ANNUAL REPORT DECEMBER 2004

QBE Insurance Group



2004

CONTENTS

Our vision

TO BE INTERNATIONALLY RECOGNISED AS

- a highly successful general insurance and reinsurance group
- a builder of shareholders' wealth
- a developer of "can do" people
- an organisation that excels in the continuous delivery of new and proven quality products and services

Our values

- increasing the long term wealth of shareholders
- customer satisfaction and retention
- employee motivation
- integrity

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2004

Your directors present their report on the consolidated entity consisting of QBE Insurance Group Limited and the entities it controlled at the end of or during the year ended 31 December 2004.

Directors

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

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

Details of the directors and their qualifications are set out on page 35.

Results

	2004 $M	2003 $M
Revenue		
Premium revenue	**8,571**	7,816
Other revenue	**1,745**	1,424
Unrealised gains on investments	**68**	122
Investment income – ABC investments pledged for funds at Lloyd's	**40**	5
	10,424	9,367
Expenses	**9,172**	8,495
Amortisation of goodwill and write-off of intangibles	**22**	20
Borrowing costs expense	**94**	80
Borrowing costs expense – ABC securities for funds at Lloyd's	**56**	7
Profit from ordinary activities before income tax	**1,080**	765
Income tax expense attributable to profit from ordinary activities	**253**	188
Profit from ordinary activities after income tax	**827**	577
Net profit attributable to outside equity interests	**7**	5
Net profit attributable to members of the company	**820**	572
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	**12**	109
Total changes in equity other than those resulting from transactions with owners as owners	**808**	463

Profit

The directors are pleased to announce a profit after tax of $820 million for the year ended 31 December 2004 compared with $572 million last year. The significant increase in profit was achieved despite the negative impact of the stronger Australian dollar on premium growth and after increasing the level of prudential margins in outstanding claims provisions and having absorbed the significant cost of increased catastrophe activity in 2004.

Dividends

The directors are also pleased to announce a final dividend of 30.0 cents per share, 50% franked, for the year ended 31 December 2004. The total dividend for 2004 is 54.0 cents per share compared with 42.0 cents per share for the year ended 31 December 2003. The final dividend payout, including shares issued under the Dividend Election and Reinvestment Plans, will be $224 million compared with $148 million last year. The Dividend Election and Reinvestment Plans continue at a discount rate of 2.5%. The franking account balance on a tax paid basis, after taking into account the final dividend franked at 50%, will be a surplus of $65 million.

Activities

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

Review of operations

Gross earned premium was $8,571 million, an increase of 10% over last year. The premium growth was due to acquisitions and a higher retention of business. Net earned premium increased 12% to $6,781 million. Reinsurance costs decreased from 23% to 21% of gross earned premium. The longstanding relationships with many of our reinsurers and the mutually profitable experience over the past few years have assisted us to obtain lower reinsurance costs and favourable terms. The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 91.2% compared with 93.8% last year. The claims ratio of 61.4% decreased from 63.3% last year due to the continuation of a low claims frequency from improved policy terms and conditions and premium rate increases, partially offset by the increase in catastrophe claims activity and the increase in prudential margins in outstanding claims. The commission ratio decreased from 18.2% last year to 17.5%, reflecting a change in the mix of business and the impact of acquisitions in the year. The expense ratio was unchanged at 12.3% reflecting the impact of synergies from acquisitions and other initiatives offset by higher staff incentive costs following improved results, increased costs of regulatory compliance and the costs of the restructure in the UK.

Australian general insurance combined operating ratio was 88.1% compared with 92.8% last year. The improved result was achieved from a continued focus on careful risk selection and the strong premium rate increases and improved terms and conditions achieved in 2002 and 2003. Net earned premium of $1,831 million was up 28% from last year, from improved customer retention and the acquisition of the remaining 50% of the QBE Mercantile Mutual joint venture. The claims ratio decreased from 67.2% to 61.0% reflecting a lower frequency of claims and the commission ratio increased from 11.1% to 13.3% due to higher commissions on acquired business. The expense ratio decreased from 14.5% last year to 13.8%.

Asia-Pacific general insurance combined operating ratio was 85.4% compared with 90.0% last year, benefitting from the continuous focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions in the past three years. The stronger Australian dollar had a significant impact on net earned premium, which increased by only 2% to $439 million. The claims ratio decreased from 50.0% last year to 48.3% from a lower frequency of claims, partially offset by the impact of losses from the tsunami in Asia. The commission ratio improved from 18.8% last year to 17.1% reflecting a change in the mix of business and geographic spread. The expense ratio decreased from 21.2% last year to 20.0% from savings through process re-engineering initiatives, partly offset by higher incentive payments to staff due to improved profitability, new information systems and the stronger Australian dollar.

the Americas reported net earned premium growth of 9% to $805 million due to premium rate increases, new general insurance programme business with a proven track record and a small acquisition in Brazil. The combined operating ratio was 92.3% compared with 93.1% last year. The improvements were achieved in both the general insurance and reinsurance businesses. The claims ratio improved from 63.4% to 60.1% due to higher premium rates and maintaining the significant improvements in policy terms and conditions. The commission ratio increased from 23.5% last year to 25.7% reflecting a change in the mix of business and increased profit commissions paid to our agents on profitable programme business. The expense ratio increased from 6.2% to 6.5% due to a change in the mix of business and higher incentive payments to staff for increased profitability.

European company operations reported net earned premium growth of 3% to $1,971 million, mainly from lower reinsurance costs. The division produced a combined operating ratio of 94.3% compared with 94.7% last year. The improvement in the general insurance result was partly offset by a deterioration in results on reinsurance business due to the impact of catastrophes in the year and an upgrade of 2001 and prior year outstanding claims provisions for long tail classes of business. The claims ratio was 66.3% compared with 66.7% last year. The commission ratio decreased from 15.6% last year to 15.0% from a change in the mix of business, and the expense ratio increased from 12.4% last year to 13.0% due to restructure costs, higher costs of regulatory compliance and the write-off of systems development expenditure.

Lloyd's division combined operating ratio was 92.1% compared with 95.1% last year, due to premium rate increases and improved terms and conditions for most classes of business over the past three years. Net earned premium increased 13% to $1,735 million, partly due to the Ensign acquisition and the increased share of ownership in syndicate 386. The claims ratio increased from 59.2% to 60.3% due to the increase in large and catastrophe losses in 2004 compared with 2003. The commission ratio decreased from 25.4% to 20.9% as a result of changes in the mix of business and a small correction in commissions in the previous year. The expense ratio was 10.9% compared with 10.5% last year.

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

Net investment income increased 23% to $508 million, reflecting an improvement in equity markets, particularly in Australia, and higher interest rates. The result includes net realised and unrealised gains on investments of $91 million ($110 million gain last year) and foreign exchange gains of $2 million ($13 million loss last year). The gross investment yield before borrowing costs, exchange gains and losses and investment expenses was unchanged at 4.6%.

Income tax expense for the year was 23.4% of profit before tax, primarily as a result of untaxed dividends, low rates of tax in some countries and the release of prior year provisions.

Group indemnities

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

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

The indemnity extends to legal costs other than where:

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

Article 115 was approved at the 2003 AGM.

Directors' and officers' insurance

The consolidated entity pays a premium each year in respect of a contract insuring directors, secretaries and executive officers of the consolidated entity together with any natural person who is a trustee of a superannuation fund established for the benefit of the consolidated entity's employees against liabilities past, present or future. The officers of the consolidated entity covered by the insurance contract include the directors listed on page 35, the secretary, DA Ramsay, and deputy secretaries, NG Drabsch and PE Barnes. Other officers covered by the insurance contract are directors and secretaries of controlled entities who are not also directors and secretaries of the ultimate parent and executive officers of the consolidated entity ("excluded officers").

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

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

Significant changes

On 30 June 2004, QBE Insurance Group Limited acquired ING's 50% share of the QBE Mercantile Mutual joint venture in Australia and ING's Australian general insurance underwriting business conducted by Mercantile Mutual Insurance (Australia) Limited and Mercantile Mutual Insurance (Workers Compensation) Limited.

Events subsequent to balance date

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2004 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years;
- the results of those operations in future financial years; or
- the consolidated entity's state of affairs in future financial years.

Likely developments

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

The consolidated entity will be required to comply with Australian equivalents to International Financial Reporting Standards ("AIFRS") and their related pronouncements for the financial year ending 31 December 2005. Further details concerning AIFRS are set out in note 2 to the financial statements.

Environmental regulation

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

Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/0100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the directors' report. Amounts have been rounded off in the directors' report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

Directors' and executives' remuneration

Details of the consolidated entity's directors' and executives' remuneration policies and the relationship between those policies and the consolidated entity's performance are provided in note 21 to the financial statements. In addition, the nature and amount of the elements of the remuneration of each director of the company and each of the specified executives, being the executives with the greatest authority for the strategic direction of the consolidated entity, are set out in note 21 to the financial statements.

Directors' and executives' interests as at 31 December 2004

(a) Directors' and executives' interests

Details of the Employee Share and Option Plan ("the Plan") and the Senior Executive Equity Scheme ("the SEES") are included in notes 21 and 22 to the financial statements. The names of all persons who currently hold options granted under the Plan and conditional rights granted under the SEES are entered in the registers kept by the company pursuant to section 173 of the *Corporations Act 2001* and the registers may be inspected free of charge.

(b) Related entity interests

Details of directors' and executives' interests with related parties are provided in note 21 to the financial statements.

Meetings of directors

	FULL MEETINGS OF DIRECTORS*	MEETINGS OF COMMITTEES				
		CHAIRMAN'S	AUDIT	REMUNERATION	INVESTMENT	FUNDING
NUMBER OF MEETINGS HELD	8	2	4	4	4	2
	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED
LF Bleasel AM	8	–	4	4	–	–
EJ Cloney	8	2	–	4	4	2
CP Curran AO	8	2	–	4	4	1
The Hon NF Greiner AC	8	–	4	4	–	–
BJ Hutchinson	8	–	4	–	4	2
CLA Irby	8	–	–	–	4	–
IYL Lee	8	–	4	–	4	1
FM O'Halloran	8	2	4	–	4	1

* Included a five day review meeting in London and quarterly meetings for each of the Australian regulated insurance companies.

During the July, September and November 2004 board meetings, the board also met as the nomination committee to consider issues relevant to the appointment of non-executive directors. In addition, further meetings occurred during the year including meetings of the chairman and chief executive officer, meetings of the directors with management and meetings of non-executive directors.

Directors

CLA Irby retires by rotation and offers himself for re-election. CP Curran AO will retire at the 2005 AGM.

Auditor

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

Signed in SYDNEY this 24th day of February 2005 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

Statements of financial performance

FOR THE YEAR ENDED 31 DECEMBER 2004

		THE COMPANY		CONSOLIDATED	
	NOTE	2004 $M	2003 $M	2004 $M	2003 $M
Revenue					
Premium revenue		**–**	–	**8,571**	7,816
Other revenue		**1,940**	488	**1,745**	1,424
Unrealised gains on investments		**–**	–	**68**	122
Investment income – ABC investments pledged for funds at Lloyd's	28	**–**	–	**40**	5
	3	**1,940**	488	**10,424**	9,367
Expenses		**51**	92	**9,172**	8,495
Amortisation of goodwill and write-off of intangibles		**–**	–	**22**	20
Borrowing costs expense		**65**	25	**94**	80
Borrowing costs expense – ABC securities for funds at Lloyd's	28	**–**	–	**56**	7
Profit from ordinary activities before income tax	4	**1,824**	371	**1,080**	765
Income tax (credit) expense attributable to profit from ordinary activities	5	**(16)**	(24)	**253**	188
Profit from ordinary activities after income tax		**1,840**	395	**827**	577
Net profit attributable to outside equity interests		**–**	–	**7**	5
Net profit attributable to members of the company	20	**1,840**	395	**820**	572
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	20	**–**	–	**12**	109
Total changes in equity other than those resulting from transactions with owners as owners	20	**1,840**	395	**808**	463

		CENTS	CENTS
Basic earnings per share	30	**117.8**	86.5
Diluted earnings per share	30	**105.3**	77.5

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

Statements of financial position

AS AT 31 DECEMBER 2004

	NOTE	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
CURRENT ASSETS					
Cash		**9**	1	**1,121**	717
Receivables	7	**3,455**	1,458	**3,176**	2,919
Reinsurance and other recoveries on outstanding claims	16	**–**	–	**805**	772
Deferred insurance costs	8	**–**	–	**1,341**	1,167
Investments	10	**–**	–	**6,548**	4,078
Tax assets		**–**	–	**2**	46
Other		**–**	–	**2**	3
Total current assets		**3,464**	1,459	**12,995**	9,702
NON-CURRENT ASSETS					
Reinsurance and other recoveries on outstanding claims	16	**–**	–	**2,293**	2,113
Investments	10	**3,617**	3,141	**7,398**	7,028
ABC investments pledged for funds at Lloyd’s	28	**–**	–	**998**	731
Plant and equipment	13	**–**	–	**101**	110
Intangibles	14	**–**	–	**1,090**	511
Deferred tax assets		**–**	–	**65**	116
Other	9	**71**	18	**162**	132
Total non-current assets		**3,688**	3,159	**12,107**	10,741
Total assets		**7,152**	4,618	**25,102**	20,443
CURRENT LIABILITIES					
Trade and other creditors	15	**921**	1,047	**1,103**	921
Outstanding claims	16	**–**	–	**3,652**	3,011
Unearned premium		**–**	–	**3,920**	3,320
Borrowings	17	**–**	–	**–**	86
Current tax liabilities		**81**	80	**73**	155
Total current liabilities		**1,002**	1,127	**8,748**	7,493
NON-CURRENT LIABILITIES					
Outstanding claims	16	**–**	–	**8,817**	7,469
Borrowings	17	**748**	332	**1,789**	1,248
ABC securities for funds at Lloyd’s	28	**–**	–	**984**	731
Deferred tax liabilities		**664**	646	**230**	117
Provisions	18	**27**	–	**54**	17
Total non-current liabilities		**1,439**	978	**11,874**	9,582
Total liabilities		**2,441**	2,105	**20,622**	17,075
Net assets		**4,711**	2,513	**4,480**	3,368
EQUITY					
Share capital	19	**2,866**	2,340	**2,866**	2,340
Equity component of hybrid securities	17	**108**	–	**108**	59
Reserves	20	**–**	–	**(131)**	(119)
Retained profits	20	**1,737**	173	**1,577**	1,033
Equity attributable to members of the company		**4,711**	2,513	**4,420**	3,313
Outside equity interests in controlled entities	12	**–**	–	**60**	55
Total equity	20	**4,711**	2,513	**4,480**	3,368

