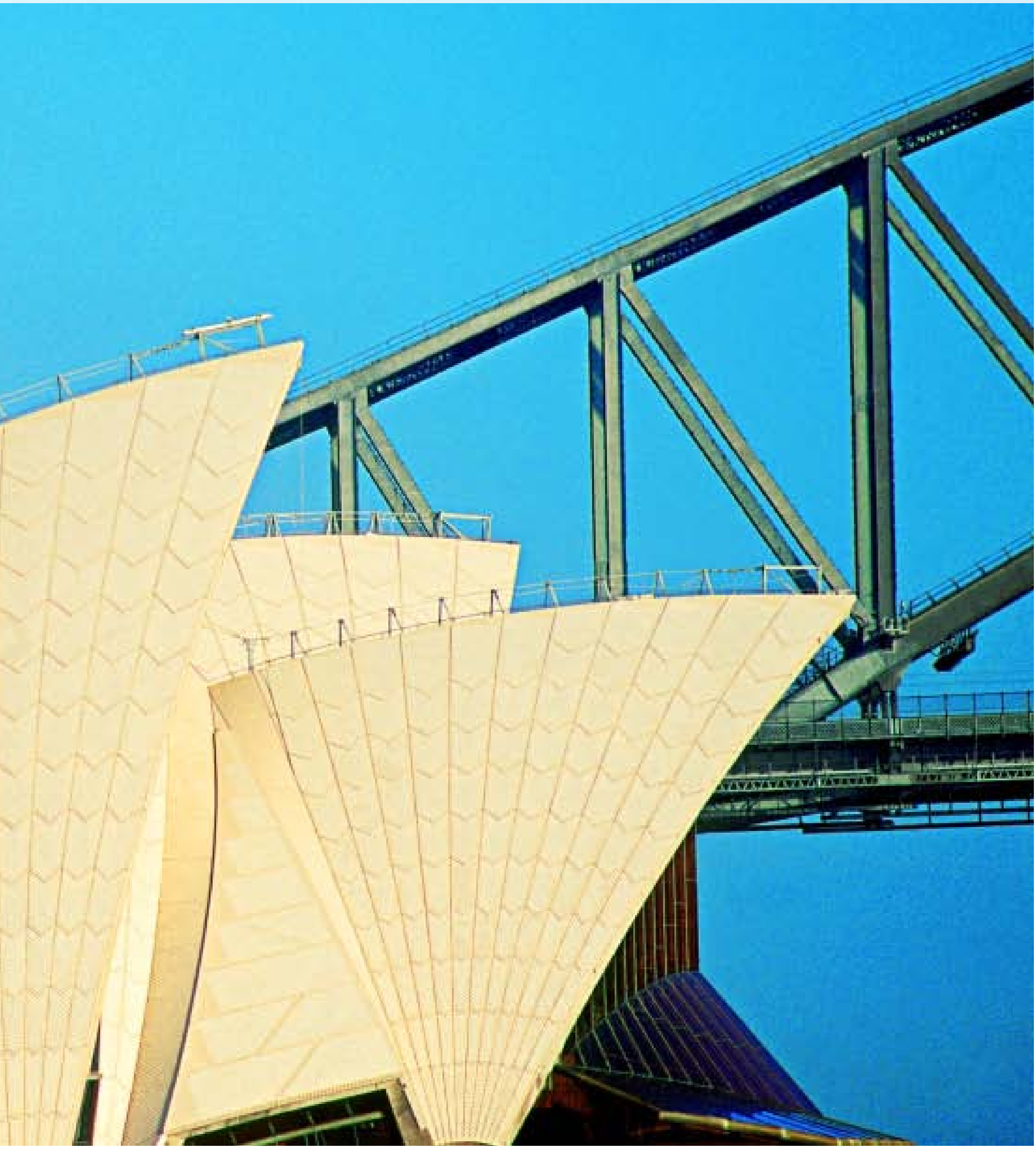
QBE INSURANCE GROUP

ANNUAL REPORT DECEMBER 2003



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OUR VISION

TO BE INTERNATIONALLY RECOGNISED AS

— A HIGHLY SUCCESSFUL GENERAL INSURANCE AND REINSURANCE GROUP
— A BUILDER OF SHAREHOLDERS' WEALTH
— A DEVELOPER OF "CAN DO" PEOPLE
— AN ORGANISATION THAT EXCELS IN THE CONTINUOUS DELIVERY OF NEW AND PROVEN QUALITY PRODUCTS AND SERVICES

OUR VALUES

— INCREASING THE LONG TERM WEALTH OF SHAREHOLDERS
— CUSTOMER SATISFACTION AND RETENTION
— EMPLOYEE MOTIVATION
— INTEGRITY

FINANCIAL HIGHLIGHTS

PROFIT AND DIVIDEND PAYOUT

NET PROFIT AFTER TAX

$572M, up 105%

from $279 million last year.
Net profit includes realised and unrealised gains on investments of $86 million after tax compared with losses of $110 million last year.

FINAL DIVIDEND PER SHARE

22.0 cents, 30% franked, up 19%

from a final dividend of 18.5 cents last year. The total dividend for the year is 42.0 cents per share compared with 35.0 cents last year.

BASIC EARNINGS PER SHARE

86.5 cents, up 103%

from 42.7 cents last year.

DILUTED EARNINGS PER SHARE

77.5 cents, up 79%

from 43.4 cents last year.

NET PROFIT BEFORE TAX

up 146%

to $765 million.

RETURN ON EQUITY

18.3%

of average shareholders' funds, up from 10.0% last year.

SHAREHOLDERS' FUNDS

up 12%

to $3,313 million.

GROUP OPERATING PERFORMANCE

INSURANCE PROFIT

$627M, up 54%

from $406 million last year.

INSURANCE PROFIT %

10.4%

as a percentage of net earned premium compared with 7.2% last year.

COMBINED OPERATING RATIO

93.8%

(97.7% last year) reflects the benefit of premium rate increases and improvements in policy terms and conditions. Our insurance divisions produced combined operating ratios in the range of 90.0% to 95.1%.

GROUP CASH FLOWS

$2,089M, up 38%

from $1,511 million last year.

GROSS WRITTEN PREMIUM

up 8%

to $8,350 million due to higher premium rates, higher retention of business and an increase in new business due to the acquisitions made in 2002. Growth in local currencies was partially offset by the effect of translation to the stronger Australian dollar.

NET EARNED PREMIUM

up 7%

to $6,036 million. Growth in local currencies was partially offset by the effect of translation to the stronger Australian dollar.

INCOME TAX EXPENSE

24.6%

of profit before tax. The increase from 10.6% last year reflects increased profits in higher tax paying countries and one-off benefits in 2002.

DIVISIONAL OPERATING PERFORMANCE

AUSTRALIAN GENERAL INSURANCE

recorded a combined operating ratio of 92.8% (97.1% last year) reflecting solid premium rate increases and improved insurance terms and conditions.

GROSS EARNED PREMIUM

up 18%

to $1,715 million.

ASIA-PACIFIC GENERAL INSURANCE

recorded a combined operating ratio of 90.0% (95.9% last year) reflecting management's focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions.

GROSS EARNED PREMIUM

down 9%

to $549 million due to the effect of translation to the stronger Australian dollar. Most operations achieved growth in local currencies.

THE AMERICAS

recorded a combined operating ratio of 93.1% (99.6% last year) due to higher premium rates and improved policy terms and conditions.

GROSS EARNED PREMIUM

up 42%

to $1,213 million. Growth of 67% was achieved in US dollars.

EUROPEAN COMPANY OPERATIONS

recorded a combined operating ratio of 94.7% (98.9% last year).

GROSS EARNED PREMIUM

up 9%

to $2,302 million due to further premium rate increases and new business opportunities resulting from the withdrawal of capacity in the market.

LLOYD'S DIVISION (TRADING AS LIMIT)

recorded a combined operating ratio of 95.1% (96.6% last year) due to continued focus on core products together with further premium rate increases and improved terms and conditions for most classes of business.

GROSS EARNED PREMIUM

down 7%

to $2,037 million. Growth of 2% in sterling was offset by the effect of translation to the stronger Australian dollar.

NET INVESTMENT INCOME

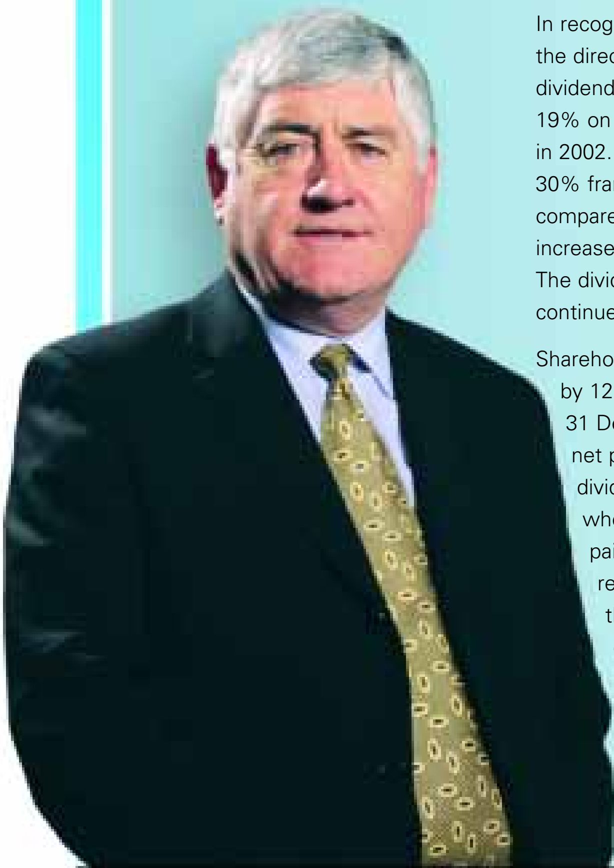
up 117%

to $393 million after borrowing costs, goodwill amortisation, foreign exchange gains and losses and investment expenses. Improved equity markets offset lower interest yields and the effect of translating overseas income to the stronger Australian dollar.

ALL AMOUNTS IN THIS REPORT ARE DENOMINATED IN AUSTRALIAN DOLLARS

CHAIRMAN'S REPORT

I AM EXTREMELY PLEASED TO REPORT A RECORD NET PROFIT AFTER TAX FOR THE 2003 FINANCIAL YEAR OF $572 MILLION, UP 105% ON THE PROFIT OF $279 MILLION FOR 2002. THE INCREASED PROFIT AROSE FROM OUTSTANDING RESULTS IN ALL OUR INSURANCE DIVISIONS AND IMPROVED EQUITY MARKETS.



JOHN CLONEY
Chairman

In recognition of the excellent result, the directors have declared a final dividend of 22.0 cents per share, up 19% on the final dividend of 18.5 cents in 2002. The final dividend will be 30% franked. The higher franking rate compared with prior years is due to increased taxation payments in Australia. The dividend reinvestment plans continue at a 2.5% discount.

Shareholders' funds have grown by 12% to $3,313 million at 31 December 2003, reflecting the net profit for the year and the dividend reinvestment programmes, whereby $133 million of dividends paid during the year were reinvested by shareholders, less the movement in the foreign currency translation reserve.

QBE's share performance has benefited from the increase in profit with an investment in QBE shares outperforming the Australian All Ordinaries Accumulation Index and inflation with a compound annual average growth of 34.8% for 2003, 14.2% over the last 5 years and 16.8% over the last 10 years.

The balance sheet and all key financial ratios, notably earnings per share, return on equity, debt to equity and solvency, are strong and improved during the year compared with 2002. QBE's capital is also well above the minimum benchmark. We calculate the Group's capital adequacy multiple at 31 December 2003 to be around 2.1 times the estimated minimum capital requirement. The increase in the capital adequacy multiple since 31 December 2002 is due to the increase in shareholders' funds, the strengthening of our tier 2 capital base, a lower capital charge due to the reduction in overseas assets and liabilities from the stronger Australian dollar and increased prudential margins in insurance liabilities. We have made a number of assumptions in applying the risk based capital approach of the

SHAREHOLDERS' HIGHLIGHTS

FOR THE YEAR TO 31 DECEMBER		2003	2002
Net profit after tax	$M	572	279
Basic earnings per share	cents	86.5	42.7
Diluted earnings per share	cents	77.5	43.4
Dividend payout	$M	281	213
Dividend per share	cents	42.0	35.0
Net tangible assets per share	$	4.17	3.96
Cash flows from operations	$M	2,089	1,511
Total investments and cash*	$M	11,823	11,504
Total assets	$M	20,478	20,635
Return on average shareholders' funds	%	18.3	10.0
Shareholders' funds	$M	3,313	2,954
Borrowings to shareholders' funds**	%	40.3	49.3
Capital adequacy multiple		2.1	1.6

* excludes ABC investments pledged for funds at Lloyd's
** excludes ABC securities for funds at Lloyd's

Australian Prudential Regulation Authority (APRA) for Australian licensed insurers to the Group, including that all capital instruments issued by the Group are treated as eligible capital. We note that APRA has not yet developed prudential standards for calculating consolidated capital adequacy requirements for non-operating holding companies.

The A+ financial strength rating of QBE's main insurance subsidiaries was reaffirmed by Standard & Poor's in February 2004. It is the intention of the directors to ensure that the financial strength of all QBE's operations around the world is retained at a high level, particularly to meet the criteria adopted by regulatory authorities, rating agencies and our business counterparties.

The board is strongly supportive of management's focus on staff development, succession planning and the provision of adequate rewards and incentives to retain quality personnel. Our staff incentive schemes are closely aligned to the future interests of our shareholders, with short and long term incentive schemes based on the achievement of financial targets, principally return on equity. The long term incentives for our senior executives incorporate share and option allocations as a reward for achieving past financial performance hurdles and are structured to encourage long term commitment to QBE. As mentioned at the 2003 Annual General Meeting (AGM), we measure net profit after tax for incentive schemes using the seven year spread basis of accounting, which spreads realised and unrealised gains on equities and properties over a period of seven years, thus normalising the effect of the peaks and troughs in the market value of our investments in any one year. Net profit after tax using the seven year spread basis was $507 million compared with $421 million last year.

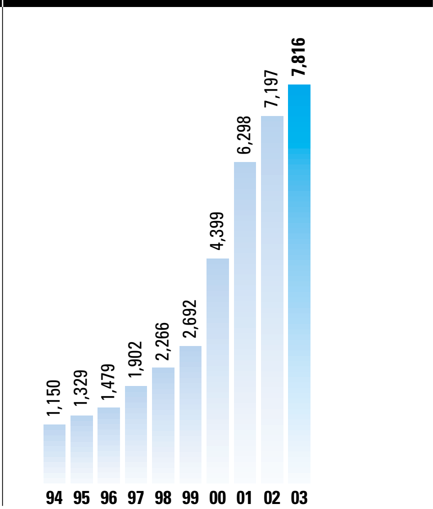
Capital management has been effective during the year with US$250 million of low cost, long term subordinated debt and US$550 million of contingent securities raised. The funds are being used to support growth in Australia, the USA and Europe, to provide additional capacity for our Lloyd's syndicates and to replace the majority of our bank letters of credit for our funds at Lloyd's. Lloyd's acceptance of our contingent securities to support our funds at Lloyd's, along with other reforms in the market, provides clear evidence that Lloyd's is taking active steps to reduce the high cost of capital requirements.

In 2002, the company raised US$471 million of hybrid securities (LYONs) which, at the directors' discretion at specified times and subject to certain conditions, may be converted into QBE shares or settled in cash or a combination of both. The current economic value of these securities strongly favours conversion into QBE shares at some time in the near future. Conversion will be aimed at supporting growth, potentially through acquisitions that are earnings per share accretive. The 2003 diluted earnings per share value in our financial statements includes the hybrid securities as if converted. Details of these securities are provided on page 64 of the annual report.

