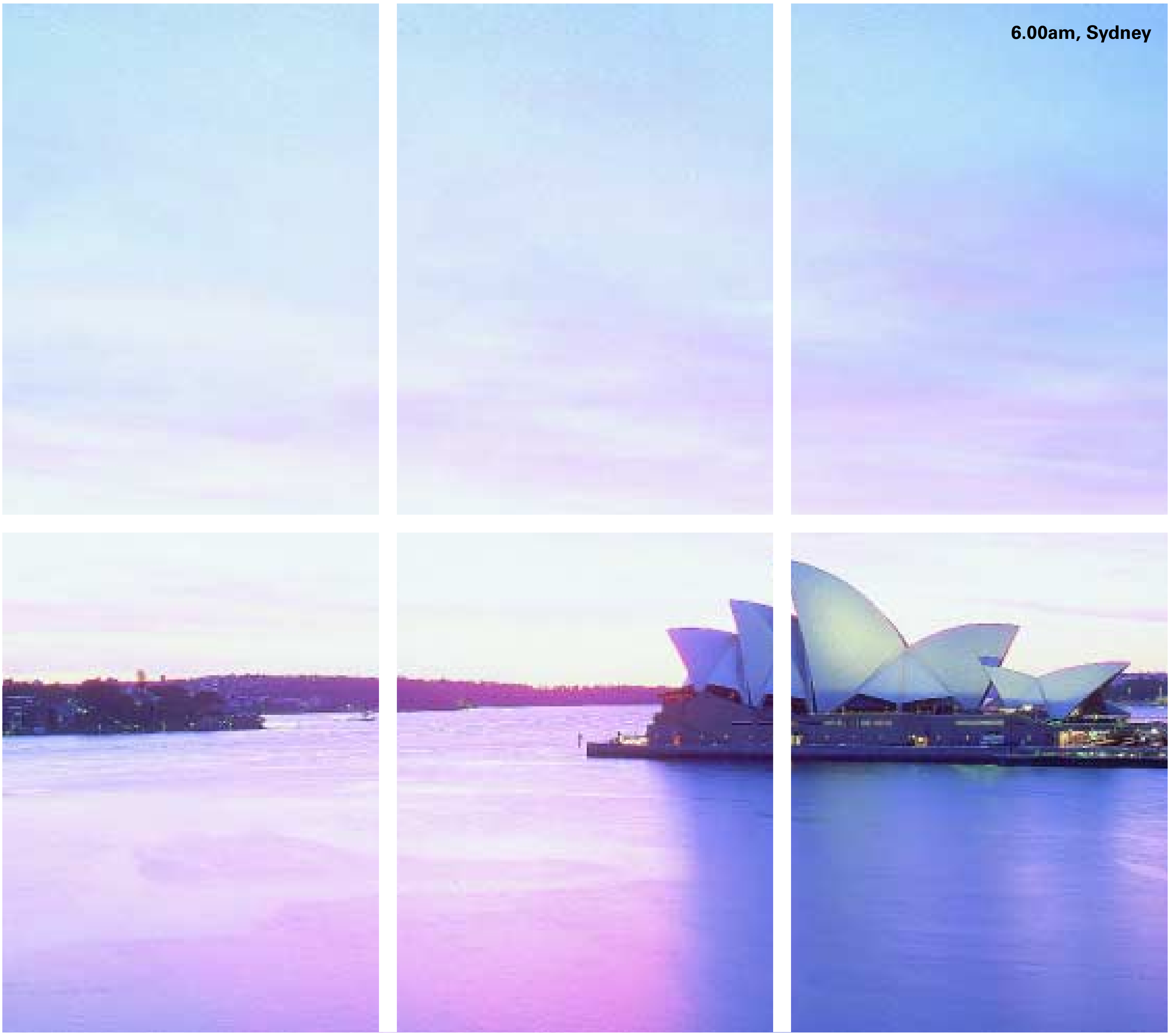


QBE INSURANCE GROUP

ANNUAL REPORT DECEMBER 2002

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; AND
- 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; AND
- INTEGRITY.

THE PERFORMANCE

EVERY DAY, OVER 7,000 PEOPLE IN 39 COUNTRIES WORLDWIDE FOCUS ON CREATING FURTHER WEALTH FOR OUR SHAREHOLDERS FROM OUR MANY BUSINESSES

this is the QBE approach

John Cloney Chairman Age 62

John Cloney was appointed non-executive chairman in October 1998 and is a member of the investment and remuneration committees. John joined QBE as managing director in 1981. He retired and was appointed a non-executive director in January 1998 and then deputy chairman in April 1998. John has over 45 years experience in the insurance industry.

Chairman's report

I AM PLEASED TO REPORT THAT QBE HAS PRODUCED A VERY SATISFYING FINANCIAL RESULT FOR THE 2002 FINANCIAL YEAR.

THE RESULT HAS BEEN ACHIEVED in difficult equity, fixed interest and foreign exchange markets, with the strong performance from our insurance businesses supporting a net profit after tax of $279 million compared with a loss of $25 million last year. The loss in 2001 was affected by the terrorist attacks on the USA on 11 September 2001 ("the WTC loss").

In recognition of the strong operating performance and the directors' confidence in the future, we have declared an increased final dividend of 18.5 cents per share representing a final payout of $114 million compared with $80 million last year. The final dividend will be 12% franked. The dividend reinvestment plans continue at a 2.5% discount.

Since 31 December 2001, shareholders' funds have increased 13% to over $2.9 billion. The increase is due to current year profit, the reinvestment and placement of shares for dividends paid in April and October 2002 and the equity component of hybrid securities issued during the year.

The hybrid securities of US$471 million issued during the year represent borrowings by way of 20 year zero coupon notes with an underlying cumulative yield, including costs of issue, of around 3% per annum. These notes provided QBE with an opportunity to substantially reduce its average cost of borrowings, and also offer flexibility to the directors post April 2005 to either repay the notes in cash or convert them to QBE shares at their discretion. Details of these securities are provided on page 66 of the annual report.

To support strong business growth, short and long term borrowings have increased to $1,456 million at 31 December 2002 compared with $838 million last year. The increase resulted from the issue of the hybrid securities and some short term borrowings which assisted capital, debt and foreign currency management. In accordance with our previously announced strategy, the debt to equity ratio has increased from 32% to 49%, within our target range. Over 82% of borrowings are classified as long term debt.

QBE's regulatory capital is well above the minimum benchmark. Using the new Australian Prudential Regulation Authority ("APRA") measures, the Group's regulatory capital is around 1.6 times the minimum requirement. The financial strength rating of QBE's main insurance subsidiaries was reaffirmed in February 2003 at A+ by Standard & Poor's.

QBE has emerged from 2002 with a strong balance sheet, quality insurance businesses, established insurance franchises in the key markets and a lower risk profile for our insurance

SHAREHOLDERS' HIGHLIGHTS	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001
Net profit (loss) after tax $M	**279**	(25)
Basic earnings per share cents	**42.7**	(10.5)
Diluted earnings per share cents	**43.4**	(4.9)
Dividend payout $M	**213**	155
Dividend per share cents	**35.0**	30.0
Net tangible assets per share $	**3.96**	3.67
Cash flow from operations $M	**1,511**	280
Total investments and cash $M	**11,508**	9,165
Total assets $M	**20,537**	18,652
Return on average shareholders' funds %	**10.0**	(1.1)
Shareholders' funds $M	**2,954**	2,620
Borrowings to shareholders' funds %	**49.3**	32.0
Capital adequacy multiple	**1.6**	1.4

and investment operations. This has provided QBE with an opportunity to grow and benefit from the current favourable insurance market conditions.

QBE has robust corporate governance and risk management processes, details of which are provided later in this report. The directors support the current global focus on achieving better corporate disclosure and improving corporate governance generally. Due to a number of notable insurance and other business failures over recent times, we recognise that a number of changes in regulation will occur. However, particularly for the general insurance industry, we do have concerns that legislative and regulatory changes could be excessive. QBE's executive management is increasingly required to spend significantly more time on compliance matters and we therefore expect the cost of regulatory supervision in many of our markets to increase.

We support the reforms at Lloyd's. However, the cost of capital in that market will continue to be monitored against alternative London company and other markets. Commentary on the Lloyd's reforms is set out in the Lloyd's division report on page 32.

It is encouraging to oversee the substantial growth and expanded business of the company. An investment in QBE shares has outperformed the Australian All Ordinaries Accumulation Index and inflation with a compound average growth rate of 12.0% over the past 5 years, 20.1% over 10 years and 24.9% over 20 years. The directors strongly support the Employee Share and Option Plan, which has been in place since 1981, and the short and long term profit share incentive schemes introduced in 2001. These have proved to be effective tools to align the interests of our employees with our objective of increasing the wealth of our shareholders. Shares and options issued as incentives under these plans are based on the achievement of specific performance criteria. Further details of these plans are provided in note 18(d) of the financial statements.

Consistent with our practice of many years, incentives are based on financial targets which smooth the performance of our equity investments evenly over seven years.

QBE maintains a careful watch on global economic conditions and closely monitors the various markets to reaffirm the effectiveness of our business strategies. Where necessary, we change our strategies in order to protect the interests of our stakeholders. Our low risk strategy for investments, supported by reduced exposures for our insurance and reinsurance risks, assists us in this process.

I am grateful for the support of my fellow directors and extend a special thank you to all our staff throughout the world for their commitment and efforts in producing a great result for 2002.

John Cloney
Chairman

Financial performance

Profit and dividend payout

> NET PROFIT AFTER TAX was $279 million compared with a loss of $25 million last year.

> NET PROFIT includes realised and unrealised losses on equities of $151 million after tax compared with losses of $22 million last year.

> THE FINAL DIVIDEND is 18.5 cents per share, 12% franked, compared with a final dividend of 13.5 cents last year. The total dividend for the year is 35.0 cents per share compared with 30.0 cents last year.

> SHAREHOLDERS' FUNDS increased 13% to $2,954 million.

Group operating performance

> INSURANCE PROFIT was $406 million compared with a loss of $119 million last year.

> INSURANCE PROFIT as a percentage of net earned premium was 7.2% compared with negative 2.6% last year.

> GROSS WRITTEN PREMIUM grew by 14% to $7,723 million, assisted by strong premium rate increases across most classes of business. Gross earned premium grew by 14% to $7,197 million and net earned premium increased 22% to $5,642 million.

> THE COMBINED OPERATING RATIO of 97.7% (109.6% last year) reflects the benefit of premium rate increases and improvements in the claims, commission and expense ratios.

> GROUP CASH FLOW from operations was $1,511 million compared with $280 million last year.

> INCOME TAX EXPENSE benefited from dividend rebates, the release of prior year tax provisions and the liquidation of a number of non-operating companies.

Divisional operating performance

> AUSTRALIAN GENERAL INSURANCE recorded a combined operating ratio of 97.1% (100.6% last year), reflecting increased premium rates for most classes of business. Gross earned premium was up 20% to $1,448 million.

> ASIA-PACIFIC GENERAL INSURANCE recorded a combined operating ratio of 95.9% (99.4% last year). Gross earned premium increased 17% to $602 million as a result of acquisitions in the past 18 months and premium rate increases.

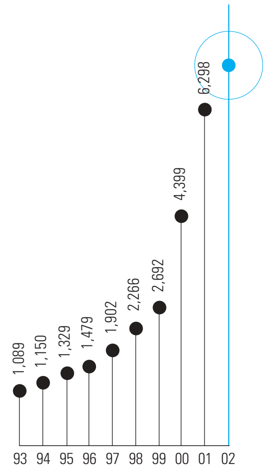
> THE AMERICAS recorded a combined operating ratio of 99.6% (112.4% last year). Gross earned premium grew by 31% to $856 million due to premium rate increases, new general insurance agency business and acquisitions in Latin America in 2001.

> EUROPEAN COMPANY OPERATIONS' combined operating ratio was 98.9% (119.1% last year). Gross earned premium increased 6% to $2,103 million, with premium rate increases partly offset by actions taken on unprofitable portfolios in 2001.

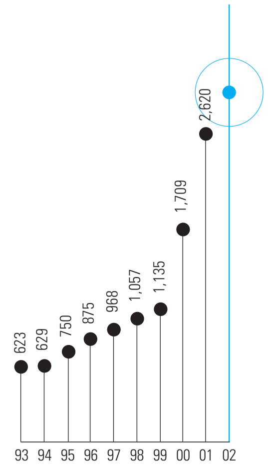
> LLOYD'S DIVISION recorded a combined operating ratio of 96.6% (108.6% last year). Gross earned premium increased 12% to $2,188 million, with increased premium rates and a greater ownership share of our managed syndicates partly offset by the effect of portfolio rationalisation in 2001.

> INVESTMENT INCOME, excluding realised and unrealised losses on investments of $151 million (gains of $13 million last year), was stable at $332 million. Lower interest rates offset income from the increase in net invested funds.

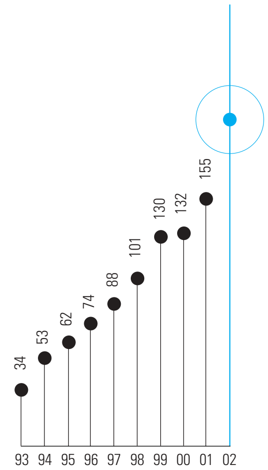
GROSS EARNED PREMIUM
$7,197M



SHAREHOLDERS' FUNDS
$2,954M



DIVIDEND PAYOUT
$213M



TEN YEAR HISTORY

YEAR ENDED 31 DECEMBER	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Gross written premium $M	**7,723**	6,793	4,406	2,877	2,409	2,054	1,561	1,336	1,180	1,189
Gross earned premium $M	**7,197**	6,298	4,399	2,692	2,266	1,902	1,479	1,329	1,150	1,089
Net earned premium $M	**5,642**	4,634	3,456	2,204	1,914	1,609	1,204	1,105	966	865
Claims ratio %	**67.6**	76.6	71.2	70.1	68.1	68.6	67.0	68.1	66.4	68.3
Commission ratio %	**17.7**	20.2	18.3	19.9	18.3	17.1	17.3	17.8	18.9	19.0
Expense ratio %	**12.4**	12.8	13.0	13.9	13.9	13.8	15.0	14.5	14.9	16.8
Combined operating ratio %*	**97.7**	109.6	102.5	103.9	100.3	99.5	99.3	100.4	100.2	104.1
Investment income										
before investment gains/losses $M	**332**	331	248	187	160	142	128	118	105	78
after investment gains/losses $M	**181**	344	308	241	163	162	181	180	17	263
Insurance profit (loss) $M*	**406**	(119)	186	56	147	116	101	88	72	43
Insurance profit (loss)/net earned premium %*	**7.2**	(2.6)	5.4	2.5	7.7	7.2	8.4	8.0	7.4	4.9
Operating profit (loss)										
before tax $M	**311**	(99)	220	156	157	170	189	176	15	227
after tax and outside equity interests $M*	**279**	(25)	179	132	141	131	150	136	31	164
Number of shares on issue millions	**615**	585	429	395	383	374	288	224	215	172
Shareholders' funds $M	**2,954**	2,620	1,709	1,135	1,057	968	875	750	629	623
Total assets $M	**20,537**	18,652	13,949	8,640	5,939	5,042	4,108	3,141	2,669	2,710
Basic earnings per share cents**	**42.7**	(10.5)	42.6	33.8	37.3	35.6	42.2	39.6	9.5	51.5
Diluted earnings per share cents**	**43.4**	(4.9)	40.7	33.8	37.3	35.6	42.2	39.6	9.5	51.5
Return on average shareholders' funds %***	**10.0**	(1.1)	12.6	12.0	13.9	14.2	18.4	19.7	5.0	30.1
Dividend per share cents	**35.0**	30.0	31.0	32.5	26.5	24.0	20.8	17.9	16.0	10.7
Dividend payout $M	**213**	155	132	130	101	88	74	62	53	34

* the 2001 comparatives excluding the WTC loss were 101.7%, $242 million, 5.1% and $227 million respectively
** adjusted for changes required by Accounting Standard AASB 1027: Earnings per Share
*** includes convertible preference shares issued in 2000 and the equity component of hybrid securities issued in 2002

Corporate governance

QBE'S BOARD IS COMMITTED TO SOUND, PRACTICAL CORPORATE GOVERNANCE AS AN INTEGRAL PART OF PROTECTING THE INTERESTS OF OUR SHAREHOLDERS AND POLICYHOLDERS.

THE BOARD oversees the employment of sound, practical corporate governance. This is based on a framework involving an experienced board of independent directors supported by a suitably qualified and dedicated management team. Procedures are in place for setting the policy and practices, internal controls and processes relating to:

- **the operation of the board of directors and related committees;**
- **the management of business risks;**
- **the delegation of authorities;**
- **trading in the company's shares;**
- **communications with shareholders and market analysts;**
- **the code of conduct; and**
- **other employee related policies.**

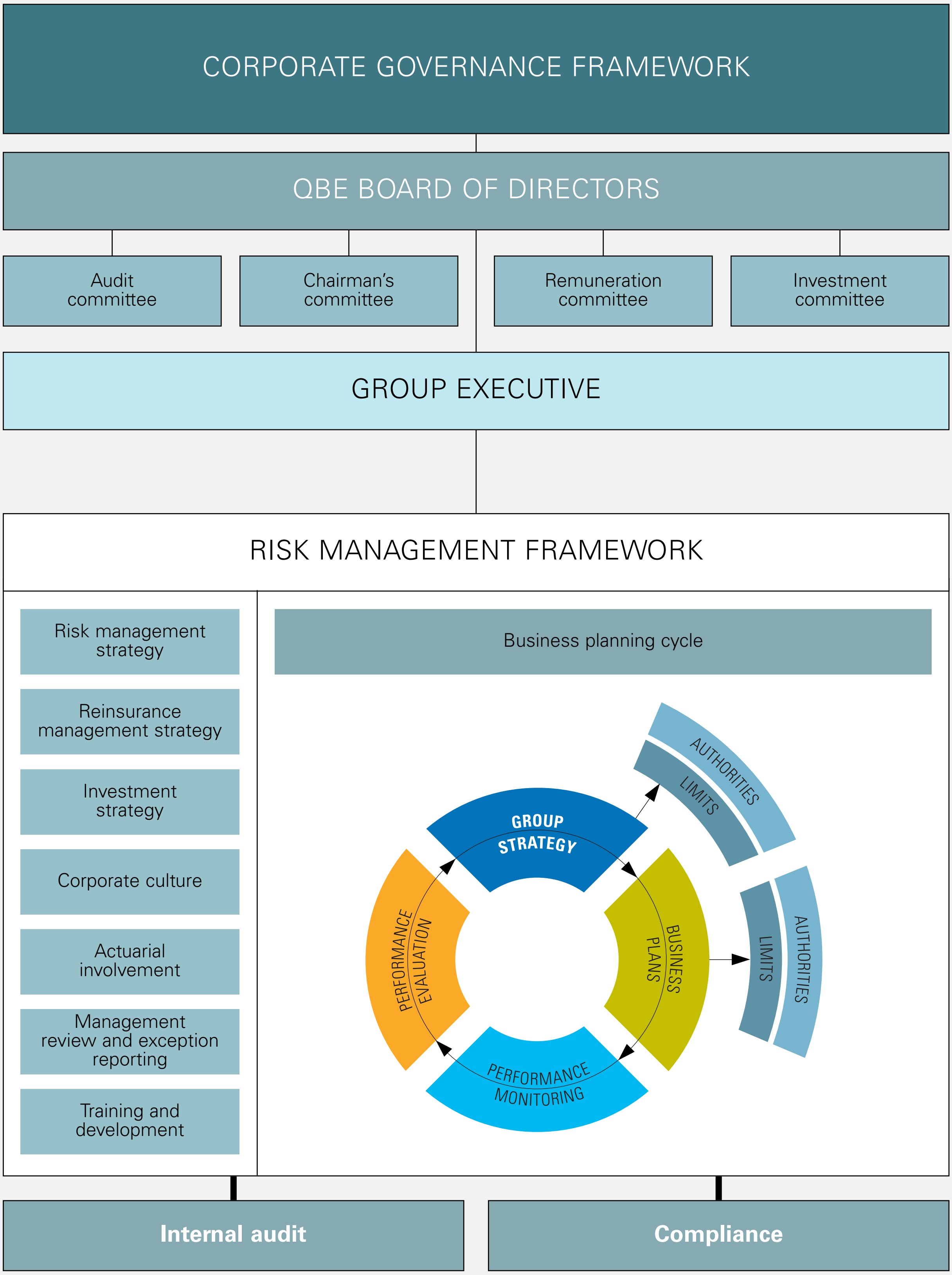
These policies are underpinned by the Group's vision, values and mission statements. Throughout the Group, a culture of utmost integrity prevails, requiring open and honest dealings with our employees, customers, shareholders, legislative bodies and the community at large.

It is the practice of the board and key management to ensure that the majority of the Group's insurance liabilities are assessed by actuaries. Our Group actuary and experienced internal actuaries, with the support of their teams, form their own independent view of the required level of outstanding claims provisions. Management is actively involved in discussing the outcome of these reviews. In addition, all major insurance and reinsurance portfolios are reviewed by external actuaries at least annually and external auditors half yearly.

A strong global internal audit function is critical to the corporate governance process and assists management and the directors in their assessment and management of the key risks in the Group's worldwide operations. In addition to our internal audit function, we have a number of compliance teams focusing on specific areas of the business such as investment, regulatory and tax compliance.

QBE's philosophy on corporate governance is founded on a common sense approach. This provides the flexibility and efficiency which is required to maintain high standards in an ever changing regulatory and business environment and the pragmatism necessary to supervise and manage a diverse international Group.

Our detailed corporate governance statement is on pages 39 to 41. QBE continues to monitor corporate governance developments worldwide. The ASX Corporate Governance Council's best practice recommendations and the Australian federal government's CLERP 9 legislation are due after the release of this report. QBE will review these and other changes, and will revise its corporate governance disclosures if appropriate.


CORPORATE GOVERNANCE FRAMEWORK
QBE BOARD OF DIRECTORS
Audit committee
Chairman's committee
Remuneration committee
Investment committee
GROUP EXECUTIVE
RISK MANAGEMENT FRAMEWORK
Risk management strategy
Reinsurance management strategy
Investment strategy
Corporate culture
Actuarial involvement
Management review and exception reporting
Training and development
Business planning cycle
GROUP STRATEGY
BUSINESS PLANS
PERFORMANCE MONITORING
PERFORMANCE EVALUATION
AUTHORITIES
LIMITS
LIMITS
AUTHORITIES
Internal audit
Compliance

Risk management

QBE HAS IN PLACE A GLOBAL RISK MANAGEMENT FRAMEWORK, CLEAR AUTHORITIES DEFINING THE TYPE AND EXTENT OF RISKS TO BE ACCEPTED BY EACH OF OUR BUSINESSES AND A COMMON APPROACH TO MANAGING THOSE RISKS.