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

Statements of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2004

		THE COMPANY		CONSOLIDATED	
	NOTE	2004 $M	2003 $M	2004 $M	2003 $M
OPERATING ACTIVITIES					
Premium received		**–**	–	**8,598**	7,897
Reinsurance and other recoveries received		**–**	–	**907**	1,248
Outward reinsurance paid		**–**	–	**(1,664)**	(1,646)
Claims paid		**–**	–	**(4,006)**	(3,996)
Insurance costs paid		**–**	–	**(1,629)**	(1,499)
Other underwriting costs		**–**	–	**(374)**	(222)
Interest received		**–**	5	**471**	375
Dividends received		**435**	347	**50**	45
Other operating income		**–**	–	**18**	2
Other operating payments		**(15)**	(3)	**(16)**	(39)
Interest paid		**(33)**	(23)	**(103)**	(54)
Income taxes paid		**(39)**	(3)	**(142)**	(22)
Cash flows from operating activities	32	**348**	323	**2,110**	2,089
INVESTING ACTIVITIES					
Proceeds on sale of equity investments		**–**	–	**1,526**	706
Proceeds on sale of properties		**–**	–	**12**	2
Proceeds on sale of plant and equipment		**–**	–	**1**	1
Payments for purchase of equity investments		**–**	–	**(1,498)**	(925)
Proceeds from foreign exchange transactions		**–**	–	**30**	90
Payments for purchase of other investments		**–**	–	**(1,585)**	(1,883)
Payments for purchase of ABC investments		**–**	–	**(295)**	(777)
Payments for purchase of controlled entities and business acquired*		**(795)**	(485)	**(877)**	(3)
Payments for purchase of properties		**–**	–	**(5)**	(3)
Payments for purchase of plant and equipment		**–**	–	**(33)**	(31)
Cash flows from investing activities		**(795)**	(485)	**(2,724)**	(2,823)
FINANCING ACTIVITIES					
Payments to controlled entities		**(234)**	(402)	**–**	–
Proceeds from issue of shares		**390**	301	**1**	–
Proceeds from borrowings		**1,240**	378	**1,796**	461
Proceeds from issue of ABC securities		**–**	–	**294**	777
Repayment of borrowings		**(800)**	–	**(932)**	(268)
Dividends paid		**(141)**	(114)	**(141)**	(133)
Cash flows from financing activities		**455**	163	**1,018**	837
INCREASE IN CASH HELD		**8**	1	**404**	103
Cash at the beginning of the financial year		**1**	–	**717**	745
Effect of exchange rate changes on cash		**–**	–	**–**	(131)
Cash at end of financial year		**9**	1	**1,121**	717

* Consolidated is net of cash acquired

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2004

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by QBE Insurance Group Limited ("the company") as at 31 December 2004 and the results of all controlled entities for the financial year then ended. The company and its controlled entities together are referred to in this financial report as the "consolidated entity". The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and consolidated statement of financial position.

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

(B) Premium revenue

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

(C) Unearned premium

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

(D) Outward reinsurance

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

(E) Claims

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

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

(F) Acquisition costs

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

(G) Investment income

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

(H) Taxation

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

The company, as the head entity in the tax-consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly owned Australian controlled entities in the Group as if those transactions, events and balances were its own. Details are set out in note 5(C).

(I) Investments

(i) Basis of valuation

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

Quoted investments – by reference to market quotations.

Unquoted investments – directors' valuation based on current economic conditions and the latest available information.

Properties – independent valuation.

Controlled entities – lower of cost and recoverable amount.

(ii) Policyholders' and shareholders' funds

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

(iii) Recoverable amount

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(I) Investments continued

(iv) Derivatives

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

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

(J) Intangibles

Intangible assets are valued at cost unless there has been a permanent diminution in value, in which case they are valued at recoverable amount. Goodwill is amortised using the straight line method over no more than 20 years.

(K) Depreciation

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

(L) Borrowings

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

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

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

(M) Foreign currencies

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

(N) Cash

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

(O) Equity

Ordinary share capital is recognised at the issue price, net of issue costs.

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

(P) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration. It also adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

(Q) Dividends

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

(R) Superannuation

QBE participates in a number of superannuation plans across the Group and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities. Contributions are expensed as incurred.

(S) Rounding of amounts

The company is of a kind referred to in the ASIC class order 98/0100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) relating to the "rounding off" of amounts in the financial statements. Amounts have been rounded off in the financial statements to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that class order.

2

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The consolidated entity is required to comply with the Australian equivalents to IFRS ("AIFRS") for financial reporting periods commencing on or after 1 January 2005.

The consolidated entity's first AIFRS compliant financial statements will be for the half year ending 30 June 2005 and the year ending 31 December 2005. Entities complying with AIFRS for the first time must restate their comparative financial statements under AIFRS. The consolidated entity's opening AIFRS balance sheet will be a restated comparative balance sheet dated 1 January 2004.

The consolidated entity's IFRS project commenced in March 2003 under the sponsorship of the chief financial officer and Group executive. The project is internally resourced and includes senior finance managers from each operating division, Group and overseas actuarial teams and product specialists as required. The project is supported by two full time project managers based in Australia and the UK. The project team has produced a detailed timetable for managing the transition and is currently on schedule. To date the project team has analysed most of the AIFRS and has identified a number of changes to Group accounting policies and made recommendations on a number of options available under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards ("AASB 1"), as noted below.

The consolidated entity is now implementing changes to accounting and treasury administration processes and systems to enable AIFRS compliant reporting in 2005. Regular updates have been provided to the Group audit committee throughout the project and this will continue until AIFRS is fully embedded in the consolidated entity's accounting policies, systems and business processes.

The key differences in the consolidated entity's accounting policies expected to arise on the adoption of AIFRS on 1 January 2005 are summarised as follows:

(A) Insurance contracts

IFRS 4: Insurance Contracts, the International Accounting Standards Board's ("IASB") phase I insurance contracts standard, has resulted in amendments to Accounting Standard AASB 1023: General Insurance Contracts ("AASB 1023"). The revised standard defines an insurance contract and any contracts not meeting this definition must be accounted for under AASB 139: Financial Instruments: Recognition and Measurement ("AASB 139"). Insurance and reinsurance contracts within the consolidated entity have been reviewed and are considered to fall within AASB 1023.

Other accounting changes of significance to the consolidated entity are the introduction of an adequacy test for insurance liabilities and an impairment test for reinsurance assets. The consolidated entity is working with other general insurance companies and the AASB to address issues arising from the liability adequacy test as currently worded. The impact of the test cannot be determined at this time. The revised standard has significant disclosure requirements including a requirement to produce a 10 year claims development table commencing with a five year history in 2005. This will require analysis of the consolidated entity's business across multiple jurisdictions and the collection of several years of historical data which will require a significant commitment of time and resources. The fundamental changes to insurance recognition and measurement currently proposed in phase II of the IASB insurance contracts project are being monitored.

(B) Investments

The AASB has prescribed that insurance companies must account for assets backing insurance liabilities at "fair value through profit or loss". This is consistent with the consolidated entity's current policy of taking market value movements through the statement of financial performance. Financial assets held to back shareholders' funds may be accounted for on a purpose led basis. The consolidated entity has elected to designate financial assets currently held, including equities, fixed interest and cash, such that all assets will be valued at fair value through profit and loss. The consolidated entity will continue to review its investment strategy and may determine that one of the other permitted bases of accounting be applied to future asset acquisitions.

(C) Hedge accounting

In order to qualify for hedge accounting treatment under AASB 139, foreign exchange hedges in respect of the consolidated entity's net investment in foreign operations and cash flow hedges relating to the consolidated entity's borrowings must comply with strict designation and effectiveness requirements for each instrument held. Group hedging instruments will satisfy the AIFRS requirements and therefore no financial impact is expected.

(D) Defined benefit superannuation plans

Under AASB 119: Employee Benefits ("AASB 119"), surpluses and deficits in the consolidated entity's defined benefit pension plans must be recognised in the statement of financial position. The new standard imposes a more conservative actuarial valuation methodology than current Australian GAAP. On transition to AIFRS, the net deficit after tax will be booked to retained profits. The consolidated entity will elect to early adopt a revised version of AASB 119 so that net movements in plan surpluses and deficits will be taken directly to retained profits. The consolidated entity's exposure to equities in the plans has been reviewed. Management will implement investment strategies in conjunction with the trustees of the plans to minimise volatility as far as possible.

(E) Equity-based compensation benefits

Shares and options issued to employees on or after 7 November 2002 must be recognised as an expense in the period in which the employee provides related services. This will result in a change in accounting policy as no such expense is currently recognised. The consolidated entity has not elected to apply AIFRS retrospectively to shares and options issued prior to 7 November 2002 as permitted in AASB 1. On transition to AIFRS, an amount will be booked to retained profits in respect of the shares and options expense for the period 7 November 2002 to 1 January 2004. The Federal Treasurer has announced that tax legislation will not be amended to allow a tax deduction for this expense.

2

INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONTINUED

(F) Intangible assets and goodwill

Intangible assets must meet specific criteria to be recognised as identifiable intangible assets under AIFRS. Intangible assets acquired as part of a business combination which fail to meet these criteria will be reclassified as goodwill. Intangible assets with an indefinite useful life will be subject to annual impairment testing but those with a finite useful life will be amortised. Goodwill will no longer be amortised but will be subject to annual impairment testing. The consolidated entity has elected to apply AIFRS prospectively as permitted by AASB 1. Previous acquisitions will be grandfathered and retained at the existing carrying amount subject to impairment adjustments.

(G) Taxation

Under AIFRS, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This differs from current Australian GAAP under which deferred tax balances are determined using the income statement method and current and deferred taxes cannot be recognised directly in equity.

The above summary of the impact of AIFRS on the consolidated entity is based on the "stable platform" of standards which were finalised in July 2004 and were effective from 1 January 2005. The consolidated entity is still considering the impact of subsequent amendments to several standards scheduled to be effective from 2006 with earlier adoption permitted.

3

REVENUE

	THE COMPANY		CONSOLIDATED	
	2004 $M	2003 $M	2004 $M	2003 $M
Revenue from ordinary activities				
Premium revenue				
Direct	**–**	–	**6,583**	5,606
Inward reinsurance	**–**	–	**1,988**	2,210
	–	–	**8,571**	7,816
Outward reinsurance revenue				
Reinsurance and other recoveries	**–**	–	**1,171**	997
Investment revenue				
Investment income	**1,940**	478	**549**	427
Realised gains on investments	**–**	–	**23**	–
Exchange gains	**–**	10	**2**	–
	1,940	488	**574**	427
Unrealised gains on investments	**–**	–	**68**	122
Investment income – ABC investments pledged for funds at Lloyd's	**–**	–	**40**	5
Total revenue	**1,940**	488	**10,424**	9,367

4

PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

(A) PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX (CONSOLIDATED)

	NOTE	2004 $M	2003 $M
Gross written premium		**8,766**	8,350
Unearned premium movement		**(195)**	(534)
Gross earned premium		**8,571**	7,816
Outward reinsurance premium		**1,781**	1,809
Deferred reinsurance premium movement		**9**	(29)
Outward reinsurance premium expense		**1,790**	1,780
Net earned premium		**6,781**	6,036
Gross claims incurred		**5,139**	4,680
Claims settlement expenses		**198**	140
Reinsurance and other recoveries		**(1,171)**	(997)
Net claims incurred	6	**4,166**	3,823
Net commission		**1,184**	1,100
Other acquisition costs		**439**	397
Underwriting and other expenses		**398**	344
		6,187	5,664
Underwriting profit		**594**	372
Investment income on policyholders' funds		**314**	255
Insurance profit		**908**	627
Investment income on shareholders' funds		**194**	158
Amortisation of goodwill and write-off of intangibles		**(22)**	(20)
Profit from ordinary activities before income tax		**1,080**	765

4

PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX
CONTINUED

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
(B) INVESTMENT AND OTHER INCOME				
Dividends from controlled entities	**1,867**	441	**–**	–
Dividends from non-related entities	**–**	–	**52**	46
Interest received or receivable from controlled entities	**58**	32	**–**	–
Interest received or receivable from non-related entities	**1**	–	**483**	365
Other income	**14**	5	**14**	16
	1,940	478	**549**	427
Exchange (losses) gains	**(47)**	10	**2**	(13)
Realised (losses) gains on investments				
Equities and properties	**–**	(79)	**54**	(13)
Fixed interest and other	**–**	–	**(31)**	1
	1,893	409	**574**	402
Interest paid or payable to controlled entities	**–**	(8)	**–**	–
Interest paid or payable to non-related entities	**(65)**	(17)	**(94)**	(80)
Investment income – ABC investments pledged for funds at Lloyd's	**–**	–	**40**	5
Borrowing costs expense – ABC securities for funds at Lloyd's	**–**	–	**(56)**	(7)
Other investment expenses	**(4)**	(13)	**(24)**	(29)
Investment and other income before unrealised gains/losses	**1,824**	371	**440**	291
Unrealised gains (losses) on investments				
Equities and properties	**–**	–	**50**	176
Fixed interest and other	**–**	–	**18**	(54)
Investment and other income	**1,824**	371	**508**	413
Investment income on policyholders' funds			**314**	255
Investment income on shareholders' funds			**194**	158
Investment and other income			**508**	413
(C) SPECIFIC ITEMS				
Payments on operating leases	**–**	–	**23**	23
Depreciation of assets	**–**	–	**53**	36
Bad debts written off	**–**	–	**8**	6
Increase in provision for employee entitlements	**–**	–	**–**	4
Increase in provision for doubtful debts	**–**	–	**18**	19
Amortisation of goodwill and write-off of intangibles	**–**	–	**22**	20
Loss on sale of plant and equipment	**–**	–	**1**	1

5 INCOME TAX

(A) RECONCILIATION OF PRIMA FACIE TAX TO INCOME TAX EXPENSE

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Profit from ordinary activities before income tax	**1,824**	371	**1,080**	765
Prima facie tax payable at 30%	**547**	111	**324**	229
Tax effect of permanent differences:				
Untaxed dividends	**(563)**	(132)	**(15)**	(11)
Differences in tax rates	**9**	7	**(9)**	(3)
Income tax expense related to current and deferred tax transactions of the wholly owned controlled entities in the tax-consolidated group	**150**	74	**–**	–
Recovery of income tax expense under tax sharing agreement	**(150)**	(74)	**–**	–
Other, including non-allowable expenses and non-taxable income	**(8)**	(4)	**(20)**	(3)
Prima facie tax adjusted for permanent differences	**(15)**	(18)	**280**	212
Future income tax benefit not recognised	**–**	–	**–**	4
Over provision in prior years	**(1)**	(6)	**(27)**	(28)
Income tax (credit) expense attributable to profit from ordinary activities	**(16)**	(24)	**253**	188

(B) FUTURE INCOME TAX BENEFIT RELATING TO TAX LOSSES

The consolidated entity has a cumulative future income tax benefit not brought to account of $4 million (2003 $2 million), which includes the benefit arising from tax losses in overseas countries. This benefit will only be brought to account when the directors are virtually certain that it will be realised. This benefit for tax losses will only be obtained if:

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

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

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

Included in deferred tax assets is $11 million (2003 $4 million) relating to tax losses which the directors are virtually certain will be realised.

