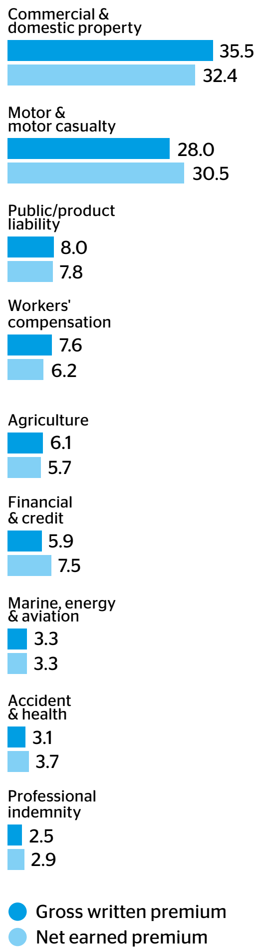
The underwriting result included positive prior accident year claims development of $88 million or 4.9% of net earned premium in line with $81 million or 4.2% in the prior period. Positive development was largely attributable to benign inflationary conditions and lower than budgeted claims frequency for SA CTP and other long tail classes including NSW CTP, workers' compensation and general liability portfolios.

Commission and expenses

The commission ratio increased to 14.9% from 14.7% in the prior period, reflecting a lower level of exchange commissions following changes to the reinsurance program.

The expense ratio increased to 14.4% from 13.6% in the prior period. Expenses increased slightly in constant currency reflecting a continued reduction in fee income following the loss of the NSW builders' warranty contract coupled with an increase in emergency services levy expenses (that gave rise to a corresponding and offsetting increase in premium income).

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2019	2018	2017
Gross written premium	US$M	**1,960**	2,106	2,070
Gross earned premium	US$M	**1,951**	2,095	2,081
Net earned premium	US$M	**1,797**	1,926	1,906
Net incurred claims	US$M	**1,157**	1,175	1,287
Net commission	US$M	**269**	283	271
Expenses	US$M	**258**	262	249
Underwriting result	US$M	**113**	206	99
Net claims ratio	%	**64.4**	61.0	67.5
Net commission ratio	%	**14.9**	14.7	14.2
Expense ratio	%	**14.4**	13.6	13.1
Combined operating ratio	%	**93.7**	89.3	94.8
Adjusted combined operating ratio [2]	%	**90.5**	89.0	94.5
Insurance profit margin	%	**13.6**	14.8	9.9

1 Excludes premium rate changes relating to CTP.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2019

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 2019.

Directors

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

Marty Becker (Chairman)
Fred Eppinger (appointed 1 January 2019)
Stephen Fitzgerald AO
John M Green (Deputy Chairman)
Kathryn Lisson
Sir Brian Pomeroy
Patrick Regan
Jann Skinner
Rolf Tolle
Michael Wilkins AO

Consolidated results

FOR THE HALF YEAR ENDED	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Gross written premium	**7,637**	7,887
Gross earned premium revenue	**6,458**	6,697
Net earned premium	**5,671**	5,647
Net claims expense	**(3,944)**	(3,564)
Net commission	**(912)**	(947)
Underwriting and other expenses	**(839)**	(876)
Underwriting result	**(24)**	260
Net investment income on policyholders' funds	**457**	190
Insurance profit	**433**	450
Net investment income on shareholders' funds	**298**	97
Financing and other costs	**(129)**	(135)
Gains on sale of entities and businesses	**16**	2
Share of net loss of associates	**(1)**	–
Restructuring and related expenses	**(15)**	–
Amortisation and impairment of intangibles	**(32)**	(20)
Profit before income tax from continuing operations	**570**	394
Income tax expense	**(92)**	(29)
Profit after income tax from continuing operations	**478**	365
Loss after income tax from discontinued operations	**(16)**	(12)
Profit after income tax	**462**	353
Net loss attributable to non-controlling interests	**1**	5
Net profit after income tax	**463**	358

Result

Net profit after income tax for the half year ended 30 June 2019 was $463 million, up from a profit of $358 million for the prior period.

The Group's remaining operations in Latin America continue to be separately reported as a discontinued operation, details of which are provided in note 5.2.1 to the financial statements. Commentary below reflects the performance of our continuing operations.

Gross written premium reduced by $250 million mainly due to the stronger US dollar and the impact of divestments which were partly offset by premium rate driven growth in International and Australia Pacific. Reinsurance expense reduced by $263 million compared with the prior period, mainly reflecting an additional $190 million cost in the prior year to reinsure the Hong Kong construction workers' compensation portfolio and current year savings following the restructuring of the Group's external reinsurance program. Net earned premium of $5,671 million was broadly in line with $5,647 million in the prior period.

The Group reported an underwriting loss of $24 million compared with a $260 million underwriting profit in the prior period, equating to a combined operating ratio of 100.4% compared with 95.4%. The current period result was impacted by a material reduction in risk-free rates used to discount net outstanding claims liabilities and the impact of the Ogden decision in the UK, which added 4.1% and 1.1%, respectively, to the combined operating ratio. Excluding the impacts of changes in risk-free rates in both periods, the Ogden decision in the current period and the reinsurance transaction in the prior period, the combined operating ratio was 95.2% compared with 95.8% for the prior period.

The net claims ratio was 69.5% compared with 63.1% in the prior period. Excluding the impacts of the aforementioned changes in risk-free rates, the Ogden decision and the prior period reinsurance transaction, the net claims ratio was 64.3% compared with 64.6% in the prior period. The net claims ratio benefited from net positive prior accident year claims development ($112 million excluding the impact of the Ogden decision, up from $51 million in the prior period excluding the workers' compensation reinsurance transaction) and a reduction in attritional claims, partly offset by an increased net cost of large individual risk and catastrophe claims following the restructuring of the Group's external reinsurance program.

The combined commission and expense ratio improved to 30.9% from 32.3% in the prior period. Excluding the prior period reinsurance transaction, the combined commission and expense ratio of 30.9% was down slightly compared with 31.2% in the prior period.

Net investment and other income was $755 million compared with $287 million in the prior period. Fixed income returns benefited from significant mark-to-market gains from lower sovereign bond yields and narrower credit spreads while growth assets also significantly outperformed during the current period.