THE FOUNDATION of our risk management policy is the obligation and desire to manage our future and create wealth for our shareholders by:

- **avoiding surprises from uncertainty and volatility;**
- **minimising risk and more effectively allocating capital and resources through due consideration of the balance of risk and reward; and**
- **achieving competitive advantage through better understanding of the risk environment in which we operate.**

This policy is supported by a risk management strategy identifying key risks and QBE's approach to the management of these risks. The strategy clearly documents the practical application of the risk management framework throughout the business management cycle, including the business and strategic planning process. Internal controls and systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and exposure to foreign currencies is within predetermined limits.

Whilst the Group risk management framework is approved by the board, QBE believes that managing risk is the responsibility of the businesses and that all staff need to understand and actively manage risk. The businesses are supported by strong compliance teams and by Group senior management. Internal audit provides an independent check that the risk management framework is operating effectively.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing volatility of results. QBE's approach is to diversify insurance risk, both by product and geography. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes. A combination of core and specialty products allows QBE to lead underwrite in many of the markets in which it operates. Geographic diversification is achieved by operating in 39 countries.

QBE actively manages its reinsurance risk within the framework of its reinsurance management strategy. This entails a clear understanding of the Group's risk tolerance supported by strict controls over selection and monitoring of reinsurance counterparties. QBE regularly monitors its exposure to reinsurers worldwide.

QBE has a relatively low risk investment strategy of investing in high-grade liquid securities and cash and maintaining a relatively low exposure to equities.

QBE people

QUALITY PEOPLE, INCENTIVE SCHEMES TO REWARD PERFORMANCE AND PROGRAMMES TO PROMOTE SOUND CORPORATE CONDUCT ARE KEY INGREDIENTS TO THE FUTURE SUCCESS OF OUR GROUP.

QBE HAS DEVELOPED a culture based on utmost integrity, sound business acumen and strong leadership, supported by effective corporate guidelines and disciplined risk management practices. These qualities have contributed to consistently high business standards.

Underpinning our strategy for attracting and retaining quality people is the QBE Manager Programme which we developed in 1995. The Programme is actively promoted through structured seminars to staff across the Group. The Programme presents nine "essential behaviours" with the acronym OPENUPQBE, which form the basis of our business and leadership standards.

Working to these standards provides consistency in all key activities and has facilitated the integration of the many diverse teams who have joined QBE through its many acquisitions worldwide. The Programme, including the values and essential behaviours, creates a common thread throughout our organisation.

One of the most important of the essential behaviours is business acumen, which is understanding and actively managing the key business risks and profit drivers of our business to achieve consistently profitable results. This includes underwriting with an expectation of profit and early identification and swift action on problem areas as they arise.

QBE's people are selected for their ability and experience and their "can do" approach to carrying out their roles. Our aim is to ensure that the interests of our shareholders and staff are aligned. In order to encourage performance that increases shareholders' wealth, we introduced new incentive arrangements in 2001. Most of our staff worldwide participate in short term profit share incentive arrangements that reward them when they achieve or exceed financial targets. Also central to our incentive arrangements is the Employee Share and Option Plan ("the Plan"), which has been in place since 1981.

The Group's senior management also participate in a long term incentive programme called the Senior Executive Equity Scheme ("the SEES"). Managers are only entitled to participate in the SEES if they have already qualified for their short term incentives by achieving their financial targets. Details of the Plan and the SEES are set out on pages 67 to 68.

Almost 4,000 of our over 7,000 staff at all levels of the organisation now hold shares in QBE through the Plan, providing an even stronger motivation for them to achieve the Group's objective of increasing the wealth of our shareholders.

Open thinking


Personal impact


Entrusting


Networking


Utmost integrity


Planning perspective


Quality customer focus


Business acumen


Entrepreneurship

Strategy

THE QBE BOARD APPROVES THE STRATEGY AND DETAILED BUSINESS PLANS PREPARED BY MANAGEMENT AND REVIEWS ACTUAL PERFORMANCE DURING THE BUSINESS CYCLE.

GROUP STRATEGY is approved by the board of directors. The strategy must accommodate and be consistent with shareholder expectations, our corporate financial profile, our organisational culture and our capacity to effectively manage risks.

QBE's approach is to focus on the dual components of the Group strategy, which are maintaining financial strength and achieving performance goals. Our strategy supports the Group's overall vision and values and encompasses a long term plan and short term detailed goals and objectives. The actions necessary to achieve the strategy are identified, as are the risks that could undermine our ability to achieve our goals and objectives.

Strategic planning considers optimum solvency levels, minimum capital levels to support risk taking and the level of risk the Group is willing to take. This is balanced against desired performance goals such as growth objectives, expected profitability, investment earnings and dividend targets. These considerations are applied at a product and business unit level, at a divisional level and at a Group level. The strategy forms the basis for documenting our risk tolerance and maintaining the optimum management and organisational structure within our Group.

The business planning process forms the core for developing our Group strategy. Business plans are developed for all classes of business, for our investment portfolio and for all support functions. The plans clearly document our strategy for achieving financial targets and performance goals within the limits set. Business plans, comprising annual budgets and three year plans, also form the basis for delegating authorities to all managers and staff with specific responsibilities, including underwriters, investment managers and claims managers.

Business plans are subject to detailed review by local and Group senior management. They are prepared annually and actual results are monitored regularly to identify adverse trends so that remedial action can be taken at an early stage. Regular reporting to both local and Group boards on performance against the business plan, including action plans to correct adverse variances, is a fundamental control within the Group.

GROUP STRATEGIC OBJECTIVE

To remain a highly respected and successful general insurance and reinsurance Group, earning underwriting profits in each insurance division and above benchmark investment returns, growing within a chosen product mix in all insurance divisions and continuously improving every aspect of our business.

GROUP FINANCIAL TARGETS AND PERFORMANCE GOALS

Our governing objectives are:

> to grow shareholders' wealth over the long term
> to achieve underwriting profits in each of our divisions
> to achieve above benchmark investment returns with a low risk profile investment portfolio
> to maintain a sound solvency position > to motivate employees > to retain quality customers

2002 FINANCIAL TARGETS	2002 FINANCIAL RESULTS
> maintain an insurance margin in excess of 6.0%	> insurance margin of 7.2%
> grow profit by at least 15%*	> profit increased 23%*
> reduce costs of borrowing	> average borrowing costs 4.8% (2001 7.0%)
Supporting targets	**Supporting targets**
> net earned premium growth of at least 15%	> net earned premium increased 22%
> expense ratio of 12.5% or less	> expense ratio 12.4%
> increased investment income	> investment income of $181 million down from $344 million in 2001
> tax rate below 23%	> tax rate 11%
> increase debt to equity ratio to between 45% and 50%	> debt to equity ratio 49.3%
> maintain capital adequacy multiple of around 1.5 times APRA's minimum requirement	> capital adequacy multiple around 1.6 times the minimum capital requirement

2002 PERFORMANCE GOALS	2002 ACTUAL PERFORMANCE
> substantially reduce insurance risk profile	> terrorism exclusions, lower percentage of inward treaty reinsurance, changes to aggregate methodology
> achieve average premium rate increases in excess of 20%	> average premium rate increases in excess of 20% achieved for the majority of portfolios
> continue promotion of QBE Manager Programme	> Programme run in Australia, USA, UK, Malaysia and Hong Kong in 2002

2003 FINANCIAL TARGETS**

> achieve an insurance margin of 7.0% to 8.0%
> increase profit after tax by more than 50%
> achieve a return on equity in excess of 1.5 times the weighted average cost of capital

Supporting targets

> gross written premium growth of 10%
> net earned premium growth of 13%
> reinsurance expense ratio of 22%
> maintain expense ratio of 12.5% or less
> tax rate of 22%
> maintain capital adequacy multiple of around 1.5 times APRA's minimum requirement
> gross investment yield of 4%

2003 PERFORMANCE GOALS

> achieve average premium rate increases in excess of 10%
> increase customer retention
> further reduce risk profile of insurance business, including reduction of inward treaty reinsurance business as a percentage of overall premium
> achieve above benchmark investment returns
> continue promotion of QBE Manager Programme

* excluding the effect of the WTC loss in 2001

** targets assume a frequency and severity of catastrophes in line with the allowance in our business plans and a moderate increase in equity markets

Capital management

QBE HAS A COMPREHENSIVE PROCESS IN PLACE FOR THE MEASUREMENT AND MANAGEMENT OF ITS CAPITAL, BOTH AT A GROUP AND DIVISIONAL LEVEL.

QBE'S CAPITAL MANAGEMENT objectives are as follows:

- **to determine capital levels by reference to minimum benchmarks. The benchmark is currently around 1.5 times APRA's minimum capital requirement.**
- **capital of QBE's regulated insurance entities to be set at levels to ensure sufficient capital adequacy margins are retained over statutory capital requirements.**
- **capital levels are managed to ensure QBE operates within the key ratios as may be required from time to time by our regulators and rating agencies.**
- **debt equity ratio is in the range of 45%–50%.**

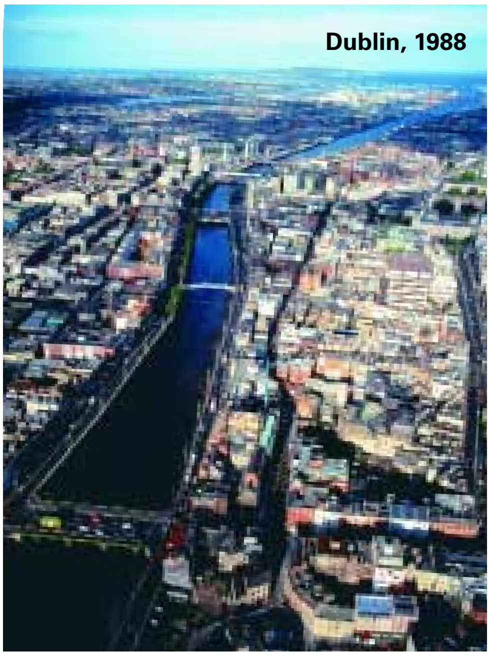
Adequate capital levels are important to a number of QBE stakeholders including policyholders, shareholders, regulators, rating agencies, debt and hybrid securities investors, banks and other business counterparties, eg insurance brokers and ceding companies.

The board of directors constantly reviews the capital requirements of the Group and operating subsidiaries. When additional capital is required, QBE has a proven track record of access to the capital markets to support its growth and funding requirements.

Over the past two years QBE has raised over $2 billion in funds through a rights issue, share placements, dividend reinvestment and hybrid securities. These funds have been used to support QBE's gross written premium growth from $4.4 billion in 2000 to $7.7 billion in 2002.

QBE's growth over the past 20 years has primarily been achieved through over 70 acquisitions of varying size. Our acquisition strategy is a key factor in achieving our growth and profitability targets. Our acquisition activity at the end of the last decade was significant with a number of strategic acquisitions, particularly in the European market. We will continue to review acquisition opportunities that create wealth for our shareholders. However, we expect that acquisition activity in the short term will focus on add ons to existing businesses.

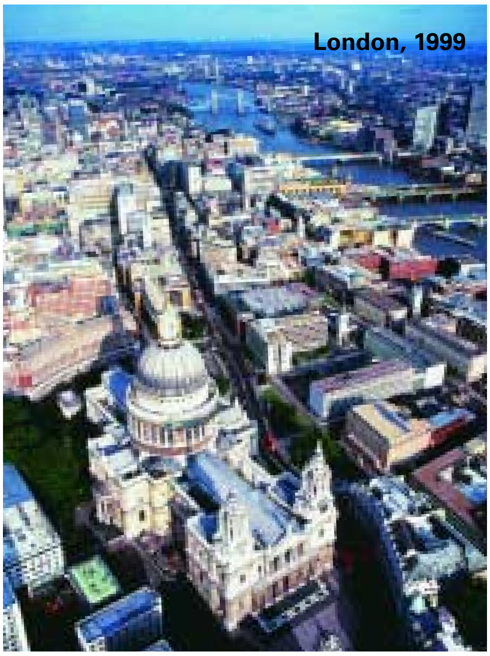
The board considers management's requests for capital and the allocation of capital throughout the Group. Generally acquisitions must meet the Group's criteria of being earnings per share positive in the first year of acquisition. QBE targets a return on equity of more than 1.5 times the weighted average cost of capital.


Dublin, 1988


Melbourne, 1992

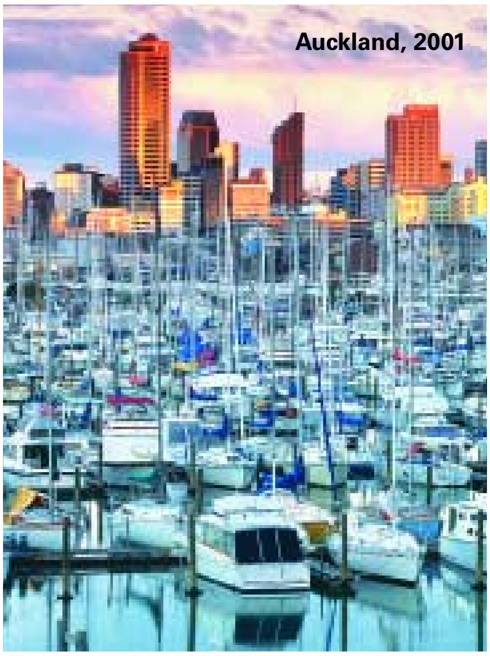

New York, 1993


Budapest, 1998


London, 1999


Singapore, 2000


London, 2000


Auckland, 2001


Kuala Lumpur, 2002

Frank O'Halloran Chief executive officer Age 56

Frank O'Halloran was appointed chief executive officer in January 1998 and is a member of the investment committee and the chairman's committee. Frank joined QBE in 1976 as Group financial controller. He was appointed chief financial officer in 1982 and joined the board as director of finance from 1987 to 1994 and as director of operations from 1994 to 1997. Frank has had extensive experience in professional accountancy for 13 years and insurance management for over 26 years.

Chief executive officer's report

I AM PLEASED TO REPORT A NET PROFIT AFTER TAX OF $279 MILLION FOLLOWING THE DISAPPOINTING NET LOSS AFTER TAX OF $25 MILLION LAST YEAR.

Profit includes unrealised and realised losses on equities of $151 million after tax compared with a loss of $22 million after tax last year. The profit for 2002 is also after increasing the level of prudential margins included in outstanding claims provisions.

2002 saw premium rate increases for most classes of business and significant improvements in insurance policy terms and conditions. This followed many years of underpricing in the non-life insurance industry, recent lower investment yields and four years of increased catastrophe activity culminating in the WTC loss. QBE's improved result in 2002 benefited from lower claims experience throughout the year and actions taken over the 18 months to the end of 2001 to reduce the risk profile of the Group.

Excluding the WTC loss from the 2001 results, profit after tax for 2002 increased 23%. The estimated net WTC loss remains unchanged at $252 million after tax.

The insurance profit to net earned premium ratio improved from 5.1% last year (excluding the WTC loss) to 7.2%. Cash flow from operations increased substantially from $280 million last year to $1,511 million.

During the past 12 months, QBE initiated or completed many profit enhancing activities. In particular, we:

- completed the acquisition of the rights to renew the CGU trade credit business in Australia, the ING non-life business in Indonesia, the direct personal lines business of Zurich in Australia and the majority of the commercial lines business of Gerling in Australia;
- acquired additional capacity in the QBE managed Lloyd's syndicate 386 to give QBE 49.8% of the estimated $1.5 billion of business to be written by the syndicate in 2003;
- completed the merger of QBE and MBf operations in Malaysia with an estimated $6 million of potential synergies in 2003 and future years. The costs of integration have been included in the 2002 results;
- achieved premium rate increases and improved terms and conditions in excess of expectations for the majority of our products in our insurance and reinsurance businesses around the world;

GEOGRAPHIC SEGMENTS
GROSS EARNED PREMIUM

- successfully integrated the many acquisitions made in 2001 and achieved planned synergies;
- closed our marginal general insurance operations in Japan (although we continue to write reinsurance business in that country); and
- reduced our inwards reinsurance business from 31% of gross written premium last year to 28%, despite generally higher premium rate increases for treaty reinsurance business.

Neil Drabsch Chief financial officer Age 54

Neil Drabsch joined QBE in 1991. He has held the position of chief financial officer since 1994 and was also the Group company secretary from 1992 to 2001. Neil has had 36 years' experience in insurance and reinsurance management, and finance and accounting, including 23 years as a practising chartered accountant.

Insurance profitability

Insurance profit increased from $242 million last year (excluding the WTC loss) to $406 million. The improvements in the underwriting result were partially offset by lower yields on investments set aside to meet insurance liabilities. The Group's combined operating ratio was 97.7% compared with 101.7% last year (excluding the WTC loss). All five operating divisions produced underwriting profits.

Insurance profit comprises the underwriting result plus investment income on policyholders' funds. As a percentage of average shareholders' funds, insurance profit increased from 11.2% last year (excluding the WTC loss) to 14.6%.

The substantial cash flow from operations for the year of $1,511 million resulted from higher premium rates, substantially improved claims experience and improved terms and conditions. Cash flow from operations and acquisitions has been considerable over the past five years, with over $5.7 billion added to the investment portfolio.

KEY RATIOS - GROUP

	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**7,723**	6,793
Gross earned premium $M	**7,197**	6,298
Net earned premium $M	**5,642**	4,634
Claims ratio %	**67.6**	76.6
Commission ratio %	**17.7**	20.2
Expense ratio %	**12.4**	12.8
Combined operating ratio %	**97.7**	109.6

Gross written premium increased 14% to $7,723 million and gross earned premium was up 14% to $7,197 million. The strong premium growth was due to higher premium rates, higher retention of business, an increase in new business due to the consolidation in many major markets and acquisitions made in 2001. A substantial proportion of the premium rate increases in 2002 are not yet earned and are included in the provision for unearned premium at 31 December 2002. The benefit of these premium increases will be recognised in the results in 2003 and later years. QBE's international businesses now contribute 80% of the Group's gross earned premium.

Net earned premium increased 22% to $5,642 million. The Group's reinsurance costs as a percentage of gross earned premium decreased from 26% to 22%. This is primarily due to premium increases on business written being higher than the increase in reinsurance costs and lower reinstatement premiums. QBE's net retentions remained substantially unchanged from 2001. QBE's reinsurers earned a significant profit from business placed with them in 2002, mainly due to the improved claims experience.

Gayle Tollifson Group general manager, finance and business risks Age 48

Gayle Tollifson joined QBE in 1994 as Group financial controller and became Group general manager, finance and business risks in 2001. Her current role encompasses group reporting and risk management including reinsurance, actuarial and business planning. Prior to joining QBE, she worked with Coopers & Lybrand in Bermuda and Australia, having qualified as a chartered accountant in Canada in 1981. Gayle has over 20 years of experience in the insurance industry.

Chief executive officer's report continued

CONTRIBUTIONS BY REGION for the year to 31 December

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		NET PROFIT (LOSS) AFTER TAX		COMBINED OPERATING RATIO	
	2002 $M	2001 $M	2002 $M	2001 $M	2002 $M	2001 $M	2002 %	2001 %
Australian general insurance	**1,578**	1,340	**1,221**	1,006	**103**	57	**97.1**	100.6
Asia-Pacific general insurance	**629**	523	**441**	405	**18**	27	**95.9**	99.4
the Americas	**991**	731	**672**	490	**14**	(19)	**99.6**	112.4
European company operations	**2,249**	2,017	**1,731**	1,368	**76**	(95)	**98.9**	119.1
Lloyd's division	**2,276**	2,182	**1,577**	1,365	**68**	5	**96.6**	108.6
Group	**7,723**	6,793	**5,642**	4,634	**279**	(25)	**97.7**	109.6
General insurance	**5,549**	4,678	**4,115**	3,379	**212**	187	**96.9**	102.3
Inward reinsurance	**2,174**	2,115	**1,527**	1,255	**67**	(212)	**99.9**	129.0
Group	**7,723**	6,793	**5,642**	4,634	**279**	(25)	**97.7**	109.6

Gross claims incurred as a percentage of gross earned premium reduced from 80.3% last year (excluding the WTC loss) to 65.1%. The substantial improvement in the claims ratio reflects higher premium rates, the considerable action taken to improve portfolio performance in 2001 and lower large claim and catastrophe experience in 2002. The net claims ratio decreased from 69.4% last year (excluding the WTC loss) to 67.6%.

The commission ratio improved from 20.2% to 17.7%, reflecting a change in mix of business and a reduction in commission rates in a number of portfolios. The Group's expense ratio improved from 12.8% to 12.4% as a result of synergies from acquisitions in recent years and higher premium rates. The improvement in the expense ratio is after a substantial increase in the cost of short and long term incentives for improved insurance results, higher contributions to superannuation funds and the 0.9% increase in the levy paid to Lloyd's to increase the Lloyd's central guarantee fund. The Lloyd's levy is expected to decrease for 2004.

Investment income

Investment income decreased from $344 million to $181 million as a result of the substantial decline in equity markets and lower interest rates. Investment income before realised and unrealised losses on investments was stable at $332 million, with lower interest rates offsetting income attributable to the increase in net invested funds.

The gross investment yield before borrowing costs, goodwill amortisation, exchange gains and investment expenses was 2.5%

Duncan Ramsay Group general counsel and company secretary Age 41

Duncan Ramsay joined QBE in 1993 as Group general counsel after working for Freehills, an Australian law firm, for seven years. He was appointed Group company secretary in May 2001. Since he joined QBE, he has been extensively involved in the legal aspects of the Group's acquisition strategy.

WORLDWIDE PORTFOLIO MIX
GROSS EARNED PREMIUM

- Marine and aviation 9.3% (13.5%)
- Accident and health 7.7% (8.6%)
- Property 27.3% (23.7%)
- Motor and motor casualty 10.8% (15.6%)
- Financial and credit 2.9% (3.1%)
- Liability 12.6% (13.5%)
- Professional indemnity 9.1% (7.1%)
- Workers' compensation 9.2% (5.8%)
- Other 11.1% (9.1%)

compared with 5.3% last year. We were concerned at the high level of stock markets in 2001 and we therefore reduced our weighting in listed equities to 7.9% of total investments and cash at 31 December 2002. We did not purchase new investment collars in the second half of 2002 as they were priced at a level which we believed was not in the interest of our shareholders.

In addition to reducing our equity weighting, we shortened the maturity profile of our fixed interest investments in anticipation of rising interest rates. We continue to maintain a policy of investing only in high rated paper and growth and value equities.

Reinsurance recoveries

Reinsurance recoveries on outstanding claims decreased from $4,509 million at 31 December 2001 to $3,666 million, or from 24% of total assets to 18%. We continue to maintain strict controls over the use of reinsurers and are confident that our provision for doubtful reinsurance recoveries of $158 million is adequate.