(C) TAX CONSOLIDATION

Effective 1 January 2003, the company became the head entity in a tax-consolidated group comprising the company and all of its Australian wholly owned controlled entities ("Australian entities"). UIG 52: Income tax accounting under the tax consolidation system has been applied since that date.

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

The company has formally notified the Australian Taxation Office that the tax consolidation regime has been adopted by the Australian entities.

Details of franking credits available to shareholders are shown in note 19(D).

6

CLAIMS INCURRED (CONSOLIDATED)

(A) CLAIMS ANALYSIS

	2004 $M	2003 $M
Gross claims incurred and related expenses		
Direct	**3,965**	3,507
Inward reinsurance	**1,372**	1,313
	5,337	4,820
Reinsurance and other recoveries		
Direct	**843**	843
Inward reinsurance	**328**	154
	1,171	997
Net claims incurred	**4,166**	3,823

(B) CLAIMS DEVELOPMENT

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

	2004			2003		
	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M
Gross claims incurred and related expenses						
Undiscounted	**5,808**	**(205)**	**5,603**	4,740	(27)	4,713
Discount	**(541)**	**275**	**(266)**	(321)	428	107
	5,267	**70**	**5,337**	4,419	401	4,820
Reinsurance and other recoveries						
Undiscounted	**1,322**	**(65)**	**1,257**	866	17	883
Discount	**(153)**	**67**	**(86)**	(46)	160	114
	1,169	**2**	**1,171**	820	177	997
Net claims incurred						
Undiscounted	**4,486**	**(140)**	**4,346**	3,874	(44)	3,830
Discount	**(388)**	**208**	**(180)**	(275)	268	(7)
	4,098	**68**	**4,166**	3,599	224	3,823

7

RECEIVABLES – CURRENT

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Trade debtors				
Premium	**–**	–	**773**	680
Reinsurance and other recoveries	**–**	–	**640**	624
Unclosed premium	**–**	–	**1,273**	1,188
	–	–	**2,686**	2,492
Doubtful debts provision*				
Premium	**–**	–	**(37)**	(23)
Reinsurance and other recoveries	**–**	–	**(75)**	(75)
	–	–	**2,574**	2,394
Other debtors	**1**	–	**404**	330
Treasury receivables	**46**	–	**32**	94
Investment receivables	**5**	4	**166**	101
Amounts due from controlled entities	**3,403**	1,454	**–**	–
	3,455	1,458	**3,176**	2,919

* A doubtful debts provision against reinsurance and other recoveries on outstanding claims of $88 million (2003 $86 million) is included in note 16.

8

DEFERRED INSURANCE COSTS (CONSOLIDATED)

	2004 $M	2003 $M
Deferred reinsurance premium	**560**	534
Deferred net commission	**577**	463
Deferred acquisition costs	**204**	170
	1,341	1,167

9

OTHER NON-CURRENT ASSETS

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Loans secured by shares	**–**	–	**90**	76
Accrued borrowing costs	**24**	18	**37**	34
Other	**47**	–	**35**	22
	71	18	**162**	132

10

INVESTMENTS (CONSOLIDATED)

(A) INVESTMENTS – MARKET VALUE

	2004 $M	2003 $M
Interest bearing securities		
Short term money	**5,482**	3,499
Fixed interest securities and other	**6,947**	6,209
Mortgages	**10**	7
	12,439	9,715
Equities		
Quoted	**1,340**	1,245
Unquoted	**50**	27
	1,390	1,272
Properties	**117**	119
	13,946	11,106
Current	**6,548**	4,078
Non-current	**7,398**	7,028
	13,946	11,106

ABC investments pledged for funds at Lloyd's are not included in this analysis. Details of ABCs are included in note 28(C).

(B) PROPERTIES

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

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

(C) INVESTMENTS MATURING WITHIN TWELVE MONTHS

Non-current investments include amounts maturing within twelve months of $1,408 million (2003 $1,403 million) which, in the normal course of business, will be reinvested and not used for working capital.

(D) CHARGES OVER INVESTMENTS AND OTHER ASSETS

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of QBE's corporate members at Lloyd's of London as described in note 24. Details of the fixed and floating charges over ABC investments pledged for funds at Lloyd's are set out in note 28(C).

11

FINANCIAL INSTRUMENTS (CONSOLIDATED)

(A) INTEREST RATE RISK

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

	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN LESS THAN 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL MARKET VALUE	
	2004 $M	2003 $M	2004 $M	2003 $M	2004 $M	2003 $M	2004 $M	2003 $M	2004 $M	2003 $M
(i) Net interest bearing financial assets (excluding ABC investments and ABC securities)										
Interest bearing securities	**2,542**	2,612	**6,055**	3,723	**3,188**	3,259	**654**	121	**12,439**	9,715
Weighted average interest rate	**3.8%**	3.0%	**4.5%**	4.3%	**4.8%**	4.8%	**5.0%**	5.5%	**4.4%**	4.1%
Borrowings	**–**	–	**–**	(86)	**(429)**	(1)	**(1,360)**	(1,247)	**(1,789)**	(1,334)
Weighted average interest rate	**–**	–	**–**	4.2%	**5.6%**	5.0%	**4.5%**	4.9%	**4.8%**	4.9%
Net interest bearing financial assets	**2,542**	2,612	**6,055**	3,637	**2,759**	3,258	**(706)**	(1,126)	**10,650**	8,381
(ii) ABC investments and ABC securities										
ABC investments pledged for funds at Lloyd's	**–**	–	**–**	–	**998**	731	**–**	–	**998**	731
Weighted average interest rate	**–**	–	**–**	–	**3.9%**	3.5%	**–**	–	**3.9%**	3.5%
ABC securities for funds at Lloyd's	**–**	–	**–**	–	**(984)**	(731)	**–**	–	**(984)**	(731)
Weighted average interest rate	**–**	–	**–**	–	**4.7%**	4.7%	**–**	–	**4.7%**	4.7%
Net ABC investments and ABC securities	**–**	–	**–**	–	**14**	–	**–**	–	**14**	–

The consolidated entity's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. The company is exposed to interest rate and foreign currency risk in respect of the ABC securities, details of which are included in note 28(C). Accordingly, the company has entered into two swap agreements, being an interest rate swap agreement with a financial institution under which it is obliged to pay interest at a variable rate and receive interest at a fixed rate and a foreign currency interest rate swap agreement under which it is obliged to pay variable rate interest on a sterling asset portfolio and receive a fixed amount of US dollar interest.

Contractual amounts outstanding for the interest rate and currency rate swaps at the balance date are a net receivable of $2 million (2003 $3 million). The contracts require settlement of net interest receivable or payable every six months.

	2004 $M	2003 $M
(iii) Reconciliation of net financial assets to net assets		
Net financial assets		
Interest bearing	**10,650**	8,381
ABC investments pledged for funds at Lloyd's	**998**	731
ABC securities for funds at Lloyd's	**(984)**	(731)
Non-interest bearing and other	**2,846**	2,310
Net insurance liabilities	**(10,110)**	(7,943)
Net non-financial assets	**1,080**	620
Net assets	**4,480**	3,368

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FINANCIAL INSTRUMENTS (CONSOLIDATED) CONTINUED

(B) FOREIGN EXCHANGE AND MARKET RISK

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

(i) The consolidated entity is exposed to foreign exchange risk on its net position in foreign currencies. The consolidated entity uses derivatives to help manage this exposure by entering into forward foreign exchange contracts and currency options, some of which involve the exchange of two foreign currencies according to the needs of controlled foreign entities. Contractual amounts for foreign exchange derivatives outstanding at balance date include forward foreign exchange contracts to purchase $5,162 million (2003 $4,061 million).

The maturity profile of these derivatives is as follows:

	2004 $M	**2003 $M**
Less than one year	**4,962**	2,932
More than one but less than five years	**–**	604
More than five years	**200**	525
	5,162	4,061

(ii) The consolidated entity is exposed to market risk on its investment in equities and fixed interest securities and uses forward contracts and options to help manage this exposure. All derivative positions entered into by the consolidated entity are for hedging purposes. No speculative positions are entered into. Contractual amounts for written options outstanding at the balance date were $12 million (2003 $nil). There were no amounts outstanding for purchased options (2003 $nil).

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

(C) CREDIT RISK

The credit risk on financial assets of the consolidated entity is generally the carrying amount, which is net of any provisions. The consolidated entity only uses derivatives in highly liquid markets. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with each counterparty.

The consolidated entity does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security to support derivatives.

12 INVESTMENTS IN CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2004 %	2003 %
(A) PARENT ENTITY			
QBE Insurance Group Limited	Australia		
(B) CONTROLLED ENTITIES			
AIS Green Slip Group Pty Limited	Australia	**100.00**	100.00
Atlasz Real Estate and Management Limited	Hungary	**100.00**	100.00
Atlasz Utasbiztositási Egyes Ügynöki Kft	Hungary	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
Bankside Insurance Holdings Limited	UK	**100.00**	100.00
Bankside Services (Americas) Inc	USA	**100.00**	100.00
Bankside Services Limited (in liquidation)	UK	**100.00**	100.00
Bankside Underwriting Agencies Limited	UK	**100.00**	100.00
Bates Cunningham Underwriting Limited (in liquidation)	UK	**100.00**	100.00
BIDV – QBE Insurance Company Limited*	Vietnam	**50.00**	50.00
CHU Underwriting Agencies Pty Ltd	Australia	**100.00**	–
Compania Internationale de Asigurari QBE ASITO SA	Moldova	**72.60**	72.60
Corporate Underwriting Agencies Pty Ltd	Australia	**100.00**	–
DA Constable Syndicate Limited	UK	**100.00**	100.00
DA Constable Syndicate Pty Limited	Australia	**100.00**	100.00
DA Constable Syndicate (Ireland) Limited	Ireland	**100.00**	100.00
Energy Insurance Services Limited	UK	**100.00**	100.00
Ensign Dedicated 1 Limited	UK	**100.00**	–
Ensign Holdings Limited	UK	**100.00**	–
Ensign Plus Insurance Services Limited	UK	**100.00**	–
Equator Investments Pty Limited	Australia	**100.00**	100.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
European Claims Organisation Limited	UK	**100.00**	–
FAI Insurances (Fiji) Limited	Fiji	**100.00**	100.00
Garwyn Ireland Limited	Ireland	**100.00**	100.00
Garwyn Limited	UK	**100.00**	100.00
Hyfield Company Limited*	Thailand	**49.00**	49.00
Icon Schemes Limited	UK	**100.00**	–
Insurance Consult SRL	Moldova	**100.00**	100.00
Iron Trades Management Services Limited	UK	**100.00**	100.00
Janson Green Holdings (Canada) Inc	Canada	**100.00**	100.00
Janson Green Holdings Limited (in liquidation)	UK	**100.00**	100.00
Janson Green Holdings Special Trust Limited (awaiting strike-off)	UK	**100.00**	100.00
Limit (Insurance and Reinsurance) Services Limited	UK	**100.00**	100.00
Limit No 1 Limited	UK	**100.00**	100.00
Limit No 2 Limited	UK	**100.00**	100.00
Limit No 3 Limited	UK	**100.00**	100.00
Limit No 4 Limited	UK	**100.00**	100.00
Limit No 5 Limited	UK	**100.00**	100.00
Limit No 6 Limited	UK	**100.00**	100.00
Limit No 7 Limited	UK	**100.00**	100.00
Limit No 10 Limited	UK	**100.00**	100.00
Limit No 12 Limited (in liquidation)	UK	**100.00**	100.00
Limit No 14 Limited (in liquidation)	UK	**100.00**	100.00
Limit No 17 Limited (in liquidation)	UK	**100.00**	100.00
Limit Corporate Members Limited	UK	**100.00**	100.00
Limit Group Employee Benefits Trustee Ltd	UK	**100.00**	100.00
Limit Holdings Limited	UK	**100.00**	100.00
Limit plc	UK	**100.00**	100.00

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INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

(B) CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2004 %	2003 %
Limit Properties Limited	UK	**100.00**	100.00
Limit Technology and Commercial Underwriting Limited	UK	**100.00**	100.00
Limit Underwriting Limited	UK	**100.00**	100.00
Mantis Reef Limited**	Cayman Is	**–**	–
Mantis Reef II Limited**	Cayman Is	**–**	–
Mantis Reef Pledge Limited**	Cayman Is	**–**	–
Mantis Reef II Pledge Limited**	Cayman Is	**–**	–
Mercantile Equities Pty Limited	Australia	**100.00**	–
Mercantile Mutual Insurance (Australia) Limited	Australia	**100.00**	–
Mercantile Mutual Insurance (NSW Workers Compensation) Pty Limited	Australia	**100.00**	–
Mercantile Mutual Insurance (SA Workers Compensation) Limited	Australia	**100.00**	–
Mercantile Mutual Insurance (Workers Compensation) Limited	Australia	**100.00**	–
Mercantile Mutual Worksure Limited	Australia	**100.00**	–
Minster Court Asset Management Limited	UK	**100.00**	100.00
Pitt Nominees Pty Limited	Australia	**100.00**	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	**60.00**	60.00
QBE ART SA	Argentina	**83.00**	83.00
QBE Atlasz Biztosito Rt	Hungary	**100.00**	100.00
QBE Australia Pty Limited	Australia	**100.00**	100.00
QBE Brasil Seguros SA	Brazil	**100.00**	100.00
QBE Capital Limited (in liquidation)	Jersey	**100.00**	100.00
QBE Corporate Capital Holdings plc	UK	**100.00**	100.00
QBE Corporate Holdings Ltd	UK	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE Finance Pty Limited	Australia	**100.00**	100.00
QBE Funding Limited	Jersey	**100.00**	100.00
QBE Funding II Limited	Jersey	**100.00**	100.00
QBE Funding III Limited	Jersey	**100.00**	–
QBE Funding Trust	USA	**100.00**	100.00
QBE Funding Trust II	USA	**100.00**	100.00
QBE Funding Trust III	USA	**100.00**	–
QBE Holdings (Australia) Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE Holdings Inc	USA	**100.00**	100.00
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance Company (UK) Limited	UK	**100.00**	100.00
QBE Insurance Corporation	USA	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00
QBE Insurance (Hong Kong) Limited (in liquidation)	Hong Kong	**100.00**	100.00
QBE Insurance (International) Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**51.00**	51.00
QBE Insurance (Philippines) Inc	Philippines	**59.00**	59.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Singapore) Pte Ltd	Singapore	**100.00**	–
QBE Insurance (Thailand) Co Ltd*	Thailand		
Thai resident entities		**23.67**	23.67
Non-Thai resident entities		**24.87**	24.87
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE International Holdings Limited	Hong Kong	**100.00**	100.00
QBE International Holdings (UK) plc	UK	**100.00**	100.00