The Group's effective tax rate was 16%, reflecting the mix of corporate rates in the jurisdictions in which QBE operates. The prior period effective tax rate of 7% was materially impacted by the recognition of previously unrecognised tax losses in the US tax group following structural change in Equator Re as a result of US tax reform.

Dividends

The directors are pleased to announce an interim dividend of 25 Australian cents per share for the half year ended 30 June 2019, up from the 2018 interim dividend of 22 Australian cents per share. The interim dividend will be 60% franked (2018 30%). The total interim dividend payout is A$329 million (2018 A$297 million) or 45% of cash profit.

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 25 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 net central estimate. The probability of adequacy of the outstanding claims liability at 30 June 2019 was 90.1%, unchanged from 31 December 2018. APRA prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Material business risks

As an international 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, QBE's broader business processes and, most importantly, QBE's culture.

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational and group 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 2018, 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 ASX Corporate Governance Council's Principle 7: Recognise and Manage Risk, both of which are included in the 2018 Annual Report.

QBE's 2018 Annual Report and Corporate Governance Statement are available on the QBE website at www.qbe.com.

QBE published its first climate change action plan, consistent with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD), in the 2018 Annual Report. We recognise the importance of these disclosures and see this as part of our three to five-year journey to full disclosure, an update on which will be provided in the 2019 Annual Report.

Commentary on significant judgements and estimates impacting the half year result and balance sheet is included in note 1.2 to the financial statements for the half year ended 30 June 2019.

Events after balance date

On 1 August 2019, the Group disposed of its remaining personal lines business in North America for consideration of $53 million, giving rise to an estimated pre-tax loss of $15 million which will be presented as part of continuing operations.

On 6 August 2019, the Group disposed of its operations in Puerto Rico for consideration of $21 million, giving rise to an estimated pre-tax loss of $9 million which will be presented as part of discontinued operations.

Both disposals remain subject to any closing adjustments.

Other than these and the declaration of the interim dividend, no matter or circumstance has arisen since 30 June 2019 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.

Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2019

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 29.

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 in accordance with that instrument.

Signed in SYDNEY on 15 August 2019 in accordance with a resolution of the directors.

W. Marston Becker
Director

Patrick Regan
Director

Auditor's independence declaration

FOR THE HALF YEAR ENDED 30 JUNE 2019

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2019, 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.

Voula Papageorgiou
Partner, PricewaterhouseCoopers

Sydney
15 August 2019

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2019

	NOTE	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Gross written premium		**7,637**	7,887
Unearned premium movement		**(1,179)**	(1,190)
Gross earned premium revenue	2.1	**6,458**	6,697
Outward reinsurance premium		**(1,404)**	(1,318)
Deferred reinsurance premium movement		**617**	268
Outward reinsurance premium expense		**(787)**	(1,050)
Net earned premium (a)		**5,671**	5,647
Gross claims expense	2.2	**(4,565)**	(4,084)
Reinsurance and other recoveries revenue	2.1	**621**	520
Net claims expense (b)	2.2	**(3,944)**	(3,564)
Gross commission expense		**(1,064)**	(1,077)
Reinsurance commission revenue	2.1	**152**	130
Net commission (c)		**(912)**	(947)
Underwriting and other expenses (d)		**(839)**	(876)
Underwriting result (a)+(b)+(c)+(d)		**(24)**	260
Investment and other income – policyholders' funds	3.1	**463**	196
Investment expenses – policyholders' funds	3.1	**(6)**	(6)
Insurance profit		**433**	450
Investment and other income – shareholders' funds	3.1	**301**	100
Investment expenses – shareholders' funds	3.1	**(3)**	(3)
Financing and other costs		**(129)**	(135)
Gains on sale of entities and businesses	5.1	**16**	2
Share of net loss of associates		**(1)**	–
Restructuring and related expenses		**(15)**	–
Amortisation and impairment of intangibles		**(32)**	(20)
Profit before income tax from continuing operations		**570**	394
Income tax expense		**(92)**	(29)
Profit after income tax from continuing operations		**478**	365
Loss after income tax from discontinued operations	5.2.1	**(16)**	(12)
Profit after income tax		**462**	353
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**19**	107
Net movement in cash flow hedge reserve		**4**	–
Income tax relating to these components of other comprehensive income		**–**	39
Other comprehensive loss from discontinued operations after income tax		**10**	(54)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit superannuation plans		**–**	19
Income tax relating to this component of other comprehensive income		**–**	(3)
Other comprehensive income after income tax		**33**	108
Total comprehensive income after income tax		**495**	461
Profit after income tax from continuing operations attributable to:			
Ordinary equity holders of the company		**479**	370
Non-controlling interests		**(1)**	(5)
		478	365
Profit after income tax attributable to:			
Ordinary equity holders of the company		**463**	358
Non-controlling interests		**(1)**	(5)
		462	353
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**496**	466
Non-controlling interests		**(1)**	(5)
		495	461

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	30 JUNE 2019 US CENTS	30 JUNE 2018 US CENTS
For profit after income tax from continuing operations:			
Basic earnings per share	4.5	**36.1**	27.3
Diluted earnings per share	4.5	**35.9**	27.2
For profit after income tax:			
Basic earnings per share	4.5	**34.9**	26.4
Diluted earnings per share	4.5	**34.7**	26.3

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

Consolidated balance sheet

AS AT 30 JUNE 2019

	NOTE	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Assets			
Cash and cash equivalents		**678**	863
Investments	3.2	**22,378**	21,989
Derivative financial instruments	4.2	**184**	176
Trade and other receivables		**6,126**	5,185
Current tax assets		**26**	75
Deferred insurance costs		**2,352**	1,662
Reinsurance and other recoveries on outstanding claims	2.3	**5,385**	5,551
Other assets		**10**	11
Assets held for sale	5.3	**268**	533
Defined benefit plan surpluses		**36**	36
Right-of-use lease assets		**284**	–
Property, plant and equipment		**175**	196
Deferred tax assets		**452**	442
Investment properties		**38**	35
Investment in associates		**27**	28
Intangible assets		**2,774**	2,800
Total assets		**41,193**	39,582
Liabilities			
Derivative financial instruments	4.2	**354**	208
Trade and other payables		**1,558**	1,327
Current tax liabilities		**34**	31
Liabilities held for sale	5.3	**278**	453
Unearned premium		**7,367**	6,212
Outstanding claims	2.3	**19,648**	19,579
Lease liabilities		**313**	–
Provisions		**143**	137
Defined benefit plan deficits		**27**	26
Deferred tax liabilities		**16**	21
Borrowings	4.1	**3,076**	3,188
Total liabilities		**32,814**	31,182
Net assets		**8,379**	8,400
Equity			
Share capital	4.3	**7,682**	7,830
Treasury shares held in trust		**(1)**	(7)
Reserves		**(1,343)**	(1,363)
Retained profits		**2,028**	1,921
Shareholders' funds		**8,366**	8,381
Non-controlling interests		**13**	19
Total equity		**8,379**	8,400