Going forward

> Based on current exchange rates, we expect our gross written premium to grow 10% in 2003 to $8.5 billion and net earned premium to grow by 13% to $6.4 billion. Growth is expected to be achieved through further premium rate increases, new opportunities, a focus on higher retention of customers and the acquisitions in 2002. The full benefit from the 2002 premium rate increases will be evident in 2003. We exceeded our expectations for overall premium rate increases, customer retention and new business at the major renewal date of 1 January 2003. We are targeting growth of 10% per annum beyond 2003, although this will depend on add on acquisitions and premium rate increases being at least sufficient to cover claims inflation.

> We continue to reduce the risk profile of our insurance and reinsurance operations through an increased emphasis on portfolio management and by reducing the Group's exposure to marginal business. We now have over 60 actuaries working with underwriters and management on portfolio segmentation, pricing, claims reserving and performance monitoring. We have already significantly reduced our exposure to terrorism.

> We expect our reinsurance costs to remain at approximately 22% of gross earned premium. We have been able to place our 2003 reinsurance protections at terms slightly better than planned, with no increase in the Group's retentions

Peter Grove Underwriting director, Limit Underwriting Limited Age 53

Peter Grove joined QBE in 2000 as a result of the Limit acquisition. He is underwriting director for our Lloyd's division and was appointed to the QBE Group executive in 2002 to advise and support the chief executive officer on insurance technical matters, particularly reinsurance purchasing. Peter has 35 years experience in the London market and has been a lead underwriter of reinsurance and retrocession business at Lloyd's for 20 years.

Chief executive officer's report continued

GROUP FINANCIAL HIGHLIGHTS for the year to 31 December

	2002 %	2001 %	2000 %	1999 %	1998 %
Premium growth					
– gross written	**13.7**	54.2	53.1	19.4	17.3
– net earned	**21.8**	34.1	56.8	15.1	19.0
Reinsurance ceded to gross written premium	**21.1**	26.8	21.6	16.9	15.6
Net written premium to gross written premium	**78.9**	73.2	78.4	83.1	84.4
Insurance profit (loss) to net earned premium	**7.2**	(2.6)	5.4	2.5	7.7
Insurance profit (loss) to shareholders' funds*	**14.6**	(5.5)	13.1	5.1	14.5

* average shareholders' funds at net market value

for any one risk or event. We continue to look for additional protections that will further reduce the Group's exposures.

- We have detailed analyses of our claims ratio between attritional losses, large losses and catastrophes. Our 2003 business plans include a significant allowance for large losses and catastrophes.
- We are targeting a gross investment yield of around 4% for 2003. We expect slightly improved interest yields later in 2003 and a small improvement in stock markets, although market volatility may continue. At current levels of equity investment, a 1% movement in equity markets impacts profit after tax by approximately $7 million.
- Net invested funds are expected to increase by over $1.5 billion as a result of the expected strong cash flow and the reinsurance to close on the 2001 underwriting year at Lloyd's.
- We expect income tax expense to increase to around 22% of pre-tax profit.
- We will continue to promote the QBE Manager Programme, which has been invaluable in maintaining the QBE culture for carrying on business in our operations around the world. We will also continue to focus on the personal and technical development of our senior people to ensure continuity of management at the highest levels within the business.

Subject to large losses and catastrophes not exceeding the allowance made in our business plans and no further major fall in equity markets or interest rates, we are confident of maintaining an insurance profit of 7.0% to 8.0% and increasing net profit after tax by 50% in 2003.

Peter Smith Group general manager, personnel Age 60

Peter Smith has been in charge of personnel since he began working for QBE in 1984. He currently serves as Group general manager, personnel. Peter has over 40 years experience in the insurance industry in London and Sydney.

STAFF NUMBERS

	31 DECEMBER 2002	31 DECEMBER 2001
Australian general insurance including Group head office	**1,589**	1,473
QBE Mercantile Mutual joint venture	**1,121**	1,055
Asia-Pacific general insurance	**1,316**	1,228
the Americas	**218**	186
European company operations	**2,529**	2,418
Lloyd's division	**345**	376
Investments	**44**	38
Group	**7,162**	6,774

Summary

The additional funds invested by our shareholders in 2001 and 2002, together with QBE's relatively low exposure to equity markets and claims provisions held at well in excess of the 75% probability of adequacy required by APRA, have placed the Group in an excellent position to participate in the current positive insurance market conditions. The consolidation that has occurred in the insurance and reinsurance industries, and the reduction in capacity as a result of a number of failures and withdrawals from the market, is likely to mean that the current positive environment will be sustained longer than in previous cycles. We expect that premium rate increases will continue beyond 2003 but at a much reduced rate than that achieved over the past 15 months.

Whilst the WTC loss in 2001 was disappointing and a major setback for us, it only increased our determination to succeed and to reduce the Group's risk profile. The 2002 result and our outlook have been achieved through the very disciplined and professional approach of our more than 7,000 staff worldwide. We will continue our focus on creating further wealth for our shareholders from our many excellent businesses around the world.

I appreciate the support that I have received from our directors during the past year. The support of our shareholders after the WTC loss enabled us to participate in the improved market conditions and has given substantial encouragement to management and staff for the future.

We have a large number of highly skilled and experienced people in key roles throughout the Group. Personal development plans are being reviewed to ensure that we continue to have employees capable of filling senior roles as they arise in the Group.

My sincere thanks to my fellow employees for their loyal support and significant contribution over the past 12 months. I look forward to working with them to build an even stronger QBE going forward.

Frank O'Halloran

Chief executive officer

Worldwide operations

AUSTRALIAN GENERAL INSURANCE

Business

- general insurance operations throughout Australia
- provides all major lines of insurance cover for personal and commercial risks
- staff numbers 1,380 (1,258 at 31 December 2001), excluding Group head office

Performance

• gross written premium $1,578 million	+18%
• gross earned premium $1,448 million	+20%
• net earned premium $1,221 million	+21%
• underwriting profit ratio 2.9%	+3.5%

Major events

- no major losses from natural catastrophes
- further industry rationalisation
- premium rate increases for most portfolios
- Community Care Underwriting Agency formed, led by QBE, to provide "not for profit" organisations with access to public liability insurance cover
- new comprehensive insurance legislation from 1 July 2002
- *Financial Sector Reform Act* passed giving companies two years to achieve full compliance

Achievements

- successfully consolidated travel and aviation businesses
- purchased the direct personal lines portfolio of Zurich Australia
- reached agreement with Gerling Australia to renew the majority of their corporate and speciality lines portfolios
- continued to increase efficiencies and reduce expense ratios through system development and e-business applications

Objectives

- increase customer retention
- maximise the renewal of profitable business under the Zurich and Gerling agreements
- achieve further efficiency through the use of system enhancement projects
- achieve a return on equity in excess of Group requirements through effective use of capital and continued product focus

ASIA-PACIFIC GENERAL INSURANCE

Business

- general insurance business in the Asia-Pacific region
- operations in 18 countries with divisional head office in Sydney
- provides personal, commercial and specialist insurance covers, including professional and general liability, marine, corporate property and trade credit
- staff numbers 1,316 (1,228 at 31 December 2001)

Performance

• gross written premium $629 million	+20%
• gross earned premium $602 million	+17%
• net earned premium $441 million	+9%
• underwriting profit ratio 4.1%	+3.5%

Major events

- results impacted by an earthquake in Vanuatu, floods in Indonesia and typhoons in Guam
- completed integration of QBE-MBf in Malaysia
- acquired ING general insurance business in Indonesia
- launched protection and indemnity unit in Hong Kong in alliance with Swiss Re Group
- announced cessation of marginal primary business in Japan

Achievements

- continued improvement in underwriting performance and profitability
- increased brand awareness generating growth in new business opportunities
- further strengthened specialist lines expertise
- deployed underwriting specialists to major Asian markets
- installed new systems platform into Singapore
- further strengthened product lines and exited some non-core or poor performing classes

Objectives

- further improve underwriting performance by focusing on technical skills and participating in premium rate rises
- roll out new systems platform to Hong Kong and Malaysia
- reduce expense ratio by implementing business re-engineering programme in three major operations
- further develop customer service strategy in both the commercial and personal lines segments
- identify business opportunities that improve scale and are beneficial to shareholders

THE AMERICAS

Business

- reinsurance and general insurance business in the Americas
- based in New York, with offices in Central and South America
- staff numbers 218 (186 at 31 December 2001)

Performance

• gross written premium $991 million	+36%
• gross earned premium $856 million	+31%
• net earned premium $672 million	+37%
• underwriting profit ratio 0.4%	+12.8%

Major events

- significant premium rate increases for most insurance and reinsurance classes of business
- absence of major catastrophes
- rationalisation of US reinsurance market
- *US Terrorism Risk Insurance Act 2002* signed on 26 November 2002

Achievements

- established an excess and surplus lines carrier to offer greater flexibility in the US market
- successfully integrated health team formerly based in Dublin
- added new insurance portfolios with proven profitable track records
- developed reinsurance specialisation in regional multi-line accounts
- streamlined Latin American operations
- maintained our AM Best (A) and Standard & Poor's (A+) ratings

Objectives

- focus on continued efficiencies in our processes while selectively pursuing profitable opportunities
- leverage existing health reinsurance into insurance relationships
- develop risk sharing opportunities to further motivate underwriting agencies
- upgrade our core underwriting system
- further improve insurance profitability from premium rate increases and focus on core products

EUROPEAN COMPANY OPERATIONS

Business
- product focused commercial insurance and reinsurance operations in London, Dublin and Paris
- general insurance operations in six countries in Central and Eastern Europe
- staff numbers 2,529 (2,418 at 31 December 2001)

Performance
- gross written premium $2,249 million **+12%**
- gross earned premium $2,103 million **+6%**
- net earned premium $1,731 million **+27%**
- underwriting profit ratio 1.1% **+20.2%**

Major events
- significant premium rate increases for most insurance and reinsurance classes of business
- UK Government announced formal review of employers' liability business
- appointed new head of Central and Eastern European operations

Achievements
- significant improvement in 2002 underwriting result
- achieved substantial premium rate increases and improved terms and conditions across all core lines of business
- achieved expense savings through a review of business processes
- system developments implemented to improve customer service and management information
- enhanced business controls and risk management processes

Objectives
- participate in general market hardening within a much reduced risk profile
- rationalise UK corporate and capital structure
- continue to achieve short and long term efficiencies and reduce costs
- enhance underwriting and management information systems to further improve portfolio management of the business
- further improve insurance profitability from premium rate increases and focus on core products

LLOYD'S DIVISION

Business
- product focused commercial insurance and reinsurance business in the Lloyd's market
- largest managing agent at Lloyd's with over 7% market share
- manages three active syndicates structured into five trading divisions
- staff numbers 345 (376 at 31 December 2001)

Performance
- gross written premium $2,276 million **+4%**
- gross earned premium $2,188 million **+12%**
- net earned premium $1,577 million **+16%**
- underwriting profit ratio 3.4% **+12.0%**

Major events
- strong recovery of Lloyd's market in 2002 with new capital facilitating an 18% growth in market capacity for 2003
- increased QBE's economic interest in syndicate 386 to almost 50% for 2003
- merged syndicates 566, 2000 and 2724 into enlarged syndicate 2999
- approval and implementation of Lloyd's franchise model and other significant reforms

Achievements
- strong profitability across the majority of classes of business
- increased premium rates for all major products
- increased capacity deployed to non-US liability syndicate 386
- syndicate and operating structure simplified ahead of schedule
- significant involvement in Lloyd's reform process with the head of our Lloyd's division elected to the Council of Lloyd's for 2003

Objectives
- continue to participate in excellent market conditions prevailing at Lloyd's
- acquire further capacity on syndicate 386
- continue integration of underwriting and operating structure to achieve further capital efficiencies and reduce expense ratio
- invest further in new underwriting and management information systems
- continue active participation in ongoing reforms of the Lloyd's market

INVESTMENTS

Business
- management of the Group's investment portfolios
- staff numbers 44 (38 at 31 December 2001)

Performance
- investment income down 47% to $181 million
- net income before investment gains/losses stable at $332 million
- net realised and unrealised gains on fixed interest securities of $50 million
- net realised and unrealised losses on equities of $207 million

Major events
- corporate governance issues and threats of terrorism and war undermined investors' confidence in equity markets
- major equity markets experienced third successive year of negative returns
- US interest rates cut further to 1.25%
- large institutional investors reduced the risk profile of their portfolios

Achievements
- benefits realised from risk averse investment strategy; low exposure to equities, no bond defaults
- equity returns, although negative, were ahead of benchmark
- net invested funds exceeded $10 billion for the first time
- treasury initiatives led to more efficient operational cash and foreign currency management

Objectives
- outperform investment benchmarks
- contain funds management expenses
- complete implementation of new global treasury system
- continue to maintain low risk strategy for equities and fixed interest securities

Raymond Jones Managing director, Australian general insurance Age 50

Raymond Jones joined QBE in 1994 as general manager, Australia, after several years in Asia as a regional vice president for the American International Group. He was previously general manager at Citicorp Insurance and has spent 16 years in the general insurance market. Raymond is currently the president of the Insurance Council of Australia.

Australian general insurance

AUSTRALIAN OPERATIONS' PRODUCT FOCUS AND STRONG PRESENCE IN COMMERCIAL INSURANCE HAVE ENABLED IT TO PRODUCE A SOUND INSURANCE PROFIT IN 2002.

The Australian general insurance market benefited from consolidation and improved conditions in 2002. This enabled QBE to achieve necessary premium rate increases on the majority of portfolios and changes in policy terms and conditions to improve portfolio performance. The combined operating ratio was 97.1% compared with 100.6% last year.

A sustained focus on quality customers resulted in improved business retention ratios. We exceeded last year's gross written premium figure by 18% through increased customer retention, acquisitions in 2001 and higher premium rates. Net earned premium increased by 21% to $1,221 million.

QBE Mercantile Mutual, the joint venture underwriting agency with ING, improved its position in the intermediary market and reduced its underwriting costs through e-business applications and process efficiencies. The agency exceeded premium and profit expectations and won the National Insurance Brokers' Underwriter of the Year Award, confirming its commitment to excellent service.

The compulsory third party businesses in NSW and Queensland continued to perform to plan. The government reforms in NSW have stabilised premiums and we are holding our market share at approximately 12%. In Queensland, the focus on profitability rather than premium income has seen our market share fall to 4%.

The workers' compensation division, for both insurance and government service agencies, produced good results. The successful launch of our new integrated service management process, QBE Connect, has reduced overall claims costs by improving communication and co-operation between all parties.

After a frequency of large losses in 2001, trade credit produced an improved result, reaffirming the quality of the portfolio. The professional liability division improved results by focusing on specific industries.

PORTFOLIO MIX
GROSS EARNED PREMIUM

- Professional indemnity 6.6% (7.1%)
- Credit and surety 5.4% (4.7%)
- Commercial packages 7.1% (9.1%)
- Property 13.1% (7.3%)
- Motor vehicle 10.9% (13.4%)
- Travel 5.2% (5.3%)
- Householders 10.8% (12.8%)
- Compulsory third party 12.1% (14.9%)
- General liability 9.8% (5.1%)
- Workers' compensation 10.2% (11.8%)
- Other 8.8% (8.5%)

QBE participates in the Community Care Underwriting Agency, providing liability protection to community groups in Australia.

The direct underwriting unit, Western QBE, had another sound year and the integration of the aviation and travel businesses was completed. We also successfully re-engineered and integrated the corporate property and corporate liability portfolios acquired from HIH in 2001.

We remain in a very strong position to participate in the opportunities in the Australian market as they arise. In late 2002 we acquired the rights to renew Zurich's direct personal lines book and the majority of the Australian commercial business of Gerling Australia.

Our objectives for 2003 are to:

> maximise the profitable renewal of recently acquired portfolios;
> ensure optimum retention of business and carefully assess the need for rate increases across specific portfolios;
> further reduce the expense ratio through process efficiencies and e-business applications;
> further enhance systems;
> continue to implement changes to ensure compliance with all relevant legislation; and
> continue to work with APRA and the industry to ensure a strong insurance industry in Australia.

I take this opportunity to thank all staff in Australia who have helped to produce an excellent result for our shareholders.

Raymond Jones

Managing director
Australian general insurance

KEY RATIOS

	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**1,578**	1,340
Gross earned premium $M	**1,448**	1,202
Net earned premium $M	**1,221**	1,006
Claims ratio %	**72.1**	72.6
Commission ratio %	**10.5**	13.1
Expense ratio %	**14.5**	14.9
Combined operating ratio %	**97.1**	100.6

Vince McLenaghan Managing director, Asia-Pacific general insurance Age 43

Vince McLenaghan was appointed managing director, Asia-Pacific general insurance in 1998. He has 25 years experience in the insurance industry, of which 20 years have been with QBE. Vince is currently president of the International Committee of the Insurance Council of Australia and was previously president of the Insurance Institute of New South Wales.

Asia-Pacific general insurance

QBE CONTINUES TO BENEFIT FROM ITS DIVERSE GENERAL INSURANCE BUSINESS FRANCHISES IN THE ASIA-PACIFIC REGION, WITH 68 OFFICES IN 18 COUNTRIES.

Our geographic spread and tenure of operations in the region, in some cases over 100 years, is testimony to our commitment to serving these markets. In some countries, we supplement our own strengths by forming joint ventures with strong local partners to ensure we fully appreciate and adapt to the local environments. QBE retains management control of all its operations.

Strong premium growth was achieved as a result of premium rate increases, a small acquisition in Indonesia, the merger with MBf in Malaysia and the full year premium effect of 2001 acquisitions, particularly in New Zealand. Increased writings in specialist classes of business also assisted growth. Gross written premium increased 20% to $629 million and net earned premium rose 9% to $441 million. Net earned premium was affected by an expected increase in reinsurance costs.

The underwriting result was better than expected even though we experienced an increased frequency of catastrophes, including an earthquake in Vanuatu, floods in Indonesia and typhoons in Guam. The combined operating ratio of 95.9% showed a strong improvement from 99.4% last year.

The claims ratio was 55.1% compared with 54.7% last year, reflecting the increased frequency of catastrophes offset by actions taken to improve under-performing classes of business.

The expense ratio decreased to 20.4% from 22.4% last year. The reduction reflected synergies from 2001 acquisitions, partly offset by restructuring costs in Japan, integration costs in Malaysia and Indonesia and the costs of new systems software in Singapore.

Underwriting profits were achieved in Hong Kong, Indonesia, Macau, Philippines, Singapore, Thailand, Fiji, French Polynesia, New Caledonia, New Zealand, Papua New Guinea and Solomon Islands. Five operations did not record underwriting profits. Vietnam is still a developing market

PORTFOLIO MIX
GROSS EARNED PREMIUM

- Professional indemnity 8.7% (6.8%)
- Marine 12.7% (9.5%)
- Workers' compensation 5.9% (6.0%)
- Motor and motor casualty 20.9% (22.2%)
- Fire 19.4% (20.4%)
- Accident and health 15.0% (16.3%)
- Liability 10.7% (9.6%)
- Other 6.7% (9.2%)

Specialist insurance risk encompasses marine, engineering, liability and professional indemnity business.

but we expect to achieve an underwriting profit over the next two years; Vanuatu and Guam were impacted by catastrophe losses; Malaysia incurred integration costs following the merger and continued to experience losses from the motor portfolio; and Japan's expenses include some specific costs following our decision to withdraw from the Japanese primary insurance market.

The following objectives were achieved over the past year:

- completed the merger and integration of QBE Malaysia with MBf Insurans;
- launched a new computer system in Singapore and completed the system implementation strategy for Hong Kong;
- further rationalised consistently unprofitable business; and
- completed the reorganisation of the management structure to aid new specialist products and introduced specialist teams to support brokers in major markets.

KEY RATIOS

	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**629**	523
Gross earned premium $M	**602**	516
Net earned premium $M	**441**	405
Claims ratio %	**55.1**	54.7
Commission ratio %	**20.4**	22.3
Expense ratio %	**20.4**	22.4
Combined operating ratio %	**95.9**	99.4

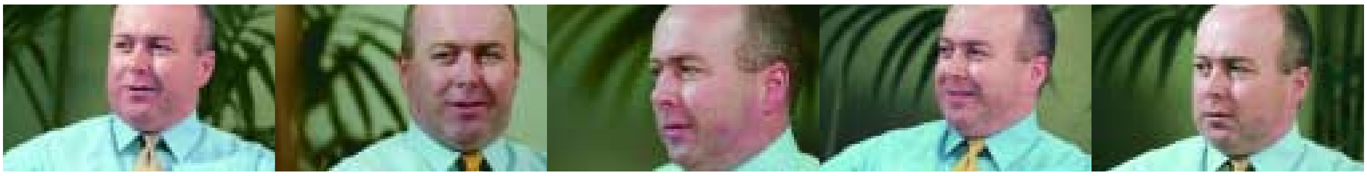
Our objectives for 2003 are to:

- identify selected opportunities in key markets to further improve scale and profitability;
- complete re-engineering projects in three key countries;
- continue to develop and implement strategic business initiatives to enhance brand image and intermediary relationships;
- further assist recently acquired entities by providing increased levels of technical and market development support;
- complete installation of the new systems platform in Hong Kong; and
- provide ongoing technical development training and participate in the continuing hard market conditions.

I extend my sincere thanks to all our staff for their efforts and my gratitude to our customers and intermediaries for their ongoing support and loyalty to QBE.

Vince McLenaghan

Managing director
Asia-Pacific general insurance



Tim Kenny President, the Americas Age 42

Tim Kenny has worked for QBE since 1994. He was appointed president and chief executive officer, the Americas in 2000 after serving as executive vice president, chief financial officer and treasurer in the Americas. Tim has over 20 years experience in the insurance and reinsurance markets in the USA and Europe. He is currently a member of the board of the Reinsurance Association of America.

the Americas

CHALLENGES FACING THE INSURANCE INDUSTRY IN 2002 PROVED TO BE OPPORTUNITIES FOR QBE IN THE AMERICAS.

The expanded Americas operation comprises general and reinsurance business in the USA, reinsurance business in Panama, Mexico and Peru and general insurance in Argentina and Brazil.

Disciplined growth achieved over the past two years provided a solid foundation allowing us to capitalise on rising insurance and reinsurance premium rates. Gross written premium for the Americas increased 36% to $991 million and net earned premium increased 37% to $672 million. This has resulted from premium rate increases, new general insurance agency business with a proven track record and acquisitions in Latin America in 2001.

The claims ratio improved to 68.4% from 80.2% last year (74.7% excluding the WTC loss). The significant improvement in portfolio performance in 2002 more than offset prior year deterioration in portfolios that had already been cancelled or sharply curtailed. The combined operating ratio improved to 99.6%, from the selective pursuit of profitable opportunities, the actions taken on unprofitable portfolios and an improved claims environment in 2002.

The following objectives were achieved in the past year:

> an excess and surplus lines carrier was created to complement our existing insurance business;
> historically profitable accounts were targeted to strengthen our reinsurance business among small and mid-sized regional carriers;
> we continued to develop a strong primary health portfolio supported by a comprehensive statistical base and analysis;
> four additional programmes with proven profitable track records were added to our insurance portfolio, including two condominium package programmes which will enable us to meet or exceed targets for gross premiums in 2003; and
> our new Latin American companies achieved operational efficiencies while increasing controls in their business processes.