QBE maintains a robust corporate governance structure and risk management framework, details of which are included in this report. In recent years, there has been much discussion about corporate governance and risk management, particularly for companies in the financial sector. While management and the board continue to refine practices in this area, history has shown that QBE has maintained effective risk management and corporate governance systems. QBE has a strong risk management culture and transparent business practices, with an emphasis by

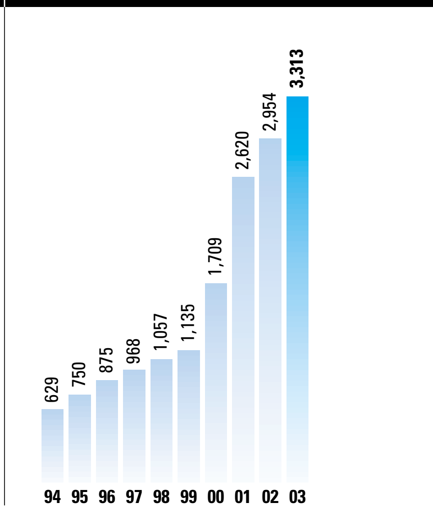
GROSS EARNED PREMIUM $M

$7,816M



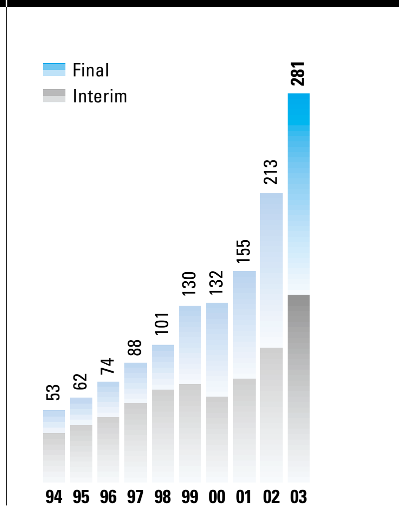
SHAREHOLDERS' FUNDS $M

$3,313M



DIVIDEND PAYOUT $M

$281M



our staff on the key value drivers of business acumen and integrity in our dealings with our customers and other stakeholders.

QBE notes there are many views of what constitutes "good corporate governance" and that rigidly following corporate governance rules is no guarantee of financial or other success. This is evidenced by some corporate failures where there were, on paper, good corporate governance practices in place. There are other equally important issues for QBE, such as the strength of our claims reserves, the quality of our reinsurers and the depth of our culture of integrity and business acumen. QBE's aim is to disclose as clearly and as objectively as possible its corporate governance standards and practices so that they can be readily understood by shareholders, policyholders and other stakeholders to allow them to form their own views on the standard of QBE's corporate governance. The Group's statement of corporate governance is set out on pages 5 to 13 of this report.

QBE's board and executive management are spending a considerable amount of their time on compliance and meeting the challenges of increased regulation and changing legislative requirements. Some of the changes forced upon our industry are of limited value to policyholders and shareholders, and are adding extensively to the cost of carrying on business. We expect the cost of regulatory supervision in many of our markets to continue to increase. The change to international financial reporting standards in 2005 and further regulatory reforms in Australia, the UK and other countries will also add to our costs in the coming years. Shareholders should be aware that the cost to QBE of meeting regulatory requirements around the world is now in excess of $50 million per annum, or close to 7% of the Group's pre-tax profit for 2003.

Although market conditions for equity and fixed interest investments and the insurance sector generally continue to show positive signs, we will maintain a careful watch on global economic conditions and closely monitor the various markets to reaffirm the effectiveness of our strategies. Throughout QBE, we place a great deal of emphasis on strategy, planning and risk management to better understand and reduce our risk profile and protect the interests of all our stakeholders. We support management's strategy to reduce our insurance risk to both aggregate exposure and claims frequency, and to maintain a low risk investment policy. Our extensive reinsurance protections assist us to reduce our risk profile.

The results for 2003 are very pleasing and I congratulate the chief executive officer for his contribution and thank all staff throughout the world for their commitment and efforts during the year. I particularly acknowledge the support of my fellow directors.

JOHN CLONEY
Chairman

TEN YEAR HISTORY

FOR THE YEAR TO 31 DECEMBER		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Gross written premium	$M	8,350	7,723	6,793	4,406	2,877	2,409	2,054	1,561	1,336	1,180
Gross earned premium	$M	7,816	7,197	6,298	4,399	2,692	2,266	1,902	1,479	1,329	1,150
Net earned premium	$M	6,036	5,642	4,634	3,456	2,204	1,914	1,609	1,204	1,105	966
Claims ratio	%	63.3	67.6	76.6	71.2	70.1	68.1	68.6	67.0	68.1	66.4
Commission ratio	%	18.2	17.7	20.2	18.3	19.9	18.3	17.1	17.3	17.8	18.9
Expense ratio	%	12.3	12.4	12.8	13.0	13.9	13.9	13.8	15.0	14.5	14.9
Combined operating ratio	%	93.8	97.7	109.6	102.5	103.9	100.3	99.5	99.3	100.4	100.2
Investment income											
before investment gains/losses	$M	283	332	331	248	187	160	142	128	118	105
after investment gains/losses	$M	393	181	344	308	241	163	162	181	180	17
Insurance profit (loss)	$M	627	406	(119)	186	56	147	116	101	88	72
Insurance profit (loss)/net earned premium	%	10.4	7.2	(2.6)	5.4	2.5	7.7	7.2	8.4	8.0	7.4
Operating profit (loss)											
before tax	$M	765	311	(99)	220	156	157	170	189	176	15
after tax and outside equity interests	$M	572	279	(25)	179	132	141	131	150	136	31
Number of shares on issue	millions	672	615	585	429	395	383	374	288	224	215
Shareholders' funds	$M	3,313	2,954	2,620	1,709	1,135	1,057	968	875	750	629
Total assets	$M	20,478	20,635	18,744	14,009	8,642	5,964	5,065	4,113	3,141	2,669
Basic earnings per share	cents	86.5	42.7	(10.5)	42.6	33.8	37.3	35.6	42.2	39.6	9.5
Diluted earnings per share	cents	77.5	43.4	(4.9)	40.7	33.8	37.3	35.6	42.2	39.6	9.5
Return on average shareholders' funds*	%	18.3	10.0	(1.1)	12.6	12.0	13.9	14.2	18.4	19.7	5.0
Dividend per share	cents	42.0	35.0	30.0	31.0	32.5	26.5	24.0	20.8	17.9	16.0
Dividend payout	$M	281	213	155	132	130	101	88	74	62	53

* includes convertible preference shares from 2000 to 2003 and hybrid securities issued in 2002

STATEMENT OF CORPORATE GOVERNANCE

QBE'S BOARD IS COMMITTED TO SOUND, PRACTICAL CORPORATE GOVERNANCE IN ORDER TO PROTECT SHAREHOLDERS' AND POLICYHOLDERS' INTERESTS.

The corporate governance framework implemented by QBE's board is based on a practical 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. The framework is established around a suitably qualified and dedicated team which is focused on managing with integrity the:

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

QBE continues to monitor corporate governance developments worldwide. The ASX Corporate Governance Council released its principles of good corporate governance on 31 March 2003 and the Council's Implementation Review Group is presently considering feedback. The Australian federal government's CLERP 9 legislation is currently before Parliament. This legislation includes various corporate governance matters and will be mandatory rather than the "comply or explain" system of the Council. QBE will continue to monitor its corporate governance practices and amend where appropriate.

This statement aims to disclose as clearly and as objectively as possible QBE's corporate governance standards and practices so that they can be readily understood by our shareholders, policyholders and other stakeholders. QBE will also continue to focus on other equally important issues such as the strength of our claims reserves, the quality of our reinsurers and the depth of our culture of integrity and business acumen.

BOARD OF DIRECTORS

JOHN CLONEY
ANZIIF, FAIM, FAICD
Chairman

LEN BLEASEL AM
FAIM, FAICD

CHARLES CURRAN AO
LLB, FCPA

THE HON NICK GREINER AC
BEc, MBA

Directors are selected to achieve a broad range of qualifications, skills and experience on the board complementary to the Group's activities. The experience and qualifications of individual directors are included on page 39. The board comprises eight directors being the chairman, six independent non-executive directors and the chief executive officer. The board regularly discusses its composition, including the nomination of potential members. All directors are members of the nomination committee and are involved in the selection of new board members. External consultants may be engaged where necessary in searching for prospective board members.

The chairman oversees the performance of the board, its committees and each director. The review procedure involves an annual assessment of each director comprising a combination of written questions and answers, covering areas such as role, procedures and practices and behaviours, followed by interviews. Individual assessments are confidential to the director concerned. The chairman reports the overall result to the board as a whole, at which time it is discussed by all directors. The review procedure is a precursor to other directors supporting, via the notice of meeting, a non-executive director for re-election at an AGM.

QBE's constitution requires that one third of the directors, excluding the chief executive officer, 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 at the next AGM. Directors appointed by the board are subject to re-election at the next AGM. Under QBE's constitution, there is no maximum fixed term or retirement age for non-executive directors.

The issue of independence of directors has received considerable attention in recent times. As a general guide, the board has agreed that a non-executive director's term should be approximately 10 years. Although Messrs Curran and Greiner have been non-executive directors for more than 10 years, the other directors believe that both remain independent of management and continue to demonstrate independent judgement in decision making. The board considers that a mandatory limit on tenure would deprive the Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. Similarly, the chairman's former executive capacity with QBE has been fully disclosed to shareholders. The chairman ceased to be managing director in January 1998. The chairman was re-elected as a director by an overwhelming majority at the 2003 AGM. The other QBE directors consider it to be in shareholders' and policyholders' interests to retain the

BELINDA HUTCHINSON
BEc, FCA

CHARLES IRBY
FCA (England & Wales)

IRENE LEE
BA Barrister-at-Law

FRANK O'HALLORAN
FCA
Chief executive officer

chairman's first hand wealth of experience and have resolved that he should continue in that role. With over 45 years involvement at many levels, the chairman has extensive knowledge of the insurance industry.

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, receive documents or take part in board discussions whilst the matter is being considered.

Under QBE's constitution, management of the Group is vested in the board. In particular, the board:

> oversees corporate governance;
> selects and supervises the chief executive officer;
> provides direction to management;
> approves the strategies and major policies of the Group;
> monitors the achievement of strategies and policies;
> monitors performance against plan;
> considers regulatory compliance; and
> reviews human, IT and other resources.

The board ensures it has the information it requires to be effective including, where necessary, external professional advice; the board has requested such advice. A non-executive director may seek such advice at the company's cost with the consent of the chairman. All directors would receive a copy of such advice. Non-executive directors may attend relevant external training courses at QBE'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. The board receives updated forecasts during the year. Visits by non-executive directors to the Group's offices in key locations are encouraged. To assist the board to maintain its understanding of the business and to effectively assess management, directors have regular presentations by the managing directors and other senior managers 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 various forums during the year. The board meets regularly in Australia and once a year overseas. Each meeting normally considers reports from the chief executive officer and chief financial officer together with other relevant reports. The board regularly meets in the absence of management. The chairman and chief executive officer, and board members in general, have substantial contact outside board and committee meetings.

COMMITTEES OF THE BOARD

THE BOARD IS SUPPORTED BY SEVERAL COMMITTEES WHICH MEET REGULARLY TO CONSIDER THE AUDIT PROCESS, INVESTMENTS, REMUNERATION AND OTHER MATTERS.

The main committees of the board are the audit committee, the investment committee and the remuneration committee. These committees operate under a written charter approved by the board. Any director may attend a committee meeting. The committees have direct and unlimited access to QBE's senior managers during their meetings and may consult external advisers when necessary at QBE's cost, including requiring their attendance at committee meetings. Committee membership is reviewed regularly. 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, including 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 45. The committee chairman provides a report on the committee's last meeting to the next board meeting. The company secretary acts as secretary to all committees.

Audit committee

The membership of the audit committee may only comprise non-executive directors. The audit committee normally meets four times a year. The chairman must be a non-executive director who is not the chairman of the board.

The current members are The Hon NF Greiner AC (chairman), Mr LF Bleasel AM, Ms BJ Hutchinson and Ms IYL Lee.

The role of the audit committee is to oversee the integrity of QBE's financial reporting process. This includes review of:

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

The audit committee's responsibilities include the financial statements (including items such as claims reserves, reinsurance recoveries and income tax), external and internal audit, risk management, internal controls, compliance other than regulatory compliance, significant changes in accounting policies and the committee's performance.

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 financial reports. Meetings of the audit committee can include, by invitation, the chief executive officer, the chief financial officer, the chief risk officer, the Group internal audit manager, the external auditor and the Group actuary. On occasions, other relevant senior managers also attend.

The audit committee has direct and unlimited access to the external auditor. The external auditor, the Group internal audit manager and the Group actuary have direct and unlimited access to the committee and a reporting line to the chairman of the audit committee.

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. In accordance with their own policy, the lead engagement partner of the external auditor will rotate in 2004.

The audit committee has contact with the external auditor in the absence of management in relation to the 30 June and 31 December financial reports and otherwise as required. The external auditor meets with the 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 the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, they cannot act in a management capacity, as a custodian of assets or as share registrar. The board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. QBE may engage the external auditor for non-audit services subject to the general principle that 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 must be 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. Meetings of the investment committee can include, by invitation, the Group general manager, investments and the chief financial officer.

The role of the investment committee is to oversee QBE's investment activities. This includes review of:

> investment objectives and strategy;
> investment risk management;
> currency, equity and fixed interest exposure limits;
> credit exposure limits with financial counterparties; and
> Group treasury.

The investment committee's responsibilities include review of economic and investment conditions as they relate to QBE, approval of management's investment strategy and review of investment performance including QBE's defined benefit superannuation funds.

Remuneration committee

The membership of the remuneration committee may only comprise non-executive directors and it normally meets three to four times a year. The chairman must be 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 can include, by invitation, the chief executive officer and the Group general manager, human resources.

The role of the remuneration committee is to oversee QBE's general remuneration practices. The remuneration committee's responsibilities include:

> approval of the total employment cost of the Group executive;
> short and long term incentives such as equity based plans;
> superannuation;
> performance measurement criteria and other major human resource practices;
> personal development plans for the Group executive and other senior positions; and
> recommendations on non-executive director remuneration.

QBE operates in 38 countries with differing laws and customs. QBE's remuneration policy needs to reflect the fact that we are a global organisation whilst also taking into account local remuneration levels and practices.

Details of employee remuneration are included in the QBE people report on page 20 and in note 20 of the financial statements.

Details of remuneration of non-executive directors are included in the directors' report on pages 43 to 45 and in note 20 of the financial statements.

RISK MANAGEMENT

QBE'S CORE BUSINESS IS THE UNDERWRITING OF RISK. THE GROUP'S SUCCESSFUL PERFORMANCE OVER MANY YEARS CLEARLY ESTABLISHES ITS SUBSTANTIAL RISK MANAGEMENT CREDENTIALS.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the 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 under the control of proven employees skilled in such products allows QBE to lead underwrite in many of the markets in which we operate. Geographic diversification is achieved by operating in 38 countries.

QBE has in place a global risk management framework that defines the risks that QBE is in business to accept and those that we are not, together with the key risks that QBE needs to manage and the framework and high level controls that are required to manage those risks.

The foundation of our risk management framework is the obligation and desire to manage our future and create wealth for our shareholders by maximising profitable opportunities through:

- adequate pricing of risk;
- avoiding unwelcome surprises by reducing uncertainty and volatility, such as by controlling aggregate exposures and maintaining sound reinsurance arrangements;
- optimising risk and more effectively allocating capital and resources by assessing the balance of risk and reward;
- achieving competitive advantage through better understanding of the risk environment in which we operate;
- compliance with laws and internal procedures; and
- improving resilience to external events.

The Group has established internal controls to manage risk in the key areas of exposure relevant to its business. The broad risk categories are insurance risk, acquisition risk, funds management and treasury risk and operational risk. 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 foreign exchange exposures are within predetermined guidelines. The board has approved a comprehensive risk management strategy (RMS) and reinsurance management strategy (REMS) both of which have been lodged with APRA. The RMS deals with all areas of significant business risk to the Group. The REMS covers topics such as the Group's risk tolerance and the Group's strategy in respect of the selection, approval and monitoring of all reinsurance arrangements. The Group reinsurance security committee and the Limit reinsurance security committee assess reinsurer counterparty security. These management committees normally meet four times a year and hold special meetings as required.

While the RMS and REMS are approved by the board, QBE believes that managing risk is the responsibility of the business units and that all staff need to understand and actively manage risk. The business units are supported by compliance teams and by Group senior management.

Internal audit

A global internal audit function is critical to the risk management process. QBE's internal audit function reports to senior management and the audit committee on the monitoring of the Group's worldwide operations. Internal audit provides assurance that the design and operation of the controls across the Group are effective. The internal audit function operates under a written charter from the audit committee. Other governing documents include a reporting protocol, internal audit manual, internal audit rating system, internal audit opinion levels and internal audit timetables. A risk based internal audit approach is used so that higher risk activities are reviewed regularly. The Group's internal audit teams work together with the external auditor to provide a wide audit scope.

Delegated authorities

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

Actuarial review

It is a longstanding practice of the directors to ensure that almost all of the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims liabilities are reviewed by experienced internal actuarial staff. The Group actuary is based in head office and there are over 60 actuarial staff worldwide who are involved in forming their own view, separate from management, of outstanding claims liabilities, premium liabilities, premium rates and related matters. Over 90% of QBE's outstanding claims liabilities are also reviewed by external actuaries at least annually. The external actuaries are from organisations which are not associated with the external auditor.