12 INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

(B) CONTROLLED ENTITIES CONTINUED

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2004 %	2003 %
QBE International Insurance Limited	UK	**100.00**	100.00
QBE International (Investments) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	USA	**100.00**	100.00
QBE Investments Pty Limited	Australia	**100.00**	100.00
QBE IT Services Pty Limited	Australia	**100.00**	100.00
QBE Makedonija***	Macedonia	**65.25**	65.03
QBE Management (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Management Inc	USA	**100.00**	100.00
QBE Management Services Pty Ltd	Australia	**100.00**	100.00
QBE Management (UK) Limited	UK	**100.00**	100.00
QBE Marine Underwriting Agency Pte Limited	Singapore	**70.00**	70.00
QBE Mercantile Mutual Limited	Australia	**100.00**	50.00
QBE Nominees (PNG) Pty Limited	PNG	**100.00**	100.00
QBE Nominees Pty Limited	Australia	**100.00**	100.00
QBE Pacific Insurance Limited	PNG	**100.00**	100.00
QBE (PNG) Pty Limited	PNG	**100.00**	100.00
QBE Poistovna AS	Slovakia	**100.00**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Reinsurance Administration Pty Ltd	Australia	**100.00**	100.00
QBE Reinsurance Corporation	USA	**100.00**	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Reinsurance (Europe) Limited	Ireland	**100.00**	100.00
QBE Reinsurance (UK) Limited	UK	**100.00**	100.00
QBE Specialty Insurance Company	USA	**100.00**	100.00
QBE Trade Indemnity Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE-UGPB Insurance*	Ukraine	**50.00**	50.00
QBE Underwriting Agency Ltd (in liquidation)	UK	**100.00**	100.00
QBE WorkAble Limited	NZ	**100.00**	100.00
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
Queensland Insurance (Australia) Pty Limited	Australia	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
Sandsale Limited	UK	**100.00**	100.00
Sinkaonamahasarn Company Limited*	Thailand	**49.00**	49.00
SRL Underwriting Limited	UK	**100.00**	–
Star Trust**	Cayman Is	**–**	–
Strakh-Consult	Ukraine	**100.00**	100.00
TII Insurance Brokers Pty Limited (in liquidation)	Australia	**100.00**	100.00
Torch Dedicated Corporate Member Limited	UK	**100.00**	100.00
Torch Holdings (in liquidation)	UK	**100.00**	100.00
Torch Insurance Services Limited	UK	**100.00**	–
Travelon Pty Limited	Australia	**100.00**	100.00
TII Pty Limited (in liquidation)	Australia	**100.00**	100.00
Universal Management Limited	Ireland	**100.00**	100.00

* The following special conditions exist with respect to the consolidated entity's equity holdings:
For accounting purposes, the consolidated entity has effective control of QBE Insurance (Thailand) Co Ltd, QBE-UGPB Insurance and BIDV-QBE Insurance Company Limited.
The issued share capital of Hyfield Company Limited and Sinkaonamahasarn Company Limited owned by the consolidated entity is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.

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

*** The shareholding in QBE Makedonija equates to 73.50% (2003 73.28%) of the voting rights.

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INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

(C) CHANGE OF NAME

Controlled entity	**Former name**
AIS Green Slip Pty Limited	Australian Aviation Insurance Group (Agency) Pty Limited
QBE Insurance (Fiji) Limited	Queensland Insurance (Fiji) Limited
QBE Insurance (Malaysia) Berhad	QBE-MBF Insurans Berhad
QBE IT Services Pty Limited	Insure IT Services Pty Limited

	2004 $M	2003 $M
(D) OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES (CONSOLIDATED)		
Ordinary share capital	**57**	57
Reserves	**(15)**	(13)
Retained profits	**18**	11
	60	55

(E) UNDISTRIBUTED PROFITS OF OVERSEAS CONTROLLED ENTITIES

Undistributed profits of overseas controlled entities amount to $1,387 million (2003 $1,099 million). Any distribution of these profits as dividends will not be subject to assessment for Australian tax.

(F) EQUITY

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

(G) ACQUISITIONS

On 30 June 2004, the company acquired the remaining 50% of the share capital in QBE Mercantile Mutual Limited in Australia and 100% of the share capital of Mercantile Mutual Insurance (Australia) Limited and Mercantile Mutual Insurance (Workers Compensation) Limited. The initial purchase price was $770 million for net tangible assets of $392 million. A further $25 million is payable in February 2007 subject to the runoff of net insurance liabilities.

In addition, the following entities were acquired during the financial year:

- On 23 February 2004, a wholly owned entity acquired Ensign Holdings Limited, its related entities and the rights to manage syndicate 980.
- On 23 February 2004, a wholly owned entity acquired SRL Underwriting Limited.
- On 30 April 2004, a wholly owned entity acquired Icon Schemes Limited (formerly Tolson Messenger Limited).
- On 30 June 2004, a wholly owned entity acquired QBE Insurance (Singapore) Pte Ltd (formerly Zurich Insurance (Singapore) Pte Ltd).
- On 1 July 2004, a wholly owned entity acquired a compulsory third party agency business in Australia known as AIS Green Slip Group.
- On 30 November 2004, a wholly owned entity acquired CHU Underwriting Agencies Pty Limited and Corporate Underwriting Agencies Pty Ltd.

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INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

(G) ACQUISITIONS CONTINUED

	2004 $M
Fair value of identifiable net tangible assets of controlled entities acquired:	
Cash	**123**
Current investments	**1,194**
Receivables	**321**
Deferred insurance costs	**129**
Plant and equipment	**9**
Trade and other creditors	**(306)**
Net outstanding claims	**(613)**
Unearned premium	**(412)**
Provision for income tax	**(9)**
Net deferred income tax	**20**
Other provisions	**(6)**
	450
Intangibles on acquisitions	**556**
Cost of acquisitions*	**1,006**

* Includes deferred cash consideration and options issued during the financial year. The options are subject to performance hurdles. Cost of acquisitions includes only those options where performance hurdles are expected to be achieved.

	2004 $M
The net cash flow relating to acquisitions was as follows:	
Cash consideration	**953**
Cash acquired	**(123)**
Net cash paid	**830**

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PLANT AND EQUIPMENT (CONSOLIDATED)

	2004 $M	2003 $M
Cost	**338**	297
Accumulated depreciation	**(237)**	(187)
	101	110

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INTANGIBLES (CONSOLIDATED)

	2004 $M	2003 $M
Goodwill at cost, less amounts written off	**764**	200
Accumulated amortisation	**(60)**	(38)
	704	162
Identifiable intangibles	**386**	349
	1,090	511

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TRADE AND OTHER CREDITORS

	THE COMPANY		CONSOLIDATED	
	2004 $M	2003 $M	2004 $M	2003 $M
Trade creditors	**–**	–	**652**	589
Amounts due to controlled entities	**892**	1,030	**–**	–
Other creditors and accrued expenses	**12**	12	**396**	273
Treasury creditors	**13**	4	**28**	19
Investment creditors	**4**	1	**27**	40
	921	1,047	**1,103**	921

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OUTSTANDING CLAIMS (CONSOLIDATED)

(A) NET OUTSTANDING CLAIMS

	2004 $M	2003 $M
Gross outstanding claims including prudential margins	**14,403**	12,001
Discount to present value	**(1,934)**	(1,521)
	12,469	10,480
Current	**3,652**	3,011
Non-current	**8,817**	7,469
	12,469	10,480
Reinsurance and other recoveries on outstanding claims	**3,568**	3,241
Discount to present value	**(470)**	(356)
	3,098	2,885
Current	**805**	772
Non-current	**2,293**	2,113
	3,098	2,885
Net outstanding claims	**9,371**	7,595
Net outstanding claims by geographic segment		
Australian general insurance	**2,278**	1,615
Asia-Pacific general insurance	**486**	372
the Americas	**608**	465
European company operations	**2,849**	2,518
Lloyd's division	**3,150**	2,625
	9,371	7,595

Prudential margins have been taken up to partially offset the effect of the discount on outstanding claims and to cover uncertainties such as latency claims, changes in interest rates and superimposed inflation.

Reinsurance and other recoveries on outstanding claims are shown net of a doubtful debts provision of $88 million (2003 $86 million).

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OUTSTANDING CLAIMS (CONSOLIDATED) CONTINUED

(B) INFLATION AND DISCOUNT RATES

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

	2004 %		2003 %	
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR	SUBSEQUENT YEARS
Australian general insurance				
Inflation rates	**4.00–11.00**	**4.00–11.00**	4.00–11.00	4.00–11.00
Discount rates	**5.57**	**5.48–5.84**	5.87–6.10	5.84–6.55
Asia-Pacific general insurance				
Discount rates	**0.60–7.85**	**1.66–10.35**	0.02–10.24	0.23–12.60
the Americas				
Discount rate	**3.35**	**3.35**	1.70	1.70
European company operations				
Discount rates	**3.35–4.85**	**3.35–4.85**	0.90–5.40	1.30–5.70
Lloyd's division				
Discount rate	**4.85**	**4.85**	4.50	4.50

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

(C) WEIGHTED AVERAGE TERM TO SETTLEMENT

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

	2004 YEARS	2003 YEARS
Australian general insurance	**3.3**	3.1
Asia-Pacific general insurance	**1.9**	1.7
the Americas	**2.1**	2.1
European company operations	**3.2**	3.0
Lloyd's division	**3.1**	3.2
Consolidated entity	**3.0**	3.0

17 BORROWINGS

(A) BORROWINGS ANALYSIS

Borrowings are repayable as follows:

		THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Bank loans					
21 January 2004	US$30 million	**–**	–	**–**	40
27 April 2004	US$6 million	**–**	–	**–**	8
15 October 2004	€16 million	**–**	–	**–**	27
21 December 2004	US$8 million	**–**	–	**–**	11
11 July 2005	€1 million	**–**	–	**–**	1
		–	–	**–**	87
Senior debt					
28 September 2009	£175 million	**429**	–	**429**	–
Eurobonds*					
2 August 2010	A$150 million/£58 million	**–**	–	**143**	138
2 August 2010	A$20 million/£8 million	**–**	–	**19**	18
2 August 2010	€115 million/£70 million	**–**	–	**150**	145
		–	–	**312**	301
Hybrid securities**					
15 April 2022	US$399 million (2003 US$816 million)	**–**	–	**297**	614
21 September 2024	US$558 million (2003 nil)	**–**	–	**432**	–
		–	–	**729**	614
Subordinated debt					
1 July 2023	US$250 million	**319**	332	**319**	332
Total borrowings		**748**	332	**1,789**	1,334
Current		**–**	–	**–**	86
Non-current		**748**	332	**1,789**	1,248
Total borrowings		**748**	332	**1,789**	1,334

ABC securities for funds at Lloyd's are not included in this analysis. Details of ABCs are included in note 28(C).

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

** Hybrid securities are shown net of the fair value of the equity conversion option. The US dollar principal amounts shown are the amounts payable at the end of the 20 year term. Details are included in note 17(C).

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BORROWINGS CONTINUED

(B) SECURITY AND FACILITY ARRANGEMENTS

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

The eurobonds are issued by a controlled entity and secured by guarantees given by the company and another controlled entity. The US$250 million subordinated debt was issued by the company. The claims of bondholders pursuant to these borrowings will be subordinated in right of payment to the claims of all senior creditors, including policyholders, of the controlled entity.

(C) HYBRID SECURITIES

(i) Hybrid securities due 2024

In September 2004, a controlled entity issued US$375 million of 20 year hybrid securities. Interest accumulates on the securities and is payable at the end of the 20 year term. In the event of conversion, the company will issue shares to the security holders. In the event of redemption, repurchase or maturity, the company can elect to pay either cash or the equivalent value of shares in the company, or a combination of both. Investors can request repurchase at the end of years one, three, five, seven, 10 and 15 from the date of issue. The company can redeem the securities at any time after three years from the date of issue. Investors have the option to convert the security if:

- the company calls for their redemption;
- the market value of the security is less than the market value of the underlying shares in the company for five consecutive trading days; or
- on certain corporate transactions occurring (e.g. change in control).

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

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

In the event of conversion, up to 29 million shares will be issued.

(ii) Hybrid securities due 2022

In 2002, a controlled entity issued US$471 million of 20 year hybrid securities. Investors have the option to convert the security if:

- the company calls for their redemption;
- the market value of the security is less than the market value of the underlying shares in the company for two consecutive trading days; or
- on certain corporate transactions occurring (e.g. change in control).

During 2004, 54 million shares (2003 nil) were issued as a result of the conversion of 51% of the hybrid securities. In the event of conversion of the remaining securities, up to 52 million shares will be issued.

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PROVISIONS – NON-CURRENT

	THE COMPANY		CONSOLIDATED	
	2004 $M	2003 $M	2004 $M	2003 $M
Long service leave	**–**	–	**16**	7
Other provisions	**–**	–	**10**	9
Amounts payable under acquisition agreements	**27**	–	**28**	1
	27	–	**54**	17

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SHARE CAPITAL (COMPANY AND CONSOLIDATED)

	2004 $M	2003 $M
(A) ISSUED ORDINARY SHARES, FULLY PAID	**2,866**	2,340

	NUMBER OF SHARES 000	$M
(B) MOVEMENTS IN ISSUED ORDINARY SHARE CAPITAL		
Issued and fully paid at 1 January 2003	615,488	1,926
Shares issued under Employee Share and Option Plan	2,935	24
Employee options exercised	422	3
Vendor options exercised	251	2
Conversion of convertible preference shares	35,926	274
Shares issued under Dividend Reinvestment Plan	12,666	111
Shares issued under Dividend Election Plan	2,600	–
Shares issued to holders of hybrid securities	1,318	–
Shares issued under the Senior Executive Equity Scheme	41	–
Issued and fully paid at 31 December 2003	671,647	2,340
Shares issued under Employee Share and Option Plan	3,632	38
Employee options exercised	877	9
Vendor options exercised	150	2
Shares issued under Dividend Reinvestment Plan	11,708	135
Shares issued under Dividend Election Plan	3,099	–
Shares issued to holders of hybrid securities	53,983	342
Shares issued under the Senior Executive Equity Scheme	237	–
Issued and fully paid at 31 December 2004	745,333	2,866

(C) DIVIDEND REINVESTMENT AND DIVIDEND ELECTION PLANS

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

The last date for receipt of election notices applicable to the final dividend is 7 March 2005 for the Dividend Reinvestment Plan and 23 February 2005 for the Dividend Election Plan.