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 2019

	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 reported at 31 December 2018	**7,830**	**(7)**	**(1,363)**	**1,921**	**8,381**	**19**	**8,400**
Adjustment on adoption of AASB 9 *Financial Instruments* (note 1.1)	**–**	**–**	**–**	**(84)**	**(84)**	**–**	**(84)**
Adjustment on adoption of AASB 16 *Leases* (note 1.1)	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
As at 1 January 2019	**7,830**	**(7)**	**(1,363)**	**1,836**	**8,296**	**19**	**8,315**
Profit (loss) after income tax	**–**	**–**	**–**	**463**	**463**	**(1)**	**462**
Other comprehensive income	**–**	**–**	**33**	**–**	**33**	**–**	**33**
Total comprehensive income (loss)	**–**	**–**	**33**	**463**	**496**	**(1)**	**495**
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	**(123)**	**–**	**–**	**–**	**(123)**	**–**	**(123)**
Shares acquired and held in trust	**–**	**(50)**	**–**	**–**	**(50)**	**–**	**(50)**
Share-based payment expense	**–**	**–**	**22**	**–**	**22**	**–**	**22**
Shares vested and/or released	**–**	**56**	**(41)**	**–**	**15**	**–**	**15**
Contributions of equity, net of transaction costs and tax	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Net changes in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Reclassification on disposal of subsidiaries	**–**	**–**	**8**	**(8)**	**–**	**–**	**–**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(266)**	**(266)**	**(1)**	**(267)**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**3**	**3**	**–**	**3**
Foreign exchange movement	**(26)**	**–**	**(2)**	**–**	**(28)**	**–**	**(28)**
As at 30 June 2019	**7,682**	**(1)**	**(1,343)**	**2,028**	**8,366**	**13**	**8,379**

	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 2018	8,931	(50)	(1,785)	1,763	8,859	42	8,901
Profit (loss) after income tax	–	–	–	358	358	(5)	353
Other comprehensive income	–	–	92	16	108	–	108
Total comprehensive income (loss)	–	–	92	374	466	(5)	461
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	(75)	–	–	–	(75)	–	(75)
Shares acquired and held in trust	–	(11)	–	–	(11)	–	(11)
Share-based payment expense	–	–	17	–	17	–	17
Shares vested and/or released	–	57	(54)	–	3	–	3
Net changes in non-controlling interests	–	–	(1)	–	(1)	(5)	(6)
Dividends paid on ordinary shares	–	–	–	(43)	(43)	(2)	(45)
Dividend reinvestment under Bonus Share Plan	–	–	–	1	1	–	1
Foreign exchange movement	(512)	1	(10)	–	(521)	–	(521)
As at 30 June 2018	8,344	(3)	(1,741)	2,095	8,695	30	8,725

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 2019

	NOTE	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Operating activities			
Premium received		**5,853**	6,576
Reinsurance and other recoveries received		**1,180**	475
Outward reinsurance premium paid		**(949)**	(1,732)
Claims paid		**(4,207)**	(4,403)
Acquisition and other underwriting costs paid		**(1,835)**	(2,055)
Interest received		**245**	260
Dividends received		**55**	80
Other operating payments		**(79)**	(77)
Interest paid		**(118)**	(100)
Income taxes paid		**(32)**	(198)
Net cash flows from operating activities		**113**	(1,174)
Investing activities			
Net proceeds on sale (payments for purchase) of growth assets		**176**	(65)
Net proceeds on sale of interest bearing financial assets		**56**	1,785
Net proceeds on foreign exchange transactions		**67**	28
Payments for purchase of intangible assets		**(34)**	(34)
Payments for purchase of property, plant and equipment		**(15)**	(15)
Proceeds on sale of property, plant and equipment		**1**	–
Proceeds on disposal of entities and businesses (net of cash disposed)		**83**	18
Net cash flows from investing activities		**334**	1,717
Financing activities			
Payments for shares bought on market and cancelled		**(123)**	(75)
Purchase of treasury shares		**(50)**	(11)
Proceeds from settlement of staff share loans		**1**	–
Payments relating to principal element of lease liabilities		**(31)**	–
Proceeds from borrowings		**–**	2
Repayment of borrowings		**(199)**	(390)
Dividends paid		**(250)**	(41)
Net cash flows from financing activities		**(652)**	(515)
Net movement in cash and cash equivalents		**(205)**	28
Cash and cash equivalents at 1 January		**863**	572
Effect of exchange rate changes		**15**	(76)
Net cash flows attributable to entities held for sale		**5**	(13)
Cash and cash equivalents at 30 June		**678**	511

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 2019

1. OVERVIEW

1.1 Basis of preparation

This general purpose consolidated financial report for the half year ended 30 June 2019 (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 2018 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 from 1 January 2019.

TITLE	
AASB 9	*Financial Instruments*
AASB 16	*Leases*
AASB 2017–7	*Long-term interests in Associates and Joint Ventures*
AASB 2018–1	*Annual improvements 2015-2017 Cycle*
AASB 2018–2	*Plan Amendment, Curtailment or Settlement*
AASB Interpretation 23	*Uncertainty over Income Tax Treatments*

With the exception of AASB 9, the impacts of which are detailed below, the adoption of these new or revised standards did not significantly impact the Group's Half Year Financial Report. Information on the impact of AASB 16 is also provided below for clarity.

AASB 9 *Financial Instruments*

AASB 9 establishes new accounting requirements for financial instruments, but does not impact financial instruments arising from the Group's insurance contracts as they are within the scope of AASB 1023 *General Insurance Contracts*. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. Information relating to adoption is set out below, the material impacts of which were limited to the Group's borrowings and related financing costs.