Insurance and other regulation

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

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

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

COMMUNICATION AND GUIDELINES

QBE TAKES THE SPIRIT OF ITS CONTINUOUS DISCLOSURE OBLIGATIONS VERY SERIOUSLY AND ISSUES FREQUENT MARKET ANNOUNCEMENTS DURING THE YEAR TO SATISFY THOSE OBLIGATIONS.

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. Procedures are in place so that items which potentially require announcement to the ASX are promptly notified to head office for assessment and, if required, released. The chief executive officer is responsible for authorising the release of market announcements. All market announcements are posted promptly to the Group's website, www.qbe.com.

Communication with shareholders

QBE distributes an annual report to all shareholders except those who elect not to receive it. QBE also produces a half year report, with a summary sent to all shareholders except those who elect not to receive it. Both reports are available on the QBE website. The website also contains historical and other details on the Group. Shareholders can discuss their shareholding with either the shareholder services department or the share registrar, both in Sydney.

The AGM is usually held in Sydney in April each year and shareholders are encouraged to attend in person or by proxy. Most resolutions in the notice of meeting have explanatory notes. During the AGM, shareholders may ask questions of either the chairman or the external auditor.

Communications with analysts, investors, media and others

The chief executive officer, chief financial officer and chief risk officer generally deal with analysts, investors, media and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the Group's website. The 30 June and 31 December presentations are generally webcast and they are also available on QBE's website shortly afterwards. Managing directors of QBE's operating divisions and other senior employees may have contact with analysts, investors, media and others as required.

Share trading guidelines

The company has guidelines for the purchase and 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 the issue of any prospectus until the closing date. Any QBE share dealings by directors are promptly notified to the ASX.

Other Group guidelines

The Group has adopted a code of conduct which forms the basis for the manner in which employees 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, outside suppliers, intermediaries and the community at large. The code also deals with confidentiality, conflict of interest, "whistle-blowing" and related matters.

There are other Group policies covering anti-discrimination, employment, harassment, essential behaviours, health and safety and many other business practices. These policies are underpinned by the Group's vision and values statements. The vision and values statements form part of the induction information given to 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 conduct in carrying out their work.

QBE has adopted the General Insurance Code of Practice, 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, another self-regulated code developed by the ICA.

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

Details of indemnification and insurance arrangements are included in the directors' report on page 42.

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.

CHIEF EXECUTIVE OFFICER'S REPORT

I AM PLEASED TO REPORT THAT QBE HAS EXCEEDED ITS 2003 FINANCIAL TARGET WITH A 105% INCREASE IN NET PROFIT AFTER TAX TO $572 MILLION.

THIS HEALTHY INCREASE IN PROFIT WAS ACHIEVED DESPITE THE NEGATIVE IMPACT OF THE SUBSTANTIALLY STRONGER AUSTRALIAN DOLLAR, PARTICULARLY AGAINST THE US DOLLAR AND STERLING, AND AFTER INCREASING THE LEVEL OF PRUDENTIAL MARGINS INCLUDED IN OUTSTANDING CLAIMS PROVISIONS. IT IS ALSO VERY SATISFYING THAT ALL INSURANCE DIVISIONS PRODUCED IMPROVED UNDERWRITING AND INSURANCE PROFITS.

FRANK O'HALLORAN
Chief executive officer

QBE Insurance Group 2003 Australian Exporter of the Year

QBE Insurance Group Export Finance and Insurance Corporation Services Award

The profit of $572 million includes net realised and unrealised gains on investments of $86 million after tax compared with losses of $110 million after tax last year.

The impact of the stronger Australian dollar on gross and net earned premium, profit after tax and assets and liabilities was significant. More detail of the impact is set out on page 17.

In 2003, premium rate increases continued for most classes of business and the significant improvement in policy terms and conditions achieved in 2002 was maintained. These factors, together with actions taken in prior years to reduce the risk profile of the Group, resulted in a lower frequency of claims, large losses and catastrophes for QBE's businesses. The insurance profit to net earned premium ratio improved from 7.2% to 10.4%.

Cash flow from operations was again very strong at $2,089 million compared with $1,511 million last year.

Income tax expense increased from 10.6% to 24.6% of profit before tax, primarily as a result of increased profits in higher tax paying countries and the one-off benefits included in the 2002 income tax charge.

During the past year, we have initiated or completed many profit enhancing initiatives. In particular, we:

- integrated the acquisitions of the direct personal lines business of Zurich in Australia and the renewal of the commercial lines business of Gerling Australia, and acquired the Ensign commercial motor insurance business in the United Kingdom;
- acquired additional capacity in QBE managed Lloyd's syndicate 386 to give QBE 54.6% of the estimated $1,400 million of premium expected to be written by that syndicate in 2004;
- continued to achieve higher than expected premium rate increases for most products in our insurance and reinsurance businesses around the world;
- achieved organic growth exceeding our budget expectation, particularly in Australia, the Americas and European company operations; and
- further reduced our inward reinsurance business from 28% of gross written premium last year to 27%, despite generally higher premium rate increases for treaty reinsurance business.

Insurance profitability

Insurance profit increased from $406 million last year to $627 million. Insurance profit comprises the underwriting result plus investment income on policyholders' funds. The substantial improvement in the underwriting result was partially offset by lower yields on investments set aside to meet insurance liabilities. The Group's combined operating ratio (the total of claims, commissions and expenses as a percentage of net earned premium) was 93.8% compared with 97.7% last year. All five insurance divisions produced improved underwriting profits and most of our products around the world were profitable. As a percentage of average shareholders' funds, insurance profit increased from 14.6% last year to 20.0%.

The substantial cash flow from operations of $2,089 million for the year resulted from higher premium rates and improved claims experience. Net invested funds set aside to meet insurance liabilities increased by $441 million, despite the impact of the stronger Australian dollar on funds invested in other currencies. Cash flow from operations and acquisitions has been considerable over the past five years, with over $5.4 billion added to the investment portfolio.

Gross written premium increased 8% to $8,350 million despite the stronger Australian dollar, which reduced reported growth by 9%. The strong premium growth was due to higher premium rates, higher retention of business and an increase in new business due to the

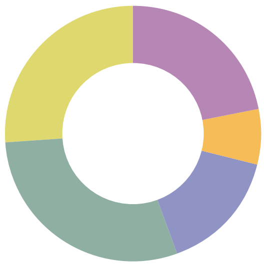
WORLDWIDE PORTFOLIO MIX

GROSS EARNED PREMIUM

- Marine and aviation 8.2% (10.3%)
- Accident and health 5.7% (6.0%)
- Property 29.1% (28.2%)
- Motor and motor casualty 9.6% (10.8%)
- Financial and credit 3.3% (2.9%)
- Liability 15.9% (13.4%)
- Professional indemnity 9.2% (9.1%)
- Workers' compensation 9.2% (9.2%)
- Catastrophe 3.3% (3.3%)
- Other 6.5% (6.8%)

GEOGRAPHIC SEGMENTS

GROSS EARNED PREMIUM



- Australia 21.9% (20.1%)
- Asia-Pacific 7.0% (8.4%)
- the Americas 15.5% (11.9%)
- European company operations 29.5% (29.2%)
- Lloyd's division 26.1% (30.4%)

acquisitions made in 2002. A large proportion of the premium rate increases achieved in 2003 are not yet earned and are included in unearned premium at 31 December 2003. The benefit of these premium rate increases will be recognised in the results in 2004 and later years. QBE's offshore businesses now contribute 78% of the Group's gross earned premium.

Net earned premium increased 7% to $6,036 million. The stronger Australian dollar in 2003 reduced reported growth by 9%. The Group's reinsurance cost as a percentage of gross earned premium increased from 22% to 23%. The cost is slightly higher than targeted, mainly because of proportional reinsurance treaties with overriding commissions purchased on new business written in the US and additional reinsurance covers purchased to reduce our retention from a major catastrophe. Premium rate increases on business written during the year were higher than the increase in the cost of reinsurance protections. QBE's net exposure to major catastrophes has been substantially reduced with the 2003 maximum retention from the largest modelled catastrophe event being 23% lower than 2002. QBE's reinsurers again earned a significant profit from the business we placed with them in 2003.

Gross claims incurred as a percentage of gross earned premium decreased from 65.1% to 61.7%. The reduction in the claims ratio reflects higher premium rates and lower claims frequency from improved policy terms and conditions partially offset by an increase in prudential margins in outstanding claims. The net claims ratio decreased from 67.6% to 63.3%.

The commission ratio increased from 17.7% to 18.2%, reflecting a change in mix of business and higher profit commissions paid on agency business due to improved underwriting profitability.

The Group's expense ratio improved from 12.4% to 12.3% as a result of synergies from acquisitions and higher premium rates. The improvement in the expense ratio is after a further increase in the cost of short and long term staff incentives for improved insurance results, higher contributions to superannuation funds, new systems costs and the substantially increased cost of corporate governance and regulatory requirements.

Investment income

Investment income, which is net of borrowing costs, foreign exchange gains and losses, goodwill amortisation and investment expenses, increased from $181 million to $393 million. The improvement in equity markets was partly offset by reduced investment income due to the lower interest rate environment prevailing in 2003 and the stronger Australian dollar. Net investment income before realised and unrealised gains on investments was $283 million compared with $332 million last year. Lower interest yields and the stronger Australian dollar also offset additional income achieved due to the strong cash flow during the year. The gross investment yield was 4.6% compared with 2.5% last year. We continued to reduce the maturity profile of our fixed interest investments in anticipation of rising interest rates in late 2003 and into 2004. We also continued our policy of investing in high rated fixed interest securities and growth and value equities. Our weighting in listed equities increased during the year from 7.9% to 10.5% of total investments and cash at 31 December 2003. The increase occurred mainly in US equities.

Impact of the stronger Australian dollar

We mentioned at regular intervals during 2003 that the stronger Australian dollar would have a negative impact on profit after tax. During 2003, the Australian dollar rose 25% against the US dollar and 17% against sterling.

The impact on 2003 operating profit, premium income and assets and liabilities is set out on the following page.

QBE has a policy of matching insurance liabilities with assets of the same currency. Where practicable, we also manage overseas shareholders' funds back into Australian dollars by holding offshore borrowings and offshore Australian dollar assets or by using currency hedges. This policy has resulted in shareholders' funds being largely protected from the impact of the stronger Australian dollar.

Reinsurance recoveries

Reinsurance recoveries on outstanding claims decreased from $3,666 million at 31 December 2002 to $2,885 million or from 18% of total assets to 14%. We continue to maintain strict controls over our exposure to reinsurer counterparties and are confident that our provision for doubtful debt recoveries of $161 million is adequate. We successfully negotiated a number of commutations with reinsurers during the year.

Going forward

> Based on current exchange rates, we expect our gross written premium to grow by 10% in 2004 to $9.2 billion and our net earned premium to grow by 12.5% to $6.8 billion. Growth is expected to be achieved through a small overall increase in premium rates, new opportunities, continued high retention of customers and the impact of acquisitions in 2003. We slightly exceeded our expectation on overall premium rate increases, customer retention and new business at the major renewal date of 1 January 2004. We are also targeting growth of 10% beyond 2004, although this will depend on the Australian dollar not strengthening further, achieving acquisitions and maintaining overall premium rate increases at least sufficient to cover claims inflation.

IMPACT OF STRONGER AUSTRALIAN DOLLAR

	2003 ACTUAL $M	2003 AT 2002 EXCHANGE RATES $M	EXCHANGE RATE IMPACT %
Gross earned premium	7,816	8,622	9
Net earned premium	6,036	6,606	9
Net investment income	393	425	8
Profit after tax	572	621	8
Total investments and cash	11,823	14,065	16
Total assets	20,478	24,299	16
Gross outstanding claims	10,480	12,590	17
Total liabilities	17,110	20,765	18

KEY RATIOS — GROUP

		HALF YEAR TO 30 JUNE 2003	HALF YEAR TO 31 DEC 2003	FULL YEAR TO 31 DEC 2003	HALF YEAR TO 30 JUNE 2002	HALF YEAR TO 31 DEC 2002	FULL YEAR TO 31 DEC 2002
Gross written premium	$M	4,821	3,529	8,350	4,332	3,391	7,723
Gross earned premium	$M	3,882	3,934	7,816	3,470	3,727	7,197
Net earned premium	$M	3,083	2,953	6,036	2,679	2,963	5,642
Claims ratio	%	65.1	61.4	63.3	68.4	66.9	67.6
Commission ratio	%	18.7	17.7	18.2	18.2	17.2	17.7
Expense ratio	%	12.2	12.4	12.3	12.4	12.4	12.4
Combined operating ratio	%	96.0	91.5	93.8	99.0	96.5	97.7

CONTRIBUTIONS BY REGION

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		NET PROFIT AFTER TAX		COMBINED OPERATING RATIO	
FOR THE YEAR TO 31 DECEMBER	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M	2003 %	2002 %
Australian general insurance	1,869	1,578	1,425	1,221	180	103	92.8	97.1
Asia-Pacific general insurance	542	629	430	441	38	18	90.0	95.9
the Americas	1,342	991	740	672	46	14	93.1	99.6
European company operations	2,441	2,249	1,908	1,731	168	76	94.7	98.9
Lloyd's division	2,156	2,276	1,533	1,577	140	68	95.1	96.6
Group	8,350	7,723	6,036	5,642	572	279	93.8	97.7
General insurance	6,059	5,549	4,265	4,115	392	212	92.4	96.9
Inward reinsurance	2,291	2,174	1,771	1,527	180	67	97.2	99.9
Group	8,350	7,723	6,036	5,642	572	279	93.8	97.7

GROUP FINANCIAL HIGHLIGHTS

FOR THE YEAR TO 31 DECEMBER	2003 %	2002 %	2001 %	2000 %	1999 %	1998 %
Premium growth						
– gross written	8.1	13.7	54.2	53.1	19.4	17.3
– net earned	7.0	21.8	34.1	56.8	15.1	19.0
Reinsurance ceded to gross written premium	21.7	21.1	26.8	21.6	16.9	15.6
Net written premium to gross written premium	78.3	78.9	73.2	78.4	83.1	84.4
Insurance profit (loss) to net earned premium	10.4	7.2	(2.6)	5.4	2.5	7.7
Insurance profit (loss) to shareholders' funds*	20.0	14.6	(5.5)	13.1	5.1	14.5

* average shareholders' funds at net market value

- We continue to reduce the risk profile of our insurance and reinsurance operations through portfolio management, improved aggregate management and the purchase of additional reinsurance protections for large catastrophes. Our 2003 net retention from our largest realistic disaster scenario has reduced by 23% compared with 2002 and this will reduce further in 2004, partly due to the stronger Australian dollar. We significantly reduced our exposure to terrorism in 2002 and we continue to maintain a policy of only offering terrorism cover where we have matching reinsurance or the exposures are deemed minimal.
- We expect our reinsurance expense ratio to decrease slightly in 2004 to 21% of gross earned premium, subject to our prudent approach to managing the risk profile of new portfolios and opportunities that may be available to reduce the Group's retention on major catastrophes. We have already placed a large portion of our 2004 reinsurance protections at terms slightly better than planned and with no increase in the Group's retentions for any one risk or event.
- We regularly analyse our claims ratio between attritional losses, large losses and catastrophes. Our 2004 business plans include an allowance for large losses and catastrophes that substantially exceeds the amounts incurred in each of the past six years.
- We are targeting a gross investment yield of 4% for 2004. We expect slightly improved interest yields in 2004 and an improvement in stock markets, although not as significant as the improvements seen in 2003. At our current level of equity investments, a 1% improvement in equity markets impacts profit after tax by approximately $9 million.
- Based on current exchange rates, net invested funds are expected to exceed $12 billion by 31 December 2004 as a result of the expected strong cash flow and other initiatives.
- We expect income tax expense to be relatively unchanged at 25% of pre-tax profit.
- We will continue to focus on the personal and technical development of our senior people to ensure continuity of management and to maintain our very low senior staff turnover. This development will include enhancement of the QBE Manager Programme, which has been invaluable in maintaining the QBE approach to integrity, leadership and business acumen in our operations around the world.

We are confident of maintaining an insurance profit of 10.0% to 11.0% and increasing net profit after tax by 10% in 2004 subject to:

- no material movement in current exchange rates;
- large losses and catastrophes not exceeding the significant allowance made in our business plans; and
- no major fall in equity markets or interest rates.

Summary

The continuation of the consolidation that has occurred in the insurance and reinsurance industries around the world, together with the reduction in capacity as a result of a number of failures and withdrawals in many markets, would suggest that the current positive environment will last longer than any previous insurance cycle. The positive market conditions are being assisted by the closer attention of investors, investment analysts, regulators and rating agencies.