PORTFOLIO MIX
GROSS EARNED PREMIUM

- Property excess of loss 12.2% (9.3%)
- Property proportional 18.5% (18.6%)
- Property facultative and direct 11.9% (2.8%)
- Catastrophe 2.0% (1.5%)
- Casualty 15.2% (15.6%)
- Motor and motor casualty 21.7% (31.1%)
- Health 10.8% (11.4%)
- Other 7.7% (9.7%)

Condominium package policies are a growth area for QBE in the Americas.

KEY RATIOS	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**479**	345	**512**	386	**991**	731
Gross earned premium $M	**365**	293	**491**	362	**856**	655
Net earned premium $M	**342**	284	**330**	206	**672**	490
Claims ratio %	**70.5**	71.8	**65.9**	91.8	**68.4**	80.2
Commission ratio %	**27.0**	26.0	**22.3**	25.9	**24.7**	26.0
Expense ratio %	**5.6**	5.2	**7.6**	7.6	**6.5**	6.2
Combined operating ratio %	**103.1**	103.0	**95.8**	125.3	**99.6**	112.4

QBE the Americas maintained its excellent standing with industry rating agencies and customers, strengthening our capital base and enhancing our client services. QBE the Americas' commitment to quality was reaffirmed by both AM Best (A) and Standard & Poor's (A+).

Our achievements over the past year were largely due to our commitment and ability to remain focused following the WTC loss in 2001. Strategies put in place to improve portfolio management, to reduce the expense ratio and to establish core customers have positioned us well for the future.

Our objectives for 2003 are to:

- focus on continued efficiencies in our processes while selectively pursuing profitable opportunities;
- continuously monitor the profitability and quality of our business to improve the combined operating ratio;
- continue to develop our health reinsurance and insurance strategies;
- encourage our managing general agents to share part of the risk from the business they produce;
- enhance and strengthen business agreements with our profitable Latin American reinsurance partner, QBE del Istmo; and
- monitor and respond to emerging challenges in our markets such as the new *US Terrorism Risk Insurance Act 2002*.

I extend my sincere thanks to the Americas' team for their achievements in 2002.

Tim Kenny

President
the Americas

Paul Glen Managing director, European company operations Age 42

Paul Glen joined QBE in 2000 from Legal & General, where he had worked since 1989 in a variety of finance and operational roles. He was appointed managing director of their general insurance business in 1997. Paul is a chartered accountant, having qualified with KPMG in London, and is currently a director of the International Underwriting Association. He was appointed managing director, European company operations in October 2000.

European company operations

DISCIPLINED UNDERWRITING AND MANAGEMENT FOCUS ON CORE COMMERCIAL LINES PRODUCTS HAVE BEEN REWARDED IN THE PAST YEAR.

European company operations (ECO) comprises product focused commercial lines general insurance and reinsurance operations in London, Dublin and Paris and general insurance operations in six countries in Central and Eastern Europe.

Gross written premium increased 12% to $2,249 million with premium rate increases and new business emanating from the withdrawal of capacity in the market being partly offset by actions taken on under-performing portfolios. Net earned premium increased 27% to $1,731 million, reflecting changes to our reinsurance programme following the restructure of our portfolio and lower reinstatement costs. The significant reduction in commission rates from 18.3% to 14.7% is due to the change in mix of business as we grow our core business lines. The expense ratio decreased from 12.4% to 12.0% from expense savings initiatives and process and system improvements.

The combined operating ratio was 98.9% compared with 119.1% last year (101.9% excluding the WTC loss). The improved result is due to higher premium rates, actions taken on a number of portfolios in the 18 months to December 2001 and a lower frequency of claims in 2002. Our inward reinsurance business produced a combined operating ratio of 102.9%. This was mainly a result of deterioration in prior year claims for the motor casualty and credit and surety classes of business.

During 2002, significant progress was made against the objectives set out in last year's report. We built on the changes made in 2001 and, with some strengthening of the management team, have focused the business on core commercial classes that have a proven track record of profitability.

Given the background of a hardening market and improvements in terms and conditions, management has reduced the risk profile of the business whilst benefiting from premium rate increases. In 2002 we withdrew from the engineering market, ceased underwriting inward reinsurance business from our

PORTFOLIO MIX
GROSS EARNED PREMIUM

- Professional indemnity 9.1% (7.4%)
- Financial and credit 4.1% (4.6%)
- Marine and aviation 4.0% (5.2%)
- Accident and health 14.9% (14.3%)
- Bloodstock 3.3% (2.6%)
- Property treaty 7.2% (13.1%)
- Property facultative and direct 10.4% (11.0%)
- Motor vehicle 3.0% (8.0%)
- Casualty 9.7% (9.7%)
- Public/products liability 6.0% (2.6%)
- Catastrophe 6.6% (4.8%)
- Employers' liability 12.8% (8.6%)
- Other 8.9% (8.1%)

QBE has a strong presence in the UK employers' liability market.

KEY RATIOS

	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**1,532**	1,036	**717**	981	**2,249**	2,017
Gross earned premium $M	**1,309**	996	**794**	982	**2,103**	1,978
Net earned premium $M	**1,072**	760	**659**	608	**1,731**	1,368
Claims ratio %	**71.4**	74.0	**73.5**	106.5	**72.2**	88.4
Commission ratio %	**11.3**	10.2	**20.4**	28.5	**14.7**	18.3
Expense ratio %	**13.7**	14.7	**9.0**	9.4	**12.0**	12.4
Combined operating ratio %	**96.4**	98.9	**102.9**	144.4	**98.9**	119.1

Singapore office and transferred the Group's Australian treaty reinsurance business from Sydney to London. We are a lead market in a number of the portfolios that we write, enabling us to influence terms and conditions.

Our objectives for 2003 are to:

> participate in the general hardening of premium rates and improved terms and conditions within a much reduced risk profile;
> improve insurance profitability by maintaining our focus on core products;
> rationalise the UK corporate and capital structure;
> enhance underwriting and management information systems to further improve portfolio management; and
> continue to improve efficiencies and reduce the expense ratio.

I extend my sincere thanks to the team in ECO for a substantially improved performance in 2002.

Paul Glen

Managing director
European company operations

Steven Burns Chief executive officer, Lloyd's division Age 44

Steven Burns joined QBE in 2000 as a result of the Limit acquisition. He is a chartered accountant and was finance director of the Janson Green managing agency at Lloyd's, which he had joined in 1987, prior to it being acquired by Limit in 1997. He was appointed managing director of Limit Underwriting Limited in 1999 and became chief executive officer of QBE's Lloyd's division in September 2000. Steven has extensive experience in the Lloyd's market and in February 2003 was elected to the Council of Lloyd's.

Lloyd's division (trading as Limit)

SUBSTANTIAL PREMIUM RATE INCREASES AND IMPROVED TERMS AND CONDITIONS FOR MOST CLASSES OF BUSINESS RESULTED IN THE STRONGEST INSURANCE PROFIT FOR MANY YEARS.

Favourable market conditions over the past year have enabled us to consolidate and grow our core businesses, with our business plans targeting further growth in 2003.

Gross written premium increased 4% to $2,276 million, with premium rate increases on existing portfolios being largely offset by the impact of business cancelled and the sale of direct aviation and property capacity in 2001. Net earned premium increased 16% to $1,577 million, primarily as a result of lower reinsurance costs.

Growth has been achieved by strengthening our position in our three specialist areas: non-marine liability (ex-USA), marine and energy insurance and non-marine reinsurance. We have resisted the temptation to underwrite in other sectors and our core strategy remains to focus on those classes where we have specific expertise, a proven track record and a leadership position which enables us to dictate our own underwriting terms and conditions.

We have made significant progress in achieving the objectives set out in last year's report, most notably participating in the dramatically improved trading conditions to return to strong profitability.

We have made further changes to the structure of the division, enabling more efficient use of capital, by bringing syndicate 566 within the capital umbrella arrangement of syndicate 2999. We have been successful in acquiring further capacity on syndicate 386, bringing our share for 2003 to just under 50%.

The Lloyd's reform process progressed markedly during 2002 with the implementation of the franchise model and a series of ancillary changes designed to speed up the modernisation of the market including the structure, accounting practices and overall performance. We will continue to support and be actively involved in the reform process. We continue to ensure that QBE and Limit are well represented in the market's governing and operating forums.

PORTFOLIO MIX
GROSS EARNED PREMIUM

- Professional indemnity 12.6% (8.5%)
- Marine and aviation 21.7% (37.2%)
- Property 38.7% (18.8%)
- Casualty 22.7% (29.8%)
- Other 4.3% (5.7%)

Our Lloyd's syndicates are lead markets for marine and energy risks.

KEY RATIOS	GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001	**YEAR TO 31 DECEMBER 2002**	YEAR TO 31 DECEMBER 2001
Gross written premium $M	**1,373**	1,486	**903**	696	**2,276**	2,182
Gross earned premium $M	**1,387**	1,266	**801**	681	**2,188**	1,947
Net earned premium $M	**1,046**	955	**531**	410	**1,577**	1,365
Claims ratio %	**65.2**	68.7	**56.1**	82.6	**62.1**	72.9
Commission ratio %	**23.7**	23.5	**20.9**	27.3	**22.8**	24.6
Expense ratio %	**12.2**	12.4	**10.6**	8.0	**11.7**	11.1
Combined operating ratio %	**101.1**	104.6	**87.6**	117.9	**96.6**	108.6

The majority of classes of business underwritten within Limit have returned to profitability. The claims ratio was 62.1% compared with 72.9% last year (65.9% excluding the WTC loss). The commission ratio decreased from 24.6% to 22.8% reflecting the change in business mix. The expense ratio increased slightly to 11.7%, mainly due to the higher Lloyd's levy, higher profit share incentive payments and increased superannuation contributions. Staff numbers have reduced from 376 to 345.

Our objectives for 2003 are to:

> continue to participate in the excellent trading conditions prevailing in the market;
> achieve further structural and capital efficiencies;
> forge long term cost savings through increased investment in underwriting and management information systems;
> acquire further capacity on syndicate 386 as the opportunity arises;
> leverage off the rationalisation and structural changes implemented over the last two years to improve profitability; and
> continue to be an active participant in the reforms being implemented in the Lloyd's market.

The skill and commitment of our underwriting teams and their strong business franchise should enable us to maximise the return from the current opportunities. I remain indebted to them and to all of our staff for their contribution to our improved profitability.

Steven Burns

Chief executive officer
Lloyd's division

Mark ten Hove Group general manager, Investments Age 45

Mark ten Hove joined QBE in 1999 as Group general manager, Investments, after working as chief investment officer at OCBC Asset Management Limited in Singapore from January 1997 until joining us. Mark has over 17 years experience in funds' management, including with Bankers Trust in Hong Kong and Singapore in 1994 and 1995 and with Thornton Investment Management (Dresdner Bank Group) in Hong Kong between 1989 and 1994.

Investments

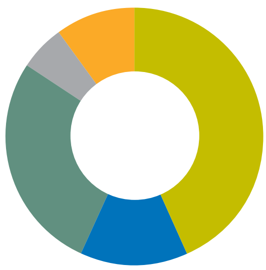
QBE'S LOW RISK STRATEGY FOR ITS INVESTMENT PORTFOLIO HELPED TO LIMIT THE NEGATIVE IMPACT OF DECLINING EQUITY MARKETS AND INTEREST RATES IN 2002.

The Group's net invested funds grew to over $10 billion, an increase of 21% over the previous year and 56% over the last two years, as a result of strong increases in operational cash flows, capital raised from our shareholders and increased ownership of managed syndicate funds.

Overall, the gross investment yield before borrowing costs, goodwill amortisation, exchange gains and investment expenses decreased from 5.3% last year to 2.5%, reflecting lower interest rates and declines in equity markets. Although we outperformed the overall benchmarks for the portfolio, the investment result was well below plan because of market conditions.

Investment income before realised and unrealised investment movements was stable at $332 million. Lower interest rates offset the income from the increase in net invested funds. Net realised and unrealised losses on investments were $151 million, reflecting the very weak performance of equity markets around the world. Realised and unrealised gains on fixed interest securities of $50 million were more than offset by realised and unrealised losses on equities of $207 million. The diverse geographical spread of the portfolio is evidenced by the Sterling and US dollar denominated assets, which represent 34% and 36% of the investment portfolio respectively.

CURRENCY MIX
MARKET VALUE OF EQUITIES

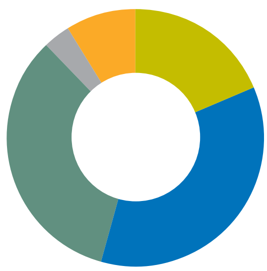


- Australian dollar 43.3% (50.3%)
- US dollar 13.5% (11.3%)
- Sterling 27.5% (28.3%)
- Euro 5.7% (3.3%)
- Other 10.0% (6.8%)

As the Group's investment portfolio continues to increase in size, our strategy is focused on maintaining a low risk profile. The risk averse nature of the investment portfolio was rewarded as there were no defaults in the significant fixed interest portfolio and, although we incurred substantial losses from equities, the impact on the Group's result was lower than for many of our peers. Our listed equities were 7.9% of total investments and cash at 31 December 2002.

Our policy of generally holding short duration fixed interest securities and actively managing the short end of the yield curve has produced acceptable yields and avoided market value volatility.

CURRENCY MIX
MARKET VALUE OF INVESTMENTS AND CASH



- Australian dollar 18.6% (19.0%)
- US dollar 35.7% (33.9%)
- Sterling 33.5% (36.8%)
- Euro 3.4% (2.7%)
- Other 8.8% (7.6%)

The outlook for 2003 remains cautious. We expect the current momentum of modest US economic growth to continue and interest rates to increase slightly. War and terrorist threats will continue to cause equity markets to be volatile.

Our objectives for 2003 are to:

- remain cautious with relatively low exposure to equities for the short term and maintain the current low risk policy on cash and fixed interest securities;
- outperform our investment benchmarks and improve yields;
- progress the integration of systems and further improve our systems processing; and
- contain costs as a percentage of funds under management to less than internationally competitive levels.

In what has been a very difficult time for investment markets, I thank my investment team for their contribution over the past year.

Mark ten Hove

Group general manager
Investments

NET INVESTED FUNDS

	31 DECEMBER 2002		31 DECEMBER 2001	
	$M	%	$M	%
Cash	**502**	**4.4**	459	5.0
Short term money	**3,792**	**32.9**	4,080	44.4
Fixed interest securities	**6,052**	**52.6**	3,510	38.3
Mortgages	**25**	**0.2**	33	0.4
Equities	**1,026**	**8.9**	977	10.7
Property	**111**	**1.0**	106	1.2
Total investments and cash	**11,508**	**100.0**	9,165	100.0
Borrowings	**(1,456)**		(838)	
Net invested funds	**10,052**		8,327	

INVESTMENT INCOME

	YEAR TO 31 DECEMBER 2002 $M	YEAR TO 31 DECEMBER 2001 $M
Dividends	**30**	36
Interest	**365**	381
Other income	**17**	9
Exchange gains (losses)	**22**	(10)
Interest expense	**(73)**	(65)
Other expenses	**(29)**	(20)
	332	331
Realised gains on fixed interest securities	**21**	42
Realised losses on equities and properties	**(29)**	(5)
Unrealised gains (losses) on fixed interest securities	**29**	(7)
Unrealised losses on equities and properties	**(172)**	(17)
Investment income	**181**	344

Shareholders' information

Summary as at 31 December 2002

Credit rating	Standard & Poor's A+ Fitch A+
Number of shareholders	28,462
Percentage owned by 20 largest shareholders	76.21%
Final dividend	18.5 cents per share, 12% franked
Final dividend payment date	11 April 2003

Annual General Meeting

11.00 am Thursday, 10 April 2003
The Westin Sydney
1 Martin Place, Sydney NSW 2000

Voting rights – ordinary shares

Every person present at the Annual General Meeting who is a member or proxy, attorney or representative of a member shall have one vote, and on a poll every member who is present in person or by proxy, attorney or representative shall have one vote for each share held.

Stock exchange listing

The ordinary shares of QBE Insurance Group Limited (QBE) are listed on the Australian Stock Exchange.

Share registrar

QBE's share registrar is ASX Perpetual Registrars Limited ("ASX Perpetual"). Information about your QBE shareholding is available from ASX Perpetual's website. Forms are also available, including change of address notifications, deceased estate forms, dividend payment instructions, tax file number notifications, off-market transfer forms and name correction requests and indemnities.

Issuer sponsored shareholders should quote their Securityholder Reference Number (SRN). Broker sponsored shareholders should quote their Holder Identification Number (HIN).

ASX Perpetual Registrars Limited
Locked Bag A14
Sydney South NSW 1232
Australia
Telephone: +61 (0)2 8280 7158
Facsimile: +61 (0)2 9261 8489
Internet: www.asxperpetual.com.au
Email: registrars@asxperpetual.com.au

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on ASX Perpetual's website.

Change of address

If you are broker sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your broker. The share registrar cannot assist you with these changes. Please quote your HIN.

If you are issuer sponsored, queries relating to incorrect registrations and changes to name and/or address can be processed by the share registrar. Please quote your SRN and provide details of your previous address for security purposes.

Uncertificated shareholdings

Issuer sponsored holdings are sponsored by QBE, providing uncertificated holdings without the need to be sponsored by a stockbroker. Shareholdings are identified by your SRN, which should be kept confidential.

Broker sponsored holdings are arranged by signing a sponsorship agreement with a stockbroker (or certain other financial institutions). This agreement appoints the sponsor as the "controlling participant" for the purposes of the Clearing House Electronic Subregister System ("CHESS"). Shareholdings are identified by your HIN. If transactions occur in respect of your shareholding, a holding statement will be issued to you not later than five business days after the end of the month in which the transaction occurs.

Tax File Number (TFN), Australian Business Number (ABN) or exemption

You can confirm whether you have lodged your TFN, ABN or exemption by visiting the ASX Perpetual website. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend.

Dividends

Cash dividends can be paid directly to a bank, building society or credit union account in Australia. An application form is available from the share registrar. The payment will be electronically credited on the dividend payment date and confirmed by payment advice mailed to the shareholder's registered address. A change of address or banking details should be advised to the share registrar promptly, in writing. Shareholders who receive dividend cheques are requested to bank them as soon as possible.

The Dividend Reinvestment Plan (DRP) enables you to apply to subscribe for additional shares at a discounted price. The Dividend Election Plan (DEP) is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend.

Shares issued under the DRP and DEP are issued at a 2.5% discount to a weighted five day average market price.

Participants may change their election to participate in the DRP or DEP at any time. Application forms are available from the share registrar or by visiting ASX Perpetual's website.

QBE communications

QBE does not produce a concise financial report.

The next annual report will be for the year ending 31 December 2003. **If you do not wish to receive this report,** please advise the share registrar in writing or by telephone so that your name can be removed from the mailing list.

The half yearly results summary will be mailed with the interim dividend in early October.

QBE's website at www.qbe.com provides investors with information about QBE, including copies of annual reports, half yearly reports and announcements to the Australian Stock Exchange.

Place of incorporation

QBE is incorporated in the Australian Capital Territory, Australia.

Registered office and principal office

QBE Insurance Group Limited
Level 2, 82 Pitt Street
Sydney NSW 2000
Australia
Telephone: +61 (0)2 9375 4444
Facsimile: +61 (0)2 9235 3166
Internet: www.qbe.com

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	CENTS PER SHARE	FRANKING %
01.04.98	interim	11.03.98	8.0	50
02.10.98	final	15.09.98	18.0	50
26.03.99	interim	05.03.99	8.5	50
01.10.99	final	10.09.99	18.5	50
31.03.00	interim	10.03.00	14.0	10
29.09.00	final	11.09.00	15.0	35
12.04.01	final	26.03.01	16.0	30
28.09.01	interim	07.09.01	16.5	25
12.04.02	final	25.03.02	13.5	15
03.10.02	interim	13.09.02	16.5	12

Top twenty shareholders as at 31 January 2003

NAME OF SHAREHOLDER	NUMBER OF SHARES	% OF TOTAL
JP Morgan Nominees Australia Limited	129,982,557	21.12
National Nominees Limited	104,586,288	16.99
Westpac Custodian Nominees Limited	78,023,738	12.68
Citicorp Nominees Pty Limited	22,150,022	3.60
ANZ Nominees Limited	20,589,578	3.35
RBC Global Services Australia Nominees Pty Limited	20,552,701	3.34
MLC Limited c/- Westpac Custodian Nominees Limited	18,746,251	3.05
Commonwealth Custodial Services Limited	15,882,478	2.58
Queensland Investment Corporation	10,553,128	1.71
AMP Life Limited	8,120,434	1.32
HSBC Custody Nominees (Australia) Limited	7,397,553	1.20
Cogent Nominees Pty Limited	6,942,545	1.13
The National Mutual Life Association of Australasia Limited	6,450,639	1.05
Permanent Trustee Australia Limited	3,502,986	0.57
QBE Management Services Pty Limited	3,384,121	0.55
Westpac Financial Services Limited	2,655,249	0.43
Victorian WorkCover Authority c/- National Nominees Limited	2,477,111	0.40
CSS Board c/- JP Morgan Nominees Australia Limited	2,412,363	0.39
PSS Board c/- JP Morgan Nominees Australia Limited	2,309,657	0.38
Government Superannuation Office c/- National Nominees Limited	2,304,378	0.37
TOTAL	469,023,777	76.21

QBE substantial shareholders as at 21 February 2003

NAME	NUMBER OF SHARES	% OF TOTAL	DATE OF NOTICE
UBS Nominees Pty Ltd	37,524,423	6.10	07.02.03
The Capital Group Companies Inc	50,345,909	8.18	13.11.02

Distribution of shareholders and shareholdings as at 31 January 2003

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1–1,000	10,433	36.65	5,325,282	0.86
1,001–5,000	14,029	49.29	32,098,450	5.22
5,001–10,000	2,280	8.01	16,000,180	2.60
10,001–100,000	1,556	5.47	37,495,176	6.09
100,001 or more	164	0.58	524,569,658	85.23
TOTAL	28,462	100.00	615,488,746	100.00

Board of directors

John Cloney
ANZIIF, FAIM, FAICD
Chairman Age 62
Mr Cloney joined QBE as managing director in 1981. He retired in January 1998, at which time he became a non-executive director. He was appointed deputy chairman in April 1998 and chairman in October 1998. He is a member of the investment and remuneration committees. Mr Cloney is a director of Boral Limited, Maple-Brown Abbott Limited and the Australian Institute of Management NSW & ACT Limited. He is chairman of the Create Foundation and the Mary MacKillop Foundation advisory board, a trustee of the Sydney Cricket & Sports Ground Trust and a former director of Brambles Industries Limited, Cable & Wireless Optus Limited and Capral Aluminium Limited.