- **Impact on financial assets**

  Under previous requirements, the Group's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting QBE's business model for managing and evaluating the investment portfolio. Adoption of AASB 9 did not result in any changes to the measurement of the Group's investments, which continues to be at fair value through profit or loss.

  Financial assets within the scope of AASB 1023 such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Group's trade and other receivables, and reinsurance recoveries on outstanding claims are outside the scope of AASB 9 and are unaffected by the new requirements.

  In addition to insurance balances, trade and other receivables also includes other financial assets which are within the scope of AASB 9. Under AASB 9, these assets continue to be recognised at fair value and are subsequently measured at amortised cost less impairment, with the measurement of impairment reflecting expected as well as incurred credit losses. For assets with low credit risk or where credit risk has not significantly increased, expected credit losses are limited to those within the next 12 months. For assets where credit risk has significantly increased, expected credit losses are those across the asset's lifetime. For assets where there is evidence of current impairment, incurred credit losses are also recognised in addition to the expected credit losses previously described. At 31 December 2018, the balance of these assets was $329 million, the majority of which were due within 12 months and $7 million of which were past due. Application of the new requirements did not have a material impact.

- **Impact on financial liabilities**

  During 2016, the Group executed debt exchanges which were accounted for as modifications to financial liabilities. These resulted in the recognition of $117 million of premium which was being amortised to the first call dates of the respective borrowings. Under AASB 9, this premium would have been expensed immediately; therefore, on adoption of AASB 9, opening retained earnings was reduced by the remaining unamortised premium of $84 million, as shown in the statement of changes in equity, and borrowings increased by the same amount. This impact will be offset by reduced interest expense over the remaining period to the first call dates, which for the half year ended 30 June 2019 resulted in a reduction in financing costs of $7 million. Accounting for the Group's borrowings is otherwise unchanged by AASB 9 and they continue to be measured at amortised cost.

  Financial liabilities within the scope of AASB 1023, such as reinsurance premiums payable and outstanding claims, are outside the scope of AASB 9 and are unaffected by the new requirements.

  In addition to insurance balances, trade and other payables also includes other financial liabilities measured at amortised cost, the accounting for which is unchanged by AASB 9.

Other than as described above, changes to the Group's accounting policies resulting from adoption of AASB 9 did not result in any material impacts to the Group's statement of comprehensive income, balance sheet, statement of changes in equity or statement of cash flows.

AASB 16 *Leases*

AASB 16 establishes new accounting requirements for leases. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. Permitted practical expedients in relation to determining whether leases are onerous and the use of hindsight to assess lease terms were also utilised on initial application. Information relating to the Group's leases is not considered material to the financial statements; however, a summary of changes to the Group's accounting policies resulting from adoption is as follows:

- In the balance sheet, right-of-use lease assets and lease liabilities were recognised on 1 January 2019, increasing the Group's total assets and total liabilities by $276 million and $282 million, respectively. These were measured as the present value of future lease payments, discounted using the Group's incremental borrowing rate and other factors specific to each lease where relevant. Including consequential impacts on tax balances, which were not material, the difference between all amounts recognised and derecognised on initial application of AASB 16 was $1 million. This amount, being the cumulative retrospective effect of adoption, was recognised as an adjustment to the opening balance of retained earnings as shown in the statement of changes in equity.
- In the statement of comprehensive income:
  - costs of leases of low value assets and leases with a term of 12 months or less (which do not give rise to right-of-use lease assets or lease liabilities on the balance sheet) are recognised in underwriting and other expenses;
  - depreciation charge associated with right-of-use lease assets is also recognised in underwriting and other expenses; and
  - interest expense associated with lease liabilities is recognised in financing and other costs.

  These replace operating lease costs which were previously recognised entirely in underwriting and other expenses. The impact of these changes on the current period was not material.
- In the statement of cash flows:
  - payments relating to leases of low value assets and leases with a term of 12 months or less are recognised in acquisition and other underwriting costs paid;
  - payments of interest relating to lease liabilities are recognised in interest paid; and
  - payments of principal relating to lease liabilities are recognised in lease payments.

  These replace operating lease payments which were previously recognised entirely in acquisition and other underwriting costs paid. The impact of these changes on the current period was not material.

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

1. OVERVIEW

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 key areas in which critical judgements and estimates are applied and should be considered when reviewing the financial statements for the half year ended 30 June 2019.

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 can elapse 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 outstanding claims liability on the Group's profit or loss is summarised in note 2.3.7 to the consolidated financial statements for the year ended 31 December 2018.

1.2.2 Intangible assets

QBE monitors goodwill and identifiable intangible assets for impairment 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 2018. At 30 June 2019, QBE has reviewed all intangible assets for indicators of impairment and has completed detailed impairment tests where indicators of impairment were identified.

No impairment charge resulted from an impairment test of North American goodwill. The potential impact of changes in key assumptions used in the determination of related headroom is summarised in note 7.2.1 to the consolidated financial statements for the year ended 31 December 2018. These sensitivities are materially unchanged at 30 June 2019.

1.2.3 Recoverability of deferred tax assets

A deferred tax asset (DTA) of $370 million (2018 $370 million) has been recognised in relation to the entities included in our US tax group. Uncertainty continues to exist in relation to the utilisation of this DTA and QBE has made a judgement that entities in the US tax group will be able to generate sufficient taxable profits to utilise the DTA balance over the foreseeable future, based on future business plans. Losses expire over the next 19 years, with the majority expiring between 2030 and 2034.

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.

1.2.4 Liability adequacy test

At each balance date, the adequacy of the unearned premium liability for each of the Group's insurance portfolios is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate.

The application of the liability adequacy test at 30 June 2019 did not identify a deficiency (2018 nil).

1.3 Segment information

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.

This note presents the results of continuing operations only. Operations in Latin America are classified as discontinued operations and are therefore excluded from this note. The results of discontinued operations are presented in note 5.2.

Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals except those relating to discontinued operations (refer note 5.2); and 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.