In 2003, QBE further increased the prudential margins held in its outstanding claims provisions. Group prudential margins substantially exceed the 75% probability of adequacy required by APRA for our Australian licensed insurers. QBE has a relatively limited exposure to asbestos related claims and our provisions are maintained at conservative levels. QBE's survival ratio for asbestos related claims, measured as the ratio of net provisions held to the average of the past three years' net claims paid, is over 24 times. QBE has minimal exposure to asbestos related claims in the US and UK.

The additional funds invested by our shareholders in the past three years, together with the increase in long term debt, have enabled QBE to substantially increase its premium income and profitability at the right time in the insurance cycle. The 2003 result and our positive outlook have been achieved through the very disciplined and professional approach of our 6,700 plus staff worldwide. We will continue our focus on creating further wealth for our shareholders from our many excellent businesses around the world.

Peter Smith, QBE's Group personnel manager for the past 20 years, has retired and been replaced by Jenni Smith. I thank Peter for his enormous contribution to the Group over so many years, and welcome Jenni to this important Group executive role.

We have many highly skilled and experienced people in key roles throughout the Group. We have been successful in integrating these various skills, which include underwriting, claims, finance, actuarial, information technology, administration and management. We also have a number of employees who are capable of filling senior roles as they arise in the Group.

I extend my sincere appreciation to all my fellow employees for their loyal support and significant contribution over the past year and to our directors for the support they have provided on the many initiatives that we have taken in the past year. I look forward to working with them to achieve the financial targets for 2004 and to build an even stronger QBE going forward.

FRANK O'HALLORAN
Chief executive officer

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 and retain employees
> to retain quality customers

2003 FINANCIAL PERFORMANCE

TARGET	ACTUAL
> achieve an insurance margin of 7.0% to 8.0%	> insurance margin 10.4%
> increase profit after tax by more than 75%	> profit after tax increased 105%
> achieve a return on equity in excess of 1.5 times the weighted average cost of capital	> return on equity exceeded target at 18.3%
> gross written premium growth of 10%	> gross written premium increased 8%
> net earned premium growth of 13%	> net earned premium increased 7%
> reinsurance expense ratio of 22%	> reinsurance expense ratio 23%
> maintain expense ratio of 12.5% or less	> expense ratio 12.3%
> tax rate of 22%	> tax rate 24.6%
> maintain capital adequacy multiple of around 1.5 times APRA's minimum requirement	> capital adequacy multiple around 2.1 times the minimum capital requirement
> gross investment yield of 4%	> gross investment yield 4.6%

2003 OPERATIONAL PERFORMANCE

TARGET	ACTUAL
> achieve average premium rate increases in excess of 10%	> average premium rate increases in excess of 10% achieved
> increase customer retention	> customer retention increased
> further reduce risk profile of insurance business, including reduction of inward treaty reinsurance business as a percentage of overall premium	> risk profile of insurance business reduced, including reduction of inward treaty reinsurance business as a percentage of overall premium and reduction of maximum event retention
> achieve above benchmark investment returns	> outperformed overall benchmark investment returns
> continue promotion of QBE Manager Programme	> Programme run in seven countries in 2003

2004 PERFORMANCE

FINANCIAL TARGETS*	PERFORMANCE GOALS
> achieve an insurance margin of 10.0% to 11.0%	> achieve overall premium rate increases at least equal to claims inflation
> increase profit after tax and diluted earnings per share by more than 10%	> further increase customer retention
> achieve a return on equity in excess of 1.5 times the weighted average cost of capital	> further reduce risk profile of insurance business
> gross written premium growth of 10%	> achieve gross investment yield target with a low risk investment strategy
> net earned premium growth of 12.5%	> continue promotion of QBE Manager Programme
> reinsurance expense ratio of 21%	
> maintain expense ratio of 12.4% or less	
> tax rate of 25%	
> maintain Group capital adequacy multiple of more than 1.5 times APRA's minimum requirement for Australian licensed insurers	
> gross investment yield of 4%	

* targets assume no material movement in current exchange rates; large losses and catastrophes not exceeding the significant allowance in our business plans; and no major fall in equity markets or interest rates

QBE PEOPLE

QBE RECOGNISES THAT ITS PEOPLE ARE CRITICAL TO SUCCESSFULLY DELIVERING ITS BUSINESS STRATEGY AND PLANS.

DUNCAN RAMSAY
Group general counsel and company secretary

GAYLE TOLLIFSON
Chief risk officer

NEIL DRABSCH
Chief financial officer

PETER GROVE
Underwriting director, Limit Underwriting Limited

JENNI SMITH
Group general manager, human resources

QBE's intellectual capital, represented by its quality employees throughout the Group, has grown considerably over the past years due to acquisitions and other initiatives, with the number of staff increasing from around 4,600 in 2000 to around 6,700 in 2003.

The Group is committed to the development, retention and motivation of all its employees.

QBE has developed a culture based on utmost integrity, sound business acumen and strong leadership supported by active corporate guidelines, disciplined risk management practices and a "can do" approach to business.

QBE has a preference to grow its own talent, based on realistic objectives and leveraging off the experience of our highly professional teams throughout the world. We have in place, and are regularly enhancing, development programmes to provide an opportunity for employees to realise their full potential. Underpinning our strategy for retaining and developing quality people is the QBE Manager Programme and the nine essential management behaviours (OPENUPQBE) which have been described in previous annual reports. This programme has been actively implemented throughout the Group and forms the basis of our business acumen and leadership criteria which, together with a culture of high performance and integrity, provide a common framework. It has also assisted the integration of the many diverse teams who have joined QBE. The essential behaviours form the basis of our regular review of the performance and development of our people.

The Group regularly considers surveys and takes external advice to ensure that employee remuneration and benefits reflect market terms and conditions.

When determining the remuneration of its employees, QBE tries to ensure that:

- remuneration is set at market levels;
- incentives are designed to align employees' interests to those of shareholders;
- individual entitlements reward the actual achievement of predetermined objectives, both financial and non financial;
- an appropriate balance exists between salary and incentives to encourage employees to meet their objectives entitling them to their incentives; and
- a significant component of our senior executives' remuneration comprises deferred incentives to encourage a long term commitment to the Group.

QBE also takes into account the impact and cost of replacing employees and the global competition for our skilled resources.

The salary packages of many of our employees have at risk a cash profit share incentive (PSI) as a short term incentive. This incentive is subject to the achievement of financial performance hurdles, principally return on equity. Additionally, some senior executives are entitled to a longer term incentive if they have already qualified for their short term incentives by achieving their past financial targets. The incentive is made up of conditional rights over shares and options, exercisable over three years, or five years for 2004 option allocations, under the Senior Executive Equity Scheme ("the SEES"). Details of the SEES are set out in note 18 of the financial statements on page 65.

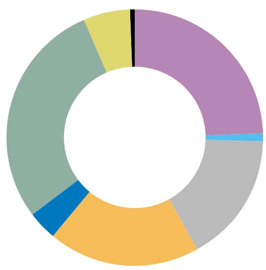
Also important to our employee motivation is the Employee Share and Option Plan ("the Plan") which has been in place since 1981. The success of the Plan is demonstrated by the fact that over 60% of our employees at all levels throughout the organisation hold shares in QBE.

QBE has in place a company-wide communications strategy with its employees around the world. This strategy is designed to both formally and informally provide regular information on Group results, new initiatives and developments at Group and country level. Our strategy is to ensure that all members of the QBE team have pride in, and feel part of, the growth and success of the Group.

We aim to provide our employees with a safe working environment and opportunities to grow and benefit from the experience and success of the Group.

QBE recognises the importance of effectively aligning employees' performance and reward to the continuing success of the Group and its key objective of consistent increase in shareholder wealth.

STAFF NUMBERS



- Australian general insurance 1,653
- Group head office 70
- QBE Mercantile Mutual joint venture 1,105
- Asia-Pacific general insurance 1,288
- the Americas 252
- European company operations 1,942
- Lloyd's division 395
- Investments 41

SUMMARY OF WORLDWIDE OPERATIONS

BUSINESS	PERFORMANCE

AUSTRALIAN GENERAL INSURANCE

- general insurance operations throughout Australia
- provides all major lines of insurance cover for personal and commercial risks

		2003	2002
Gross written premium	$M	1,869	1,578
Gross earned premium	$M	1,715	1,448
Net earned premium	$M	1,425	1,221
Combined operating ratio	%	92.8	97.1
Staff numbers			
– excluding Group head office and joint venture		1,653	1,528
– QBE Mercantile Mutual joint venture		1,105	1,121

ASIA-PACIFIC GENERAL INSURANCE

- 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

		2003	2002
Gross written premium	$M	542	629
Gross earned premium	$M	549	602
Net earned premium	$M	430	441
Combined operating ratio	%	90.0	95.9
Staff numbers		1,288	1,316

THE AMERICAS

- reinsurance and general insurance business in the Americas
- based in New York with offices in North, Central and South America and Bermuda

		2003	2002
Gross written premium	$M	1,342	991
Gross earned premium	$M	1,213	856
Net earned premium	$M	740	672
Combined operating ratio	%	93.1	99.6
Staff numbers		252	218

EUROPEAN COMPANY OPERATIONS

- product focused commercial insurance and reinsurance operations in London, Dublin and Paris
- general insurance operations in six countries in Central and Eastern Europe

		2003	2002
Gross written premium	$M	2,441	2,249
Gross earned premium	$M	2,302	2,103
Net earned premium	$M	1,908	1,731
Combined operating ratio	%	94.7	98.9
Staff numbers		1,942	2,529

LLOYD'S DIVISION (TRADING AS LIMIT)

- product focused commercial insurance and reinsurance business in the Lloyd's market
- largest managing agent at Lloyd's with over 7.5% share of total market capacity in 2004
- manages three active syndicates structured into five trading divisions

		2003	2002
Gross written premium	$M	2,156	2,276
Gross earned premium	$M	2,037	2,188
Net earned premium	$M	1,533	1,577
Combined operating ratio	%	95.1	96.6
Staff numbers		395	345

INVESTMENTS

- management of the Group's investment funds
- funds are predominantly managed in-house

		2003	2002
Net investment income	$M	393	181
Net income before investment gains and losses	$M	283	332
Net investment (losses) gains on fixed income securities	$M	(53)	50
Net investment gains (losses) on equities and properties	$M	163	(201)
Staff numbers		41	44

MAJOR EVENTS	ACHIEVEMENTS	OBJECTIVES
• no major catastrophes, but results include Canberra bushfires and Melbourne and Queensland storms • implemented policies and procedures to ensure compliance with the Financial Services Reform Act • tort reform implemented across most states and territories • APRA introduced additional proposals for general insurance reform	• improved customer retention levels within most portfolios • achieved premium rate increases for most portfolios • profitably renewed Zurich and Gerling business • enhanced systems in e-commerce, workflow and information management • implemented the QBE Connect programme in workers' compensation • retained all key management and maintained low staff turnover • achieved an excellent return on equity • received Australian Exporter of the Year award	• maintain profitability of existing and new business • ensure optimum retention of quality customers and carefully assess the need for premium 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 meet the requirements of the considerable amount of new legislation • continue to work with APRA on their proposed additional reforms for the insurance industry in Australia
• cyclones in Fiji and New Caledonia in the first half of the year did not materially affect the results with both operations able to return full year underwriting profits • SARS depressed economic activity in Asia, but did not give rise to significant claims • strengthening of the Australian dollar against most currencies in the region reduced the absolute levels of reported profit and premium income • operations in Guam were placed into runoff	• realised significant growth in profitability across the division following improvements in underwriting performance • further strengthened capabilities in specialised lines • enhanced formal risk management strategies throughout the region • completed initial implementation of new underwriting system • improved productivity and streamlined processes as a result of business re-engineering initiatives in Hong Kong, Singapore and Malaysia	• reduce expense ratio by increasing synergies between operations • expand distribution initiatives • improve scale in key markets by acquisition • further develop the professional intermediary and other specialty markets to achieve growth and profitability plans • rationalise management structures in key operations to align with adopted operating models
• continued premium rate increases for most reinsurance and insurance classes of business • no major losses from natural catastrophes • acquired Kemper's Bermudian captive management facility • launched QBE Specialty Insurance Company, an excess and surplus lines carrier licensed in 38 states • benefited from opportunities provided by market dislocation in the Americas	• enhanced brand recognition throughout reinsurance and insurance markets • successfully leveraged some existing property and casualty and health reinsurance relationships into general insurance relationships • increased portfolio diversification and established risk sharing with some of our underwriting agency partners • AM Best rating of A "excellent" reaffirmed with a stable outlook • compliance and other skilled staff added to support the comprehensive audit process of our agency business	• maximise underwriting opportunities in reinsurance and general insurance markets by offering reinsurance, admitted and non-admitted general insurance products • maintain our strategy of identifying profitable agency and reinsurance business throughout regional America • continue to drive profitable controlled growth through increased investment in technology, processes and human capital • enhance management information systems to further improve underwriting performance and portfolio management
• significant rate increases for most insurance and reinsurance classes of business • insurance and reinsurance contract terms and conditions further strengthened • rebranding of Iron Trades business to QBE Insurance successfully completed • ceased writing property facultative business from Australian branch • ceased writing satellite business	• significant improvement in underwriting profitability across all parts of the business • rationalised UK corporate structure and reduced number of legal entities in the structure by 17 • enhanced management information systems and delivered intranet to the business • achieved short and long term cost savings via process re-engineering • delivered QBE Manager Programme to all managers and commenced rollout to all staff • rationalised operations in Central and Eastern Europe	• maintain current rating levels and terms and conditions throughout 2004 • deliver new core underwriting system to the business • further develop rating models and procedures • enhance comprehensive training programme for underwriters and support staff • rationalise premises strategy in London to improve efficiency and reduce costs • continue to enhance our risk and control framework
• restructuring of our Lloyd's division's capital base replacing virtually all bank letters of credit with US$550 million of asset backed capital (ABC) securities • reduction of 2004 annual Lloyd's levies from 3.25% to 1.75% of capacity resulting in annual savings to QBE of around $37 million • acquisition of the Ensign motor business for 2004 providing the Group with approximately $324 million or 65% of Ensign's planned $494 million of gross written premium	• strong profitability for all major products • substantial premium rate increases across the majority of classes, coupled with improved or stable terms and conditions • increased QBE's economic interest in our non-US liability syndicate 386 to 54.6% • significant involvement in the ongoing Lloyd's reform process with the head of our Lloyd's division on both the Council of Lloyd's and its franchise board • successfully completed a number of commutations with reinsurers	• improve portfolio management through enhanced monitoring of and response to any changes in leading indicators • increase capacity on our non-US liability syndicate 386 • integrate Ensign motor business followed by the efficient transfer of underwriting to QBE's European company operations in 2005 • implement selected underwriting and management information systems and supporting IT tools • identify initiatives for controllable operating expense ratio reduction
• limited US economic recovery came through as expected • equity markets turned around and produced positive returns in excess of expectations • market yields bottomed at the half year mark and fixed income markets sold off in the second half • strong appreciation of the Australian dollar particularly against the US dollar and sterling • terrorist threats continued and affected investor sentiment	• overall investment benchmarks outperformed • higher investment income despite impact of stronger Australian dollar • fixed income and equity returns ahead of budget and benchmark • new treasury system implemented on time and within budget • funds management activities further rationalised by bringing targeted Lloyd's division portfolios in-house	• maintain a relatively short duration fixed interest strategy subject to interest rate movements and actively manage cash • subject to economic conditions, increase equity investments to approximately 12.5% of total investments and cash • outperform our investment benchmarks and our investment income targets • add further Lloyd's division portfolios to in-house investment management • continue to integrate existing and new systems • contain costs as a percentage of funds under management to internationally competitive levels

AUSTRALIAN GENERAL INSURANCE

A CONTINUED FOCUS ON PRODUCT AND PORTFOLIO MANAGEMENT HAS PRODUCED ANOTHER EXCELLENT RESULT.

PORTFOLIO MIX

GROSS EARNED PREMIUM

- Professional indemnity 7.1% (6.6%)
- Credit and surety 5.9% (5.4%)
- Commercial packages 6.8% (7.1%)
- Property 12.5% (13.1%)
- Motor vehicle 10.2% (10.9%)
- Travel 2.3% (5.2%)
- Householders 11.5% (10.8%)
- Compulsory third party 10.8% (12.1%)
- General liability 12.6% (9.8%)
- Workers' compensation 9.7% (10.2%)
- Marine and aviation 4.9% (3.4%)
- Other 5.7% (5.4%)

QBE's Australian general insurance operations have continued to perform extremely well in 2003 with solid premium rate increases, improved terms and conditions and a strong focus on responsible claims management. The combined operating ratio was 92.8% compared with 97.1% last year.