Len Bleasel AM
FAIM, FAICD Age 60
Mr Bleasel was appointed a non-executive director of QBE in January 2001. He is a member of the audit and remuneration committees. He joined the Australian Gas Light Company in 1958 and was managing director and chief executive officer from May 1990 until March 2001. Mr Bleasel is a director of St George Bank Limited and Foodland Associated Limited and chairman of the Zoological Parks Board of NSW.

Charles Curran AO
LLB, FCPA Age 64
Mr Curran was appointed a non-executive director of QBE in 1991. He is chairman of the remuneration committee and a member of the investment committee. He is chairman of Perpetual Trustees Australia Limited and Capital Investment Group Pty Limited. Mr Curran is a member of the Financial Sector Advisory Council and an international adviser to Goldman Sachs Inc.

The Hon Nick Greiner AC
BEc, MBA Age 55
Mr Greiner was appointed a non-executive director of QBE in 1992. He is chairman of the audit committee and a member of the remuneration committee. He is chairman of Baulderstone Hornibrook and The Nuance Group Australasia, deputy chairman of Stockland Trust Group and a director of Brian McGuigan Wines Limited. He was Premier and Treasurer of NSW from 1988 to 1992.

Belinda Hutchinson
BEc, FCA Age 49
Ms Hutchinson was appointed a non-executive director of QBE in 1997. She is chairman of the investment committee and a member of the audit committee. She is a director of Energy Australia, TAB Limited, Crane Group Limited, St Vincent's & Mater Health Sydney Limited, Telstra Corporation Limited and the State Library of NSW Council. Ms Hutchinson was an executive director of Macquarie Bank Limited from 1992 to 1997 and remains a consultant to the bank. She was vice president of Citibank Limited between 1981 and 1992.

Charles Irby
FCA (England & Wales) Age 57
Mr Irby is based in London, and was appointed a non-executive director of QBE in June 2001. He is a member of the investment committee and chairman of the audit committee of QBE's European company operations. He spent 27 years with ING Barings Limited, specialising in corporate finance and was the senior UK advisor for that company between 1999 and 2001. He is chairman of Aberdeen Asset Management plc and a director of EC Harris and North Atlantic Smaller Companies Investment Trust plc. Mr Irby is also a council member of King Edward VII's Hospital Sister Agnes.

Irene Lee
BA Barrister-at-Law Age 49
Ms Lee was appointed a non-executive director of QBE in May 2002. She is a member of the audit and investment committees. Ms Lee is a director of Australian Assets Corporation Limited, Beyond International Limited, BioTech Capital Limited, Ten Network Holdings Limited, Record Investments Limited and Record Realty. Ms Lee was chief executive officer and executive director of Sealcorp Holdings Limited, head of corporate finance of the Commonwealth Bank and executive director and vice president of Citibank Limited in Australia, London and New York.

Frank O'Halloran
FCA
Chief executive officer
Age 56
Mr O'Halloran was appointed chief executive officer in 1998 and he is a member of the investment committee. He joined QBE in 1976 as Group financial controller. He was appointed chief financial officer in 1982 and joined the board as director of finance from 1987 to 1994 and as director of operations from 1994 to 1997. He has had extensive experience in professional accountancy for 13 years and insurance management for over 26 years.

Corporate governance statement

QBE's board is committed to sound, practical corporate governance and has put in place a corporate governance framework including a suitably qualified and dedicated team which is focused on managing:

- Group strategy including vision and values;
- the achievement of financial objectives;
- the identification and control of areas of business risk;
- the employment of quality people;
- supervision and development of staff; and
- regulatory compliance.

QBE defines corporate governance as the means by which it controls its activities in order to protect shareholders' and policyholders' interests.

Board of directors

The board comprises eight directors, seven of whom are non-executive directors. The chief executive officer is the only executive director. Directors advise the board on an ongoing basis of any interest they have that they believe could conflict with QBE's interests. If a potential conflict does arise, either the director concerned may choose not to, or the board may decide he or she should not, take part in board discussions whilst the matter is being considered. The chairman, who is a non-executive director, oversees the board membership and performance in conjunction with all board members. External consultants may be engaged where necessary in searching for prospective board members. Directors are selected to achieve a broad range of skills and experience on the board. The experience and qualifications of individual directors are included on page 38.

QBE's constitution requires that one third of the directors, excluding the managing director, retire from office each year, subject to no director retaining office for more than three years. The retiring directors are those who have been longest in office since their last election, and they may offer themselves for re-election. Under QBE's constitution, there is no maximum fixed term (assuming re-election) or retirement age for non-executive directors. However, as a general guide, the board has agreed that a non-executive director's term should be approximately 10 years. Under the *Corporations Act 2001*, the office of a director becomes vacant at the conclusion of the Annual General Meeting (AGM) beginning next after the director turns 72, unless the shareholders vote otherwise by special resolution at that AGM, in which case the director holds office until the conclusion of the next AGM.

The board selects and supervises the chief executive officer, provides direction to management, approves the strategies and major policies of the Group, monitors the achievement of these strategies and policies, and reviews human, IT and other resources. It also makes sure it has the information it requires to be effective including, where necessary, external professional advice. A non-executive director may seek such advice at the company's cost with the consent of the chairman. Strategic issues and management's detailed budget and three year business plans are reviewed annually by the board and visits by non-executive directors to the Group's offices in key locations are encouraged. Directors have regular presentations by the managing directors of the various divisions on topics including budgets, three year business plans and operating performance, and have contact with senior employees at numerous times and in different forums during the year. The board meets in Australia and overseas. Each meeting considers reports from the chief executive officer and chief financial officer together with other relevant reports.

Committees

The board is supported by several committees which meet regularly to consider the audit process, investments, remuneration and other matters. Any director may attend a committee meeting. The main committees of the board are the audit committee, the investment committee and the remuneration committee. Committee membership is reviewed at least annually. In addition, the board has established a chairman's committee, comprising the chairman, a non-executive director, currently Mr CP Curran AO, and the chief executive officer. This committee meets as required, to deal with such matters as are referred by the board from time to time. Details of directors' attendance at board and committee meetings are outlined in the table of meeting attendance set out in the directors' report on page 47.

Audit committee

The membership of the audit committee comprises four non-executive directors and it normally meets four times a year. The chairman is a non-executive director who is not the chairman of the board. Audit committee members do not include the chairman of the board. The current members of the audit committee are The Hon NF Greiner AC (chairman), Mr LF Bleasel AM, Ms BJ Hutchinson and Ms IYL Lee.

The audit committee operates under a written terms of reference determined by the board. The role of the committee is to oversee and enhance the credibility of QBE's financial reporting process. The objectives of the audit committee include reviewing:

- the quality of financial reporting to the Australian Stock Exchange (ASX) and shareholders;
- the company's accounting policies, practices and disclosures; and
- the scope and outcome of internal and external audits.

The audit committee's agenda includes the financial statements, external and internal audit, risk management and other matters including internal controls, prudential margins in claims reserves and tax compliance.

The chairman of the board usually and other non-member non-executive directors often attend audit committee meetings which consider the 30 June and 31 December accounts. Meetings of the audit committee also include, by invitation, the chief executive officer, the chief financial officer, the Group internal audit manager and the external auditor.

The audit committee has the right of access to the external and internal auditors (in the absence of management if required) and senior management. The audit committee also has the right to obtain external professional advice at the company's cost. The Group internal audit manager, the external auditor and the Group actuary have direct access to the chairman of the audit committee and the chairman of the board.

External auditor independence

QBE firmly believes that the external auditor must be, and must be seen to be, independent. The external auditor confirms their independence in relation to the 30 June and 31 December financial reports and the audit committee confirms this by separate enquiry.

The audit committee has had contact with the external auditor in the absence of management in relation to the 30 June and 31 December accounts and as required otherwise. From February 2003, the external auditor meets with the full audit committee at least twice a year in the absence of management.

QBE has issued an internal guideline on external auditor independence. Under this guideline, the external auditor is not allowed to provide excluded services of preparing accounting records, financial reports or asset or liability valuations. Further, they cannot act in a management capacity, as a custodian of assets or as share registrar. QBE may engage the external auditor for non-audit services subject to the general principle that from 1 January 2003, fees for non-audit services should not exceed 30% of all fees paid to the external auditor in any one financial year.

Investment committee

The membership of the investment committee comprises five non-executive directors and one executive director and it normally meets four times a year. The chairman is a non-executive director who is not the chairman of the board. The current members of the investment committee are Ms BJ Hutchinson (chairman), Mr EJ Cloney, Mr CP Curran AO, Mr CLA Irby, Ms IYL Lee and Mr FM O'Halloran. The meetings also include, by invitation, the Group general manager, investments and the chief financial officer.

The investment committee operates under a written terms of reference determined by the board. The role of the investment committee is to approve:

- investment strategy;
- currency, equity and fixed interest exposure limits; and
- credit exposure limits with financial counterparties.

The investment committee also monitors investment performance and exercises a broad overview of investment risk management and Group treasury.

Remuneration committee

The membership of the remuneration committee comprises four non-executive directors and it normally meets three to four times a year. The chairman is a non-executive director who is not the chairman of the board. The current members of the remuneration committee are Mr CP Curran AO (chairman), Mr LF Bleasel AM, Mr EJ Cloney and The Hon NF Greiner AC. Meetings of the remuneration committee also include, by invitation, the chief executive officer and the Group general manager, personnel.

The remuneration committee operates under a written terms of reference determined by the board. The committee considers recommendations from management and reports to the board on remuneration policies and practices for the Group. It also provides specific recommendations on the remuneration packages and other terms of employment for executive and non-executive directors and senior management as well as succession planning and staff development. The committee considers independent external advice in determining policies and practices that will attract and retain high quality people.

Remuneration of non-executive directors

Non-executive directors are remunerated for their services within an amount approved by shareholders at the AGM. The amount paid to individual directors is based on external advice and may vary according to specific responsibilities and involvement on the committees of the board. The non-executive directors do not receive any performance based remuneration. Details of directors' remuneration are set out on pages 45 and 46 of the annual report. Under QBE's constitution, non-executive directors are also entitled to be paid all reasonable travel, hotel and other expenses whilst on company business.

The *Corporations Act 2001* provides that a non-executive director may not be paid a retirement benefit which exceeds the aggregate of his or her remuneration in the last three years ending when the person retired, unless the shareholders vote otherwise by ordinary resolution. The board's practice has been to pay a retirement benefit within this limit.

Employee remuneration

QBE remunerates employees on a total employment cost basis. This includes a base salary, superannuation contributions, limited other benefits such as motor vehicles and various elements depending upon individual and corporate performance. In general, the more senior the employee, the greater the component of performance related remuneration. Subject to the achievement of performance criteria, many employees receive a profit share incentive bonus as a short term incentive. As a longer term incentive, more senior employees can also become entitled to shares and options, exercisable in three years under the Senior Executive Equity Scheme ("the SEES"). Further, the directors may make a general staff allocation of QBE shares under the Employee Share and Option Plan ("the Plan"). Further details of the Plan and the SEES, including details of shares and options outstanding, are set out in note 18(d) to the financial statements. The Group regularly considers market surveys and takes external advice on staff salaries and other benefits so that employee remuneration reflects market terms and conditions.

Group indemnities

Article 145 of QBE's constitution provides that QBE must indemnify past and present directors, secretaries or executive officers against any liability for serving in those capacities for QBE or its subsidiaries. This indemnity does not apply to any liability (excluding legal costs):

- owed to QBE or its subsidiaries (eg 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 145 was approved at the 2000 AGM.

Directors' and officers' insurance

The Group pays a premium each year in respect of a contract insuring against liabilities past, present or future directors, secretaries and executive officers of the Group together with any natural person who is a trustee of a superannuation fund established for the benefit of the Group's employees. The officers of the Group covered by the insurance contract include the directors listed on page 42, the secretary, DAM Ramsay, and assistant secretaries, NG Drabsch and PE Barnes. Other officers covered by the insurance contract are directors and secretaries of subsidiaries who are not also directors and secretaries of the ultimate parent and executive officers of the Group ("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 auditors of the Group.

Insurance and other regulation

General insurance and reinsurance are heavily regulated industries. In addition to the Group's accounting, legal and other professional teams, each division has compliance personnel and there is a Group regulatory compliance officer based in head office.

In Australia, regulators include the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Competition and Consumer Commission and relevant state authorities for compulsory third party motor insurance and workers' compensation. These regulatory bodies enforce laws which deal with a range of issues, including capital requirements and consumer protection.

Similar laws and regulations affect the Group's operations outside Australia.

Actuarial review

It is the long standing practice of the directors to ensure that the substantial majority of the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims reserves are reviewed by internal actuarial staff. The Group actuary is based in head office and there are around 60 actuarial staff who are involved in outstanding claims reviews, assessment of the adequacy of the unearned premium, setting of premiums and related matters. QBE's outstanding claims reserves are also reviewed by external actuaries at least annually. The external actuaries are from organisations which are not associated with the external auditor.

Business risks

The Group has established internal controls to manage risk in the key areas of exposure relevant to its business. The Group has a risk management framework to identify significant areas of business risk and to effectively and expeditiously manage those risks. Systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance risk exposure is within desired limits, reinsurance protections are adequate and counterparties are subject to security assessment. On an annual basis, the board approves a comprehensive risk management strategy and reinsurance management strategy. A Group reinsurance security committee assesses reinsurer counterparty security. This management committee normally meets four times a year and holds special meetings as required. A global internal audit function is critical to the risk management process and reports to senior management and the audit committee on the monitoring of the Group's worldwide operations.

Delegated authority

QBE has operated under an extensive written system of delegated authority for many years. In particular, written delegated authority for the chief executive officer to conduct the Group's business in accordance with detailed budgets and three year business plans is approved by the board each year. This authority deals with topics such as underwriting, claims, reinsurance protection, investments and expenses. The chief executive officer then delegates his authority to management throughout the Group on a selective basis taking into account expertise and past performance. Such delegation is closely monitored and adjusted as required for actual performance, market conditions and otherwise. A standing item for internal audit is the review of compliance with delegated authority. Any breach of delegated authority can lead to disciplinary procedures, including dismissal in serious cases.

Share trading

The company has guidelines for the purchase or sale of securities of the company, or other corporations in which the company may have dealings, by directors and senior executives. These are in addition to the insider trading provisions of the *Corporations Act 2001*. In particular, the guidelines state that directors and senior executives should never actively trade the company's securities, generally not buy or sell such securities in the two months preceding the announcement of the company's half yearly and final results and first notify any intended transaction to nominated people within the Group. The guidelines also state that a director or senior executive is least likely to have non-public price sensitive information about the company's securities three to thirty days after release of the company's half yearly results, three days after release of the company's annual report to thirty days after the AGM and three days after issue of any prospectus until the closing date. Any QBE share dealings by directors are promptly notified to the ASX.

Continuous disclosure

ASX listing rule 3.1 requires QBE to inform the ASX immediately once QBE is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of QBE's shares.

QBE takes the spirit of its continuous disclosure obligations seriously and issues frequent market announcements during the year to satisfy those obligations.

All ASX announcements are promptly posted to the Group's website, www.qbe.com.

Communications with analysts, media and others

The chief executive officer, chief financial officer and Group general manager, finance and business risks generally deal with analysts and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations to shareholders and analysts on the 30 June and 31 December results and other major presentations are sent to the ASX before commencement of the presentation and are promptly available on the Group's website. Managing directors of insurance divisions and other senior employees may have contact as required.

Other Group guidelines

The Group has adopted a code of conduct, which forms the basis for the manner in which QBE people perform their work. The code of conduct requires that business be carried out in an open and honest manner with our customers, shareholders, employees, regulatory bodies and the community at large.

There are other Group policies in respect of anti-discrimination, employment, harassment, essential behaviours, health and safety and many of our other business practices. These policies are underpinned by the Group's vision, values and mission statements. The vision and values statements form part of the induction information given to all new employees.

One of the values of the Group is integrity. This value is discussed in detail in the QBE Manager Programme, which gives our managers and staff an understanding of essential management conduct in carrying out their work.

QBE has adopted the General Insurance Code of Practice in Australia, a self-regulated code developed by the Insurance Council of Australia (ICA) relating to the provision of products and services to customers of the general insurance industry of Australia. QBE has also adopted the General Insurance Information Privacy Code in Australia, another self-regulated code developed by the ICA.

Similar insurance practice and privacy rules apply to the Group outside Australia.

Environmental issues

QBE is a corporation involved in an industry that seeks to play an important role, in conjunction with governments, individuals and organisations, in managing and reducing environmental risk. In an initiative to collaborate with the United Nations environment programme, QBE, together with a number of other major international insurers, is a signatory to a statement of environmental commitment by the insurance industry.

DIRECTORS' REPORT

for the year ended 31 December 2002

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 2002.

Directors

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

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

MJ Phillips AM retired on 18 April 2002.
IYL Lee was appointed as a director on 17 May 2002.

Results

	2002 $M	2001 $M
Revenue		
Premium revenue	**7,197**	6,298
Other revenue	**1,304**	3,194
	8,501	9,492
Expenses	**(7,974)**	(9,502)
Unrealised losses on investments	**(143)**	(24)
Borrowing costs expense	**(73)**	(65)
Profit (loss) from ordinary activities before income tax	**311**	(99)
Income tax attributable to profit (loss) from ordinary activities		
Before unrealised losses on investments	**73**	(68)
Unrealised losses on investments	**(40)**	(14)
Income tax attributable to profit (loss) from ordinary activities	**33**	(82)
Profit (loss) from ordinary activities after income tax		
Before unrealised losses on investments	**381**	(7)
Unrealised losses on investments	**(103)**	(10)
Profit (loss) from ordinary activities after income tax	**278**	(17)
Net profit (loss) attributable to outside equity interests	**(1)**	8
Net profit (loss) attributable to members of the company		
Before unrealised losses on investments	**382**	(15)
Unrealised losses on investments	**(103)**	(10)
Net profit (loss) attributable to members of the company	**279**	(25)
Net increase (decrease) in foreign currency translation reserve	**(11)**	8
Total changes in equity other than those resulting from transactions with owners as owners	**268**	(17)

DIRECTORS' REPORT

Dividends

The directors are pleased to announce a final dividend of 18.5 cents per share, 12% franked, for the year ended 31 December 2002. The total dividend for the year is 35.0 cents per share compared with 30.0 cents per share for the year ended 31 December 2001. The final dividend payout, including shares issued under the Dividend Election and Reinvestment Plans, will be $114 million compared with $80 million last year. The Dividend Election and Reinvestment Plans continue at a discount rate of 2.5%.

The consolidated franking account balance, after taking into account the final dividend franked at 12%, will be a surplus of $2 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

The profit after tax for the year ended 31 December 2002 was $279 million compared with a loss of $25 million last year.

Gross earned premium was $7,197 million, an increase of 14% on last year. Growth was achieved through strong premium rate increases across most classes of business. Net earned premium increased 22% to $5,642 million. Reinsurance costs decreased from 26% to 22% of gross earned premium as a result of increases in reinsurance costs being exceeded by increases in gross earned premium and lower reinstatement costs.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 97.7% compared with 109.6% last year (101.7% excluding the WTC loss). The claims ratio of 67.6% decreased from 76.6% last year (69.4% excluding the WTC loss), reflecting management's focus on profitable underwriting, premium rate increases and the lower claims frequency in 2002. The commission ratio decreased from 20.2% last year to 17.7% due to changes in business mix and actions taken to improve commission terms. The expense ratio decreased from 12.8% to 12.4% as a result of the premium rate increases and synergies from recent acquisitions, which were partially offset by the increased Lloyd's levy, higher profit share incentive payments for improved results and increased superannuation costs.

Australian general insurance combined operating ratio was 97.1% compared with 100.6% last year. The strong underwriting result reflects higher premium rates, improved policy conditions and the vigilant management of all portfolios. Net earned premium of $1,221 million was up 21% from last year reflecting high levels of customer retention, the impact of acquisitions in 2001 and higher premium rates. The claims ratio decreased slightly from 72.6% to 72.1%, and the commission ratio decreased to 10.5% from 13.1% due to changes in business mix from acquisitions in 2001. The expense ratio improved slightly to 14.5% from 14.9% last year.

Asia-Pacific general insurance experienced strong premium growth during the year, aided by premium rate increases and the full year impact of 2001 acquisitions. Net earned premium increased 9% to $441 million. The division produced a combined operating ratio of 95.9% compared with 99.4% last year. The claims ratio increased from 54.7% to 55.1%, reflecting the impact of increased catastrophe activity in the region partly offset by action taken on underperforming portfolios. The commission ratio improved from 22.3% to 20.4%, mainly as a result of the change in business mix towards specialist products. The expense ratio decreased to 20.4% from 22.4% last year, reflecting the benefit of synergies following the integration of recent acquisitions partly offset by integration costs in Malaysia and restructuring costs in Japan.

the Americas reported net earned premium growth of 37% to $672 million, due to premium rate increases, new agency business with a proven track record and acquisitions in Latin America in 2001. The combined operating ratio was 99.6% compared with 112.4% last year (106.5% excluding the WTC loss). The improvement reflects the impact of premium rate increases and a lower frequency of claims in 2002 partially offset by some deterioration in portfolios that had already been cancelled. The commission and expense ratios remained relatively stable at 24.7% and 6.5% respectively.

European company operations benefited from a year of significant premium rate increases across most lines of business. Net earned premium increased 27% to $1,731 million, reflecting the rate increases, actions taken on underperforming portfolios and lower reinsurance costs. The division produced a combined operating ratio of 98.9% compared with 119.1% last year (101.9% excluding the WTC loss), reflecting improved underwriting and a lower frequency of claims. The commission ratio decreased to 14.7% from 18.3% last year, primarily due to changes in the business mix. The expense ratio was 12.0% compared with 12.4% last year, as a result of expense saving initiatives and process and system improvements.

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DIRECTORS' REPORT

Lloyd's division achieved premium rate increases and improved terms and conditions. Net earned premium grew 16% to $1,577 million. The division produced a combined operating ratio of 96.6% compared with 108.6% last year (101.0% excluding the WTC loss). The result reflects strong premium rate increases and reduced claims activity in 2002. The commission ratio decreased from 24.6% to 22.8% due to changes in the mix of business. The increase in the expense ratio from 11.1% to 11.7% reflects an increase in the Lloyd's levy, higher incentive payments for improved results and additional superannuation costs.

The provision for **outstanding claims** is determined for the majority of Group entities after consultation with 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. APRA issued new prudential standards effective 1 July 2002. These standards provide that 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 exceed this requirement.

Investment income decreased 47% to $181 million, reflecting lower interest yields and falling equity markets worldwide. The result includes net realised and unrealised losses on equities of $207 million ($27 million loss last year) and foreign exchange gains of $22 million ($10 million loss last year). The gross investment yield before borrowing costs, goodwill amortisation, exchange gains and investment expenses reduced from 5.3% to 2.5%, reflecting lower interest rates and declining equity markets.

Income tax expense for the year was 10.6% of profit before tax, reflecting benefits arising from dividend rebates, the release of prior year tax provisions and the liquidation of a number of non-operating companies.