Consistent with information provided to the Group Executive for the current period, the following changes have been made to the Group's reportable segments:

- entities in Asia have been combined with European Operations to form the International segment;
- entities in the Pacific have been combined with Australian & New Zealand Operations to form the Australia Pacific segment; and
- the results of the Group's captive reinsurer, Equator Re, have been incorporated into the results of the other segments.

Comparatives have been restated accordingly.

30 JUNE 2019	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Gross written premium	2,804	2,880	1,960	7,644	(7)	7,637
Gross earned premium revenue – external	2,194	2,310	1,951	6,455	3	6,458
Gross earned premium revenue – internal	–	9	–	9	(9)	–
Outward reinsurance premium expense	(345)	(300)	(154)	(799)	12	(787)
Net earned premium	1,849	2,019	1,797	5,665	6	5,671
Net claims expense	(1,362)	(1,425)	(1,157)	(3,944)	–	(3,944)
Net commission	(292)	(350)	(269)	(911)	(1)	(912)
Underwriting and other expenses	(255)	(306)	(258)	(819)	(20)	(839)
Underwriting result	(60)	(62)	113	(9)	(15)	(24)
Net investment income on policyholders' funds	79	231	131	441	16	457
Insurance profit	19	169	244	432	1	433
Net investment income on shareholders' funds	133	86	89	308	(10)	298
Financing and other costs	(1)	(1)	(2)	(4)	(125)	(129)
Gains on sale of entities and businesses	–	–	–	–	16	16
Restructuring and related expenses	–	(4)	(8)	(12)	(3)	(15)
Share of net loss of associates	–	–	–	–	(1)	(1)
Amortisation and impairment of intangibles	–	–	(20)	(20)	(12)	(32)
Profit (loss) before income tax from continuing operations	151	250	303	704	(134)	570
Income tax (expense) credit	(32)	(45)	(85)	(162)	70	(92)
Profit (loss) after income tax from continuing operations	119	205	218	542	(64)	478
Net loss from continuing operations attributable to non-controlling interests	–	–	–	–	1	1
Net profit (loss) after income tax from continuing operations	119	205	218	542	(63)	479

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

1. OVERVIEW

30 JUNE 2018	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Gross written premium	2,896	2,896	2,106	7,898	(11)	7,887
Gross earned premium revenue – external	2,162	2,418	2,095	6,675	22	6,697
Gross earned premium revenue – internal	–	17	–	17	(17)	–
Outward reinsurance premium expense	(409)	(527)	(169)	(1,105)	55	(1,050)
Net earned premium	1,753	1,908	1,926	5,587	60	5,647
Net claims expense	(1,150)	(1,152)	(1,175)	(3,477)	(87)	(3,564)
Net commission	(277)	(381)	(283)	(941)	(6)	(947)
Underwriting and other expenses	(268)	(331)	(262)	(861)	(15)	(876)
Underwriting result	58	44	206	308	(48)	260
Net investment income on policyholders' funds	45	61	80	186	4	190
Insurance profit (loss)	103	105	286	494	(44)	450
Net investment income on shareholders' funds	20	19	51	90	7	97
Financing and other costs	–	–	–	–	(135)	(135)
Gain on sale of entities	–	–	–	–	2	2
Amortisation and impairment of intangibles	–	–	(6)	(6)	(14)	(20)
Profit (loss) before income tax from continuing operations	123	124	331	578	(184)	394
Income tax (expense) credit	(26)	(23)	(99)	(148)	119	(29)
Profit (loss) after income tax from continuing operations	97	101	232	430	(65)	365
Net loss from continuing operations attributable to non-controlling interest	–	–	–	–	5	5
Net profit (loss) after income tax from continuing operations	97	101	232	430	(60)	370

2. UNDERWRITING ACTIVITIES

2.1 Revenue

	NOTE	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Gross earned premium revenue			
Direct and facultative		**5,939**	6,182
Inward reinsurance		**519**	515
		6,458	6,697
Other revenue			
Reinsurance and other recoveries revenue	2.2	**621**	520
Reinsurance commission revenue		**152**	130
		7,231	7,347

2.2 Net claims expense

	NOTE	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Gross claims and related expenses		**4,565**	4,084
Reinsurance and other recoveries revenue	2.1	**(621)**	(520)
Net claims expense		**3,944**	3,564

2.2.1 Prior accident year claims development

Net claims expense for the half year ended 30 June 2019 includes an undiscounted $64 million adverse impact as a result of the Ogden rate change in the UK, while net claims expense for the half year ended 30 June 2018 includes a prior accident year recovery of $142 million from the reinsurance of Hong Kong construction workers' compensation liabilities. Excluding these, current period net positive prior accident year claims development was $112 million compared with $51 million positive development in the prior period.

2.3 Net outstanding claims liability

	NOTE	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Gross discounted central estimate	2.3.1	**18,459**	18,421
Risk margin	2.3.3	**1,189**	1,158
Gross outstanding claims liability		**19,648**	19,579
Reinsurance and other recoveries on outstanding claims	2.3.2	**(5,385)**	(5,551)
Net outstanding claims liability		**14,263**	14,028

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

2. UNDERWRITING ACTIVITIES

2.3.1 Gross discounted central estimate

	NOTE	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Gross undiscounted central estimate excluding claims settlement costs		**18,974**	19,304
Claims settlement costs		**349**	350
Gross undiscounted central estimate		**19,323**	19,654
Discount to present value		**(864)**	(1,233)
Gross discounted central estimate	2.3	**18,459**	18,421

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Reinsurance and other recoveries on outstanding claims – undiscounted[1]		**5,648**	5,931
Discount to present value		**(263)**	(380)
Reinsurance and other recoveries on outstanding claims	2.3	**5,385**	5,551

1 Net of a provision for impairment of $23 million (2018 $25 million).

2.3.3 Risk margin

The risk margin included in the net outstanding claims liability is 9.1% (2018 9.0%) of the net discounted central estimate. The probability of adequacy at 30 June 2019 is 90.1% (2018 90.1%) which is well above APRA's 75% benchmark.