Gross written premium increased by 18% to $1,869 million due to improved customer retention ratios, new business acquisitions and higher premium rates. Net earned premium increased 17% to $1,425 million. We continue to focus on increasing the retention of quality customers.

The compulsory third party businesses in New South Wales and Queensland continued to perform ahead of plan. We have maintained our market share in New South Wales at approximately 12%. In Queensland, we have targeted profitable market segments and maintained our market share at 4%.

The QBE Mercantile Mutual joint venture underwriting agency continued to concentrate its efforts on the intermediary market, winning the National Insurance Brokers' Underwriter of the Year award for the second successive year. The agency has exceeded its premium and profit targets through a continued focus on cost efficient delivery of products and services using e-technology. The implementation of the Financial Services Reform Act, including the application for relevant licenses and the appointment of agents and authorised representatives, has progressed according to plan.

The workers' compensation division has produced better than expected results in difficult market conditions. The QBE Connect programme, launched in 2002, continues to decrease claims costs by improving communication and co-operation between QBE, the employer, the injured worker and third party providers.

The trade credit portfolio has, for the first time in many years, achieved higher premium rates. This, combined with sound exposure management systems and controls, has led to an excellent result that reaffirms the quality of the portfolio.

The professional liability division continued to achieve the required premium rate increases in 2003. This, together with a strong commitment to improved risk selection, has resulted in a positive underwriting result.

The direct underwriting unit, Western QBE, benefited from the renewal rights to the Zurich direct personal lines portfolio, increasing gross written premium by $30 million. Although the Canberra bushfires and bad weather conditions in the latter half of 2003 negatively impacted the result, Western QBE produced an underwriting profit well ahead of plan.

The corporate divisions, which concentrate on larger property and liability risks, produced results exceeding expectations.

The impact of tort reforms undertaken by the state and territory governments remains unclear but is likely to be positive, which will bring some stability to market pricing for public liability risks.

We remain in a strong position to participate in any opportunities that will arise in the Australian market in 2004.

Our objectives for 2004 are to:

- maintain the profitability of existing and new business;
- ensure optimum retention of quality customers and carefully assess the need for premium rate increases across specific portfolios;
- reduce the expense ratio through process efficiencies and e-business applications;
- further enhance systems;
- continue to implement changes to meet the requirements of the considerable amount of new legislation; and
- continue to work with APRA on their proposed additional reforms for the insurance industry in Australia.

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

RAYMOND JONES

Managing director
Australian general insurance

KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		2003	2002
Gross written premium	$M	1,869	1,578
Gross earned premium	$M	1,715	1,448
Net earned premium	$M	1,425	1,221
Claims ratio	%	67.2	72.1
Commission ratio	%	11.1	10.5
Expense ratio	%	14.5	14.5
Combined operating ratio	%	92.8	97.1

ASIA-PACIFIC GENERAL INSURANCE

QBE PRODUCED A SUBSTANTIAL IMPROVEMENT IN PROFIT FROM ITS DIVERSE GENERAL INSURANCE BUSINESSES THROUGHOUT THE ASIA-PACIFIC REGION, DESPITE THE ADVERSE IMPACT OF THE STRONGER AUSTRALIAN DOLLAR.

PORTFOLIO MIX

GROSS EARNED PREMIUM

Professional indemnity 12.2% (9.0%)
Marine 13.2% (13.0%)
Workers' compensation 6.9% (6.1%)
Motor and motor casualty 18.2% (21.3%)
Fire 24.5% (23.0%)
Accident and health 10.6% (15.3%)
Liability 7.6% (8.6%)
Other 6.8% (3.7%)

The combined operating ratio was 90.0% compared with 95.9% last year. This is the lowest combined operating ratio for Asia-Pacific operations in the past 20 years and it reflects the focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions.

The stronger Australian dollar had a significant impact on gross written and net earned premium. In local currencies, most of our operations produced higher premium. In Australian dollars, gross written premium decreased by 14% to $542 million and net earned premium declined by 2% to $430 million.

The claims ratio was 50.0% compared with 55.1% last year, reflecting a lower frequency of catastrophes and the continuing action taken to improve the performance in some classes of business. The claims ratio also benefited from the higher premium rates and improved policy terms and conditions.

The commission ratio was down slightly to 18.8%. The expense ratio increased from 20.4% to 21.2%. The increase reflects the higher incentive payments to staff due to improved profitability, new information systems and the stronger Australian dollar. 19% of total expenses for the division are incurred in Australian dollars.

Asia-Pacific general insurance operations now have 68 offices in 18 countries. Underwriting profits were achieved in 14 of those countries, the exceptions being Malaysia, Vietnam, Guam and Japan (runoff). We ceased writing new and renewal business in Guam as results have been marginal over a number of years. The underwriting result from our Malaysian subsidiary improved substantially from last year. Vietnam is a small operation in its early stages of development.

Underwriting profits were achieved in Hong Kong, Indonesia, Macau, Philippines, Singapore, Thailand, Fiji, French Polynesia, New Caledonia, New Zealand, Papua New Guinea, Vanuatu, Solomon Islands and Norfolk Island.

Underwriting profits were also achieved from the majority of our products sold in the Asia-Pacific region. The main exceptions were the motor vehicle portfolios in Malaysia and Singapore. Singapore motor results improved significantly on last year, however, the motor results in Malaysia continue to be impacted by the frequency of theft losses compounded by the low tariff premium rates, which have not been increased for a number of years.

We are currently investigating a number of acquisitions in the Asia-Pacific region to add to our existing businesses. Our geographical and product spread is key to our performance. We have substantially increased our writing of specialist property, professional liability and credit insurance through brokers following the deployment of skilled staff to the region in the past 18 months. We expect our specialist lines premium income to increase as a percentage of the total business written in the region. We have five joint ventures in Asia and have very good relationships with our local partners. QBE has management control of all its operations and has 50% or greater shareholding in its joint ventures.

Our objectives for 2004 are to:

- reduce the expense ratio by increasing synergies between operations;
- expand distribution initiatives;
- improve scale in key markets by acquisition;
- further develop the professional intermediary and specialty products market; and
- rationalise management structures in key operations to align with adopted operating models.

The excellent underwriting result in 2003 is something we have strived to achieve since the slowdown in the Asian markets in 1997. I appreciate the enormous amount of hard work and dedication of our team throughout the Asia-Pacific region, which has allowed us to outperform our 2003 insurance profit and return on equity targets.

VINCE McLENAGHAN

Managing director
Asia-Pacific general insurance

KEY RATIOS

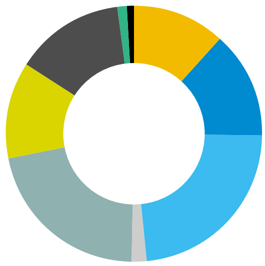
FOR THE YEAR TO 31 DECEMBER		2003	2002
Gross written premium	$M	542	629
Gross earned premium	$M	549	602
Net earned premium	$M	430	441
Claims ratio	%	50.0	55.1
Commission ratio	%	18.8	20.4
Expense ratio	%	21.2	20.4
Combined operating ratio	%	90.0	95.9

THE AMERICAS

QBE'S COMMITMENT TO THE AMERICAS HAS BEEN REWARDED WITH RECORD RESULTS IN 2003, DESPITE THE SIGNIFICANT IMPACT OF THE STRONGER AUSTRALIAN DOLLAR.

PORTFOLIO MIX

GROSS EARNED PREMIUM



- Property xol 11.7% (12.2%)
- Property proportional 13.5% (15.8%)
- Property facultative and direct 23.2% (9.7%)
- Catastrophe 1.9% (2.0%)
- Casualty reinsurance 21.6% (24.2%)
- Motor and motor casualty 12.2% (21.5%)
- Accident and health 13.8% (11.2%)
- Workers' compensation 1.2% (1.9%)
- Other 0.9% (1.5%)

Our operations in the Americas comprise general insurance and reinsurance businesses in the US, reinsurance businesses in Panama, Mexico, Peru and Colombia and general insurance businesses in Argentina and Brazil.

Gross written premium increased 35% to $1,342 million and net earned premium was up 10% to $740 million. Growth in US dollars was much stronger, increasing 60% and 29% respectively. Growth opportunities arose from industry consolidation, some company failures, withdrawal from the market by some overseas companies and downgrades in a number of our competitors' ratings. Growth came largely from new general insurance agency business with a proven track record and from higher premium rates for all classes of business. General insurance now represents 56% of total gross written premium.

Business ceded to reinsurers significantly increased because of proportional reinsurance on new agency business. This proportional reinsurance generates overriding commissions and profit commissions to QBE. Of the total reinsurance spend of $570 million, some 89% relates to proportional reinsurance. This percentage is expected to fall in 2004 and 2005.

The combined operating ratio was 93.1% compared with 99.6% last year. Improvements in the combined operating ratio were achieved in both the general insurance and reinsurance businesses. We have maintained a prudent approach to establishing claims provisions for the 2003 underwriting year. The claims ratio improved from 68.4% to 63.4%. The lower claims ratio is due to higher premium rates and the significant improvements in policy terms and conditions.

The commission ratio was 23.5% compared with 24.7% last year, reflecting a stable mix of business coupled with higher overriding commissions received on ceded proportional reinsurance. The expense ratio decreased slightly from 6.5% to 6.2%. Higher staff incentives from the significant improvement in insurance profitability offset in part the impact of initiatives by management to increase efficiencies.

All operations improved their results. Latin American general insurance operations, although not yet achieving Group profit targets, were ahead of plan.

Our major renewal season of 1 January 2004 was successful. We received numerous new opportunities and achieved slightly higher premium rates, with policy terms and conditions maintained. We are confident of further solid growth in 2004.

Our record result came from our focus on product and agency management and our close relationships with core customers. Our team of 252 is committed to further enhancing shareholder value. We continue to look at opportunities that do not involve long tail casualty or major national accounts.

Our objectives for 2004 are to:

> maximise underwriting opportunities through reinsurance and both admitted and non-admitted general insurance products;

> maintain our strategy of identifying profitable agency and regional reinsurance business;

> continue to drive profitable controlled growth through increased investment in technology, processes and human capital;

> enhance management information systems to further improve portfolio management and underwriting performance; and

> reinforce relationships with our Latin American business clients in Argentina, Brazil and Panama.

I express my sincere appreciation to the Americas team for their hard work and loyalty and for exceeding our financial targets for 2003.

TIM KENNY

President and CEO
the Americas

KEY RATIOS

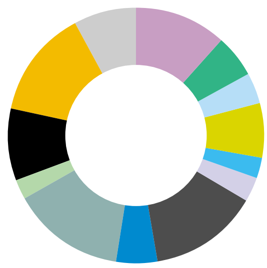
FOR THE YEAR TO 31 DECEMBER		GENERAL INSURANCE 2003	GENERAL INSURANCE 2002	INWARD REINSURANCE 2003	INWARD REINSURANCE 2002	TOTAL 2003	TOTAL 2002
Gross written premium	$M	745	479	597	512	1,342	991
Gross earned premium	$M	659	365	554	491	1,213	856
Net earned premium	$M	229	342	511	330	740	672
Claims ratio	%	73.9	70.5	58.7	65.9	63.4	68.4
Commission ratio	%	16.6	27.0	26.6	22.3	23.5	24.7
Expense ratio	%	6.5	5.6	6.1	7.6	6.2	6.5
Combined operating ratio	%	97.0	103.1	91.4	95.8	93.1	99.6

EUROPEAN COMPANY OPERATIONS

FINANCIAL TARGETS IN 2003 WERE EXCEEDED AS A RESULT OF A VERY DISCIPLINED APPROACH TO PRODUCT MANAGEMENT AND PROFITABILITY OVER RECENT YEARS.

PORTFOLIO MIX

GROSS EARNED PREMIUM



- Professional indemnity 11.6% (9.1%)
- Financial and credit 5.4% (4.1%)
- Marine and aviation 3.9% (4.9%)
- Accident and health 6.9% (9.1%)
- Bloodstock 2.6% (3.3%)
- Property treaty 3.1% (7.2%)
- Property facultative and direct 13.8% (13.4%)
- Catastrophe 5.2% (6.6%)
- Workers' compensation 14.3% (12.9%)
- Motor vehicle 2.5% (3.0%)
- Casualty 9.1% (9.6%)
- Public product liability 13.7% (8.7%)
- Other 7.9% (8.1%)

European company operations writes commercial lines products in both general insurance and reinsurance operations in London, Dublin and Paris and general insurance operations in six countries in Central and Eastern Europe.

Despite the stronger Australian dollar, gross written premium increased 9% to $2,441 million and net earned premium increased 10% to $1,908 million. In sterling, the premium growth rates were 17% and 23% respectively. Further premium rate increases and new business opportunities created by the withdrawal of capacity from the market were the main contributors to this growth.

Reinsurance costs as a percentage of gross earned premium reduced from 17.7% to 17.1%, primarily due to the increase in premium rates exceeding the higher cost of reinsurance.

The combined operating ratio was the lowest for many years at 94.7% compared with 98.9% last year. This improved result is primarily due to a reduced claims ratio (72.2% to 66.7%) reflecting a lower claims frequency, higher premium rates and improved policy terms and conditions.

Our general insurance division and Central and Eastern European business produced underwriting profits. Our inward reinsurance business had a combined operating ratio of 103.9% compared with 102.9% last year. This slight deterioration is primarily due to upgrades of prior year claims reserves for motor excess of loss and satellite business.

The commission ratio increased from 14.7% to 15.6% reflecting a change in the mix of business, and the expense ratio increased from 12.0% to 12.4% due to higher staff incentives for improved results and greater costs of regulatory compliance.

Further changes were made in 2003 to reduce the risk profile of the business. This included the withdrawal from primary satellite and engineering business. We also ceased underwriting facultative reinsurance business from our Sydney office. We continue to be a market leader in a number of portfolios that we write, enabling us to influence terms and conditions.

Our major renewal season of 1 January 2004 saw a slight overall increase in premium rates, policy terms and conditions being maintained and some new business opportunities. We are confident that we can achieve our planned growth in 2004 to continue the profitable growth of the past two years.

Our objectives for 2004 are to:

- maintain current rating levels and terms and conditions throughout 2004;
- deliver a new core underwriting system to the business;
- further develop rating models and portfolio management;
- enhance our comprehensive training programme for underwriters and support staff;
- rationalise our premises strategy in London to improve efficiency and reduce costs; and
- continue to enhance our risk and control framework.

Our team has worked extremely hard over the past few years to improve profitability. I sincerely appreciate their efforts in producing an excellent performance in 2003.

PAUL GLEN

Managing director
European company operations

KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		GENERAL INSURANCE 2003	GENERAL INSURANCE 2002	INWARD REINSURANCE 2003	INWARD REINSURANCE 2002	TOTAL 2003	TOTAL 2002
Gross written premium	$M	1,688	1,532	753	717	2,441	2,249
Gross earned premium	$M	1,552	1,309	750	794	2,302	2,103
Net earned premium	$M	1,312	1,072	596	659	1,908	1,731
Claims ratio	%	64.4	71.4	71.7	73.5	66.7	72.2
Commission ratio	%	13.2	11.3	20.9	20.4	15.6	14.7
Expense ratio	%	13.0	13.7	11.3	9.0	12.4	12.0
Combined operating ratio	%	90.6	96.4	103.9	102.9	94.7	98.9

LLOYD'S DIVISION (TRADING AS LIMIT)

QBE IS THE LARGEST MANAGER OF CAPACITY IN LLOYD'S AND A LEADER FOR MANY OF OUR PRODUCTS IN THE MARKETPLACE.

PORTFOLIO MIX

GROSS EARNED PREMIUM

- Professional indemnity 12.2% (12.6%)
- Marine and aviation 18.7% (21.7%)
- Property 42.2% (38.7%)
- Casualty 21.2% (22.7%)
- Other 5.7% (4.3%)

Continued focus on core products together with further premium rate increases and improved terms and conditions for most classes of business resulted in the Limit team outperforming most of its 2003 financial targets.

Reported profitability and premium growth were impacted by the appreciation of sterling against the US dollar as well as the translation of sterling to the appreciating Australian dollar. Some 55% of Limit's business is written in US dollars and this, together with the stronger Australian dollar, has meant that gross written premium declined by 5% to $2,156 million and net earned premium decreased 3% to $1,533 million. In converted sterling, gross written and net earned premium increased by 4% and 6% respectively.

Premium rate increases were achieved on the majority of portfolios. Net earned premium benefited from lower reinsurance costs as a result of premium rate increases exceeding higher reinsurance costs.