	2004 $M	2003 $M
(D) DIVIDENDS		
Previous year final dividend paid on ordinary shares		
Franked at 30% – 6.6 cents (2003 2.22 cents)	**44**	14
Unfranked – 15.4 cents (2003 16.28 cents)	**104**	100
	148	114
Interim dividend paid on ordinary shares		
Franked at 50% – 12.0 cents (2003 3.0 cents)	**82**	20
Unfranked – 12.0 cents (2003 17.0 cents)	**82**	113
	164	133
Dividend reinvested under the Dividend Election Plan	**(36)**	(22)
Total dividend paid on ordinary shares	**276**	225
Preference dividend paid	**–**	19
Total dividend paid	**276**	244

The interim dividend of $164 million was paid on 20 September 2004. On 24 February 2005, the directors declared a 50% franked final dividend of $224 million (2003 30% franked final dividend of $148 million).

The franking account balance on a tax paid basis as at the balance date was a surplus of $113 million (2003 $103 million).

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OTHER RESERVES

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
(A) RESERVES				
General				
Balance brought forward	**–**	–	**5**	5
Transfer to retained profits	**–**	–	**–**	–
Balance at the end of the year	**–**	–	**5**	5
Realised capital profits				
Balance brought forward	**–**	–	**6**	6
Transfer to retained profits	**–**	–	**–**	–
Balance at the end of the year	**–**	–	**6**	6
Foreign currency translation				
Balance brought forward	**–**	–	**(130)**	(21)
Deficit for the year	**–**	–	**(12)**	(109)
Balance at the end of the year	**–**	–	**(142)**	(130)
Total reserves at the end of the year	**–**	–	**(131)**	(119)
(B) RETAINED PROFITS				
Retained profits at the beginning of the year	**173**	3	**1,033**	705
Net profit after tax attributable to members of the company	**1,840**	395	**820**	572
Total available for appropriation	**2,013**	398	**1,853**	1,277
Dividends paid	**(276)**	(225)	**(276)**	(244)
Retained profits at the end of the year	**1,737**	173	**1,577**	1,033

(C) NATURE AND PURPOSE OF RESERVES

(i) General reserve – established prior to 1989 for general purposes.

(ii) Realised capital profits reserve – realised capital profits arising prior to the introduction of capital gains tax.

(iii) Foreign currency translation reserve – exchange gains and losses on translation of self-sustaining controlled entities.

	NOTE	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
(D) EQUITY					
General					
Equity at the beginning of the year		**2,513**	1,929	**3,368**	3,021
Changes in equity recognised in the statements of financial performance		**1,840**	395	**808**	463
Transactions with owners as owners					
Dividend paid	19(D)	**(276)**	(225)	**(276)**	(244)
New ordinary shares issued	19(B)	**526**	414	**526**	414
Conversion of convertible preference shares	19(B)	**–**	–	**–**	(274)
Equity component of hybrid securities*	17(C)	**108**	–	**49**	–
Changes in outside equity interests	12(D)	**–**	–	**5**	(12)
Equity at the end of the year		**4,711**	2,513	**4,480**	3,368

* The equity component of hybrid securities, previously only recognised in the consolidated entity, has now been recognised in the company following further clarification of the accounting treatment of compound financial instruments.

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REMUNERATION OF DIRECTORS AND EXECUTIVES

(A) DETAILS OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

During the financial year the specified directors of the consolidated entity were:

Non-executive directors

LF Bleasel AM
EJ Cloney (chairman)
CP Curran AO
The Hon NF Greiner AC
BJ Hutchinson
CLA Irby
IYL Lee

	POSITION	EMPLOYER	EMPLOYMENT START DATE
Executive director			
FM O'Halloran	Chief executive officer, QBE Insurance Group Limited	QBE Management Services Pty Limited	28 June 1976

The executives (other than the chief executive officer) with the greatest authority for strategic direction and management of the consolidated entity ("specified executives") during the financial year were:

	POSITION	EMPLOYER	EMPLOYMENT START DATE
Executive[1]			
SP Burns	Chief executive officer, European operations	Limit Underwriting Limited	1 January 1987
NG Drabsch	Chief financial officer, QBE Insurance Group Limited	QBE Management Services Pty Limited	20 September 1991
PE Glen[2]	Managing director, European company operations	QBE Management (UK) Limited	20 June 2000
PE Grove	Chief underwriting officer, European operations	Limit Underwriting Limited	1 August 1982
MD ten Hove[3]	Group general manager, Investments, QBE Insurance Group Limited	QBE Management Services Pty Limited	1 March 1999
RL Jones	Managing director, Australian operations	QBE Management Services Pty Limited	1 April 1994
TM Kenny	President and chief executive officer, the Americas	QBE Reinsurance Corporation	28 November 1994
V McLenaghan	Managing director, Pacific Asia Central Europe	QBE Management Services Pty Limited	14 August 1995
EG Tollifson	Chief risk officer, QBE Insurance Group Limited	QBE Management Services Pty Limited	14 February 1994

(1) All of the above persons were also specified executives during the year ended 31 December 2003.

(2) Mr Glen held the position of managing director, European company operations until his employment was terminated by way of redundancy on 30 September 2004.

(3) Mr ten Hove was employed by QBE Management (UK) Limited in London from 1 March 2002 until 31 December 2004. With effect from 1 January 2005, he has relocated to Australia and is employed by QBE Management Services Pty Limited.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(B) REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

As noted in the statement of corporate governance on pages 36 to 41, the remuneration committee of the board oversees remuneration practices for the consolidated entity. The committee assesses the appropriateness of remuneration policies and practices in order to fairly and responsibly reward executives, ensuring rewards are commensurate with performance and delivered results, and that remuneration levels are market competitive.

(i) Non-executive directors' remuneration framework

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain high quality directors and to ensure their active participation in the consolidated entity's affairs for the purposes of corporate governance, regulatory compliance and other matters. QBE aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multi-national financial institutions. The board seeks the advice of independent remuneration consultants to ensure that remuneration levels are appropriate and are in line with market conditions in the various markets in which QBE operates.

Non-executive directors do not receive any performance based remuneration such as cash bonuses or equity incentives. Under the company's constitution, non-executive directors are entitled to be paid all travel and related expenses properly incurred in connection with the business of the company.

Fees

The remuneration of non-executive directors for directors' and related committee fees amounted to $1,617,000 (2003 $1,132,000). The amount approved by shareholders at the 2004 AGM was $2,200,000 per annum. The amount paid to individual non-executive directors may vary according to specific responsibilities, including involvement on the committees of the board.

Superannuation

QBE pays superannuation of 9% to eligible non-executive directors. The portion representing the superannuation guarantee charge is excluded from the shareholder approved remuneration cap under the company's constitution.

Retirement benefits

Non-executive directors previously received a retirement allowance based on their period of service. The allowance was limited to the aggregate of the director's fees in the last three years of service, subject to a minimum of 10 years' service. Where service was less than 10 years, a pro-rata amount was paid. With effect from 31 December 2003, the board terminated the retirement allowance to non-executive directors. Directors' fees were increased by 30% as compensation. Accrued retirement benefits of $1,535,000 at 31 December 2003 are preserved until retirement and are subject to an annual increase equal to the average five year Australian government bond rate. Shareholders approved an increase in non-executive directors' remuneration and the company's constitution was amended at the 2004 AGM to recognise this change.

(ii) Executive director and specified executives' remuneration framework

Remuneration and reward philosophy

The consolidated entity's remuneration practices vary in each of the markets within which QBE operates, and therefore the diversity of individual roles and the complexity of each operating environment is considered. The remuneration committee recognises that QBE operates in a competitive environment, where the key to achieving sustained performance is to generally align executive reward and performance with shareholder value. The principles applied to establish the remuneration and reward of executives are therefore based on a combination of:

- achieving short term and long term business targets that are directly linked to shareholder and stakeholder value creation (e.g. return on equity, insurance profit, return on capacity for our Lloyd's business and investment performance);
- market data to set remuneration levels; and
- linking individual performance measures to achievement of business targets and strategies.

The remuneration committee seeks the advice of independent remuneration consultants to ensure that remuneration and reward levels are appropriate and are in line with market conditions in the various markets in which QBE operates. The remuneration committee endeavours to have remuneration structures in place that encourage the achievement of a return for shareholders both in terms of dividends and growth in share price.

Specified executives, consistent with the majority of staff, participate in a short term incentive arrangement in the form of an annual cash bonus under the Profit Share Incentive ("PSI") scheme. The PSI aims to recognise the contributions and achievements of individuals when personal objectives and business targets relating to the performance of the business unit, the division or the consolidated entity as appropriate are achieved or exceeded.

Specified executives are also eligible to participate in an annual long term incentive arrangement under the Senior Executive Equity Scheme ("the SEES"). The SEES aims to reward the achievement of excellent results in the financial year, retain key executives and increase shareholder value by motivating executives. It provides executives with the opportunity to acquire equity in the form of conditional rights to fully paid shares without payment by the executive, and options to subscribe for shares at market value at the grant date. Further details are provided in note 22 to the financial statements.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(B) REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES CONTINUED

The remuneration committee reviews and approves the PSI and the SEES rules annually, and approves the quantum of short term and long term incentives for executives based on the applicable audited results.

In addition, specified executives undergo personal development reviews with the chief executive officer, the Group general manager, human resources and an external consultant. The evaluations produced as a result of these and other reviews are taken into account when determining the remuneration of the specified executives, including base salary and entitlements to at-risk components.

Elements of executive remuneration and reward structure

Executive remuneration packages contain the following key elements:

	ELEMENT
Base salary	Annual gross cash salary
Other benefits	Benefits such as long service leave, club memberships, motor vehicles, parking and health insurance, and associated fringe benefits tax
Superannuation	Annual cost of superannuation or pension contributions
Short term incentive	Annual at-risk cash remuneration delivered under the PSI scheme
Long term incentive	Annual at-risk equity benefit delivered under the SEES in the form of granting conditional rights to fully paid shares and options to subscribe for shares at market value. The executives receive the equity benefit under the SEES each year upon achieving or exceeding financial targets and performance objectives entitling them to a short term incentive under PSI. The SEES benefit is restricted to the lesser of 66.67% of the PSI bonus in that year or 100% of base salary or Total Remuneration Cost ("TRC") as at 31 December in the financial year prior to the year in which the PSI bonus is paid. The SEES benefit is split in the proportion 60:40 and is used to acquire conditional rights to fully paid shares and options respectively as follows: • conditional rights to shares to the value of 60% of the SEES award; and • options over ordinary shares to the value of 40% of the SEES award, with the resulting number multiplied by 4. Conditional rights and options relating to the achievement of targets in a financial year are granted in March of the following year. Interest free loans are available on terms permitted by the Employee Share and Option Plan ("the Plan") to persons in the employment of the company who hold options under the SEES, to fund the exercise of the options. Conditional rights and options issued in 2004 and prior financial years are exercisable after three years, whilst options issued in the 2005 financial year will be exercisable after five years, with the exception of options for the Group investment division, which will continue to be exercisable after three years.

Incentive structure – FM O'Halloran

Consistent with other executives, Mr O'Halloran is entitled to an annual short term cash incentive payment under the PSI scheme calculated as a percentage of TRC if specified targets are achieved. The board has absolute discretion in determining qualifying results for an incentive payment under the PSI scheme. Mr O'Halloran's incentives are based on the achievement of the following range of target returns on opening shareholders' funds adjusted for dividends and increases in share capital ("return on equity") for the 2004 financial year, and are based on the consolidated entity's management basis of accounting which spreads realised and unrealised gains on equities and properties over seven years ("seven year spread basis").

The table below outlines the terms of Mr O'Halloran's PSI scale:

	TARGET RETURN ON EQUITY %	PSI AS A % OF TRC
Minimum	13.0	15.0
Maximum	20.0	134.0
Achieved	22.8	134.0

Subject to the approval by shareholders at the 2005 AGM, Mr O'Halloran, on a basis consistent with other executives, is also entitled to receive conditional rights to fully paid shares and options to subscribe for shares under the SEES in relation to 2004 performance. These will be generally exercisable in three and five years respectively.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(B) REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES CONTINUED

Incentive structure – specified executives

For each of the specified executives, the table below summarises the financial targets, the result used for determining incentive payments and the maximum PSI that can be earned for the 2004 financial year generally expressed as a percentage of base salary or TRC as appropriate.

	FINANCIAL TARGET	RESULT BASIS	MAXIMUM PSI EARNED AS A % OF REMUNERATION[4]
Specified executives			
SP Burns	Limit return on capacity	Financial year result	100% x base salary
	QBE return on equity	Financial year result (seven year spread basis)	33% x base salary
NG Drabsch	QBE return on equity	Financial year result (seven year spread basis)	117% x TRC
PE Glen[1]	European company operations return on equity	Financial year result	133% x base salary
PE Grove[2]	Limit return on capacity	Financial year result	50% x base salary
	Limit syndicate 566	Underwriting year result	Between 1.5% and 2.5% of syndicate 566 profits
MD ten Hove[3]	Investment income as a % of budget income	Financial year result	Combined total of 100% x base salary plus annual UK allowance for 2004 financial year
	Actual performance as a % of Group investment division benchmark	Financial year result	
	Individual performance measures – financial year	Financial year result	
RL Jones	Australian operations return on equity	Financial year result	100% x TRC
TM Kenny	the Americas insurance profit	Financial year result	133% x base salary
V McLenaghan	Asia-Pacific operations return on equity	Financial year result	100% x TRC
EG Tollifson	QBE return on equity	Financial year result (seven year spread basis)	94% x TRC

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004.

(2) Mr Grove's PSI from syndicate 566 will reduce over the next two years, with 2006 being the final underwriting year on which PSI will accrue. For 2005 and 2006, his PSI will be based on Limit's return on capacity and will be capped at 75% and 100% of TRC respectively.