3. INVESTMENT ACTIVITIES

3.1 Investment income

	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Income on fixed interest securities, short-term money and cash	**561**	137
Income on growth assets	**224**	124
Gross investment income[1]	**785**	261
Investment expenses	**(9)**	(9)
Net investment income	**776**	252
Foreign exchange	**(14)**	8
Other income	**–**	27
Other expenses	**(7)**	–
Total investment income	**755**	287
Investment and other income – policyholders' funds	**463**	196
Investment expenses – policyholders' funds	**(6)**	(6)
Investment and other income – shareholders' funds	**301**	100
Investment expenses – shareholders' funds	**(3)**	(3)
Total investment income	**755**	287

1 Includes net fair value gains of $482 million (2018 losses of $60 million), interest income of $250 million (2018 $244 million) and dividend income of $53 million (2018 $77 million).

3.2 Investment assets

	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Fixed income		
Short-term money	**1,265**	1,283
Government bonds	**4,930**	4,975
Corporate bonds	**12,644**	12,144
Infrastructure debt	**452**	495
	19,291	18,897
Growth assets		
Developed market equity	**574**	565
Emerging market equity	**270**	289
Emerging market debt	**234**	234
High yield debt	**171**	81
Unlisted property trusts	**771**	913
Infrastructure assets	**876**	851
Private equity	**191**	159
	3,087	3,092
Total investments	**22,378**	21,989

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

3. INVESTMENT ACTIVITIES

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 2019				31 DECEMBER 2018			
	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	**803**	**462**	**–**	**1,265**	697	586	–	1,283
Government bonds	**3,443**	**1,487**	**–**	**4,930**	3,609	1,366	–	4,975
Corporate bonds	**–**	**12,639**	**5**	**12,644**	–	12,140	4	12,144
Infrastructure debt	**–**	**124**	**328**	**452**	–	137	358	495
	4,246	**14,712**	**333**	**19,291**	4,306	14,229	362	18,897
Growth assets								
Developed market equity	**571**	**–**	**3**	**574**	563	–	2	565
Emerging market equity	**270**	**–**	**–**	**270**	289	–	–	289
Emerging market debt	**234**	**–**	**–**	**234**	234	–	–	234
High yield debt	**171**	**–**	**–**	**171**	81	–	–	81
Unlisted property trusts	**–**	**771**	**–**	**771**	–	913	–	913
Infrastructure assets	**–**	**–**	**876**	**876**	–	–	851	851
Private equity	**–**	**–**	**191**	**191**	–	–	159	159
	1,246	**771**	**1,070**	**3,087**	1,167	913	1,012	3,092
Total investments	**5,492**	**15,483**	**1,403**	**22,378**	5,473	15,142	1,374	21,989

The Group's approach to measuring the fair value of investments 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) is 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, comparable prices for similar instruments or 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 valued using QBE's share of the net assets of the entity.

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

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.

Private equity

These assets comprise fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and 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 2019 US$M	30 JUNE 2018 US$M
At 1 January	**1,374**	1,410
Purchases	**60**	75
Disposals	**(57)**	(15)
Reclassifications to level 2[1]	**–**	(19)
Fair value movement recognised in profit or loss	**27**	18
Foreign exchange	**(1)**	(34)
At 30 June	**1,403**	1,435

1 During the prior period, corporate bonds were transferred from level 3 to level 2 due to the use of a more observable external price source.

3.4 Derivatives over investment assets

In accordance with our investment management policies and procedures, derivatives may be used in the investment portfolio as both a hedging tool and to alter the risk profile of the portfolio. The Group's notional exposure to investment derivatives at the balance date is set out in the table below.

NOTIONAL EXPOSURE	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Fixed interest futures		
Australian 3-year bond futures	**194**	–
Equity futures		
Euro Stoxx	**76**	–
S&P 500 E-mini	**72**	–
FTSE 100 Index	**47**	
SPI 200	**–**	69

The mark to market values of these derivative positions are cash settled on a daily basis resulting in a fair value of nil at the balance date.

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FOR THE HALF YEAR ENDED 30 JUNE 2019

4. CAPITAL STRUCTURE

4.1 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.

FINAL MATURITY DATE	PRINCIPAL AMOUNT	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Senior debt			
21 October 2022	Nil (2018 $195 million)	**–**	195
25 May 2023	$6 million	**6**	6
		6	201
Subordinated debt			
29 September 2040	A$200 million	**142**	141
24 May 2041	$167 million	**167**	167
24 May 2041	£24 million	**30**	31
24 May 2042	£327 million[1]	**415**	387
24 November 2043	$400 million/A$577 million[2]	**400**	400
2 December 2044	$700 million	**696**	696
12 November 2045	$300 million	**300**	300
17 June 2046	$524 million[1]	**521**	466
		2,671	2,588
Additional Tier 1 instruments			
No fixed date	$400 million	**399**	399
		399	399
Total borrowings		**3,076**	3,188

1 The change in carrying value during the current period is mainly due to the adoption of AASB 9, as discussed in note 1.1.
2 During the current period, this debt was hedged to a fixed A$ amount which is discussed in note 4.1.2.

Senior notes due 2022

On 21 April 2017, the company issued $300 million of senior notes maturing on 21 October 2022. During 2018, the Group repurchased $105 million of these notes for cash. During the current period, the Group repurchased the remainder of these notes for cash.

4.1.1 Fair value of borrowings

	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Senior debt	**6**	195
Subordinated debt	**2,884**	2,719
Additional Tier 1 instruments	**394**	348
Total fair value of borrowings	**3,284**	3,262

The fair value of the Group's borrowings are categorised as level 2 fair value measurements. Fixed and floating rate securities are priced using broker quotes and comparable prices for similar instruments in active markets. Where no active market exists, floating rate resettable notes are priced using par plus accrued interest.

4.1.2 Hedging of borrowings

During the current period, the Group hedged $400 million of subordinated notes maturing in November 2043 to a fixed A$577 million through the purchase of forward foreign exchange contracts in order to more effectively manage currency exposures and costs of funding. Both principal and coupons are hedged to the first call date in November 2023, with the relationship being designated and accounted for as a cash flow hedge consistent with the Group's accounting policy set out in note 5.6 to the consolidated financial statements for the year ended 31 December 2018. This policy was not materially impacted by the adoption of AASB 9.

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4.2 Derivatives

Forward foreign exchange contracts and purchased currency options are used as a tool to manage the Group's foreign exchange exposures. Interest rate swaps are used to hedge exposure to interest rate movements in relation to some of the Group's borrowings.