The combined operating ratio fell from 96.6% to 95.1%. Consistent with our reserving practice for Limit's business, a conservative approach has been taken in establishing claims liabilities in respect of the 2002 and 2003 underwriting year results. The claims ratio reduced from 62.1% to 59.2%, benefiting from a below average level of major catastrophes and risk losses during 2003. In addition, the improved policy terms and conditions helped reduce the frequency of claims.

The commission ratio was up from 22.8% to 25.4% as a result of the change in mix of business and a small correction due to the understatement of commissions in the prior year.

The expense ratio decreased from 11.7% to 10.5%. Higher staff incentive costs driven by improved profitability, increased superannuation contributions and higher regulatory compliance costs partly offset the benefits arising from improved efficiencies. From 2004, Lloyd's is reducing its levies from 3.25% to 1.75% of capacity, which will improve the expense ratio over the next few years.

All of the portfolios written within Limit are currently producing underwriting profits. The major renewal season of 1 January 2004 was successful with premium rates meeting business plan expectations. The improved policy terms and conditions of recent years were generally maintained. This, together with the acquisition of the Ensign commercial motor business, should mean that we will see growth in sterling premium income and, subject to no unexpected large losses and catastrophes, improved profitability in 2004.

Our objectives for 2004 are to:

> improve portfolio management through enhanced monitoring of and response to any changes in leading indicators;

> acquire further capacity on our non-US liability syndicate 386;

> integrate Ensign motor business followed by the efficient transfer of underwriting to QBE's European company operations in 2005;

> implement selected underwriting and management information systems and supporting IT infrastructure; and

> identify initiatives for controllable operating expense ratio reduction.

I am extremely indebted to my underwriting and support team for their focus and hard work during the past year which have enabled us to exceed our 2003 financial targets.

STEVEN BURNS

Chief executive officer
Lloyd's division

KEY RATIOS

		GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
FOR THE YEAR TO 31 DECEMBER		2003	2002	2003	2002	2003	2002
Gross written premium	$M	1,293	1,373	863	903	2,156	2,276
Gross earned premium	$M	1,194	1,387	843	801	2,037	2,188
Net earned premium	$M	900	1,046	633	531	1,533	1,577
Claims ratio	%	57.8	65.2	61.1	56.1	59.2	62.1
Commission ratio	%	27.5	23.7	22.5	20.9	25.4	22.8
Expense ratio	%	10.6	12.2	10.4	10.6	10.5	11.7
Combined operating ratio	%	95.9	101.1	94.0	87.6	95.1	96.6

INVESTMENTS

WHILST LOWER INTEREST YIELDS PREVAILED IN MOST MARKETS, GLOBAL ECONOMIC GROWTH AND HIGHER CORPORATE PROFITS ASSISTED A SUBSTANTIAL IMPROVEMENT IN EQUITY MARKETS, PARTICULARLY IN THE US.

INVESTMENT INCOME
FOR THE YEAR TO 31 DECEMBER

	2003 $M	2002 $M
Dividends	46	30
Interest	365	365
Other income	16	17
Exchange (losses) gains	(13)	22
Interest expense and other borrowing costs	(82)	(73)
Amortisation of goodwill	(20)	(8)
Other expenses	(29)	(21)
	283	332
Realised gains on fixed interest securities	1	21
Realised losses on equities and properties	(13)	(29)
Unrealised (losses) gains on fixed interest securities	(54)	29
Unrealised gains (losses) on equities and properties	176	(172)
Investment income	393	181

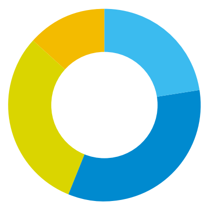
CURRENCY MIX

MARKET VALUE OF EQUITIES

- Australian dollar 39.6% (43.3%)
- US dollar 25.6% (13.5%)
- Sterling 23.6% (27.5%)
- Other 11.2% (15.7%)

CURRENCY MIX

MARKET VALUE OF INVESTMENTS AND CASH



- Australian dollar 22.5% (19.1%)
- US dollar 33.6% (35.7%)
- Sterling 30.6% (33.0%)
- Other 13.3% (12.2%)

QBE's low risk strategy and active investment management have enabled us to outperform our overall investment benchmarks and financial targets in 2003. This was despite the considerable impact of the stronger Australian dollar on the translation of overseas investment income.

In Australian dollars, the overall gross investment yield increased from 2.5% to 4.6%. This improved yield includes net unrealised gains and losses on investments and is before borrowing costs, goodwill amortisation, exchange gains and losses and investment expenses.

Net investment income before realised and unrealised investment gains and losses decreased from $332 million to $283 million. The impact of the stronger Australian dollar and lower interest rates in most markets offset the income from the increase in net invested funds. Net realised and unrealised gains on investments were $110 million before tax compared with a loss of $151 million before tax last year. Realised and unrealised gains on equities were $159 million (loss of $207 million last year) and realised and unrealised losses on fixed interest securities were $53 million (gain of $50 million last year). The Group's net invested funds grew to $10,489 million, an increase of 4% over the previous year despite the stronger Australian dollar, and 63% over the past three years as a result of strong increases in operational cash flow, capital raised from our shareholders and acquisitions.

QBE continues to maintain a low risk approach to its investment portfolio. We have increased our listed equities from 7.9% of total investments and cash at 31 December 2002 to 10.5%. We started to increase our exposure in mid 2003 with the majority of the increase in US equities. Our policy of generally holding short dated fixed interest securities and actively managing the short end of the yield curve has again produced acceptable yields and avoided large adverse market value fluctuations. The diverse geographic spread of QBE's portfolio is evidenced by the sterling and US dollar denominated assets which represent 31% and 34% of the investment portfolio respectively.

The outlook for 2004 remains positive. Improvements in economic growth are likely to result in interest rate increases during 2004 and further improvements in equity markets, albeit at a lower rate than 2003. We continue to adopt a low risk investment strategy with a focus on positive absolute returns. We have in place a comprehensive investment model which enables us to review the implications of numerous investment scenarios. This investment model is an integral part of our day to day investment management.

Our objectives for 2004 are to:

- maintain a relatively short duration fixed interest strategy subject to interest rate movements and actively manage cash;
- if appropriate, increase equity investments to approximately 12.5% of total investments and cash;
- outperform our investment benchmarks and our investment income targets;
- add Lloyd's division portfolios to in-house investment management;
- continue to integrate existing and new systems; and
- contain costs as a percentage of funds under management to internationally competitive levels.

Our professional investment team has performed extremely well over the past 12 months, exceeding our financial targets and outperforming overall investment benchmarks. I sincerely thank my hard working team for their significant contribution over the past year.

MARK TEN HOVE
Group general manager
Investments

NET INVESTED FUNDS

	31 DECEMBER 2003 $M	31 DECEMBER 2003 %	31 DECEMBER 2002 $M	31 DECEMBER 2002 %
Cash	717	6.1	745	6.5
Short term money	3,499	29.5	3,549	30.8
Fixed interest securities and other	6,209	52.5	6,048	52.6
Mortgages	7	0.1	25	0.2
Equities	1,272	10.8	1,026	8.9
Property	119	1.0	111	1.0
Total investments and cash	11,823	100.0	11,504	100.0
Borrowings	(1,334)		(1,456)	
	10,489		10,048	
ABC investments pledged for funds at Lloyd's	731		–	
ABC securities for funds at Lloyd's	(731)		–	
Net invested funds	10,489		10,048	

SHAREHOLDERS' INFORMATION

Summary

Credit ratings	Standard & Poor's A+ Fitch A+
Number of shareholders	31,550
Percentage owned by 20 largest shareholders	79.48%
Final dividend	22.0 cents per share, 30% franked
Final dividend payment date	25 March 2004

Annual General Meeting

11.00 am Friday, 2 April 2004
The Westin Hotel, 1 Martin Place
Sydney NSW Australia

Voting rights of ordinary shares

The constitution provides for votes to be cast:

> on a show of hands, one vote for each shareholder; and
> on a poll, one vote for each fully paid ordinary share.

Registered office and principal office

QBE Insurance Group Limited
Level 2, 82 Pitt Street
Sydney NSW 2000
Australia

Telephone: +61 2 9375 4444
Facsimile: +61 2 9235 3166
Internet: www.qbe.com

QBE is incorporated in Australia

Shareholder information and enquiries

The ordinary shares of QBE Insurance Group Limited (QBE) are listed on the ASX. All enquiries and correspondence regarding shareholdings should be directed to QBE's share registrar:

ASX Perpetual Registrars Limited
Locked Bag A14
Sydney South NSW 1235
Australia

Level 8, 580 George Street
Sydney NSW 2000 Australia

Telephone: +61 2 8280 7158
Facsimile: +61 2 8280 8489
Internet: www.asxperpetual.com.au
Email: registrars@asxperpetual.com.au

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 security holder reference number (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 a holder identification number (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.

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.

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. Australian shareholders living abroad should advise ASX Perpetual of their resident status as limited exemptions to tax deduction may apply. TFN forms are available from the share registrar or can be downloaded from QBE's or ASX Perpetual's website.

Dividends

QBE has revised the terms of its Dividend Reinvestment Plan (DRP) and Dividend Election Plan (DEP). In particular, the revised terms:

> require a minimum shareholding of 100 shares for participation; and
> round the dividend amount up or down to the nearest whole cent and round the number of shares allocated up or down to the nearest whole share, rather than the previous practice of only rounding up.

Dividends can be paid directly to a bank, building society or credit union account in Australia. A dividend advice confirming the deposit details will be mailed to you. Shareholders who receive dividend cheques are requested to bank them as soon as possible. A change of address or banking details should be advised to the share registrar promptly.

The DRP enables you to apply to subscribe for additional shares at a discounted price. The DEP is a bonus share plan whereby bonus shares are received 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 QBE's website.

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. The privacy policy is available on 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 2004. **If you do not want to receive the annual report by mail, please notify the share registrar in writing.**

The half yearly results summary will be mailed with the interim dividend in late September.

QBE's website provides investors with information about QBE, including annual reports, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a brief history of QBE dividends, access to standard forms (change of address, direct credit advice and more) and the ability to verify shareholding details.

RECENT QBE DIVIDENDS

DATE PAID	TYPE	RECORD DATE	CENTS PER SHARE	FRANKING %
1 April 1998	interim	11 March 1998	8.0	50
2 October 1998	final	15 September 1998	18.0	50
26 March 1999	interim	5 March 1999	8.5	50
1 October 1999	final	10 September 1999	18.5	50
31 March 2000	interim	10 March 2000	14.0	10
29 September 2000	final	11 September 2000	15.0	35
12 April 2001	final	26 March 2001	16.0	30
28 September 2001	interim	7 September 2001	16.5	25
12 April 2002	final	25 March 2002	13.5	15
3 October 2002	interim	13 September 2002	16.5	12
11 April 2003	final	19 March 2003	18.5	12
25 September 2003	interim	1 September 2003	20.0	15

TOP TWENTY SHAREHOLDERS

AS AT 31 JANUARY 2004

NAME OF SHAREHOLDER	NUMBER OF SHARES	% OF TOTAL
JP Morgan Nominees Australia Limited	164,270,801	24.46
Westpac Custodian Nominees Limited	110,478,950	16.45
National Nominees Limited	98,295,591	14.63
Citicorp Nominees Pty Limited	40,545,955	6.04
ANZ Nominees Limited	18,885,048	2.81
Queensland Investment Corporation c/- National Nominees Limited	16,959,786	2.52
Cogent Nominees Pty Limited	14,884,963	2.22
RBC Global Services Australia Nominees Pty Limited	14,149,189	2.11
AMP Life Limited	13,743,484	2.05
HSBC Custody Nominees (Australia) Limited	9,800,266	1.46
NRMA Nominees Pty Limited	6,805,400	1.01
Westpac Financial Services Limited	5,776,363	0.86
QBE Management Services Pty Limited	3,967,994	0.59
Suncorp Custodian Services Pty Limited	2,634,043	0.39
Government Superannuation Office c/- National Nominees Limited	2,623,120	0.39
Victorian WorkCover Authority c/- National Nominees Limited	2,321,777	0.35
Australian Foundation Investment Company Limited	1,959,487	0.29
Perpetual Trustee Company Limited	1,938,968	0.29
PSS Board c/- JP Morgan Nominees Australia Limited	1,913,268	0.28
Merrill Lynch (Australia) Nominees Pty Limited	1,909,849	0.28
TOTAL	533,864,302	79.48

QBE SUBSTANTIAL SHAREHOLDERS

AS AT 31 JANUARY 2004

NAME	NUMBER OF SHARES	% OF TOTAL	DATE OF NOTICE
UBS Nominees Pty Ltd	54,152,727	8.06	28 July 2003
The Capital Group Companies Inc	58,889,590	8.77	3 September 2003

DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS

AS AT 31 JANUARY 2004

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1-1,000	12,359	39.17	6,489,182	0.97
1,001-5,000	15,130	47.96	34,528,668	5.14
5,001-10,000	2,338	7.41	16,426,065	2.44
10,001-100,000	1,562	4.95	37,015,869	5.51
100,001 or more	161	0.51	577,236,763	85.94
TOTAL	31,550	100.00	671,696,547	100.00

FINANCIAL CALENDAR AND ASX ANNOUNCEMENTS

FINANCIAL CALENDAR

2004	
25 February	Profit and dividend announcement for the year ended 31 December 2003 Annual report available on website
2 March	Annual report posted to shareholders with notice of meeting and proxy form
2 March	Shares begin trading ex-dividend
8 March	Record date for determining shareholders' entitlement to 2003 final dividend payment
25 March	2003 final dividend paid
2 April	Annual General Meeting
30 June	Half year end
18 August*	Profit and dividend announcement for the six months ending 30 June 2004
24 August*	Shares begin trading ex-dividend
9 September*	Record date for determining shareholders' entitlement to 2004 interim dividend payment
20 September*	2004 interim dividend paid
31 December	Year end

* dates to be confirmed

QBE ANNOUNCEMENTS TO THE ASX

	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
Announced results for year ended 31 December 2002 including a final dividend of 18.5 cents per share to be paid on 11 April 2003	6 March
Announced QBE's 'A+' long term rating by Fitch	6 June
Announced the issue of US$250 million of subordinated notes in the US market	13 June
Advised earlier announcement of half year results	8 July
Announced the conversion of mandatory convertible preference shares	15 August
Announced results for the half year to 30 June 2003 including an interim dividend of 20.0 cents per share to be paid on 25 September 2003	19 August
Announced the issue of approximately 7.3 million shares in relation to QBE share plans and a special issue of approximately 1.3 million shares in relation to QBE LYONs securities	2 September
Presentation to the Securities Institute of Australia by the chief executive officer	21 October
Announced the raising of US$550 million of five year contingent securities	29 October
Presentation to UBS Australia by the chief executive officer	21 November
Advised that QBE's A (excellent) rating for QBE Re Group in the US affirmed by AM Best	25 November
Announced that Limit plc signed heads of agreement to acquire the Ensign motor business	28 November

	2004
Advised that QBE's net loss from the Moomba gas explosion will be immaterial	6 January
Advised revised Dividend Election Plan and Dividend Reinvestment Plan terms	16 January

BOARD OF DIRECTORS

JOHN CLONEY

ANZIIF, FAIM, FAICD Age 63

Chairman

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, 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 61

Mr Bleasel was appointed an independent non-executive director of QBE in 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 65

Mr Curran was appointed an independent 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 advisor to Goldman Sachs Inc. and Goldman Sachs JBWere.

THE HON NICK GREINER AC

BEc, MBA Age 56

Mr Greiner was appointed an independent 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 Bilfinger Berger Australia and The Nuance Group Australasia, deputy chairman of Stockland Trust Group and a director of McGuigan Simeon Wines Limited. He was Premier and Treasurer of NSW from 1988 to 1992.

BELINDA HUTCHINSON

BEc, FCA Age 50

Ms Hutchinson was appointed an independent 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 58

Mr Irby is based in London and was appointed an independent non-executive director of QBE in 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 a 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 50

Ms Lee was appointed an independent non-executive director of QBE in 2002. She is a member of the audit and investment committees. Ms Lee is a director of Mariner Financial Limited, Beyond International Limited, BioTech Capital Limited, Ten Network Holdings Limited, Record Investments Limited and Record Realty. She is a member of the Takeover Panel and a trustee of the Art Gallery of New South Wales. 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 Age 57

Chief executive officer

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003.

Directors

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

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

Details of the directors and their qualifications are set out on page 39.