Indemnification and insurance

Details of indemnification and insurance arrangements are included in the corporate governance statement on pages 39 to 41.

Significant changes

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

Events subsequent to balance date

There is, at the date of this report, no matter or circumstance that has arisen since 31 December 2002 that has significantly affected, or may significantly affect:

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

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

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

Likely developments

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

Environmental regulation

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

Rounding of amounts

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

DIRECTORS' REPORT

Directors' and executives' emoluments

As noted in the corporate governance statement on pages 39 to 41, the remuneration committee of the board makes recommendations to the board on remuneration policy and practices for the Group.

The remuneration of non-executive directors for directors' fees and related committee costs amounted to $931,000 (2001 $796,000). The amount approved at the 1999 Annual General Meeting was $1,000,000 per annum. Non-executive directors do not receive any performance related remuneration.

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

Remuneration packages contain the following key elements:

(a) base salary;

(b) short term incentives;

(c) long term incentives;

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

(e) retirement benefits.

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

Conditional rights and options earned in a financial year are granted in March of the following year except in the case of executive directors, whose share based remuneration is subject to the approval of shareholders.

The amount included as long term incentives in the table below is the value attributed to the conditional rights and options earned in the year, which is calculated using established valuation techniques.

Details of the nature and amount of each element of the remuneration of each director of the company and each of the five officers of the consolidated entity receiving the highest remuneration in respect of the year ended 31 December 2002 are:

	DIRECTORS' FEES/BASE SALARY $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES $000	OTHER BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	TOTAL $000	NUMBER OF OPTIONS GRANTED IN THE YEAR
Directors of the company							
LF Bleasel AM	102	–	–	–	9	111	–
EJ Cloney	234	–	–	–	20	254	–
CP Curran AO	105	–	–	–	9	114	–
The Hon NF Greiner AC	107	–	–	–	9	116	–
BJ Hutchinson	109	–	–	–	9	118	–
CLA Irby	108	–	–	–	–	108	–
IYL Lee (appointed 17 May 2002)	70	–	–	–	6	76	–
FM O'Halloran*	857	836	386	204	120	2,403	–
MJ Phillips AM (retired 18 April 2002)**	34	–	–	–	399	433	–
Officers of the consolidated entity* **							
TM Kenny	905	1,203	556	167	35	2,866	–
RJ Wallace	750	1,360	414	90	157	2,771	40,156
PE Grove	819	911	505	78	246	2,559	100,000
SP Burns	875	693	314	47	153	2,082	–
PE Glen	791	666	308	75	229	2,069	–

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

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

*** Mr Kenny is located in New York and Messrs Grove, Burns and Glen are located in London. Mr Wallace was located in London until his retirement in December 2002. Their remuneration has been converted to Australian dollars using the average rate of exchange for the year.

DIRECTORS' REPORT

Retirement benefit arrangements – FM O'Halloran

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

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

Share options

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

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

Shares and options held by directors

	DIRECTORS		DIRECTOR RELATED ENTITIES
	SHARES	OPTIONS	SHARES
LF Bleasel AM	24,000	–	20,461
EJ Cloney	767,007	–	–
CP Curran AO	53,449	–	398,588
The Hon NF Greiner AC	40,235	–	10,000*
BJ Hutchinson	7,320	–	20,126
CLA Irby	15,000	–	–
IYL Lee (appointed 17 May 2002)	5,000	–	–
FM O'Halloran	829,628	200,000	51,192

* Warrants to purchase shares

DIRECTORS' REPORT

Meetings of directors

	FULL MEETINGS* OF DIRECTORS	MEETINGS OF COMMITTEES: CHAIRMAN'S	AUDIT	REMUNERATION	INVESTMENT
NUMBER OF MEETINGS HELD	7	6	4	3	4
	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED
LF Bleasel AM**	7	–	4	2	–
EJ Cloney	7	6	–	3	4
CP Curran AO	7	3	–	3	4
The Hon NF Greiner AC	7	–	4	3	–
BJ Hutchinson***	7	–	3	–	4
CLA Irby****	6	–	–	–	2
IYL Lee (appointed 17 May 2002)	5	–	3	–	2
FM O'Halloran	7	6	4	–	4
MJ Phillips AM (retired 18 April 2002)	2	3	1	–	1

* Included a five day mid-term review meeting in London.
** Subsequent to Mr Bleasel's appointment to the remuneration committee in May, two meetings were held.
*** Subsequent to Ms Hutchinson's appointment to the audit committee in May, three meetings were held.
**** Subsequent to Mr Irby's appointment to the investment committee in May, two meetings were held.

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

Directors

EJ Cloney and BJ Hutchinson retire by rotation and offer themselves for re-election. IYL Lee retires in accordance with article 67 of the company's constitution and offers herself for re-election.

Auditors

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

Signed in SYDNEY this 6th day of March 2003 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

QBE02

STATEMENTS OF FINANCIAL PERFORMANCE

for the year ended 31 December 2002

	NOTE	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
Revenue					
Premium revenue		**–**	–	**7,197**	6,298
Other revenue		**221**	34	**1,304**	3,194
	2	**221**	34	**8,501**	9,492
Expenses		**(3)**	(1)	**(7,974)**	(9,502)
Unrealised losses on investments		**(68)**	–	**(143)**	(24)
Borrowing costs expense		**(3)**	–	**(73)**	(65)
Profit (loss) from ordinary activities before income tax	3	**147**	33	**311**	(99)
Income tax attributable to profit (loss) from ordinary activities					
Before unrealised losses on investments		**(3)**	1	**73**	(68)
Unrealised losses on investments		**–**	–	**(40)**	(14)
Income tax attributable to profit (loss) from ordinary activities	4	**(3)**	1	**33**	(82)
Profit (loss) from ordinary activities after income tax					
Before unrealised losses on investments		**218**	32	**381**	(7)
Unrealised losses on investments		**(68)**	–	**(103)**	(10)
Profit (loss) from ordinary activities after income tax		**150**	32	**278**	(17)
Net profit (loss) attributable to outside equity interests		**–**	–	**(1)**	8
Net profit (loss) attributable to members of the company					
Before unrealised losses on investments		**218**	32	**382**	(15)
Unrealised losses on investments		**(68)**	–	**(103)**	(10)
Net profit (loss) attributable to members of the company	19	**150**	32	**279**	(25)
Net increase (decrease) in foreign currency translation reserve	19	**–**	–	**(11)**	8
Total changes in equity other than those resulting from transactions with owners as owners	19	**150**	32	**268**	(17)

	NOTE	CONSOLIDATED 2002 cents	CONSOLIDATED 2001 cents
Basic earnings per share	29	**42.7**	(10.5)
Diluted earnings per share	29	**43.4**	(4.9)

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2002

	NOTE	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
CURRENT ASSETS					
Cash	9	**–**	–	**502**	459
Receivables	6	**775**	221	**3,278**	2,993
Reinsurance and other recoveries on outstanding claims	15	**–**	–	**1,137**	1,608
Deferred insurance costs	7	**–**	–	**1,131**	1,099
Investments	9	**–**	–	**4,839**	3,934
Tax assets		**–**	–	**62**	55
Other		**–**	–	**28**	2
TOTAL CURRENT ASSETS		**775**	221	**10,977**	10,150
NON-CURRENT ASSETS					
Reinsurance and other recoveries on outstanding claims	15	**–**	–	**2,529**	2,901
Investments	9	**2,732**	2,087	**6,167**	4,772
Plant and equipment	12	**–**	–	**133**	124
Intangibles	13	**–**	–	**516**	472
Deferred tax assets		**–**	–	**146**	185
Other	8	**–**	–	**69**	48
TOTAL NON-CURRENT ASSETS		**2,732**	2,087	**9,560**	8,502
TOTAL ASSETS		**3,507**	2,308	**20,537**	18,652
CURRENT LIABILITIES					
Trade and other creditors	14	**1,545**	558	**1,101**	970
Outstanding claims	15	**–**	–	**3,511**	3,837
Unearned premium		**–**	–	**3,180**	2,789
Borrowings	16	**–**	–	**251**	297
Current tax liabilities		**3**	–	**68**	11
TOTAL CURRENT LIABILITIES		**1,548**	558	**8,111**	7,904
NON-CURRENT LIABILITIES					
Outstanding claims	15	**–**	–	**8,149**	7,461
Borrowings	16	**–**	–	**1,205**	541
Deferred tax liabilities		**30**	2	**33**	60
Provisions	17	**–**	–	**18**	18
TOTAL NON-CURRENT LIABILITIES		**30**	2	**9,405**	8,080
TOTAL LIABILITIES		**1,578**	560	**17,516**	15,984
NET ASSETS		**1,929**	1,748	**3,021**	2,668
EQUITY					
Share capital	18	**1,926**	1,732	**1,926**	1,732
Convertible preference shares	18	**–**	–	**274**	274
Equity component of hybrid securities	16	**–**	–	**59**	–
Reserves	19	**–**	–	**(10)**	25
Retained profits	19	**3**	16	**705**	589
EQUITY attributable to members of the company		**1,929**	1,748	**2,954**	2,620
OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES	11	**–**	–	**67**	48
TOTAL EQUITY	19	**1,929**	1,748	**3,021**	2,668

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

QBE02

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2002

	NOTE	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
OPERATING ACTIVITIES					
Premium received		**–**	–	**7,685**	5,806
Reinsurance and other recoveries received		**–**	–	**1,343**	819
Outward reinsurance paid		**–**	–	**(1,770)**	(1,076)
Claims paid		**–**	–	**(4,462)**	(3,985)
Insurance costs paid		**–**	–	**(1,414)**	(1,342)
Other underwriting costs		**–**	–	**(157)**	(135)
Interest received		**–**	–	**354**	407
Dividends received		**28**	64	**31**	37
Other operating income		**–**	–	**4**	4
Other operating payments		**–**	–	**(15)**	(58)
Interest paid		**–**	–	**(60)**	(73)
Income taxes paid		**–**	–	**(28)**	(124)
CASH FLOWS from operating activities	31	**28**	64	**1,511**	280
INVESTING ACTIVITIES					
Proceeds on sale of equity investments		**–**	–	**597**	619
Proceeds on sale of properties		**–**	–	**11**	17
Proceeds on sale of plant and equipment		**–**	–	**3**	10
Payments for purchase of equity investments		**–**	–	**(837)**	(621)
Payments for purchase of other investments		**–**	–	**(2,014)**	(384)
(Payments for purchase) proceeds from sale of controlled entities and business acquired (consolidated is net of cash acquired)		**(443)**	(804)	**23**	71
Payments for purchase of properties		**–**	–	**(10)**	(3)
Payments for purchase of plant and equipment		**–**	–	**(53)**	(61)
CASH FLOWS from investing activities		**(443)**	(804)	**(2,280)**	(352)
FINANCING ACTIVITIES					
Proceeds from (payments to) controlled entities		**384**	(144)	**–**	–
Proceeds from issue of shares		**122**	942	**91**	929
Proceeds from borrowings		**–**	–	**1,170**	69
Repayment of borrowings		**–**	–	**(443)**	(191)
Dividends paid		**(91)**	(58)	**(115)**	(82)
CASH FLOWS from financing activities		**415**	740	**703**	725
INCREASE (DECREASE) IN CASH HELD		**–**	–	**(66)**	653
Cash at the beginning of the financial year		**–**	–	**4,411**	3,550
Effect of exchange rate changes on opening cash		**–**	–	**(51)**	208
CASH AT THE END OF THE FINANCIAL YEAR	9	**–**	–	**4,294**	4,411

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 2002

1 Summary of significant accounting policies

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

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by QBE Insurance Group Limited ("the company") as at 31 December 2002 and the results of all controlled entities for the financial year then ended. The company and its controlled entities together are referred to in this financial report as the "consolidated entity". The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

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 run-off 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.

(h) Income tax

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.

Notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies continued

(i) Investments

(i) Basis of valuation

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

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

Where material, estimated costs of realisation are deducted.

(ii) Policyholders' and shareholders' funds

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

(iii) Recoverable amount

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

(iv) Derivatives

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

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

(j) Intangibles

Intangible assets are valued at cost unless there has been a permanent diminution in value, in which case they are valued at residual value. The excess of book value over residual value of intangibles including goodwill is amortised using the straight line method over 20 years.

(k) Depreciation

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

(l) Borrowings

Bank loans are carried at their principal amounts. Eurobonds 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 Eurobonds and the hybrid securities are accrued and amortised over the term of the borrowings.

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies continued

(m) Foreign currencies

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

The continued growth of the consolidated entity's overseas business and substantial investment in foreign operations have resulted in the decentralisation of the management of foreign exchange exposures such that entities now manage their operational foreign exchange exposures under the guidance of the Group and divisional treasury functions. Accordingly, certain entities have been reclassified from integrated to self-sustaining with effect from 1 January 2002.

The change in classification has no net impact on the equity of the consolidated entity. The effect of the change in classification on the statement of financial performance for the preceding financial year would have been an increase in the loss after tax of $5 million and a corresponding increase in the foreign currency translation reserve.

(n) Cash

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

(o) Equity

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

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

(p) Earnings per share

A change in the basis of calculating earnings per share has been made to comply with Accounting Standard AASB 1027: Earnings per Share, which is mandatory for all financial years beginning on or after 1 July 2001. The earnings per share information for the year ended 31 December 2001 has been recalculated to present the comparative amounts on a consistent basis with the current year end. The restated basic earnings per share is a loss of 10.5 cents compared with a loss of 5.3 cents reported previously due to the requirement to include dividends on mandatory convertible preference shares as an expense in the calculation of earnings.

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

(q) Dividends

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

(r) Rounding of amounts

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

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

NOTES TO THE FINANCIAL STATEMENTS

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
2 Revenue				
Revenue from ordinary activities				
Premium revenue				
Direct	**–**	–	**5,062**	4,223
Inward reinsurance	**–**	–	**2,135**	2,075
	–	–	**7,197**	6,298
Outward reinsurance revenue				
Reinsurance and other recoveries	**–**	–	**870**	2,731
Investment revenue				
Investment income	**221**	34	**412**	426
Exchange gains	**–**	–	**22**	–
Realised gains on investments	**–**	–	**–**	37
	221	34	**434**	463
Total revenue	**221**	34	**8,501**	9,492

3 Profit (loss) from ordinary activities before income tax

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

	NOTE	2002 $M	2001 $M
Gross written premium		**7,723**	6,793
Unearned premium movement		**(526)**	(495)
Gross earned premium		**7,197**	6,298
Outward reinsurance premium		**1,627**	1,818
Deferred reinsurance premium movement		**(72)**	(154)
Outward reinsurance premium expense		**1,555**	1,664
Net earned premium		**5,642**	4,634
Gross claims incurred		**4,562**	6,139
Claims settlement expenses		**120**	142
Reinsurance and other recoveries		**(870)**	(2,731)
Net claims incurred	5	**3,812**	3,550
Net commission		**998**	936
Other acquisition costs		**387**	343
Underwriting and other expenses		**315**	248
		5,512	5,077
UNDERWRITING PROFIT (LOSS)		**130**	(443)
Investment income on policyholders' funds		**276**	324
INSURANCE PROFIT (LOSS)		**406**	(119)
Investment income on shareholders' funds		**(95)**	20
PROFIT (LOSS) FROM ORDINARY ACTIVITIES before income tax		**311**	(99)

NOTES TO THE FINANCIAL STATEMENTS

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M

3 Profit (loss) from ordinary activities before income tax continued

(b) Investment and other income

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
Dividends from controlled entities	**209**	34	**–**	–
Dividends from non-related entities	**–**	–	**30**	36
Interest received or receivable from controlled entities	**12**	–	**–**	–
Interest received or receivable from non-related entities	**–**	–	**365**	381
Other income	**–**	–	**17**	9
	221	34	**412**	426
Exchange gains (losses)	**(3)**	–	**22**	(10)
Realised gains (losses) on investments				
Equities and properties	**–**	–	**(29)**	(5)
Fixed interest and other	**–**	(1)	**21**	42
	218	33	**426**	453
Interest paid or payable to controlled entities	**(1)**	–	**–**	–
Interest paid or payable to non-related entities	**(2)**	–	**(73)**	(65)
Other investment expenses*	**–**	–	**(29)**	(20)
INVESTMENT AND OTHER INCOME before unrealised gains (losses) on investments	**215**	33	**324**	368
Unrealised gains (losses) on investments				
Shares in controlled entities	**(68)**	–	**–**	–
Equities and properties	**–**	–	**(172)**	(17)
Fixed interest and other	**–**	–	**29**	(7)
	147	33	**181**	344

* Includes amortisation of goodwill and write-off of intangibles of $8 million (2001 $5 million).

(c) Specific items

Loss from the terrorist attacks on the USA on 11 September 2001

The loss from ordinary activities after income tax for the year ended 31 December 2001 included a gross loss of $1,531 million, a net pre tax loss of $361 million and a net after tax loss of $252 million in respect of the terrorist attacks on the USA on 11 September 2001. There has been no material change to the gross loss and the net loss after tax remains unchanged.

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
Other				
Payments on operating leases	**–**	–	**34**	30
Depreciation of assets	**–**	–	**40**	31
Bad debts written off	**–**	–	**2**	2
Increase in provision for employee entitlements	**–**	–	**2**	3
Increase in provision for doubtful debts	**–**	–	**14**	13
Amortisation of goodwill and write-off of intangibles	**–**	–	**8**	5
Decrease in restructuring provision	**–**	–	**–**	(12)
Loss on sale of fixed assets	**–**	–	**1**	3

NOTES TO THE FINANCIAL STATEMENTS

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M

4 Income tax

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

	2002 $M	2001 $M	2002 $M	2001 $M
Profit (loss) from ordinary activities before income tax	**147**	33	**311**	(99)
Prima facie tax payable (credit) at 30%	**44**	10	**93**	(30)
Tax effect of permanent differences:				
Rebateable dividends	**(63)**	(10)	**(7)**	(9)
Differences in tax rates	**7**	–	**(1)**	(3)
Market value adjustments	**12**	–	**(41)**	(33)
Other, including non-allowable expenses and non-taxable income	**–**	1	**2**	(1)
Prima facie tax adjusted for permanent differences	**–**	1	**46**	(76)
Future income tax benefit not recognised	**–**	–	**(1)**	4
Overprovision in prior years	**(3)**	–	**(12)**	(10)
Income tax attributable to profit (loss) from ordinary activities	**(3)**	1	**33**	(82)

(b) Future income tax benefit relating to tax losses

The consolidated entity has a cumulative income tax benefit not brought to account of $3 million (2001 $3 million), which includes the benefit arising from tax losses in overseas countries. This benefit will only be brought to account when the directors are virtually certain that it will be realised. This benefit for tax losses will only be obtained if:

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

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

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

Included in deferred tax assets is $58 million (2001 $54 million) relating to tax losses which the directors are virtually certain will be realised.

(c) Tax consolidation

The first three tranches of the Australian tax consolidation legislation became substantively enacted on 21 October 2002 when the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002* was passed by the Senate. The company is currently reviewing the legislation with a view to its application in due course, at which time the company would become a member of an Australian tax group. It is noted that under these new rules, application of the new tax consolidation regime can be deferred for the Australian tax group until 1 January 2004. Under this scenario, the current tax loss grouping rules will continue to apply until 31 December 2003. As a result, it is not possible to disclose the financial effect of the legislation on the 2002 financial report as it cannot yet be reliably estimated or determined. The financial effect of the legislation has therefore not been recognised in this financial report in accordance with UIG 39 Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances.

5 Claims incurred (consolidated)

(a) Claims analysis

	2002 $M	2001 $M
Gross claims incurred and related expenses		
Direct	**3,388**	3,449
Inward reinsurance	**1,294**	2,832
	4,682	6,281
Reinsurance and other recoveries		
Direct	**657**	1,068
Inward reinsurance	**213**	1,663
	870	2,731
Net claims incurred	**3,812**	3,550

NOTES TO THE FINANCIAL STATEMENTS

5 Claims incurred (consolidated) continued

(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.

	2002			2001		
	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M
Gross claims incurred and related expenses						
Undiscounted	**4,698**	**(82)**	**4,616**	6,521	111	6,632
Discount	**(284)**	**350**	**66**	(595)	244	(351)
	4,414	**268**	**4,682**	5,926	355	6,281
Reinsurance and other recoveries						
Undiscounted	**818**	**(70)**	**748**	2,677	273	2,950
Discount	**(40)**	**162**	**122**	(255)	36	(219)
	778	**92**	**870**	2,422	309	2,731
Net claims incurred						
Undiscounted	**3,880**	**(12)**	**3,868**	3,844	(162)	3,682
Discount	**(244)**	**188**	**(56)**	(340)	208	(132)
	3,636	**176**	**3,812**	3,504	46	3,550

Claims incurred for prior years include releases of prudential margins consistent with the reduction in claims liabilities associated with those years. Conversely, prudential margins are taken up in claims incurred for the current year.

The discount expense for prior years includes the impact of a substantial reduction in discount rates as set out in note 15(a).

	THE COMPANY		CONSOLIDATED	
	2002 $M	2001 $M	**2002 $M**	2001 $M
6 Receivables – current				
Trade debtors				
Premium	**–**	–	**853**	786
Reinsurance and other recoveries	**–**	–	**732**	638
Unclosed premium	**–**	–	**1,335**	1,254
	–	–	**2,920**	2,678
Doubtful debt provision*				
Premium	**–**	–	**(34)**	(29)
Reinsurance and other recoveries	**–**	–	**(69)**	(68)
	–	–	**2,817**	2,581
Other debtors	**–**	–	**461**	412
Amounts due from controlled entities	**775**	221	**–**	–
	775	221	**3,278**	2,993

* A doubtful debt provision against reinsurance and other recoveries on outstanding claims of $89 million (2001 $43 million) is included in note 15.

NOTES TO THE FINANCIAL STATEMENTS

	2002 $M	2001 $M
7 Deferred insurance costs (consolidated)		
Deferred reinsurance premium	**472**	502
Deferred net commission	**466**	420
Deferred acquisition costs	**193**	177
	1,131	1,099
8 Other non-current assets (consolidated)		
Loans secured by shares	**69**	48
9 Investments – market value (consolidated)		
Interest bearing securities		
Term deposits and bills receivable	**3,792**	4,080
Government securities and other	**6,077**	3,547
	9,869	7,627
Equities		
Quoted	**911**	860
Unquoted	**118**	122
	1,029	982
Properties	**114**	109
	11,012	8,718
Selling expenses	**(6)**	(12)
	11,006	8,706
Current	**4,839**	3,934
Non-current	**6,167**	4,772
	11,006	8,706
Cash at the end of the financial year per the statement of cash flows is reconciled as follows:		
Cash	**502**	459
Term deposits and bills receivable	**3,792**	4,080
Less: non-current term deposits and bills receivable	**–**	(128)
	4,294	4,411

(a) Properties

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

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

(b) Investments maturing within twelve months

Non-current investments include amounts maturing within twelve months of $1,618 million (2001 $378 million) which, in the normal course of business, will be reinvested and not used for working capital.