	30 JUNE 2019			31 DECEMBER 2018		
	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**1,767**	**184**	**352**	1,669	175	208
Forward foreign exchange contracts used in cash flow hedges (note 4.1.2)	**535**	**–**	**–**	–	–	–
Interest rate swaps	**140**	**–**	**2**	141	–	–
Purchased currency options	**–**	**–**	**–**	–	1	–
	2,442	**184**	**354**	1,810	176	208

The fair value of forward foreign exchange contracts, interest rate swaps and purchased currency options is categorised as level 2 in the fair value hierarchy. These instruments are fair valued using present value techniques utilising observable market data, broker quotes and/or comparable prices for similar instruments in active markets.

4.3 Share capital

	30 JUNE 2019		30 JUNE 2018	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,327**	**7,830**	1,358	8,931
Shares issued under the Employee Share and Option Plan	**–**	**1**	–	–
Shares bought back on-market and cancelled	**(14)**	**(123)**	(10)	(75)
Foreign exchange	**–**	**(26)**	–	(512)
Issued ordinary shares, fully paid at 30 June	**1,313**	**7,682**	1,348	8,344
Shares notified to the Australian Securities Exchange	**1,314**	**7,686**	1,349	8,349
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	**(1)**	**(4)**	(1)	(5)
Issued ordinary shares, fully paid at 30 June	**1,313**	**7,682**	1,348	8,344

4.4 Dividends

	2018		2017
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	**28**	**22**	4
Franking percentage	**60%**	**30%**	30%
Franked amount per share (Australian cents)	**16.8**	**6.6**	1.2
Dividend payout (A$M)	**372**	**297**	54
Payment date	**18 April 2019**	**5 October 2018**	20 April 2018

On 15 August 2019, the directors declared a 60% franked interim dividend of 25 Australian cents per share, payable on 4 October 2019. The interim dividend payout is A$329 million (2018 A$297 million). The record date is 23 August 2019.

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.

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

4. CAPITAL STRUCTURE

4.5 Earnings per share

	30 JUNE 2019 US CENTS	30 JUNE 2018 US CENTS
For profit after income tax from continuing operations		
Basic earnings per share	**36.1**	27.3
Diluted earnings per share	**35.9**	27.2
For profit after income tax		
Basic earnings per share	**34.9**	26.4
Diluted earnings per share	**34.7**	26.3

Earnings used in calculating basic and diluted earnings per share relating to continuing operations is $479 million (2018 $370 million), being the net profit after income tax from continuing operations attributable to ordinary equity holders of the company.

Earnings used in calculating basic and diluted earnings per share for profit after income tax is $463 million (2018 $358 million), being the total net profit after income tax attributable to ordinary equity holders of the company.

Information relating to earnings per share from discontinued operations is provided in note 5.2.1.

4.5.1 Reconciliation of weighted average number of ordinary shares used for all earnings per share measures

	30 JUNE 2019 NUMBER OF SHARES MILLIONS	30 JUNE 2018 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,327**	1,354
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	**1,326**	1,353
Weighted average number of dilutive potential ordinary shares relating to shares issued under the Plan	**8**	9
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,334**	1,362

The basic and diluted average numbers of ordinary shares shown above is used for calculating all earnings per share measures, including those for profit after tax, profit after tax from continuing operations and profit after tax from discontinued operations.

1 Performance overview
2 Business review
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5. GROUP STRUCTURE

5.1 Disposals during the period

During the period, the Group disposed of its operations in Colombia, information on which is set out in the following table:

	30 JUNE 2019 US$M
Assets	
Cash, investments and other financial assets	**100**
Insurance assets	**35**
Current and deferred tax assets	**16**
Property, plant and equipment	**1**
Total assets	**152**
Liabilities	
Insurance liabilities	**110**
Other liabilities	**9**
Total liabilities	**119**
Net assets at the date of disposal	**33**
Proceeds received on disposal	**36**
Transaction costs	**(3)**
Net gain on disposal before reclassification of foreign currency translation reserve	**–**
Reclassification of foreign currency translation reserve	**(12)**
Net loss on disposal after reclassification of foreign currency translation reserve included in the results of discontinued operations	**(12)**

During the current period, the Group also disposed of its insurance operations in Indonesia and the Philippines, the travel business and the wool and livestock-in-transit businesses in Australia, and the Unigard Indemnity entity in North America for an aggregate pre-tax gain of $16 million which is presented as part of continuing operations and which remains subject to closing adjustments.

During the prior period, the Group disposed of QBE Insurance (Thailand) Public Company for a gain of $2 million which was presented as part of continuing operations.

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2019

5. GROUP STRUCTURE

5.2 Discontinued operations

The Group's operations in Latin America are classified as discontinued operations.

5.2.1 Profit or loss from discontinued operations

	NOTE	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Gross earned premium revenue		**29**	391
Outward reinsurance expense		**(14)**	(79)
Net earned premium		**15**	312
Net claims expense		**(9)**	(192)
Net commission		**(1)**	(73)
Underwriting and other expenses		**(12)**	(86)
Underwriting result		**(7)**	(39)
Net investment income on policyholders' funds		**1**	27
Insurance loss		**(6)**	(12)
Net investment income on shareholders' funds		**1**	10
Financing and other costs		**–**	(2)
Amortisation and impairment of intangibles		**–**	(1)
Loss before income tax from discontinued operations		**(5)**	(5)
Income tax credit (expense)		**1**	(7)
Loss after income tax from discontinued operations		**(4)**	(12)
Net loss on disposals	5.1	**(12)**	–
Net loss after income tax from discontinued operations attributable to ordinary equity holders of the company		**(16)**	(12)

LOSS PER SHARE AFTER INCOME TAX FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Basic loss per share	**(1.2)**	(0.9)
Diluted loss per share	**(1.2)**	(0.9)

5.2.2 Cash flows from discontinued operations

	30 JUNE 2019 US$M	30 JUNE 2018 US$M
Net cash flows from operating activities	**(5)**	(6)
Net cash flows from investing activities[1]	**–**	16
Net cash flows from financing activities	**–**	2
Net movement in cash and cash equivalents from discontinued operations	**(5)**	12

1 Excludes proceeds and cash disposed as disclosed in note 5.1.

5.3 Assets and liabilities held for sale at the balance date and subsequent disposals

Assets and liabilities held for sale at 30 June 2019 include the Group's remaining personal lines business in North America and its operations in Puerto Rico.