Results

	2003 $M	2002 $M
Revenue		
Premium revenue	7,816	7,197
Other revenue	1,424	1,304
Unrealised gains on investments	122	–
Investment income – ABC investments pledged for funds at Lloyd's	5	–
	9,367	8,501
Expenses	8,515	7,974
Unrealised losses on investments	–	143
Borrowing costs expense	80	73
Borrowing costs expense – ABC securities for funds at Lloyd's	7	–
Profit from ordinary activities before income tax	765	311
Income tax expense attributable to profit from ordinary activities	188	33
Profit from ordinary activities after income tax	577	278
Net profit (loss) attributable to outside equity interests	5	(1)
Net profit attributable to members of the company	572	279
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	(109)	(11)
Total changes in equity other than those resulting from transactions with owners as owners	463	268

Profit

The directors are pleased to announce a profit after tax for the year ended 31 December 2003 of $572 million compared with $279 million last year. The increase came from substantially improved insurance profits in all divisions and stronger equity markets.

Dividends

The directors are also pleased to announce a final dividend of 22.0 cents per share, 30% franked, for the year ended 31 December 2003. The total dividend for 2003 is 42.0 cents per share compared with 35.0 cents per share for the year ended 31 December 2002. The final dividend payout, including shares issued under the Dividend Election and Reinvestment Plans, will be $148 million compared with $114 million last year. The Dividend Election and Reinvestment Plans continue at a discount rate of 2.5%.

The franking account balance on a tax paid basis, after taking into account the final dividend franked at 30%, will be a surplus of $84 million.

Activities

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

Review of operations

Gross earned premium was $7,816 million, an increase of 9% on last year. Growth was achieved through strong premium rate increases across most classes of business, higher retention of business and an increase in new business due to acquisitions in 2002, partly offset by the effect of translation to the stronger Australian dollar. Net earned premium increased 7% to $6,036 million. Reinsurance costs increased from 22% to 23% of gross earned premium, mainly because of proportional reinsurance treaties with overriding commissions purchased on new business written in the US and additional reinsurance covers purchased to reduce our retention in the event of a major catastrophe.

The ratio of claims, commissions and expenses to net earned premium (combined operating ratio) was 93.8% compared with 97.7% last year. The claims ratio of 63.3% decreased from 67.6% last year due to the higher premium rates and a lower claims frequency from improved policy terms and conditions. The commission ratio increased from 17.7% last year to 18.2% reflecting a change in mix of business and higher profit commissions paid on agency business due to improved underwriting profitability. The expense ratio decreased from 12.4% to 12.3% as a result of synergies from acquisitions and higher premium rates partly offset by higher staff incentive costs, increased superannuation contributions, new systems and higher costs of regulatory compliance.

Australian general insurance combined operating ratio was 92.8% compared with 97.1% last year. The strong underwriting result reflects solid premium rate increases, improved terms and conditions and a strong focus on responsible claims management. Net earned premium of $1,425 million was up 17% from last year, reflecting improved retention ratios, new business acquisitions and higher premium rates. The claims ratio decreased from 72.1% to 67.2% and the commission ratio increased to 11.1% from 10.5% due to changes in business mix from acquisitions in 2002. The expense ratio remained stable at 14.5%.

Asia-Pacific general insurance combined operating ratio was 90.0% compared with 95.9% last year, reflecting the focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions. The stronger Australian dollar had a significant impact on net earned premium, which decreased 2% to $430 million. The claims ratio decreased from 55.1% to 50.0% reflecting a lower frequency of catastrophes and the continuing action taken to improve the performance in some classes of business. The commission ratio improved from 20.4% to 18.8% and the expense ratio increased to 21.2% from 20.4% last year reflecting the higher incentive payments to staff due to improved profitability, new information systems and the stronger Australian dollar.

the Americas reported net earned premium growth of 10% to $740 million, due to new general insurance agency business with a proven track record and higher premium rates for all classes of business. The combined operating ratio was 93.1% compared with 99.6% last year. The improvements were achieved in both the general insurance and reinsurance businesses. The claims ratio improved from 68.4% to 63.4% due to higher premium rates and the significant improvements in policy terms and conditions. The commission ratio decreased from 24.7% to 23.5% and the expense ratio decreased from 6.5% to 6.2%.

European company operations benefited from a year of further premium rate increases across most lines of business and new business opportunities resulting from the withdrawal of capacity in the market. Despite the stronger Australian dollar, net earned premium increased 10% to $1,908 million. The division produced a combined operating ratio of 94.7% compared with 98.9% last year. This reflected a reduced claims ratio of 66.7% from 72.2% due to a lower claims frequency, higher premium rates and improved policy terms and conditions. The commission ratio increased from 14.7% last year to 15.6% reflecting a change in the mix of business, and the expense ratio increased from 12.0% last year to 12.4%, due to higher staff incentives for improved results and greater costs of regulatory compliance.

Lloyd's division combined operating ratio was 95.1% compared with 96.6% last year, reflecting continued focus on core products together with further premium rate increases and improved terms and conditions for most classes of business. Net earned premium decreased 3% to $1,533 million, impacted by the strong Australian dollar. The claims ratio reduced from 62.1% to 59.2%, benefiting from a below average level of major catastrophes and risk losses during 2003. The commission ratio increased from 22.8% to 25.4% as a result of changes in the mix of business and a small correction due to the understatement of commissions in the prior year. The expense ratio was 10.5% compared with 11.7% last year.

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

Investment income increased 117% to $393 million, reflecting a substantial improvement in equity markets, particularly in the US. The result includes net realised and unrealised gains on investments of $110 million ($151 million loss last year) and foreign exchange losses of $13 million ($22 million gain last year). The gross investment yield before borrowing costs, goodwill amortisation, exchange gains and losses and investment expenses increased from 2.5% to 4.6%.

Income tax expense for the year was 24.6% of profit before tax, primarily as a result of increased profits in higher tax paying countries and the one-off benefits included in the 2002 income tax charge.

Group indemnities

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

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

The indemnity extends to legal costs other than where:

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

Article 115 was approved at the 2003 AGM.

Directors' and officers' insurance

The consolidated entity pays a premium each year in respect of a contract insuring directors, secretaries and executive officers of the consolidated entity together with any natural person who is a trustee of a superannuation fund established for the benefit of the consolidated entity's employees against liabilities past, present or future. The officers of the consolidated entity covered by the insurance contract include the directors listed on page 39, the secretary, DA Ramsay, and assistant secretaries, NG Drabsch and PE Barnes. Other officers covered by the insurance contract are directors and secretaries of controlled entities who are not also directors and secretaries of the ultimate parent and executive officers of the consolidated entity ("excluded officers").

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

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

Significant changes

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 2003 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 ASIC 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’ and executives’ remuneration

As noted in the statement of corporate governance on pages 5 to 13, the remuneration committee of the board oversees remuneration practices for the consolidated entity.

The remuneration of non-executive directors for directors’ fees and related committee costs amounted to $1,220,000 (2002 $931,000). The amount approved at the 2003 AGM was $1,500,000 per annum. The amount paid to individual non-executive directors is based on external advice and may vary according to specific responsibilities, including involvement on the committees of the board. The consolidated entity aims to provide an appropriate level of remuneration for non-executive directors comparable to its peers, which include multi-national financial institutions.

Non-executive director remuneration reflects the consolidated entity’s desire to attract and retain high quality directors and to ensure their active participation in the company’s affairs for the purposes of corporate governance, regulatory compliance and other matters. Non-executive directors also receive superannuation. However, non-executive directors do not receive any performance based remuneration such as cash bonuses or equity incentives. Under the company’s constitution, non-executive directors are also entitled to be paid all reasonable travel, hotel and other expenses whilst on company business.

Non-executive directors previously received a retirement allowance based on period of service. The allowance was limited to the aggregate of the director’s fees in the last three years of service, subject to a minimum of 10 years’ service. Where service was less than 10 years, a pro rata amount was paid. With effect from 31 December 2003, the board has terminated the retirement allowance to non-executive directors. They will instead receive fees increased by 30% to compensate. Accrued retirement benefits of $1,535,000 at 31 December 2003 are preserved until retirement and will be subject to an annual increase benchmarked against the average five year Australian government bond rate. Shareholders will be asked to approve an increase in non-executive directors’ remuneration and to recognise this change at the 2004 AGM.

Executive directors and senior executives may receive cash 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 executives 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, although for any 2004 option allocations this will increase to five years. The relevant senior executives become entitled to the long term incentives each year only after they have already achieved or exceeded financial targets, principally return on equity, entitling them to a short term profit share incentive.

As an example, the chief executive officer’s (Mr O’Halloran’s) short term and long term incentives are based on the achievement of the following range of target returns on equity for the 2003 financial year on the company’s seven year spread basis of accounting, which spreads realised and unrealised gains on equities and properties over seven years.

	TARGET ROE	SHORT TERM INCENTIVE AS % OF SALARY
Minimum	13.0%	15.0%
Maximum	20.0%	134.0%
Achieved	18.4%	106.5%

Subject to approval at the AGM, Mr O’Halloran, on a basis consistent with other senior executives, is also entitled to receive conditional rights to fully paid shares under the SEES equal to 60%, and an option to purchase shares equal to 40%, of two thirds of his short term incentive.

Conditional rights and options relating to a financial year are granted in March of the following year.

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 are:

DIRECTORS OF THE COMPANY	DIRECTORS' FEES/BASE SALARY $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES $000	OTHER BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	TOTAL 2003 $000	TOTAL 2002 $000
LF Bleasel AM	131	–	–	–	12	143	111
EJ Cloney	300	–	–	–	27	327	254
CP Curran AO	143	–	–	–	13	156	114
The Hon NF Greiner AC	136	–	–	–	12	148	116
BJ Hutchinson	137	–	–	–	12	149	118
CLA Irby	153	–	–	–	–	153	108
IYL Lee	132	–	–	–	12	144	76
FM O'Halloran* **	911	1,192	202	204	137	2,646	2,403
MJ Phillips (retired 18 April 2002)***	–	–	–	–	–	–	433

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

** The value of conditional rights in the current year is shown in accordance with proposed international accounting standards on the recognition of share based payments as required by draft guidelines issued by ASIC during 2003. The value attributed to the conditional rights and options for the year is calculated using established valuation techniques.

Mr O'Halloran is entitled to the full amount of conditional rights and options immediately on retirement. The amount to be granted to Mr O'Halloran for the 2003 year, subject to approval by shareholders at the AGM, is $626,000. This amount is not required to be included in 2003 long term incentives under proposed international accounting standards. The 2002 comparatives include the full amount of conditional rights and options granted in respect of the 2002 year.

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

DIRECTORS OF THE COMPANY	CURRENT YEAR RETIREMENT BENEFIT $000	ACCUMULATED RETIREMENT BENEFIT $000
LF Bleasel AM	39	95
EJ Cloney	134	415
CP Curran AO	60	336
The Hon NF Greiner AC	55	332
BJ Hutchinson	59	213
CLA Irby	49	83
IYL Lee	40	61

OFFICERS OF THE CONSOLIDATED ENTITY	BASE SALARY $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES $000	OTHER BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	TOTAL $000
PE Grove	823	2,405	160	179	247	3,814
SP Burns	873	1,162	106	42	137	2,320
TM Kenny	792	1,068	188	201	32	2,281
MD ten Hove	920	997	116	95	74	2,202
PE Glen	783	1,052	132	69	163	2,199

Mr Kenny is located in New York and Messrs Grove, Burns, ten Hove and Glen are located in London. Their remuneration has been converted to Australian dollars using the average rate of exchange for the year.

The long term incentives have been calculated in accordance with proposed international accounting standards as described above.

Retirement benefit arrangements – FM O'Halloran

Mr O'Halloran joined QBE in June 1976. Six of his years with the consolidated entity have been in the position of 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 consolidated entity 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 base salary plus the short term 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 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.

Number of conditional rights and options granted in the year

	CONDITIONAL RIGHTS	OPTIONS
Directors of the company		
FM O'Halloran	43,435	110,884
Officers of the consolidated entity		
PE Grove	44,448	113,470
SP Burns	30,634	78,206
TM Kenny	56,699	144,747
MD ten Hove	24,794	63,298
PE Glen	33,774	86,220

Number of shares and options held by directors

	SHARES	OPTIONS	CONDITIONAL RIGHTS	DIRECTOR RELATED ENTITIES' SHARES
LF Bleasel AM	24,000	–	–	18,168
EJ Cloney	770,025	–	–	–
CP Curran AO	54,563	–	–	416,349
The Hon NF Greiner AC	42,030	–	–	10,000*
BJ Hutchinson	7,320	–	–	20,126
CLA Irby	15,000	–	–	–
IYL Lee	10,062	–	–	–
FM O'Halloran	866,597	310,884	43,435	51,192

* Warrants to purchase shares

Meetings of directors

	FULL MEETINGS* OF DIRECTORS	MEETINGS OF COMMITTEES			
		CHAIRMAN'S	AUDIT	REMUNERATION	INVESTMENT
NUMBER OF MEETINGS HELD	9	2	4	4	3
	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED	NUMBER ATTENDED
LF Bleasel AM	9	–	4	4	–
EJ Cloney	9	2	–	4	3
CP Curran AO	9	2	–	4	3
The Hon NF Greiner AC	9	–	4	4	–
BJ Hutchinson	9	–	4	–	3
CLA Irby	9	–	–	–	3
IYL Lee	9	–	4	–	3
FM O'Halloran	9	2	4	–	3

* Included a five day mid term review meeting in London

In addition, 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

The Hon NF Greiner AC and LF Bleasel AM retire by rotation and offer themselves for re-election.

Auditor

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

Signed in SYDNEY this 25th day of February 2004 in accordance with a resolution of the directors.

EJ Cloney
Director

FM O'Halloran
Director

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Revenue					
Premium revenue		–	–	7,816	7,197
Other revenue		488	221	1,424	1,304
Unrealised gains on investments		–	–	122	–
Investment income – ABC investments pledged for funds at Lloyd’s	27	–	–	5	–
	2	488	221	9,367	8,501
Expenses		92	3	8,515	7,974
Unrealised losses on investments		–	68	–	143
Borrowing costs expense		25	3	80	73
Borrowing costs expense – ABC securities for funds at Lloyd’s	27	–	–	7	–
Profit from ordinary activities before income tax	3	371	147	765	311
Income tax (credit) expense attributable to profit from ordinary activities	4	(24)	(3)	188	33
Profit from ordinary activities after income tax		395	150	577	278
Net profit (loss) attributable to outside equity interests		–	–	5	(1)
Net profit attributable to members of the company	19	395	150	572	279
Net decrease in foreign currency translation reserve on translation of self-sustaining foreign operations	19	–	–	(109)	(11)
Total changes in equity other than those resulting from transactions with owners as owners	19	395	150	463	268
				CENTS	CENTS
Basic earnings per share	29			86.5	42.7
Diluted earnings per share	29			77.5	43.4

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
CURRENT ASSETS					
Cash		1	–	717	745
Receivables	6	1,458	775	2,954	3,380
Reinsurance and other recoveries on outstanding claims	15	–	–	772	1,137
Deferred insurance costs	7	–	–	1,167	1,131
Investments	9	–	–	4,078	4,592
Tax assets		–	–	46	62
Other		–	–	3	7
TOTAL CURRENT ASSETS		1,459	775	9,737	11,054
NON-CURRENT ASSETS					
Reinsurance and other recoveries on outstanding claims	15	–	–	2,113	2,529
Investments	9	3,141	2,732	7,028	6,167
ABC investments pledged for funds at Lloyd's	27	–	–	731	–
Plant and equipment	12	–	–	110	133
Intangibles	13	–	–	511	516
Deferred tax assets		–	–	116	146
Other	8	18	–	132	90
TOTAL NON-CURRENT ASSETS		3,159	2,732	10,741	9,581
TOTAL ASSETS		4,618	3,507	20,478	20,635
CURRENT LIABILITIES					
Trade and other creditors	14	1,047	1,545	956	1,199
Outstanding claims	15	–	–	3,011	3,511
Unearned premium		–	–	3,320	3,180
Borrowings	16	–	–	86	251
Current tax liabilities		80	3	155	68
TOTAL CURRENT LIABILITIES		1,127	1,548	7,528	8,209
NON-CURRENT LIABILITIES					
Outstanding claims	15	–	–	7,469	8,149
Borrowings	16	332	–	1,248	1,205
ABC securities for funds at Lloyd's	27	–	–	731	–
Deferred tax liabilities		646	30	117	33
Provisions	17	–	–	17	18
TOTAL NON-CURRENT LIABILITIES		978	30	9,582	9,405
TOTAL LIABILITIES		2,105	1,578	17,110	17,614
NET ASSETS		2,513	1,929	3,368	3,021
EQUITY					
Share capital	18	2,340	1,926	2,340	1,926
Convertible preference shares	18	–	–	–	274
Equity component of hybrid securities	16	–	–	59	59
Reserves	19	–	–	(119)	(10)
Retained profits	19	173	3	1,033	705
EQUITY attributable to members of the company		2,513	1,929	3,313	2,954
OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES	11	–	–	55	67
TOTAL EQUITY	19	2,513	1,929	3,368	3,021

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
OPERATING ACTIVITIES					
Premium received		–	–	7,897	7,685
Reinsurance and other recoveries received		–	–	1,248	1,343
Outward reinsurance paid		–	–	(1,646)	(1,770)
Claims paid		–	–	(3,996)	(4,462)
Insurance costs paid		–	–	(1,499)	(1,414)
Other underwriting costs		–	–	(222)	(157)
Interest received		5	–	375	354
Dividends received		347	28	45	31
Other operating income		–	–	2	4
Other operating payments		(3)	–	(39)	(15)
Interest paid		(23)	–	(54)	(60)
Income taxes paid		(3)	–	(22)	(28)
CASH FLOWS from operating activities	31	323	28	2,089	1,511
INVESTING ACTIVITIES					
Proceeds on sale of equity investments		–	–	706	597
Proceeds on sale of properties		–	–	2	11
Proceeds on sale of plant and equipment		–	–	1	3
Payments for purchase of equity investments		–	–	(925)	(837)
Proceeds from foreign exchange transactions		–	–	90	–
Payments for purchase of other investments		–	–	(1,883)	(1,682)
Payments for purchase of ABC investments		–	–	(777)	–
(Payments for purchase) proceeds from sale of controlled entities and business acquired (consolidated is net of cash acquired)		(485)	(443)	(3)	23
Payments for purchase of properties		–	–	(3)	(10)
Payments for purchase of plant and equipment		–	–	(31)	(53)
CASH FLOWS from investing activities		(485)	(443)	(2,823)	(1,948)
FINANCING ACTIVITIES					
(Payments to) proceeds from controlled entities		(402)	384	–	–
Proceeds from issue of shares		301	122	–	91
Proceeds from borrowings		378	–	461	1,170
Proceeds from issue of ABC securities		–	–	777	–
Repayment of borrowings		–	–	(268)	(443)
Dividends paid		(114)	(91)	(133)	(115)
CASH FLOWS from financing activities		163	415	837	703
INCREASE IN CASH HELD		1	–	103	266
Cash at the beginning of the financial year		–	–	745	459
Effect of exchange rate changes on cash		–	–	(131)	20
CASH AT THE END OF THE FINANCIAL YEAR		1	–	717	745

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 2003

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 2003 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.