(c) Charge over investments and other assets

A controlled entity has given a fixed and floating charge over certain of its investments and other assets in order to secure the obligations of its controlled entities to Lloyd's of London as described in note 23.

NOTES TO THE FINANCIAL STATEMENTS

10 Financial instruments (consolidated)

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk is managed primarily through appropriate adjustments to existing investment portfolios. There were no interest rate derivatives outstanding as at 31 December 2002 or 31 December 2001. 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:

(i) Net interest bearing financial assets

	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL MARKET VALUE	
	2002 $M	2001 $M	**2002 $M**	2001 $M	**2002 $M**	2001 $M	**2002 $M**	2001 $M	**2002 $M**	2001 $M
Interest bearing securities	**2,526**	2,355	**3,891**	1,821	**3,288**	3,362	**164**	89	**9,869**	7,627
Selling expenses	**–**	(1)	**–**	(1)	**–**	(2)	**–**	–	**–**	(4)
	2,526	2,354	**3,891**	1,820	**3,288**	3,360	**164**	89	**9,869**	7,623
Weighted average interest rate	**2.8%**	3.8%	**4.6%**	4.1%	**4.5%**	5.4%	**4.6%**	5.3%	**4.0%**	4.6%
Borrowings	**–**	–	**(251)**	(297)	**(44)**	(154)	**(1,161)**	(387)	**(1,456)**	(838)
Weighted average interest rate	**–**	–	**5.6%**	5.5%	**4.4%**	6.0%	**4.6%**	8.5%	**4.8%**	7.0%
Net interest bearing financial assets	**2,526**	2,354	**3,640**	1,523	**3,244**	3,206	**(997)**	(298)	**8,413**	6,785

	2002 $M	2001 $M
(ii) Reconciliation of net financial assets to net assets		
Net financial assets		
Interest bearing	**8,413**	6,785
Non-interest bearing and other	**1,872**	1,781
Net insurance liabilities	**(8,026)**	(6,619)
Net non-financial assets	**762**	721
Net assets	**3,021**	2,668

(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 foreign controlled entities. Contractual amounts for foreign exchange derivatives outstanding at balance date include forward foreign exchange contracts to purchase $2,550 million (2001 $1,822 million). $727 million (2001 $747 million) of these derivatives mature in 2010 and the remainder have a period of maturity within one year of the balance date.

(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 Group are for hedging purposes. No speculative positions are entered into. Contractual amounts for options outstanding at the balance date include net short positions on purchased options of $nil million (2001 $215 million) and written options of $13 million (2001 $178 million).

(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, inter alia, for overviewing the process of derivative risk management and ensuring that all derivative transactions and related internal control procedures are conducted within board approved policy and compliance is monitored closely.

(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 counter-party. 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.

NOTES TO THE FINANCIAL STATEMENTS

11 Shares in controlled entities (parent company)

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2002 %	2001 %
QBE Insurance Group Limited	**Australia**		
AC Marcom Computer Services Pte Ltd (liquidated)	Singapore	**–**	75.00
Atlasz Utasbiztositási Egyes Ügynöki Kft	Hungary	**100.00**	100.00
Atlasz Real Estate and Management Limited	Hungary	**100.00**	–
Australian Aviation Insurance Group (Agency) Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	96.25
Bankside Insurance Holdings Limited	UK	**100.00**	100.00
Bankside Services Limited	UK	**100.00**	100.00
Bankside Syndicates Limited	UK	**100.00**	100.00
Bankside Underwriting Agencies Limited	UK	**100.00**	100.00
Bates Cunningham Underwriting Limited	UK	**100.00**	100.00
Belgravia Facilities Limited	UK	**100.00**	100.00
BIDV – QBE Insurance Company Limited*	Vietnam	**50.00**	50.00
BR Smith (Insurance Services) Limited (liquidated)	UK	**–**	100.00
Compania Internationale de Asigurari QBE ASITO SA	Moldova	**72.60**	69.12
DA Constable Syndicates Limited	UK	**100.00**	100.00
Energy Insurance Services Limited	UK	**100.00**	100.00
Equator Investments Pty Limited	Australia	**100.00**	–
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
Excess Markets Corporation Inc (liquidated)	Canada	**–**	100.00
FAI Insurances (Fiji) Limited	Fiji	**100.00**	100.00
Garwyn Ireland Limited	Ireland	**100.00**	100.00
Garwyn Limited	UK	**100.00**	100.00
Hyfield Company Limited*	Thailand	**49.00**	49.00
Insurance Consult SRL	Moldova	**100.00**	100.00
Insure IT Services Pty Limited	Australia	**100.00**	100.00
Iron Trades Insurance Company Limited	UK	**100.00**	100.00
Iron Trades Management Services Limited	UK	**100.00**	100.00
IT Insurance Company Limited	UK	**100.00**	100.00
IT Investments (1990) Limited	UK	**100.00**	100.00
Janson Green Holdings (Canada) Inc	Canada	**100.00**	100.00
Janson Green Holdings Limited	UK	**100.00**	100.00
Janson Green Holdings Special Trust Limited	UK	**100.00**	100.00
Limit (Australia) Pty Limited	Australia	**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	UK	**100.00**	100.00
Limit No 14 Limited	UK	**100.00**	100.00
Limit No 17 Limited	UK	**100.00**	100.00
Limit Corporate Members Limited	UK	**100.00**	100.00
Limit Group Employee Benefits Trustee Ltd	UK	**100.00**	100.00
Limit Holdings Limited	UK	**100.00**	100.00
Limit plc	UK	**100.00**	100.00
Limit Properties Limited	UK	**100.00**	100.00
Limit Technology and Commercial Underwriting Limited	UK	**100.00**	100.00
Limit Underwriting Limited	UK	**100.00**	100.00
Minster Court Asset Management Limited	UK	**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**	65.00
QBE Atlasz Biztosito Rt	Hungary	**100.00**	100.00
QBE Australia Pty Limited	Australia	**100.00**	100.00

NOTES TO THE FINANCIAL STATEMENTS

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2002 %	2001 %
11 Shares in controlled entities (parent company) continued			
QBE Brasil Seguros SA	Brazil	**100.00**	100.00
QBE Capital Limited	Jersey	**100.00**	100.00
QBE Corporate Capital Holdings plc	UK	**100.00**	100.00
QBE Corporate Holdings Ltd	UK	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE Finance Pty Limited	Australia	**100.00**	100.00
QBE Funding Limited	Jersey	**100.00**	–
QBE Funding II Limited	Jersey	**100.00**	–
QBE Funding Trust	USA	**100.00**	–
QBE Funding Trust II	USA	**100.00**	–
QBE Group (Investments) Limited (in liquidation)	Australia	**100.00**	100.00
QBE Holdings (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Holdings Inc	USA	**100.00**	100.00
QBE Holdings (UK) Limited	UK	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**74.47**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance Corporation	USA	**100.00**	100.00
QBE Insurance (Hong Kong) Limited (in liquidation)	Hong Kong	**100.00**	100.00
QBE Insurance (International) Ltd	Australia	**100.00**	100.00
QBE Insurance (Philippines) Inc	Philippines	**59.00**	59.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Thailand) Co Ltd*	Thailand		
Thai resident entities		**25.08**	25.08
Non-Thai resident entities		**24.87**	24.87
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE International Holdings Limited	Hong Kong	**100.00**	100.00
QBE International Holdings (UK) plc	UK	**100.00**	100.00
QBE International Insurance Limited	UK	**100.00**	100.00
QBE International (Investments) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America) Inc	USA	**100.00**	100.00
QBE Investments Pty Limited	Australia	**100.00**	100.00
QBE Makedonija**	Macedonia	**65.03**	65.03
QBE Management Inc	USA	**100.00**	100.00
QBE Management Services Pty Ltd	Australia	**100.00**	100.00
QBE Management (UK) Limited	UK	**100.00**	100.00
QBE Marine Underwriting Agency Pte Limited	Singapore	**70.00**	70.00
QBE-MBf Insurans Berhad	Malaysia	**51.00**	100.00
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**	–
QBE Reinsurance (Europe) Limited	Ireland	**100.00**	100.00
QBE Reinsurance (UK) Limited	UK	**100.00**	100.00
QBE Securities Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE Specialty Insurance Company	USA	**100.00**	–
QBE Trade Indemnity Pty Limited (in liquidation)	Australia	**100.00**	100.00
QBE-UGPB Insurance*	Ukraine	**50.00**	50.00
QBE Underwriting Agency Ltd	UK	**100.00**	100.00
QBE WorkAble Limited	NZ	**100.00**	100.00
QBE Workers Compensation (NSW) Limited	Australia	**100.00**	100.00
Queensland Insurance (Australia) Pty Limited	Australia	**100.00**	100.00
Queensland Insurance (Fiji) Limited	Fiji	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Reinsurers Investments Pty Limited (in liquidation)	Australia	**100.00**	100.00

NOTES TO THE FINANCIAL STATEMENTS

	Country of incorporation/formation	Equity holding 2002 %	Equity holding 2001 %
11 Shares in controlled entities (parent company) continued			
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	**100.00**	100.00
RJ Wallace Syndicates (Ireland) Limited	Ireland	**100.00**	100.00
Sandsale Limited	UK	**100.00**	100.00
Sinkaonamahasarn Company Limited*	Thailand	**49.00**	49.00
SRC Management Services Pte Ltd (liquidated)	Singapore	**–**	100.00
Strakh-Consult	Ukraine	**100.00**	100.00
Sydney Reinsurance Group Pty Limited (in liquidation)	Australia	**100.00**	100.00
TII Insurance Brokers Pty Limited	Australia	**100.00**	100.00
Torch Dedicated Corporate Member Limited	UK	**100.00**	100.00
Torch Holdings	UK	**100.00**	100.00
Trade Indemnity New Zealand Limited (liquidated)	NZ	**–**	100.00
Travelon Pty Limited	Australia	**100.00**	100.00
TII Pty Limited	Australia	**100.00**	100.00
Universal Management Limited	Ireland	**100.00**	100.00
WQBE Pty Limited (in liquidation)	Australia	**100.00**	100.00

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

The consolidated entity has effective control of QBE Insurance (Thailand) Co Ltd, QBE-UGPB Insurance and BIDV-QBE Insurance Company Limited through shareholders' agreements which nominate management of the insurance businesses to the consolidated entity.

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.

** This shareholding equates to 73.28% (2001 73.28%) of the voting rights.

(a) Change of name

Controlled entity	Former name
DA Constable Syndicates Limited	RJ Wallace Syndicates Limited
Energy Insurance Services Limited	AEW Underwriting Agency (UK) Limited
Limit Technology and Commercial Underwriting Limited	QBE Agency Services Ltd
QBE–MBf Insurans Berhad	QBE Insurance (Malaysia) Berhad
Queensland Insurance Pty Limited	Travelon Insurance (Agencies) Pty Limited
Travelon Pty Limited	Queensland Insurance Pty Limited
TII Pty Limited	Transport Industries Insurance Company Limited
WQBE Pty Limited	Western QBE Insurance Limited

	2002 $M	2001 $M
(b) Outside equity interests in controlled entities (consolidated)		
Ordinary share capital	**56**	36
Reserves	**4**	8
Retained profits	**7**	4
	67	48

(c) Undistributed profits of overseas controlled entities

Undistributed profits of overseas controlled entities amount to $167 million (2001 $354 million). Some of these profits may be subject to assessment for Australian tax (less overseas taxes paid) if distributed as dividends.

(d) Equity

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

(e) Acquisitions

There were no material acquisitions during 2002.

On 19 March 2001, a wholly owned entity acquired the rights to renew the corporate and travel business of HIH Casualty and General Insurance Limited in Australia for cash.

On 30 April 2001, a wholly owned controlled entity acquired a substantial part of the insurance assets and insurance liabilities of HIH Casualty and General Insurance (NZ) Limited in New Zealand, including 100% of the issued capital of QBE WorkAble Limited (formerly HIH WorkAble Limited), for cash.

On 11 May 2001, a wholly owned controlled entity acquired 65% of QBE ART SA (formerly HIH ART SA), for cash. A further 18% was acquired in 2002.

NOTES TO THE FINANCIAL STATEMENTS

11 Shares in controlled entities (parent company) continued

(e) Acquisitions continued

	2002 $M	2001 $M
Details of acquisitions are as follows:		
Fair value of identifiable net tangible assets of controlled entities and business acquired:		
Cash and current investments	–	88
Receivables	–	11
Deferred insurance costs	–	18
Non-current investments	–	58
Plant and equipment	–	4
Trade and other creditors	–	(22)
Net outstanding claims	–	(130)
Unearned premium	–	(48)
Net deferred income tax	–	26
Other provisions	–	(1)
	–	4
Less: outside equity interests	–	(2)
	–	2
Intangibles on acquisition	–	42
Cost of acquisitions	–	44
The net cash flows relating to acquisitions were as follows:		
Cash consideration	–	50
Cash and current investments acquired	–	(88)
Net cash acquired	–	(38)

12 Plant and equipment (consolidated)

	2002 $M	2001 $M
Cost	**308**	270
Accumulated depreciation	**(175)**	(146)
	133	124

13 Intangibles (consolidated)

	2002 $M	2001 $M
Goodwill at cost, less amounts written off	**102**	98
Accumulated amortisation	**(18)**	(13)
	84	85
Identifiable intangibles, including Lloyd's syndicate capacity	**432**	387
	516	472

14 Trade and other creditors

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
Trade creditors	**–**	–	**800**	721
Amounts due to controlled entities	**1,545**	557	**–**	–
Other creditors and accrued expenses	**–**	1	**301**	249
	1,545	558	**1,101**	970

NOTES TO THE FINANCIAL STATEMENTS

	2002 $M	2001 $M
15 Outstanding claims (consolidated)		
Gross outstanding claims including prudential margins	**13,215**	13,058
Discount to present value	**(1,555)**	(1,760)
	11,660	11,298
Current	**3,511**	3,837
Non-current	**8,149**	7,461
	11,660	11,298
Reinsurance and other recoveries on outstanding claims	**4,100**	5,219
Discount to present value	**(434)**	(710)
	3,666	4,509
Current	**1,137**	1,608
Non-current	**2,529**	2,901
	3,666	4,509
NET OUTSTANDING CLAIMS	**7,994**	6,789
Net outstanding claims by geographic segment		
Australian general insurance	**1,251**	953
Asia-Pacific general insurance	**419**	323
the Americas	**590**	541
European company operations	**2,859**	2,764
Lloyd's division	**2,875**	2,208
	7,994	6,789

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

Reinsurance and other recoveries on outstanding claims are shown net of a doubtful debt provision of $89 million (2001 $43 million).

(a) Inflation and discount rates

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

	2002 %		2001 %	
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR	SUBSEQUENT YEARS
Australian general insurance				
Inflation rate	**3.50–10.50**	**3.50–10.50**	3.50–10.50	3.50–10.50
Discount rate	**5.25**	**5.25–6.20**	4.35	4.60–8.50
Asia-Pacific general insurance				
Discount rate	**0.03–13.50**	**0.16–13.50**	1.35–15.00	1.35–15.00
the Americas				
Discount rate	**2.50**	**2.50**	5.00	5.00
European company operations				
Discount rate	**4.50–5.25**	**4.50–6.20**	2.00–5.25	2.50–8.50
Lloyd's division				
Discount rate	**4.50**	**4.50**	5.00	5.00

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

NOTES TO THE FINANCIAL STATEMENTS

15 Outstanding claims (consolidated) continued

(b) Weighted average term to settlement

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

	2002 YEARS	2001 YEARS
Australian general insurance	**2.8**	3.4
Asia-Pacific general insurance	**1.8**	2.4
the Americas	**2.2**	1.8
European company operations	**2.9**	2.5
Lloyd's division	**3.2**	2.9
Consolidated entity	**2.9**	2.7

16 Borrowings (consolidated)

Borrowings are repayable as follows:

		2002 $M	2001 $M
Bank loans			
02 January 2002	GBP40 million	**–**	114
09 July 2002	US$20 million	**–**	39
30 September 2002	GBP18 million	**–**	51
15 November 2002	GBP22 million	**–**	63
31 December 2002	US$15 million	**–**	30
01 March 2003	MKD39 million	**1**	–
31 March 2003	A$150 million	**150**	–
19 June 2003	US$20 million	**36**	39
14 October 2003	US$6 million	**11**	12
21 November 2003	US$30 million	**53**	59
21 December 2004	US$8 million	**14**	15
15 October 2004	EUR16 million	**30**	28
23 May 2005	MKD52 million	**–**	1
		295	451
Eurobonds*			
02 August 2010	A$150 million / GBP58 million	**168**	166
02 August 2010	A$20 million / GBP8 million	**22**	22
02 August 2010	EUR115 million / GBP70 million	**177**	199
		367	387
Hybrid securities**			
15 April 2022	US$503 million	**506**	–
15 April 2022	US$313 million	**288**	–
		794	–
TOTAL BORROWINGS		**1,456**	838
Current		**251**	297
Non-current		**1,205**	541
		1,456	838

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

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

NOTES TO THE FINANCIAL STATEMENTS

16 Borrowings (consolidated) continued

(a) Security and facility arrangements

In the normal course of business, bank loans are made to controlled entities and secured by guarantees or letters of comfort given by the company. The consolidated entity does not have any loan facility arrangements.

The company has issued a guarantee in support of a $150 million loan to a controlled entity. The guarantee is supported by a first ranking equitable mortgage over shares in another controlled entity.

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

(b) Hybrid securities

In April and May 2002, a controlled entity issued US$298 million of 20 year hybrid securities. Interest accumulates on the securities at 2.625% per annum, and is payable at the end of the 20 year term. In the event of redemption, repurchase, conversion or maturity, QBE can elect to pay either cash or the equivalent value in QBE shares, or a combination of both. Investors can request repurchase at the end of years 2, 3, 5, 10 and 15 from the date of issue. QBE can redeem the securities at any time after 3 years from the date of issue. Investors have the option to convert the security if:

(i) QBE calls for their redemption;

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

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

A further issue of US$173 million of hybrid securities was made in September 2002. Interest accumulates on the securities at 3.065% per annum. In all other respects, the terms are unchanged from the April and May issue of hybrid securities.

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

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

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

17 Provisions – non-current

	THE COMPANY		CONSOLIDATED	
	2002 $M	2001 $M	**2002 $M**	2001 $M
Long service leave	**–**	–	**6**	5
Other provisions	**–**	–	**11**	5
Amounts payable under acquisition agreements	**–**	–	**1**	8
	–	–	**18**	18

NOTES TO THE FINANCIAL STATEMENTS

	2002 $M	2001 $M
18 Share capital (company and consolidated)		
(a) Issued ordinary shares, fully paid	**1,926**	1,732

	NUMBER OF SHARES 000	$M
(b) Movements in issued ordinary share capital		
Issued and fully paid at 1 January 2001	428,641	714
Shares issued under Employee Share and Option Plan	903	9
Employee options exercised	598	4
Share placement	25,181	275
Shares issued under prospectus	121,377	655
Shares issued under Dividend Reinvestment Plan	7,506	75
Shares issued under Dividend Election Plan	1,113	–
Issued and fully paid at 31 December 2001	585,319	1,732
Shares issued under Employee Share and Option Plan	3,595	26
Employee options exercised	867	5
Share placements	13,157	91
Shares issued under Dividend Reinvestment Plan	10,348	72
Shares issued under Dividend Election Plan	2,202	–
Issued and fully paid at 31 December 2002	615,488	1,926

(c) Convertible preference shares

On 18 August 2000, a controlled entity issued 3,150,000 mandatory convertible preference shares of US$50 each, fully paid. These shares will convert to approximately 35.6 million ordinary shares in the company on 18 August 2003. The number of shares issued on conversion can vary to a small extent according to the value of the company's ordinary shares at conversion date. The convertible preference shares are entitled to a non-cumulative dividend of 8% per annum, payable on 18 February and 18 August. No dividends can be declared on the company's ordinary share capital if dividends are not paid on the convertible preference shares. The company has guaranteed dividend payments on the convertible preference shares to the extent that funds are legally available for distribution in the issuing entity. The convertible preference shares are non-voting provided dividends are declared and paid. Costs of $10 million associated with the issue of the shares have been applied against the proceeds of the equity raising.

(d) Employee share schemes

(i) Employee Share and Option Plan

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

18 Share capital (company and consolidated) continued

(d) Employee share schemes continued

(ii) Senior Executive Equity Scheme

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

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

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

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

(iii) Options

During the year, the company granted to 74 (2001 103) qualifying employees options to subscribe for 982,695 (2001 3,601,070) ordinary shares with a total market value of $7 million (2001 $28 million), being the quoted price at the date the options were granted.

At 31 December 2002, 4,528,059 (2001 6,526,165) options were outstanding with an exercise price of $38 million (2001 $50 million). The market value of the options outstanding at balance date is $37 million (2001 $50 million), calculated by reference to the quoted market value of the underlying shares at that date. During the financial year, 867,164 (2001 578,255) options were exercised, resulting in the issue of 867,164 (2001 596,440) shares.

The options outstanding at the balance date are as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE OPTIONS	REGULAR OPTIONS	SEES OPTIONS	TOTAL OPTIONS
2003	330,000	62,600	–	392,600
2004	893,000	94,200	–	987,200
2005	355,000	330,620	–	685,620
2006	662,500	162,406	512,733	1,337,639
2007	1,095,000	30,000	–	1,125,000
	3,335,500	679,826	512,733	4,528,059

The future performance options have been issued subject to the achievement of specific performance criteria.

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

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

(e) Dividend Reinvestment and Dividend Election Plans

Dividend Reinvestment and Dividend Election Plans were approved by shareholders during the year ended 30 June 1989. Shareholders can elect to take their dividend entitlement by way of shares at a 2.5% discount on the average market price calculated over the five trading days beginning on the first day of ex-dividend trading.

NOTES TO THE FINANCIAL STATEMENTS

18 Share capital (company and consolidated) continued

(f) Dividends

	2002 $M	2001 $M
Previous year final dividend paid on ordinary shares		
Franked at 30% – 2.025 cents	**12**	–
Unfranked – 11.475 cents	**68**	–
	80	–
Interim dividend paid on ordinary shares		
Franked at 30% – 1.98 cents (2001 4.125 cents)	**25**	19
Unfranked – 14.52 cents (2001 12.375 cents)	**74**	57
	99	76
Dividend reinvested under the Dividend Election Plan	**(16)**	(11)
Total dividend paid on ordinary shares	**163**	65
Preference dividend paid	**24**	24
Total dividend paid	**187**	89

On 6 March 2003, the directors declared a 12% franked final dividend of $114 million (2001 15% franked final dividend of $80 million).

The comparatives reflect no final dividend for 2001 as this was previously accrued in the financial statements for the six months ended 31 December 2000.

The consolidated franking balance as at the balance date was a surplus of $16 million (2001 $2 million surplus) after taking into account the expected Australian tax payments of $nil million (2001 $7 million).