	30 JUNE 2019 US$M	31 DECEMBER 2018 US$M
Assets held for sale		
Cash and cash equivalents	8	22
Investments and other financial assets	203	402
Insurance assets	40	71
Current and deferred tax assets	13	27
Property, plant and equipment	4	9
Intangible assets	–	2
Total assets held for sale	268	533
Liabilities held for sale		
Financial liabilities	14	19
Insurance liabilities	254	426
Current and deferred tax liabilities	10	3
Other liabilities	–	5
Total liabilities held for sale	278	453
Net (liabilities) assets held for sale	(10)	80

On 1 August 2019, the Group disposed of its remaining personal lines business in North America for consideration of $53 million, giving rise to an estimated pre-tax loss of $15 million which will be presented as part of continuing operations.

On 6 August 2019, the Group disposed of its operations in Puerto Rico for consideration of $21 million, giving rise to an estimated pre-tax loss of $9 million which will be presented as part of discontinued operations.

Both disposals remain subject to any closing adjustments.

6. OTHER

6.1 Contingent liabilities

The Group continues to be exposed to contingent liabilities in the ordinary course of business in relation to claims litigation and regulatory examinations arising out of its insurance and reinsurance activities, as well as in relation to the Group's support of the underwriting activities of controlled entities which are corporate members at Lloyd's of London, as set out in note 8.2 to the consolidated financial statements for the year ended 31 December 2018. The Group also continues to be exposed to the possibility of contingent liabilities in relation to non-insurance litigation, taxation and compliance matters.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 30 to 49 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 2019 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 15 August 2019 in accordance with a resolution of the directors.

W. Marston Becker
Director

Patrick Regan
Director

Independent auditor's review report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the Half Year Financial Report

We have reviewed the accompanying Half Year Financial Report of QBE Insurance Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2019, 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 other explanatory notes and the directors' declaration for QBE Insurance Group Limited (the Group). The Group 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 Group's financial position as at 30 June 2019 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 Group's financial position as at 30 June 2019 and of its performance for the half year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Bret M. Griffin

Bret Griffin
Partner

Sydney
15 August 2019

Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2019

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2019[1]	2018[1]	2017[1]	2016[2]	2015[2]	2018[1]	2017[1]	2016[2]	2015[2]	2014[2]
Profit or loss information											
Gross written premium	US$M	**7,637**	7,887	7,590	8,107	8,692	13,657	13,328	14,395	15,092	16,332
Gross earned premium	US$M	**6,458**	6,697	6,547	6,876	7,293	13,601	13,611	14,276	14,922	16,521
Net earned premium	US$M	**5,671**	5,647	5,696	5,615	6,229	11,640	11,351	11,066	12,314	14,084
Claims ratio	%	**69.5**	63.1	65.4	64.8	59.8	63.6	71.5	58.2	60.4	63.2
Commission ratio	%	**16.1**	16.8	16.5	17.7	17.3	16.9	17.1	18.4	17.2	16.8
Expense ratio	%	**14.8**	15.5	14.9	16.5	18.2	15.4	15.9	17.4	17.3	16.1
Combined operating ratio	%	**100.4**	95.4	96.8	99.0	95.3	95.9	104.5	94.0	94.9	96.1
Investment income											
before fair value gains/losses	US$M	**279**	323	269	291	262	690	576	641	541	676
after fair value gains/losses	US$M	**755**	287	424	437	386	547	758	746	665	814
Insurance profit (loss)	US$M	**433**	450	417	326	536	826	(60)	1,075	1,031	1,074
Insurance profit (loss) to net earned premium	%	**7.6**	8.0	7.3	5.8	8.6	7.1	(0.5)	9.7	8.4	7.6
Financing and other costs	US$M	**129**	135	164	125	127	305	302	294	244	297
Operating profit (loss)											
before income tax	US$M	**570**	394	428	347	679	627	(793)	1,072	953	931
after income tax and non-controlling interest	US$M	**479**	370	355	265	488	567	(1,212)	844	687	742
Balance sheet and share information											
Number of shares on issue [3]	millions	**1,313**	1,348	1,371	1,370	1,363	1,327	1,358	1,370	1,370	1,363
Shareholders' funds	US$M	**8,366**	8,695	10,668	10,325	10,949	8,381	8,859	10,284	10,505	11,030
Total assets	US$M	**41,193**	42,417	45,993	43,273	46,101	39,582	43,862	41,583	42,176	45,000
Net tangible assets per share [3]	US$	**4.27**	4.30	5.09	4.96	5.31	4.22	4.29	4.90	5.07	5.32
Borrowings to shareholders' funds	%	**36.8**	36.9	32.8	33.7	32.8	38.0	40.8	33.8	33.6	32.5
Basic earnings (loss) per share [3]	US cents	**34.9**	26.4	25.1	19.3	35.8	29.0	(91.5)	61.6	50.3	57.4
Basic earnings (loss) per share – cash basis [4]	US cents	**39.2**	28.5	27.2	20.9	34.5	53.1	(18.9)	65.5	65.3	63.5
Diluted earnings (loss) per share	US cents	**34.7**	26.3	25.0	19.2	35.5	28.6	(91.5)	60.8	49.8	55.8
Return on average shareholders' funds	%	**11.1**	8.2	6.6	5.1	8.9	4.5	(13.0)	8.1	6.4	6.9
Dividend per share	Australian cents	**25**	22	22	21	20	50	26	54	50	37
Dividend payout	A$M	**329**	297	302	288	274	669	356	741	685	492
Total investments and cash [5]	US$M	**23,094**	23,280	25,665	25,741	27,903	22,887	26,141	25,235	26,708	28,583

1 Profit or loss information for 2019 and 2018 has been prepared on a continuing basis and excludes discontinued operations. Profit or loss information for 2017 has been restated on a continuing basis for comparability. Balance sheet and share information for these periods continues to reflect the entire consolidated Group unless otherwise specified.

2 As originally reported for each period.

3 Reflects shares on an accounting basis.

4 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.

5 Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties; excludes any balances held for sale.

Designed and produced by ArmstrongQ

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