(3) For 2005, Mr ten Hove's PSI payment will be capped at 125% of base salary.

(4) Payable based on base salary or TRC at the end of the financial year.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(C) EMPLOYMENT AGREEMENTS

The executive director and specified executives are employed on a permanent full time basis with an open ended contract. Upon termination of employment, the executive director and specified executives are entitled to receive their statutory entitlements of accrued annual and long service leave (where applicable), together with any superannuation benefits. Written notice is usually required from either the executive director and the specified executives or the company in the event of termination of employment.

In the case of a voluntary termination, specified executives forfeit all conditional rights to ordinary shares not yet vested and unexercised options. In the event that the company terminates the contract of employment, the remuneration committee has discretion in determining the vesting of conditional rights to ordinary shares and the exercise of any outstanding options before the original exercise date.

The company has entered into employment agreements with each specified executive that provide for payment of benefits in the event that the agreement is terminated by either the company or the specified executive. The agreements generally provide for the following:

(i) A notice period up to one year.

(ii) Where the company terminates the agreement, a payment comprised of TRC or base salary as appropriate plus PSI bonus for the appropriate period.

(iii) In certain circumstances, where the company or the specified executive terminates the contract due to material diminution in role, a payment of up to one year's TRC or base salary as appropriate plus PSI bonus for the appropriate period.

The exceptions to the general provisions are as follows:

In the event of material diminution in role or responsibility, in certain circumstances Mr ten Hove is entitled to a payment equivalent to TRC from the date of termination to 1 January 2008 plus one year's PSI based on the average payment in the preceding three years plus the accelerated vesting of all conditional rights and options.

In the event of material diminution in role or responsibility, in certain circumstances Mr Kenny is entitled to a payment equivalent to two years' TRC plus the accelerated vesting of all conditional rights and options that would otherwise have vested in the two years following the termination date.

Mr Grove will receive a contractually agreed bonus payment of one year's base salary on 31 December 2005 in recognition of his contribution, subject to being employed by the company at that date.

Mr Kenny will receive a contractually agreed bonus payment on 31 December 2005 being one year's TRC plus 100,000 options at market value exercisable over five years if the insurance profit of the Americas division averages over 7% per annum in the preceding five years.

(D) REMUNERATION DETAILS

The following tables provide details of the remuneration of the specified directors and specified executives for the financial year:

	PRIMARY BENEFITS	POST EMPLOYMENT BENEFITS			
	DIRECTORS'[1] FEES $'000	SUPER-ANNUATION $'000	RETIREMENT[2] BENEFITS $'000	TOTAL 2004 $'000	TOTAL 2003 $'000
Non-executive directors					
LF Bleasel AM	182	17	5	**204**	182
EJ Cloney	468	42	23	**533**	461
CP Curran AO	202	18	19	**239**	216
The Hon NF Greiner AC	189	18	19	**226**	203
BJ Hutchinson	189	18	12	**219**	208
CLA Irby	205	–	5	**210**	202
IYL Lee	182	17	3	**202**	184
Total	1,617	130	86	**1,833**	1,656

(1) Includes fees paid for services on board committees.

(2) Retirement benefits above reflect the adjustment to the amounts preserved at 31 December 2003, being an annual increase equal to the five year Australian government bond rate.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(D) REMUNERATION DETAILS CONTINUED

	PRIMARY BENEFITS			POST EMPLOYMENT BENEFITS	EQUITY BENEFITS(2)		TERMINATION BENEFITS	TOTAL
	BASE SALARY $'000	OTHER(3) $'000	PSI(6) $'000	SUPER-ANNUATION $'000	CONDITIONAL RIGHTS $'000	OPTIONS $'000	$'000	$'000
Executive director								
FM O'Halloran	984	395	1,651	147	267	160	–	**3,604**
Specified executives								
SP Burns(1)	963	41	1,484	131	286	189	–	**3,094**
NG Drabsch	638	191	938	94	164	121	–	**2,146**
PE Glen(1)(4)(7)	597	50	–	124	177	100	2,110	**3,158**
PE Grove(1)	874	183	3,124	262	294	189	–	**4,926**
MD ten Hove(1)(5)	941	337	955	38	594	304	–	**3,169**
RL Jones	499	194	700	81	230	122	–	**1,826**
TM Kenny(1)	863	168	1,117	32	304	162	–	**2,646**
V McLenaghan	530	168	675	79	114	67	–	**1,633**
EG Tollifson	443	71	484	65	86	89	–	**1,238**
Total specified executives	6,348	1,403	9,477	906	2,249	1,343	2,110	**23,836**

(1) Mr Kenny was located in New York and Messrs Burns, Glen, Grove and ten Hove were located in London. Their remuneration has been converted to Australian dollars using the cumulative average rate of exchange for the year. The base salaries of Messrs Burns and Grove were increased in September 2004 following the restructure of the UK operations of QBE.

(2) The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is earned evenly over the period between grant and vesting. Details of grants of conditional rights and options are set out below.

(3) "Other" includes the deemed value of the provision of motor vehicles and the fringe benefits tax thereon, the deemed value of interest on share loans (refer note 21(G)), long service leave, club memberships, health insurance, life assurance and personal accident insurance. Directors' and officers' liability insurance has not been included in other remuneration since it is not possible to determine an appropriate allocation basis.

(4) Mr Glen's employment was terminated through redundancy on 30 September 2004. Included in termination benefits is the cost attributable to the accelerated recognition of conditional rights and options, where the remuneration committee used its discretion to permit exercise of these instruments before the original exercise date.

(5) As part of Mr ten Hove's revised contractual arrangements effective 1 January 2005 following relocation from London to Sydney, the remuneration committee used its discretion to permit Mr ten Hove to receive his conditional rights and exercise his options before the original exercise date. The accelerated cost of these conditional rights and options is included as a current year benefit in the table above. In addition, on relocation to Sydney, Mr ten Hove received a deferred allowance of £78,000 for the three years that he was employed in the UK.

(6) PSI is the accrued entitlement for the 2004 financial year.

(7) Mr Glen may be entitled to a further termination payment of up to £130,000 subject to achieving certain criteria included in his redundancy arrangements.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(E) EQUITY BENEFITS

Set out below are the holdings of equity benefits granted as remuneration to the executive director and specified executives in the year ended 31 December 2004.

(i) Conditional rights to ordinary shares under the SEES

The conditional rights entitle the executive director and specified executives to receive fully paid shares on the third anniversary of the grant of the rights. Notional dividends on the conditional rights accrue during the three year period. These dividends will be paid in ordinary shares in the company.

Details of conditional rights issued under the SEES during the financial year are:

	NUMBER OF RIGHTS GRANTED DURING THE YEAR	GRANT DATE	DATE EXERCISABLE	VALUE PER RIGHT AT GRANT DATE(4) $
Executive director				
FM O'Halloran	43,010	2 April 2004	1 April 2007	12.49
Specified executives				
SP Burns	25,857	3 March 2004	2 March 2007	12.96
SP Burns(1)	29,657	3 March 2004	2 March 2007	11.65
NG Drabsch	25,650	3 March 2004	2 March 2007	12.49
PE Glen	36,159	3 March 2004	(2)	12.96
PE Grove	42,412	3 March 2004	2 March 2007	12.96
MD ten Hove	34,267	3 March 2004	(3)	12.49
RL Jones	24,007	3 March 2004	2 March 2007	12.49
TM Kenny	32,707	3 March 2004	2 March 2007	13.24
V McLenaghan	18,679	3 March 2004	2 March 2007	12.49
EG Tollifson	13,178	3 March 2004	2 March 2007	12.49

(1) Under the terms of Limit's SEES, Mr Burns is eligible to receive a portion of his long term incentive award based on the earning of prior underwriting year results. The value of the conditional rights at grant date is based on the share price in the relevant prior underwriting year.

(2) Mr Glen's employment was terminated through redundancy on 30 September 2004. As part of his redundancy agreement, his conditional rights were exercised during the financial year.

(3) As part of his revised contractual arrangements effective 1 January 2005 following relocation from London to Sydney, Mr ten Hove exercised his conditional rights during the financial year.

(4) The fair value at grant date of conditional rights is calculated using a binomial model. The fair value of each conditional right is earned evenly over the three year period between grant and vesting.

Details of movements in the conditional rights to ordinary shares in QBE provided as remuneration under the SEES to the executive director and specified executives are set out below:

	BALANCE AT 1 JAN 2004	GRANTED DURING THE YEAR	DIVIDENDS ATTACHING DURING THE YEAR	VESTED AND TRANSFERRED TO THE EXECUTIVE IN THE YEAR	BALANCE AT 31 DEC 2004
Executive director					
FM O'Halloran	43,435	43,010	2,588	–	**89,033**
Specified executives					
SP Burns	30,634	55,514	3,453	–	**89,601**
NG Drabsch	24,436	25,650	2,008	–	**52,094**
PE Glen(1)	33,774	36,159	2,804	72,737	**–**
PE Grove	44,448	42,412	3,482	–	**90,342**
MD ten Hove(2)	24,794	34,267	2,368	61,429	**–**
RL Jones	49,382	24,007	2,943	–	**76,332**
TM Kenny	56,699	32,707	3,584	–	**92,990**
V McLenaghan	16,820	18,679	1,423	–	**36,922**
EG Tollifson	13,291	13,178	1,061	–	**27,530**

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004. As part of his redundancy agreement, his conditional rights were converted to QBE shares during the financial year.

(2) Mr ten Hove's conditional rights converted to QBE shares on 18 November 2004 as part of his revised contractual arrangements effective 1 January 2005 following relocation from London to Sydney.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(E) EQUITY BENEFITS CONTINUED

(ii) SEES options

Details of options issued under the SEES during the financial year are:

	NUMBER OF OPTIONS GRANTED DURING THE YEAR	GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE[4] $
Executive director					
FM O'Halloran	114,694	2 April 2004	1 April 2007	1 April 2008	2.23
Specified executives					
SP Burns	68,953	3 March 2004	2 March 2007	2 March 2008	2.12
SP Burns[1]	79,085	3 March 2004	2 March 2007	2 March 2008	3.61
NG Drabsch	68,399	3 March 2004	2 March 2007	2 March 2008	2.12
PE Glen	96,424	3 March 2004	(2)	2 March 2008	2.12
PE Grove	113,099	3 March 2004	2 March 2007	2 March 2008	2.12
MD ten Hove	91,378	3 March 2004	(3)	2 March 2008	2.12
RL Jones	64,019	3 March 2004	2 March 2007	2 March 2008	2.12
TM Kenny	87,218	3 March 2004	2 March 2007	2 March 2008	2.12
V McLenaghan	49,810	3 March 2004	2 March 2007	2 March 2008	2.12
EG Tollifson	35,142	3 March 2004	2 March 2007	2 March 2008	2.12

(1) Under the terms of Limit's SEES, Mr Burns is eligible to receive a portion of his long term incentive award based on the earning of prior underwriting year results. The value of the option at grant date is based on the share price in the relevant prior underwriting year.

(2) Mr Glen's employment was terminated through redundancy on 30 September 2004. As part of his redundancy agreement, his options were exercised during the financial year.

(3) As part of his revised contractual arrangements effective 1 January 2005 following relocation from London to Sydney, Mr ten Hove exercised his options during the financial year.

(4) The fair value at grant date of options is calculated using a binomial model. The fair value of each option is earned evenly over the three year period between grant and vesting.

Details of the movements in options over ordinary shares in the company provided as remuneration under the SEES to the executive director and specified executives are set out below:

	BALANCE AT 1 JAN 2004	GRANTED DURING THE YEAR	EXERCISED IN THE YEAR	LAPSED/ CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2004[3]
Executive director					
FM O'Halloran	110,884	114,694	–	–	**225,578**
Specified executives					
SP Burns	78,206	148,038	–	–	**226,244**
NG Drabsch	62,381	68,399	–	–	**130,780**
PE Glen[1]	86,220	96,424	182,644	–	**–**
PE Grove	113,470	113,099	–	–	**226,569**
MD ten Hove[2]	63,298	91,378	154,676	–	**–**
RL Jones	124,332	64,019	–	–	**188,351**
TM Kenny	144,747	87,218	–	–	**231,965**
V McLenaghan	42,081	49,810	–	–	**91,891**
EG Tollifson	33,931	35,142	–	–	**69,073**

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004. His options were exercised on 29 October 2004.

(2) Mr ten Hove's options were exercised on 18 November 2004 as part of his new contractual arrangements effective 1 January 2005 following his relocation from London to Sydney.

(3) None of the options are vested and exercisable at 31 December 2004.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(E) EQUITY BENEFITS CONTINUED

(iii) Future performance options

The terms and conditions of each grant of future performance options that affect remuneration of the executive director and specified executives in this or future reporting periods are as follows:

	GRANT DATE	DATE EXERCISABLE	NUMBER OF OPTIONS GRANTED	PERFORMANCE CRITERIA
Executive director				
FM O'Halloran	19 April 2001	18 April 2004	200,000[2]	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2003.
Specified executives				
SP Burns	25 May 2001	24 May 2006	35,000	Limit to achieve an average 5% return on capacity for five years from 2001 underwriting year.
	10 December 2001	31 March 2007	80,000	Limit to achieve an average 5% return on capacity for five years from and including the 2002 underwriting year.
NG Drabsch	25 May 2001	1 April 2004	75,000[2]	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2003.
	18 March 2002	31 March 2005	100,000	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2004.
PE Glen[1]	10 December 2001	31 March 2007	50,000	European company operations to achieve an average 5% insurance profit for five years from and including the 2002 underwriting year.
PE Grove	25 May 2001	24 May 2006	35,000	Limit to achieve an average 5% return on capacity for five years from 2001 underwriting year.
	10 December 2001	31 March 2007	60,000	Limit to achieve an average 5% return on capacity for five years from and including the 2002 underwriting year.
	14 November 2002	31 December 2005	100,000	Limit managed syndicates to achieve an average return on capacity of 7% or more over the years ending 2002, 2003, 2004 and 2005.
RL Jones	1 October 1999	30 September 2004	75,000[2]	Australian operations to achieve an average return on equity of 17% on allocated capital over the five years from 1 July 1999 to 30 June 2004.
	25 May 2001	1 April 2004	75,000[2]	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2003.
TM Kenny	1 June 2001	31 May 2006	30,000	the Americas to achieve an average insurance profit of 6% for underwriting years 2001 – 2005.
	10 December 2001	31 March 2007	100,000	the Americas to achieve an average insurance profit of 5% for underwriting years 2002 – 2006.
V McLenaghan	1 October 1999	30 September 2004	50,000[2]	Asia-Pacific operations to achieve an average return on equity of 17% on allocated capital over the five years from 1 July 1999 to 30 June 2004.
	25 May 2001	1 April 2004	50,000[2]	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2003.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(E) EQUITY BENEFITS CONTINUED

(iii) Future performance options continued

	GRANT DATE	DATE EXERCISABLE	NUMBER OF OPTIONS GRANTED	PERFORMANCE CRITERIA
EG Tollifson	25 May 2001	1 April 2004	50,000[2]	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2003.
	18 March 2002	31 March 2005	100,000	QBE Group to achieve an average annual 12.5% increase in earnings per share over three years to 31 December 2004.