19 Reserves

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
General				
Balance brought forward	**–**	–	**5**	13
Transfer to retained profits	**–**	–	**–**	(8)
Balance at the end of the year	**–**	–	**5**	5
Realised capital profits				
Balance brought forward	**–**	–	**30**	42
Transfer to retained profits	**–**	–	**(24)**	(12)
Balance at the end of the year	**–**	–	**6**	30
Foreign currency translation				
Balance brought forward	**–**	–	**(10)**	(18)
(Deficit) surplus for the year	**–**	–	**(11)**	8
Balance at the end of the year	**–**	–	**(21)**	(10)
Total reserves at the end of the year	**–**	–	**(10)**	25
(a) Retained profits				
Retained profits at the beginning of the year	**16**	49	**589**	683
Transfer from reserves	**–**	–	**24**	20
Net profit (loss) after tax attributable to members of the company	**150**	32	**279**	(25)
Total available for appropriation	**166**	81	**892**	678
Dividends paid	**(163)**	(65)	**(187)**	(89)
Retained profits at the end of the year	**3**	16	**705**	589

(b) Nature and purpose of reserves

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

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

(iii) Foreign currency translation reserve – exchange gains and losses on translation of self-sustaining controlled entities. Note 1(m) refers.

NOTES TO THE FINANCIAL STATEMENTS

	NOTE	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
19 Reserves continued					
(c) Equity					
General					
Equity at the beginning of the year		**1,748**	763	**2,668**	1,751
Changes in equity recognised in the statements of financial performance		**150**	32	**268**	(17)
Transactions with owners as owners					
Dividends paid	18(f)	**(163)**	(65)	**(187)**	(89)
New ordinary shares issued	18(b)	**194**	1,018	**194**	1,018
Equity component of hybrid securities	16(b)	**–**	–	**59**	–
Convertible preference shares issued (net of costs)	18(c)	**–**	–	**–**	(1)
Changes in outside equity interests	11	**–**	–	**19**	6
Equity at the end of the year		**1,929**	1,748	**3,021**	2,668

	THE COMPANY 2002 $000	THE COMPANY 2001 $000	CONSOLIDATED 2002 $000	CONSOLIDATED 2001 $000
20 Remuneration of directors and executives				
(a) Income paid or payable, or otherwise made available, to directors of the company and entities comprising the consolidated entity	**3,335**	1,934	**4,481**	3,089

	2002	2001
(b) The number of directors of the company whose remuneration was within the following bands is:		
$000		
20–30	**–**	1
30–40*	**1**	–
40–50	**–**	1
70–80	**1**	–
80–90	**–**	1
90–100	**–**	2
100–110	**1**	–
110–120	**4**	1
130–140	**–**	1
200–210	**–**	1
250–260	**1**	–
1,130–1,140	**–**	1
2,400–2,410**	**1**	–

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

** Mr O'Halloran's remuneration includes long term incentives amounting to $386,000 in the form of conditional rights and options as described in note 18(d). These long term incentives are subject to the approval of shareholders.

In the previous year, remuneration was defined to include salary, incentives, personal expense reimbursement, the deemed value of interest rate concessions on share and other loans, the deemed value of the provision of motor vehicles, the fringe benefits tax cost to the consolidated entity on all the foregoing and the value of the non-contributory superannuation benefits provided to employees.

In 2002, the definition of remuneration has changed to include a deemed value for options granted in the year or, in the case of the conditional rights and options issued under the SEES (note 18(d) refers), earned in the year. The change in the definition of remuneration has resulted in an increase in directors' remuneration in notes 20(a) and 20(b) of $386,000 and an increase in executive remuneration in notes 20(d) and 20(e) of $1,938,000.

The long term incentives for the executive director and executive officers, comprising conditional rights and options, are calculated using established valuation techniques.

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

NOTES TO THE FINANCIAL STATEMENTS

20 Remuneration of directors and executives continued

(c) A total of $13,364,000 (2001 $12,620,000) is owed to controlled entities by 85 (2001 81) executives who are directors of entities in the consolidated entity by way of loans relating to shares taken up under the Plan ranging from $11,000 to $2,046,000. The terms and conditions of these loans are the same as those provided to other employees.

The following executives who were directors of the company or controlled entities at 31 December 2002 received and repaid loans for employee shares during the year: A Ajmanwra, B Bailey, I Beckerson, M Brooker, A Broome, A Burniston, S Burns, T Butcher, D Carroll, M Chalmers, I Chapman, R Chapman, KS Cheng, T Clarke, D Constable, B Cotterill, K Crimes, G Crombie, I Davey, N Drabsch, J Ferrara, J Fiore, C Fish, S Fitzgerald, S Flore, D Fogarty, S Ford, G Galvin, S Gargrave, P Glen, K Gowans, D Grossman, P Grove, K Hamann, M Harrington, J Hunt, F Hynes, D Johnson, R Jones, S Jones, C Judd, T Kenny, J La Cava, P Laming, D Lang, Law Po Tung, T Lawrence, W Lewis, J Lorberg, J Lui, P May, E Miller, V McLenaghan, G McSwain, P Moss, S Muggeridge, C O'Farrell, F O'Regan, M Peat, V Phunthikaphadr, J Price, S Price, A Przybyszewski, D Ramsay, A Roberts, J Rudkin, J Rumpler, M Sheppard, P Smith, R Sparks, C Swinbank, Tai Lee Heng, M Ten Hove, J Thanupubrungsun, G Tollifson, D Treanor, I Turner, P Turner, N Van der Venne, R Wallace, V Walter, G Watson, D Winkett, Yong Cho Choon. There were no loans advanced during the year for housing purposes and $3,659,000 (2001 $2,868,000) for employee shares. Interest paid for housing purposes during the year totalled $4,000 (2001 $3,000). Loans repaid during the period totalled $293,000 (2001 $52,000) for housing purposes and $2,342,000 (2001 $1,222,000) for employee shares.

		2002 $000	2001 $000
(d)	Aggregate of remuneration received, or due and receivable, by Australian based executive officers of the consolidated entity, including directors, whose remuneration* was at least $100,000	**13,741**	10,195

		2002	2001
(e)	The number of Australian based executive officers of the consolidated entity, including directors, whose remuneration* was at least $100,000 is:		
	$000		
	180–190	**1**	–
	200–210	**–**	1
	240–250	**1**	–
	250–260	**–**	2
	260–270	**–**	1
	280–290	**–**	1
	290–300	**–**	2
	300–310	**–**	2
	310–320	**1**	1
	320–330	**2**	1
	350–360	**1**	–
	380–390	**1**	2
	400–410	**2**	1
	410–420	**–**	2
	430–440	**1**	–
	460–470	**1**	–
	540–550	**1**	–
	580–590	**–**	1
	620–630	**1**	–
	670–680	**1**	–
	690–700	**–**	1
	790–800	**1**	–
	830–840	**1**	–
	900–910	**–**	1
	920–930	**1**	–
	1,130–1,140	**–**	1
	1,480–1,490	**1**	–
	1,610–1,620	**1**	–
	1,750–1,760	**–**	1
	2,400–2,410	**1**	–
		20	21

* Remuneration is as defined in note 20(b)

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

NOTES TO THE FINANCIAL STATEMENTS

21 Superannuation commitments (consolidated)

Entities in the consolidated entity participate in a number of superannuation benefit 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 as a percentage of salary and within the rules of the plans. Entity contributions are enforceable in accordance with the rules of the plans.

Actuarial assessments of all significant plans have been completed during the last three years with the main plans being assessed by various qualified employees of Towers Perrin at 31 December 2000, AON Consulting at 1 April 2002 and Watson Wyatt Worldwide as at 30 September 2002. Although these are the last dates on which the plans were formally valued, all valuations have been updated for information available at 31 December 2002. According to these actuarial reports, the market value of the assets of certain plans is not sufficient to meet all benefits that would have been vested under the plans in the event of termination of the plans or the voluntary or compulsory termination of employment of each employee. This is principally due to the decline in equity markets. The relevant controlled entities have approved an increase in contribution rates as recommended by the actuaries to fund expected future liabilities.

	2002 $M	2001 $M
Present value of employees' accrued benefits	**563**	536
Net market value of assets held by the plans to meet future benefit payments	**476**	566
(Shortfall) excess of assets held to meet future benefits over the present value of employees' accrued benefits	**(87)**	30
Vested benefits*	**539**	506

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

22 Auditors' remuneration

	2002 $000	2001 $000
PricewaterhouseCoopers – Australian firm*		
Audit or review of financial reports of the parent entity	**539**	347
Audit of financial reports of controlled entities	**1,269**	962
Audit of statutory returns	**175**	74
Other audit assurance services	**312**	85
Taxation services	**240**	239
Systems consulting	**2**	85
Other consulting and advisory services	**18**	124
	2,555	1,916
Related practices of PricewaterhouseCoopers – Australian firm* (including overseas PricewaterhouseCoopers firms)		
Audit of financial reports of controlled entities	**2,911**	2,706
Audit of statutory returns	**1,440**	744
Other audit assurance services	**444**	589
Taxation services	**409**	172
Systems consulting	**1,832**	12,655
Other consulting and advisory services	**36**	81
Actuarial services	**165**	318
Legal services	**1,645**	953
	8,882	18,218
	11,437	20,134
Audit and assurance services	**7,090**	5,507
Other services	**4,347**	14,627
	11,437	20,134
Other auditors		
Audit of financial reports of controlled entities	**844**	690

* 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 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.

NOTES TO THE FINANCIAL STATEMENTS

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
23 Contingent liabilities				
The company and the consolidated entity had the following unsecured contingent liabilities:				
Guarantees of loans	**989**	1,576	**–**	–
Guarantees of forward foreign exchange contracts entered into by controlled entities	**88**	79	**–**	–
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	**736**	701	**794**	701
Letters of credit issued in support of insurance liabilities of controlled entities	**87**	140	**–**	–
Guarantees to investors in hybrid securities	**851**	–	**–**	–

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 $1,106 million (2001 $722 million). The obligations under the deeds of covenant are secured by a fixed and floating charge over certain investments and other assets in favour of Lloyd's of London (note 9).

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

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
24 Capital commitments				
Estimated capital commitments (not later than one year)	**–**	–	**1**	2
25 Commitments for expenditure				
Operating leases				
Aggregate amounts contracted but not provided for in the financial report				
Not later than one year	**–**	–	**23**	26
Later than one but less than five years	**–**	–	**59**	73
Later than five years	**–**	–	**97**	107
	–	–	**179**	206

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Statutory fund statement of financial position

	2002 $M	2001 $M
Non-current assets		
Investments, at market value	**265**	902
Current assets		
Cash and short term deposits	**692**	144
Debtors	**142**	107
TOTAL ASSETS	**1,099**	1,153
Current liabilities		
Creditors	**35**	29
Unearned premium	**186**	151
Statutory funds to meet outstanding claims and statutory transfers	**878**	973
TOTAL LIABILITIES AND STATUTORY FUNDS	**1,099**	1,153

27 Lloyd's division

(a) Non-aligned syndicates

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

	2002 $M	2001 $M
Assets		
Investments, at net market value	**452**	676
Other assets	**250**	235
TOTAL ASSETS	**702**	911
Liabilities		
Outstanding claims, net of reinsurance recoveries	**526**	900
Other liabilities	**210**	180
TOTAL LIABILITIES	**736**	1,080
NET LIABILITIES	**34**	169

(b) Reinsurance to close

Since acquiring Limit in August 2000, QBE has purchased additional capacity in the syndicates managed by Limit, taking its ownership share from 55% in 2000 to 78% for the 2003 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 2003 or subsequent dates. It is currently estimated that the amount of the net insurance liabilities and matching assets will exceed $725 million, which will be recognised in the years in which the reinsurance to close is expected to be finalised.

NOTES TO THE FINANCIAL STATEMENTS

28 Related parties

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

Reference	
Directors' particulars	Directors' report
Remuneration of directors	Directors' report and note 20
Shares and options held by directors	Directors' report

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

Mr Curran is non-executive chairman of Perpetual Trustees Australia Ltd, an entity whose controlled entity was used during the year, on an arm's length basis, for share registration services. A controlled entity paid $731,000 (2001 $760,000) for these services.

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

29 Earnings per share (consolidated)

	2002 CENTS	2001 CENTS
Basic earnings per share	**42.7**	(10.5)
Diluted earnings per share	**43.4**	(4.9)
	$M	$M
Reconciliation of earnings used in calculating earnings per share		
Net profit attributable to members of the company being earnings used in calculating diluted earnings per share	**279**	(25)
Less: dividends paid on mandatory convertible preference shares	**(24)**	(24)
Earnings used in calculating basic earnings per share	**255**	(49)
	MILLIONS	MILLIONS
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share	**599**	472
Weighted average number of ordinary shares used in calculating diluted earnings per share	**643**	515

In accordance with Accounting Standard AASB 1027: Earnings per Share, the calculation of diluted earnings per share includes 35.6 million (2001 35.6 million) potential ordinary shares in respect of the mandatory convertible preference shares.

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NOTES TO THE FINANCIAL STATEMENTS

30 Segment information

(a) Geographical business segments

	AUSTRALIAN GENERAL INSURANCE 2002 $M	ASIA-PACIFIC GENERAL INSURANCE 2002 $M	THE AMERICAS 2002 $M	EUROPEAN COMPANY OPERATIONS 2002 $M	LLOYD'S DIVISION 2002 $M	TOTAL 2002 $M
Total assets	**3,153**	**1,330**	**1,468**	**6,191**	**8,395**	**20,537**
Total liabilities	**2,425**	**952**	**1,237**	**5,699**	**7,203**	**17,516**
Acquisition of plant and equipment, intangibles and other non-current segment assets	**26**	**11**	**2**	**19**	**48**	**106**
Depreciation and amortisation expense	**18**	**5**	**1**	**19**	**5**	**48**
Total revenue	**1,636**	**715**	**1,017**	**2,396**	**2,737**	**8,501**
Gross written premium	**1,578**	**629**	**991**	**2,249**	**2,276**	**7,723**
Gross earned premium	**1,448**	**602**	**856**	**2,103**	**2,188**	**7,197**
Outward reinsurance premium expense	**227**	**161**	**184**	**372**	**611**	**1,555**
Net earned premium	**1,221**	**441**	**672**	**1,731**	**1,577**	**5,642**
Net claims incurred	**880**	**243**	**459**	**1,250**	**980**	**3,812**
Net commission	**128**	**90**	**166**	**255**	**359**	**998**
Underwriting and other expenses	**177**	**90**	**44**	**207**	**184**	**702**
Underwriting result	**36**	**18**	**3**	**19**	**54**	**130**
Investment income on policyholders' funds	**54**	**19**	**15**	**93**	**95**	**276**
Insurance profit	**90**	**37**	**18**	**112**	**149**	**406**
Investment income (loss) on shareholders' funds	**(11)**	**(4)**	**2**	**(13)**	**(69)**	**(95)**
PROFIT FROM ORDINARY ACTIVITIES before income tax	**79**	**33**	**20**	**99**	**80**	**311**
Income tax	**(24)**	**14**	**6**	**25**	**12**	**33**
PROFIT FROM ORDINARY ACTIVITIES after income tax	**103**	**19**	**14**	**74**	**68**	**278**
Outside equity interests	**–**	**1**	**–**	**(2)**	**–**	**(1)**
NET PROFIT attributable to members of the company	**103**	**18**	**14**	**76**	**68**	**279**

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

(b) External product segments

	GENERAL INSURANCE 2002 $M	GENERAL INSURANCE 2001 $M	INWARD REINSURANCE 2002 $M	INWARD REINSURANCE 2001 $M	TOTAL 2002 $M	TOTAL 2001 $M
Total revenue	**6,009**	5,709	**2,492**	3,783	**8,501**	9,492
NET PROFIT (LOSS) attributable to members of the company	**212**	187	**67**	(212)	**279**	(25)
Total assets	**13,016**	12,245	**7,521**	6,407	**20,537**	18,652
Acquisition of plant and equipment, intangibles and other non-current segment assets	**83**	135	**23**	38	**106**	173

NOTES TO THE FINANCIAL STATEMENTS

30 Segment information continued

(a) Geographical business segments

	AUSTRALIAN GENERAL INSURANCE 2001 $M	ASIA-PACIFIC GENERAL INSURANCE 2001 $M	THE AMERICAS 2001 $M	EUROPEAN COMPANY OPERATIONS 2001 $M	LLOYD'S DIVISION 2001 $M	TOTAL 2001 $M
Total assets	2,536	1,079	1,486	6,333	7,218	18,652
Total liabilities	2,079	732	1,258	5,915	6,000	15,984
Acquisition of plant and equipment, intangibles and other non-current segment assets	34	32	5	45	57	173
Depreciation and amortisation expense	8	5	1	15	7	36
Total revenue	1,493	640	911	3,054	3,394	9,492
Gross written premium	1,340	523	731	2,017	2,182	6,793
Gross earned premium	1,202	516	655	1,978	1,947	6,298
Outward reinsurance premium expense	196	111	165	610	582	1,664
Net earned premium	1,006	405	490	1,368	1,365	4,634
Net claims incurred	731	221	393	1,210	995	3,550
Net commission	132	90	127	251	336	936
Underwriting and other expenses	149	91	31	169	151	591
Underwriting result	(6)	3	(61)	(262)	(117)	(443)
Investment income on policyholders' funds	61	34	32	101	96	324
Insurance profit (loss)	55	37	(29)	(161)	(21)	(119)
Investment income (loss) on shareholders' funds	12	(5)	(7)	19	1	20
PROFIT (LOSS) FROM ORDINARY ACTIVITIES before income tax	67	32	(36)	(142)	(20)	(99)
Income tax	10	2	(18)	(49)	(27)	(82)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES after income tax	57	30	(18)	(93)	7	(17)
Outside equity interests	–	3	1	2	2	8
NET PROFIT (LOSS) attributable to members of the company	57	27	(19)	(95)	5	(25)

NOTES TO THE FINANCIAL STATEMENTS

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
31 Reconciliation of cash flows from operating activities to net profit (loss) attributable to members of the company				
Cash flows from operating activities	**28**	64	**1,511**	280
Depreciation and amortisation of assets	**–**	–	**(40)**	(31)
Amortisation of intangibles	**–**	–	**(8)**	(5)
Amortisation of premium/discount on fixed interest securities	**–**	–	**(2)**	(6)
Loss on sale of plant and equipment	**–**	–	**(1)**	(3)
Net exchange gains (losses)	**(3)**	–	**22**	(10)
Other gains (losses) on investments	**(68)**	–	**(151)**	13
Net movement in insurance provisions				
(Increase) decrease				
Outstanding claims	**–**	–	**(867)**	(458)
Unearned premium	**–**	–	**(450)**	(349)
Increase (decrease)				
Deferred insurance costs	**–**	–	**74**	68
Net amounts due from/to controlled entities	**223**	–	**–**	–
Net movements in operating assets and liabilities				
Increase (decrease)				
Trade debtors	**–**	–	**979**	711
Other operating assets	**–**	(31)	**160**	(72)
(Increase) decrease				
Trade creditors	**1**	(1)	**(702)**	(453)
Current tax liabilities	**(3)**	–	**(10)**	–
Deferred tax liabilities	**(28)**	–	**5**	209
Other creditors and provisions	**–**	–	**(242)**	89
Outside equity interests	**–**	–	**1**	(8)
NET PROFIT (LOSS) attributable to members of the company	**150**	32	**279**	(25)

32 Non-cash financing and investing activities

	THE COMPANY 2002 $M	THE COMPANY 2001 $M	CONSOLIDATED 2002 $M	CONSOLIDATED 2001 $M
Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan	**72**	75	**72**	75
Shares issued under the Employee Share and Option Plan	**–**	–	**31**	13

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 48 to 78:

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

(b) give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2002 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 6th day of March 2003 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

Audit opinion

In our opinion, the financial report set out on pages 48 to 79:

- presents 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 2002 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 professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and summary of our role

The financial report – responsibility and content

The preparation of the financial report for the year ended 31 December 2002 is the responsibility of the directors of QBE Insurance Group Limited. It includes the financial statements for QBE Insurance Group Limited (the company) and for the QBE Insurance Group (the consolidated entity), which incorporates QBE Insurance Group Limited and the entities it controlled during the year ended 31 December 2002.

The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

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

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence;
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report;
- obtaining written confirmation regarding material representations made to us in connection with the audit; and
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the consolidated entity and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the *Corporations Act 2001* and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the consolidated entity. These services are disclosed in note 22 to the financial statements. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

JE Skinner
Partner

Sydney, 6 March 2003

FINANCIAL CALENDAR

2003	
6 March	Profit and dividend announcement for the year to 31 December 2002 Annual report available on website
11 March	Annual report posted to shareholders with notice of meeting and proxy form
13 March	Shares begin trading ex-dividend
19 March	Record date for determining shareholders' entitlements to dividend payment
10 April	Annual General Meeting
11 April	Dividend paid
30 June	Half year end
28 August*	Profit and dividend announcement for the six months to 30 June 2003
3 September*	Shares begin trading ex-dividend
9 September*	Record date for determining shareholders' entitlement to dividend payment
1 October*	Dividend paid
31 December	Year end

* dates to be confirmed

QBE ANNOUNCEMENTS TO THE AUSTRALIAN STOCK EXCHANGE

	2002
Clarified long-standing whole account reinsurance arrangements	20 February
Announced results for the year to 31 December 2001 including a final dividend of 13.5 cents per share to be paid on 12 April 2002	13 March
Requested trading halt due to increasing market speculation relating to proposed capital raising pending an announcement from QBE	8 April
Advised that there will be an issue of debt based securities	8 April
Confirmed successful issue of US$250 million of 20 year debt based securities	9 April
Chairman's and chief executive officer's AGM addresses	18 April
Advised over allotment option ("greenshoe") being exercised in relation to debt based securities	8 May
Appointed Ms Irene Lee as non-executive director	17 May
Agreed enforceable undertaking with Australian Securities and Investments Commission ("ASIC") in relation to costs of any cancelled Ansett tickets arising out of the collapse of Ansett	20 May
Confirmed that QBE remains on track to achieve 2002 projected insurance profit	18 June
Confirmed that QBE understands its continuous disclosure obligations	16 August
Announced results for the half year to 30 June 2002 including an interim dividend of 16.5 cents per share to be paid on 3 October 2002	28 August
Announced further issue of debt based securities to raise US$150 million	5 September
Advised over allotment option ("greenshoe") being exercised in relation to debt based securities	11 September
Announced the completion of a number of small initiatives to generate around $300 million annual premium income	25 November

	2003
Denied speculation that QBE currently conducting due diligence	17 January
Announced that QBE's A+ insurer financial strength rating affirmed by Standard & Poor's	3 February
Advised that 31 December 2002 review of claims reserves revealed nothing to announce regarding claims reserves	5 February
Announced increased profit expectations for 2002	6 February

QBE02

Designed and produced by Armstrong Miller+McLaren

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