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004.

(2) These options were exercised during the financial year following the achievement of the relevant performance criteria.

Details of the movements in future performance options over ordinary shares in the company provided as remuneration to the executive director and specified executives are set out below:

	BALANCE AT 1 JAN 2004	EXERCISED IN THE YEAR	LAPSED/ CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2004[2]
Executive director				
FM O'Halloran	200,000	200,000	–	**–**
Specified executives				
SP Burns	115,000	–	–	**115,000**
NG Drabsch	175,000	75,000	–	**100,000**
PE Glen[1]	50,000	–	–	**50,000**
PE Grove	195,000	–	–	**195,000**
MD ten Hove	–	–	–	**–**
RL Jones	150,000	150,000	–	**–**
TM Kenny	130,000	–	–	**130,000**
V McLenaghan	100,000	100,000	–	**–**
EG Tollifson	150,000	50,000	–	**100,000**

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004. Under the terms of the redundancy agreement, he is eligible to exercise these options in March 2005.

(2) With the exception of Mr Glen as noted above, none of the options are vested and exercisable at 31 December 2004.

(iv) Regular options

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

Regular options have been phased out and replaced with the long term incentive arrangement under the SEES.

Details of the movements in regular options that affect remuneration in this or future reporting periods are as follows:

	BALANCE AT 1 JAN 2004	EXERCISED IN THE YEAR	LAPSED/ CANCELLED IN THE YEAR	BALANCE AT 31 DEC 2004[3]
Specified executives				
PE Glen[1]	90,000	30,000	–	**60,000**
MD ten Hove[2]	89,000	89,000	–	**–**
RL Jones	10,500	4,500	–	**6,000**
TM Kenny	20,000	10,000	–	**10,000**
V McLenaghan	6,750	3,750	–	**3,000**
EG Tollifson	9,000	5,000	–	**4,000**

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004. Under the terms of his redundancy agreement, he is eligible to exercise his remaining options in March 2005.

(2) Mr ten Hove's options were exercised on 18 November 2004 as part of his new contractual arrangements effective 1 January 2005 following his relocation from London to Sydney.

(3) With the exception of Mr Glen as noted above, none of the options are vested and exercisable at 31 December 2004.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(F) EQUITY HOLDINGS AND TRANSACTIONS

The movement during the year in the number of ordinary shares in the company held by each non-executive director including their personally-related entities is set out below:

	INTEREST IN SHARES AT 1 JAN 2004	PURCHASED (SOLD)	OTHER CHANGES/ LAPSED	INTEREST IN SHARES AT 31 DEC 2004
Non-executive directors				
LF Bleasel AM	42,168	–	600	**42,768**
EJ Cloney	770,025	(80,000)	30,385	**720,410**
CP Curran AO	470,912	(124,684)	10,523	**356,751**
The Hon NF Greiner AC(1)	52,030	–	1,686	**53,716**
BJ Hutchinson	27,446	–	–	**27,446**
CLA Irby	15,000	–	–	**15,000**
IYL Lee	10,062	–	405	**10,467**

(1) Includes 10,000 warrants to purchase ordinary shares.

The movement during the year in the number of ordinary shares in the company held by the executive director and each specified executive including their personally-related entities is set out below:

	INTEREST IN SHARES AT 1 JAN 2004	CONDITIONAL RIGHTS VESTED	OPTIONS EXERCISED	PURCHASED (SOLD)	OTHER CHANGES/ LAPSED	INTEREST IN SHARES AT 31 DEC 2004
Executive director						
FM O'Halloran	917,789	–	200,000	–	38,673	**1,156,462**
Specified executives						
SP Burns	2,966	–	–	–	117	**3,083**
NG Drabsch	178,380	–	75,000	(5,900)	8,587	**256,067**
PE Glen(1)	15,025	72,737	212,644	(300,725)	319	**–**
PE Grove	2,745	–	–	–	109	**2,854**
MD ten Hove	225,371	61,429	243,676	(163,454)	9,274	**376,296**
RL Jones	213,512	–	154,500	(150,000)	10,064	**228,076**
TM Kenny	135,739	–	10,000	–	5,010	**150,749**
V McLenaghan	94,366	–	103,750	–	–	**198,116**
EG Tollifson	131,513	–	55,000	(27,189)	5,780	**165,104**

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004.

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REMUNERATION OF DIRECTORS AND EXECUTIVES CONTINUED

(G) SHARE LOANS TO SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Details regarding the non-recourse share loans made by the consolidated entity to the executive director and specified executives are as follows:

	BALANCE AT 1 JAN 2004 $'000	INTEREST CHARGED $'000	INTEREST NOT CHARGED $'000	AMOUNTS WRITTEN OFF $'000	BALANCE AT 31 DEC 2004 $'000	HIGHEST BALANCE IN PERIOD $'000
Executive director						
FM O'Halloran	2,046	–	256	–	**4,336**	4,336
Specified executives						
SP Burns	22	–	2	–	**22**	22
NG Drabsch	1,025	–	113	–	**1,817**	1,824
PE Glen(1)	98	–	4	–	**–**	1,773
PE Grove	22	–	2	–	**22**	22
MD ten Hove	1,315	–	114	–	**3,465**	3,569
RL Jones	936	–	114	–	**2,010**	2,215
TM Kenny	888	–	64	–	**947**	950
V McLenaghan	489	–	68	–	**1,326**	1,326
EG Tollifson	497	–	59	–	**977**	1,061
Total specified executives	5,292	–	540	–	**10,586**	

(1) Mr Glen's employment was terminated through redundancy on 30 September 2004.

All share loans to the executive director and specified executives are secured over the relevant issued shares in the company. In accordance with the terms of the Plan, which were approved at the 1981 Annual General Meeting, share loans to employees do not accrue interest. The amount shown for interest not charged in the table above is calculated using the fringe benefits tax benchmark interest rates for loans.

(H) OTHER TRANSACTIONS WITH DIRECTORS, EXECUTIVES AND PERSONALLY-RELATED ENTITIES

CP Curran – Related entities

Mr Curran is non-executive chairman of Perpetual Trustees Australia Ltd, an entity whose controlled entity was used during the year, on an arm's length basis, for share registration purposes. A controlled entity paid $658,000 (2003 $658,000) for these services.

MD ten Hove – Apartment purchase arrangement

Mr ten Hove joined QBE in March 1999 as Group general manager, Investments. He entered into a contractual arrangement with a controlled entity at that time which provided him with an option to purchase an apartment in the Sydney CBD, already owned by the consolidated entity, if he remained with QBE and decided to apply for permanent residence in Australia. The option agreement enables purchase of the apartment at the original purchase price to the consolidated entity including stamp duty and improvements. In January 2005, he returned to Sydney from London and will apply for permanent residence. The transaction to purchase the apartment and any benefit arising will be reflected in the 2005 annual report.

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EMPLOYEE BENEFITS

(A) EMPLOYEE SHARE AND OPTION PLAN

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

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

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

The Senior Executive Equity Scheme

Senior management are also invited to participate in the Senior Executive Equity Scheme ("the SEES"). Under the SEES, the directors can issue conditional rights to shares and grant options to senior management who have already achieved pre-determined performance criteria. SEES entitlements are controlled by the remuneration committee, which is comprised solely of non-executive directors. The terms of the SEES may vary to take into account the requirements and market conditions of the locations of senior management, but the general terms of the SEES conditional rights and options are as follows.

The conditional rights entitle relevant employees to receive shares on the third anniversary of the grant of the rights. Further shares are issued in relation to the conditional rights to reflect dividends paid on ordinary shares of the company in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights are issued without payment being made by senior management (at a nil exercise price).

Options granted under the SEES are subject to the terms and conditions of the Plan. Options issued in 2004 and prior can be exercised after three years, whilst any options issued in 2005 will generally be exercisable after five years. They must be exercised within a 12 month period. Interest free loans are granted on the terms permitted by the Plan to persons who hold options under the SEES to fund the exercise of options.

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

Shareholder approval of the SEES was given in 2003 for the purpose of ASX listing rule 7.2.

(B) OPTIONS

During the year, the company granted to 478 (2003 263) qualifying employees options to subscribe for 3,918,197 (2003 3,354,901) ordinary shares with a total market value of $43 million (2003 $27 million), being the quoted price at the date the options were granted.

At 31 December 2004, 16,702,849 (2003 6,811,500) options were outstanding with an exercise price of $83 million (2003 $57 million), the majority of which related to employee benefits. The market value of the options outstanding at balance date is $256 million (2003 $72 million), calculated by reference to the quoted market value of the underlying shares at that date. During the financial year, 1,710,906 (2003 422,234) options were exercised, resulting in the issue of 1,710,906 (2003 422,234) shares.

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EMPLOYEE BENEFITS CONTINUED

(B) OPTIONS CONTINUED

Details of options issued, exercised and lapsed or cancelled during the year, including those issued under the SEES, are as follows:

GRANT DATE	EXERCISE PRICE	BALANCE AT START OF YEAR	ISSUED DURING YEAR	EXERCISED DURING YEAR	CANCELLED/ LAPSED DURING YEAR	BALANCE AT END OF YEAR
1 October 1999	$5.84	196,100	–	196,100	–	**–**
1 June 2000	$6.53	20,000	–	10,000	–	**10,000**
1 July 2000	$7.62	40,000	–	30,000	–	**10,000**
1 October 2000	$8.63	101,860	–	55,730	400	**45,730**
1 November 2000	$8.90	50,000	–	–	–	**50,000**
1 January 2001	$9.76	10,000	–	5,000	–	**5,000**
2 April 2001	$10.72	121,842	–	54,114	–	**67,728**
19 April 2001	$11.45	200,000	–	200,000	–	**–**
25 May 2001	$10.65	655,000	–	320,000	–	**335,000**
1 June 2001	$10.69	155,000	–	–	–	**155,000**
30 June 2001	$11.50	150,000	–	150,000	–	**–**
6 July 2001	$11.20	30,000	–	30,000	–	**–**
10 December 2001	$7.27	965,000	–	–	–	**965,000**
28 February 2002	$7.79	24,000	–	24,000	–	**–**
18 March 2002	$7.49	804,949	–	37,053	22,826	**745,070**
14 November 2002	$7.37	100,000	–	–	–	**100,000**
13 March 2003	$8.04	3,066,865	–	276,634	34,503	**2,755,728**
10 April 2003	$8.04	110,884	–	–	–	**110,884**
3 November 2003	$10.14	10,000	–	–	–	**10,000**
3 March 2004	$11.08	–	3,593,866	322,275	8,213	**3,263,378**
3 March 2004	$8.04	–	209,637	–	–	**209,637**
2 April 2004	$11.08	–	114,694	–	–	**114,694**
1 December 2004	$0.00	–	5,000,000	–	–	**5,000,000**
22 December 2004	$0.00	–	2,750,000	–	–	**2,750,000**
		6,811,500	11,668,197	1,710,906	65,942	**16,702,849**

The above analysis includes options held by the executive director and specified executives of the consolidated entity. Details of their specific interests are shown in note 21.

The options outstanding at the balance date are as follows:

	EMPLOYEE OPTIONS			OTHER OPTIONS*	TOTAL OPTIONS
YEAR OF EXPIRY	FUTURE PERFORMANCE	REGULAR	SEES		
2005	295,000	115,730	–	–	**410,730**
2006	600,000	67,728	455,070	2,750,000	**3,872,798**
2007	965,000	167,082	2,751,697	5,000,000	**8,883,779**
2008	–	114,915	3,322,627	–	**3,437,542**
2024	–	98,000	–	–	**98,000**
	1,860,000	563,455	6,529,394	7,750,000	**16,702,849**

* options issued to third parties in respect of acquisitions and subject to performance hurdles

The future performance options have been issued subject to the achievement of specific performance criteria. Examples of such criteria are set out in note 21.

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

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EMPLOYEE BENEFITS CONTINUED

(C) SUPERANNUATION

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

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

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

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Russell Employee Benefits, AON Consulting and Watson Wyatt Worldwide. All valuations have been updated for information available at 31 December 2004. The increased deficit in 2004 is primarily due to the increase in the life expectancy assumed by independent actuaries.

2004	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 03	31 Dec 04	31 Dec 04	31 Dec 04		
Present value of employees' accrued benefits	129	259	16	193	7	**604**
Net market value of assets held by the plans	125	232	11	120	9	**497**
Excess (shortfall) of net assets over accrued benefits	(4)	(27)	(5)	(73)	2	**(107)**
Vested benefits*	119	248	15	181	7	**570**

2003	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 02	31 Dec 02	1 Jan 03	1 Apr 02		
Present value of employees' accrued benefits	118	209	11	122	8	468
Net market value of assets held by the plans	119	214	8	100	8	449
Excess (shortfall) of net assets over accrued benefits	1	5	(3)	(22)	–	(19)
Vested benefits*	103	202	11	122	6	444

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

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REMUNERATION OF AUDITORS

	2004 $000	2003 $000
PricewaterhouseCoopers – Australian firm*		
Audit or review of financial reports of the parent entity	**665**	628
Audit of financial reports of controlled entities	**1,865**	1,452
Audit of statutory returns	**515**	459
Other audit assurance services	**499**	393
Taxation services	**46**	153
Other consulting and advisory services	**–**	73
	3,590	3,158
Related practices of PricewaterhouseCoopers – Australian firm*		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports of controlled entities	**3,081**	2,821
Audit of statutory returns	**1,367**	1,216
Other audit assurance services	**123**	184
Taxation services	**327**	358
Other consulting and advisory services	**66**	76
Actuarial services	**15**	19
Legal services	**897**	1,895
	5,876	6,569
	9,466	9,727
Audit and assurance services	**8,115**	7,153
Other services	**1,351**	2,574
	9,466	9,727
Other auditors		
Audit of financial reports of controlled entities	**866**	842

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

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CONTINGENT LIABILITIES

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
The company and the consolidated entity had the following contingent liabilities:				
Guarantees of borrowings by controlled entities	**453**	649	**–**	–
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	**245**	36	**294**	84
Letters of credit issued in support of insurance liabilities of controlled entities	**233**	222	**–**	–
Guarantees to investors in hybrid securities	**796**	654	**–**	–
Guarantees to investors in ABC securities for funds at Lloyd's (due 2008)	**703**	731	**–**	–
Guarantees to investors in ABC securities for funds at Lloyd's (due 2009)	**281**	–	**–**	–

A controlled entity has entered into a number of deeds of covenant in respect of its controlled entities to meet part of their obligations to Lloyd's of London. The total guarantee given under these deeds of covenant amounts to $398 million (2003 $581 million). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets in favour of Lloyd's of London (note 10).

Details of the guarantees to investors in eurobonds and hybrid securities and security arrangements in respect of borrowings are set out in note 17.

Details of contingent liabilities in respect of ABC securities for funds at Lloyd's are included in note 28(C).

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CAPITAL COMMITMENTS

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Estimated capital commitments (not later than one year)	**–**	–	**3**	6

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COMMITMENTS FOR EXPENDITURE

	THE COMPANY 2004 $M	THE COMPANY 2003 $M	CONSOLIDATED 2004 $M	CONSOLIDATED 2003 $M
Operating leases				
Aggregate amounts contracted but not provided for in the financial report				
Not later than one year	**–**	–	**33**	27
Later than one but less than five years	**–**	–	**86**	66
Later than five years	**–**	–	**80**	72
	–	–	**199**	165

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NEW SOUTH WALES WORKERS' COMPENSATION MANAGED FUNDS (CONSOLIDATED)

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

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

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

ASIC has by class order 98/107 (as amended by class orders 99/90, 00/321 and 04/666) exempted the controlled entity and the consolidated entity from compliance with the *Corporations Act 2001* to the extent it is necessary to adopt the above method of fund accounting.

	2004 $M	2003 $M
Statutory fund statement of financial position		
Current assets		
Cash and short term deposits	**1,079**	772
Debtors	**184**	148
Non-current assets		
Investments – market value	**445**	319
Total assets	**1,708**	1,239
Current liabilities		
Creditors	**18**	31
Unearned premium	**247**	199
Statutory funds to meet outstanding claims and statutory transfers	**1,443**	1,009
Total liabilities and statutory funds	**1,708**	1,239

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LLOYD'S DIVISION (CONSOLIDATED)

(A) NON-ALIGNED SYNDICATES

A controlled entity acquired Limit plc and its controlled entities ("Limit") in August 2000. From 1994 to 2000, Limit participated in the results of a number of syndicates managed by other managing agents at Lloyd's (non-aligned syndicates). In 2000, Limit sold its right to participate in the results of these syndicates after 31 December 2000. In 2001, Limit sold the rights to manage syndicate 318, previously managed by its controlled managing agency, to another managing agency at Lloyd's. The result of Limit's participation on this syndicate has also been included as non-aligned. Lloyd's operates on a three year accounting basis and at the end of the third year the underwriting account is normally closed by reinsurance into the following year of account. Therefore the runoff of these syndicates is expected to complete by 31 March 2005. The consolidated entity is expected to have to fund its share of the net outstanding liabilities of these operations, as shown below, and therefore the assets and liabilities are included on a net basis in outstanding claims in the statement of financial position. The net liability has increased during the year due to reserve increases reflecting the current climate in the reinsurance to close market where substantial risk premiums are being charged.

	2004 $M	2003 $M
Assets		
Investments – market value	**122**	168
Other assets	**119**	143
Total assets	**241**	311
Liabilities		
Outstanding claims net of reinsurance recoveries	**263**	252
Other liabilities	**17**	84
Total liabilities	**280**	336
Net liabilities	**39**	25

(B) REINSURANCE TO CLOSE

Since acquiring Limit in August 2000, QBE has purchased additional capacity in the syndicates managed by Limit, taking its ownership share for all syndicates from 55% in 2000 to 86% for the 2005 underwriting year. These purchases of additional capacity create an obligation for QBE to accept the additional share of insurance liabilities in exchange for an equal amount of investments and other assets. The amounts will be determined when the reinsurance to close is calculated on 31 December 2005 or subsequent dates. It is currently estimated that the amount of the net insurance liabilities and matching assets will exceed $681 million, which will be recognised in the years in which the reinsurance to close is expected to be finalised.

(C) FUNDS AT LLOYD'S

ABC securities (due 2009)

In October 2004, the company entered into an arrangement with Mantis Reef II Limited ("MR(II)L") to issue US$220 million of ABC (asset backed capital) securities to support funds at Lloyd's ("FAL") pursuant to Lloyd's collateral requirements. This arrangement substantially replaced bank letters of credit and assisted in meeting new FAL requirements. MR(II)L is a special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The consolidated entity has no ownership interest in MR(II)L.

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

Under its arrangement with MR(II)L and MR(II)PL, the company makes fixed payments to MR(II)L and in return receives the benefit of the earnings from the investment portfolio. As part of its agreement with MR(II)L and MR(II)PL the company can, if the need arises, call on MR(II)PL to provide up to £120 million by the sale or transfer of its investment portfolio to meet certain controlled entities' cash call requirements from Lloyd's, and at that time the company would assume a loan obligation including servicing of interest payments and repayment of the principal. To achieve this, the company would issue debt securities to MR(II)L with similar terms to the ABC securities. The company has entered into a fixed for floating cross currency interest rate swap with a third party to service its fixed interest rate obligations. Details are included in note 11(A)(ii).

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LLOYD'S DIVISION (CONSOLIDATED) CONTINUED

(C) FUNDS AT LLOYD'S CONTINUED

ABC securities (due 2008)

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

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

Under its arrangement with MRL and MRPL, the company makes fixed payments to MRL and in return receives the benefit of the earnings from the investment portfolio. As part of its agreement with MRL and MRPL the company can, if the need arises, call on MRPL to provide up to US$550 million by the sale or transfer of its investment portfolio to meet certain controlled entities' cash call requirements from Lloyd's, and at that time the company would assume a loan obligation including servicing of interest payments and repayment of the principal. To achieve this, the company would issue debt securities to MRL with similar terms to the ABC securities. The company has entered into a fixed for floating interest rate swap with a third party to service its fixed interest rate obligations. Details are included in note 11(A)(ii).

			2004 $M	2003 $M
ABC investments pledged for funds at Lloyd's*				
Due 2008	Interest bearing short term money	US$550 million	**703**	731
Due 2009	Interest bearing short term money	£120 million	**295**	–
Total			**998**	731
ABC securities for funds at Lloyd's				
Due 2008		US$550 million	**703**	731
Due 2009		US$220 million	**281**	–
Total			**984**	731

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

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RELATED PARTIES

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

Reference	
Directors' particulars	Page 35
Remuneration of directors and specified executives	Note 21
Directors' retirement allowances	Note 21
Shares and options held by directors and specified executives	Note 21
Tax sharing agreement	Note 5

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

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EARNINGS PER SHARE (CONSOLIDATED)

	2004 CENTS	2003 CENTS
Basic earnings per share	**117.8**	86.5
Diluted earnings per share*	**105.3**	77.5
	$M	**$M**
Reconciliation of earnings used in calculating earnings per share		
Net profit attributable to members of the company	**820**	572
Less: dividends paid on mandatory convertible preference shares	**–**	(19)
Earnings used in calculating basic earnings per share	**820**	553
Net profit attributable to members of the company	**820**	572
Add: borrowing cost of hybrid securities	**13**	20
Earnings used in calculating diluted earnings per share	**833**	592
	MILLIONS	**MILLIONS**
Weighted average number of ordinary shares used as the denominator in calculating:		
Basic earnings per share	**696**	639
Diluted earnings per share	**791**	764

* Hybrid securities have been treated as dilutive if the contingent conversion conditions are met at the balance date. If all hybrid securities had been considered dilutive at 31 December 2004, diluted earnings per share would have been 104.5 cents.

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SEGMENT INFORMATION

(A) GEOGRAPHICAL BUSINESS SEGMENTS

	AUSTRALIAN GENERAL INSURANCE 2004 $M	ASIA-PACIFIC GENERAL INSURANCE 2004 $M	THE AMERICAS 2004 $M	EUROPEAN COMPANY OPERATIONS 2004 $M	LLOYD'S DIVISION 2004 $M	TOTAL 2004 $M
Total assets	6,189	1,359	2,118	6,383	9,053	**25,102**
Total liabilities	4,767	991	1,782	5,118	7,964	**20,622**
Acquisition of plant and equipment, intangibles and other non-current segment assets	543	4	12	9	94	**662**
Depreciation and amortisation expense	13	5	2	37	18	**75**
Total revenue	2,457	607	1,811	2,604	2,945	**10,424**
Gross written premium	2,102	520	1,382	2,453	2,309	**8,766**
Gross earned premium	2,114	534	1,354	2,304	2,265	**8,571**
Outward reinsurance premium expense	283	95	549	333	530	**1,790**
Net earned premium	1,831	439	805	1,971	1,735	**6,781**
Net claims incurred	1,117	212	484	1,306	1,047	**4,166**
Net commission	244	75	207	296	362	**1,184**
Underwriting and other expenses	252	88	52	256	189	**837**
Underwriting result	218	64	62	113	137	**594**
Investment income on policyholders' funds	105	17	9	101	82	**314**
Insurance profit	323	81	71	214	219	**908**
Investment income on shareholders' funds	22	7	11	66	66	**172**
Profit from ordinary activities before income tax	345	88	82	280	285	**1,080**
Income tax	87	28	14	61	63	**253**
Profit from ordinary activities after income tax	258	60	68	219	222	**827**
Outside equity interests	–	4	–	3	–	**7**
Net profit attributable to members of the company	258	56	68	216	222	**820**

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

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SEGMENT INFORMATION CONTINUED

(A) GEOGRAPHICAL BUSINESS SEGMENTS CONTINUED

	AUSTRALIAN GENERAL INSURANCE 2003 $M	ASIA-PACIFIC GENERAL INSURANCE 2003 $M	THE AMERICAS 2003 $M	EUROPEAN COMPANY OPERATIONS 2003 $M	LLOYD'S DIVISION 2003 $M	TOTAL 2003 $M
Total assets	3,934	1,148	1,731	5,782	7,848	20,443
Total liabilities	3,105	795	1,450	4,888	6,837	17,075
Acquisition of plant and equipment, intangibles and other non-current segment assets	21	3	2	12	30	68
Depreciation and amortisation expense	13	8	1	23	11	56
Total revenue	1,892	625	1,441	2,767	2,642	9,367
Gross written premium	1,869	542	1,342	2,441	2,156	8,350
Gross earned premium	1,715	549	1,213	2,302	2,037	7,816
Outward reinsurance premium expense	290	119	473	394	504	1,780
Net earned premium	1,425	430	740	1,908	1,533	6,036
Net claims incurred	959	215	469	1,273	907	3,823
Net commission	158	81	174	297	390	1,100
Underwriting and other expenses	206	91	46	237	161	741
Underwriting result	102	43	51	101	75	372
Investment income on policyholders' funds	76	13	11	60	95	255
Insurance profit	178	56	62	161	170	627
Investment income on shareholders' funds	38	6	4	48	42	138
Profit from ordinary activities before income tax	216	62	66	209	212	765
Income tax	36	20	19	41	72	188
Profit from ordinary activities after income tax	180	42	47	168	140	577
Outside equity interests	–	4	1	–	–	5
Net profit attributable to members of the company	180	38	46	168	140	572

(B) EXTERNAL PRODUCT SEGMENTS

	GENERAL INSURANCE 2004 $M	GENERAL INSURANCE 2003 $M	INWARD REINSURANCE 2004 $M	INWARD REINSURANCE 2003 $M	TOTAL 2004 $M	TOTAL 2003 $M
Total revenue	**7,925**	6,815	**2,499**	2,552	**10,424**	9,367
Net profit attributable to members of the company	**687**	392	**133**	180	**820**	572
Total assets	**18,295**	13,377	**6,807**	7,066	**25,102**	20,443
Acquisition of plant and equipment, intangibles and other non-current segment assets	**468**	50	**194**	18	**662**	68

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RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY

	THE COMPANY		CONSOLIDATED	
	2004 $M	2003 $M	2004 $M	2003 $M
Cash flows from operating activities	**348**	323	**2,110**	2,089
Depreciation of assets	**–**	–	**(53)**	(36)
Amortisation of goodwill and write-off of intangibles	**–**	–	**(22)**	(20)
Amortisation of premium/discount on fixed interest securities	**–**	–	**(14)**	(11)
Loss on sale of plant and equipment	**–**	–	**(1)**	(1)
Net exchange (losses) gains	**(33)**	10	**2**	(13)
Other (losses) gains on investments	**–**	(79)	**91**	110
Increase in net outstanding claims	**–**	–	**(1,101)**	(1,209)
Increase in unearned premium	**–**	–	**(161)**	(525)
Increase in deferred insurance costs	**–**	–	**77**	68
Increase in net amounts receivable from controlled entities	**1,826**	735	**–**	–
Increase in trade debtors	**–**	–	**148**	402
(Decrease) increase in other operating assets	**(276)**	111	**(246)**	61
Increase in trade and other creditors	**–**	–	**(172)**	(138)
(Increase) decrease in current tax liabilities	**(2)**	(76)	**41**	(105)
Increase in deferred tax liabilities	**(18)**	(616)	**(141)**	(60)
(Increase) decrease in provisions	**(5)**	(13)	**269**	(35)
Outside equity interests	**–**	–	**(7)**	(5)
Net profit attributable to members of the company	**1,840**	395	**820**	572

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NON-CASH FINANCING AND INVESTING ACTIVITIES

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan are shown in note 19(B) and shares issued to employees under the Plan for no cash consideration are shown in note 19(D). Details of the deferred settlement costs associated with acquisitions in the year are set out in note 12(G).

Directors' declaration

The directors declare that the financial statements and notes set out on pages 46 to 94:

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

(b) give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

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

Signed in SYDNEY this 24th day of February 2005 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

Independent audit report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This audit report relates to the financial report of QBE Insurance Group Limited ("the company") and the QBE Insurance Group (defined below) for the financial year ended 31 December 2004 included on the QBE Insurance Group Limited web site. The company's directors are responsible for the integrity of the QBE Insurance Group Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

AUDIT OPINION

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

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of QBE Insurance Group Limited and the QBE Insurance Group (defined below) as at 31 December 2004, and of their performance for the year ended on that date; and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

SCOPE

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both QBE Insurance Group Limited ("the company") and the QBE Insurance Group ("the consolidated entity"), for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

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

INDEPENDENCE

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

RD Deutsch
Partner

Sydney

24 February 2005

PricewaterhouseCoopers

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