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

(b) Premium revenue

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

(c) Unearned premium

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

(d) Outward reinsurance

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

(e) Claims

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

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

(f) Acquisition costs

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

(g) Investment income

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

(h) Taxation

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

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

(j) Intangibles

Intangible assets are valued at cost unless there has been a permanent diminution in value, in which case they are valued at residual value. The excess of book value over residual value of intangibles including goodwill is amortised using the straight line method over no more than 20 years.

(k) Depreciation

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

(l) Borrowings

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

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

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

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.

(n) Cash

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

(o) Equity

Ordinary share capital 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

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other 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) Superannuation

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

(s) Rounding of amounts

The company is of a kind referred to in class order 98/0100, issued by ASIC, 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.

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
2 Revenue				
Revenue from ordinary activities				
Premium revenue				
Direct	–	–	5,606	5,062
Inward reinsurance	–	–	2,210	2,135
	–	–	7,816	7,197
Outward reinsurance revenue				
Reinsurance and other recoveries	–	–	997	870
Investment revenue				
Investment income	478	221	427	412
Exchange gains	10	–	–	22
	488	221	427	434
Unrealised gains on investments	–	–	122	–
Investment income – ABC investments pledged for funds at Lloyd's	–	–	5	–
Total revenue	488	221	9,367	8,501

3 Profit from ordinary activities before income tax

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

	NOTE	2003 $M	2002 $M
Gross written premium		8,350	7,723
Unearned premium movement		(534)	(526)
Gross earned premium		7,816	7,197
Outward reinsurance premium		1,809	1,627
Deferred reinsurance premium movement		(29)	(72)
Outward reinsurance premium expense		1,780	1,555
Net earned premium		6,036	5,642
Gross claims incurred		4,680	4,562
Claims settlement expenses		140	120
Reinsurance and other recoveries		(997)	(870)
Net claims incurred	5	3,823	3,812
Net commission		1,100	998
Other acquisition costs		397	387
Underwriting and other expenses		344	315
		5,664	5,512
UNDERWRITING PROFIT		372	130
Investment income on policyholders' funds		255	276
INSURANCE PROFIT		627	406
Investment income on shareholders' funds		138	(95)
PROFIT FROM ORDINARY ACTIVITIES before income tax		765	311

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
3 Profit from ordinary activities before income tax continued				
(b) Investment and other income				
Dividends from controlled entities	441	209	–	–
Dividends from non-related entities	–	–	46	30
Interest received or receivable from controlled entities	32	12	–	–
Interest received or receivable from non-related entities	–	–	365	365
Other income	5	–	16	17
	478	221	427	412
Exchange gains (losses)	10	(3)	(13)	22
Realised (losses) gains on investments				
Equities and properties	(79)	–	(13)	(29)
Fixed interest and other	–	–	1	21
	409	218	402	426
Interest paid or payable to controlled entities	(8)	(1)	–	–
Interest paid or payable to non-related entities	(17)	(2)	(80)	(73)
Investment income – ABC investments pledged for funds at Lloyd's	–	–	5	–
Borrowing costs expense – ABC securities for funds at Lloyd's	–	–	(7)	–
Other investment expenses*	(13)	–	(49)	(29)
INVESTMENT AND OTHER INCOME before unrealised gains (losses) on investments	371	215	271	324
Unrealised (losses) gains on investments				
Shares in controlled entities	–	(68)	–	–
Equities and properties	–	–	176	(172)
Fixed interest and other	–	–	(54)	29
	371	147	393	181
Investment income on policyholders' funds			255	276
Investment income on shareholders' funds			138	(95)
			393	181

* Includes amortisation of goodwill and write-off of intangibles of $20 million (2002 $8 million).

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
(c) Specific items				
Payments on operating leases	–	–	23	34
Depreciation of assets	–	–	36	40
Bad debts written off	–	–	6	2
Increase in provision for employee entitlements	–	–	4	2
Increase in provision for doubtful debts	–	–	19	14
Amortisation of goodwill and write-off of intangibles	–	–	20	8
Loss on sale of plant and equipment	–	–	1	1

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M

4 Income tax

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

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Profit from ordinary activities before income tax	371	147	765	311
Prima facie tax payable at 30%	111	44	229	93
Tax effect of permanent differences:				
Rebateable dividends	(132)	(63)	(11)	(7)
Differences in tax rates	7	7	(3)	(1)
Market value adjustments	–	12	–	(41)
Income tax expense related to current and deferred tax transactions of the wholly-owned controlled entities in the tax-consolidated group	74	–	–	–
Recovery of income tax expense under tax sharing agreement	(74)	–	–	–
Other, including non-allowable expenses and non-taxable income	(4)	–	(3)	2
Prima facie tax adjusted for permanent differences	(18)	–	212	46
Future income tax benefit not recognised	–	–	4	(1)
Over provision in prior years	(6)	(3)	(28)	(12)
Income tax (credit) expense attributable to profit from ordinary activities	(24)	(3)	188	33

(b) Future income tax benefit relating to tax losses

The consolidated entity has a cumulative income tax benefit not brought to account of $2 million (2002 $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 $4 million (2002 $58 million) relating to tax losses which the directors are virtually certain will be realised.

(c) Tax consolidation

The directors have determined that the company will be the head entity in a tax-consolidated group comprising the company and all of its Australian wholly-owned controlled entities ("Australian entities") from the implementation date of 1 January 2003, and have applied UIG 52: Income tax accounting under the tax consolidation system. The financial effect of this change has been brought to account in the financial statements for the company and the consolidated entity for the year ended 31 December 2003 as set out above.

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

At the time of this report, a statement has not yet been made to formally notify the Australian Taxation Office that the tax consolidation regime has been adopted by the Australian entities.

Tax consolidation legislation requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders as at 31 December 2003 has been recognised under the new legislation. Refer note 18(f).

	2003 $M	2002 $M

5 Claims incurred (consolidated)

(a) Claims analysis

	2003 $M	2002 $M
Gross claims incurred and related expenses		
Direct	3,507	3,388
Inward reinsurance	1,313	1,294
	4,820	4,682
Reinsurance and other recoveries		
Direct	843	657
Inward reinsurance	154	213
	997	870
Net claims incurred	3,823	3,812

(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.

	2003			2002		
	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEARS $M	TOTAL $M
Gross claims incurred and related expenses						
Undiscounted	4,740	(27)	4,713	4,698	(82)	4,616
Discount	(321)	428	107	(284)	350	66
	4,419	401	4,820	4,414	268	4,682
Reinsurance and other recoveries						
Undiscounted	866	17	883	818	(70)	748
Discount	(46)	160	114	(40)	162	122
	820	177	997	778	92	870
Net claims incurred						
Undiscounted	3,874	(44)	3,830	3,880	(12)	3,868
Discount	(275)	268	(7)	(244)	188	(56)
	3,599	224	3,823	3,636	176	3,812

6 Receivables – current

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Trade debtors				
Premium	–	–	696	853
Reinsurance and other recoveries	–	–	643	732
Unclosed premium	–	–	1,188	1,335
	–	–	2,527	2,920
Doubtful debts provision*				
Premium	–	–	(23)	(34)
Reinsurance and other recoveries	–	–	(75)	(69)
	–	–	2,429	2,817
Other debtors	–	–	330	461
Treasury receivables	–	–	94	5
Investment receivables	4	–	101	97
Amounts due from controlled entities	1,454	775	–	–
	1,458	775	2,954	3,380

* A doubtful debts provision against reinsurance and other recoveries on outstanding claims of $86 million (2002 $89 million) is included in note 15.

	2003 $M	2002 $M
7 Deferred insurance costs (consolidated)		
Deferred reinsurance premium	534	472
Deferred net commission	463	466
Deferred acquisition costs	170	193
	1,167	1,131

	THE COMPANY		CONSOLIDATED	
	2003 $M	2002 $M	2003 $M	2002 $M
8 Other non-current assets				
Loans secured by shares	–	–	76	69
Accrued borrowing costs	18	–	34	21
Other	–	–	22	–
	18	–	132	90

	2003 $M	2002 $M
9 Investments – market value (consolidated)		
Interest bearing securities		
Short term money	3,499	3,549
Fixed interest securities and other	6,209	6,048
Mortgages	7	25
	9,715	9,622
Equities		
Quoted	1,245	908
Unquoted	27	118
	1,272	1,026
Properties	119	111
	11,106	10,759
Current	4,078	4,592
Non-current	7,028	6,167
	11,106	10,759

Refer to note 27(c) for details of ABC investments pledged for funds at Lloyd's.

(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 $1,403 million (2002 $1,618 million) which, in the normal course of business, will be reinvested and not used for working capital.

(c) Charges over investments and other assets

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of QBE's corporate members at Lloyd's of London as described in note 23. Details of the fixed and floating charges over ABC investments pledged for funds at Lloyd's are set out in note 27(c).

10 Financial instruments (consolidated)

(a) Interest rate risk

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

	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL MARKET VALUE	
	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M	2003 $M	2002 $M
(i) Net interest bearing financial assets (excluding ABC investments and ABC securities)										
Interest bearing securities	2,612	2,279	3,723	3,891	3,259	3,288	121	164	9,715	9,622
Weighted average interest rate	3.0%	2.8%	4.3%	4.6%	4.8%	4.5%	5.5%	4.6%	4.1%	4.0%
Borrowings	–	–	(86)	(251)	(1)	(44)	(1,247)	(1,161)	(1,334)	(1,456)
Weighted average interest rate	–	–	4.2%	5.6%	5.0%	4.4%	4.9%	4.6%	4.9%	4.8%
Net interest bearing financial assets	2,612	2,279	3,637	3,640	3,258	3,244	(1,126)	(997)	8,381	8,166
(ii) ABC investments and ABC securities										
ABC investments pledged for funds at Lloyd's	–	–	–	–	731	–	–	–	731	–
Weighted average interest rate	–	–	–	–	3.5%	–	–	–	3.5%	–
ABC securities for funds at Lloyd's	–	–	–	–	(731)	–	–	–	(731)	–
Weighted average interest rate	–	–	–	–	4.7%	–	–	–	4.7%	–

The consolidated entity's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. The company is exposed to interest rate risk in respect of the ABC securities. Refer note 27(c). Accordingly, the company has entered into an interest rate swap agreement with a financial institution under which it is obliged to pay interest at a variable rate and receive interest at a fixed rate. Contractual amounts outstanding for the interest rate swap at the balance date are a net receivable of $3 million (2002 $nil). The contract requires settlement of net interest receivable or payable every six months.

	2003 $M	2002 $M
(iii) Reconciliation of net financial assets to net assets		
Net financial assets		
Interest bearing	8,381	8,166
ABC investments pledged for funds at Lloyd's	731	–
ABC securities for funds at Lloyd's	(731)	–
Non-interest bearing and other	2,310	2,119
Net insurance liabilities	(7,943)	(8,026)
Net non-financial assets	620	762
Net assets	3,368	3,021

(b) Foreign exchange and market risk

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

(i) The consolidated entity is exposed to foreign exchange risk on its net position in foreign currencies. The consolidated entity uses derivatives to help manage this exposure by entering into forward foreign exchange contracts and currency options, some of which involve the exchange of two foreign currencies according to the needs of controlled foreign entities. Contractual amounts for foreign exchange derivatives outstanding at balance date include forward foreign exchange contracts to purchase $4,061 million (2002 $2,550 million).

The maturity profile of these derivatives is as follows:

	2003 $M	2002 $M
Not later than one year	2,932	1,823
Later than one but less than five years	604	–
Later than five years	525	727
	4,061	2,550

10 Financial instruments (consolidated) continued

(b) Foreign exchange and market risk continued

(ii) The consolidated entity is exposed to market risk on its investment in equities and fixed interest securities and uses forward contracts and options to help manage this exposure. All derivative positions entered into by the consolidated entity are for hedging purposes. No speculative positions are entered into. Contractual amounts for written options outstanding at the balance date were $nil (2002 $13 million). There were no amounts outstanding for purchased options (2002 $nil).

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

(c) Credit risk

The credit risk on financial assets of the consolidated entity is generally the carrying amount, which is net of any provisions. The consolidated entity only uses derivatives in highly liquid markets. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with each counterparty. The consolidated entity does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security to support derivatives.

11 Shares in controlled entities (parent company)

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	2002 %
QBE Insurance Group Limited	Australia		
Atlasz Utasbiztosítási Egyes Ügynöki Kft	Hungary	100.00	100.00
Atlasz Real Estate and Management Limited	Hungary	100.00	100.00
Australian Aviation Insurance Group (Agency) Pty Limited	Australia	100.00	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	100.00	100.00
Bankside Insurance Holdings Limited	UK	100.00	100.00
Bankside Services (Americas) Inc	USA	100.00	100.00
Bankside Services Limited	UK	100.00	100.00
Bankside Syndicates Limited (liquidated)	UK	–	100.00
Bankside Underwriting Agencies Limited	UK	100.00	100.00
Bates Cunningham Underwriting Limited	UK	100.00	100.00
Belgravia Facilities Limited (liquidated)	UK	–	100.00
BIDV – QBE Insurance Company Limited*	Vietnam	50.00	50.00
Compania Internationale de Asigurari QBE ASITO SA	Moldova	72.60	72.60
DA Constable Syndicate Limited	UK	100.00	100.00
DA Constable Syndicate Pty Limited	Australia	100.00	100.00
DA Constable Syndicate (Ireland) Limited	Ireland	100.00	100.00
Energy Insurance Services Limited	UK	100.00	100.00
Equator Investments Pty Limited	Australia	100.00	100.00
Equator Reinsurances Limited	Bermuda	100.00	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 Management Services Limited	UK	100.00	100.00
IT Insurance Company Limited (liquidated)	UK	–	100.00
IT Investments (1990) Limited (liquidated)	UK	–	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 (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

11 Shares in controlled entities (parent company) continued

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	EQUITY HOLDING 2002 %
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
Mantis Reef Limited***	Cayman Is	–	–
Mantis Reef Pledge Limited***	Cayman Is	–	–
Minster Court Asset Management Limited	UK	100.00	100.00
Pitt Nominees Pty Limited	Australia	100.00	100.00
PT Asuransi QBE Pool Indonesia	Indonesia	60.00	60.00
QBE ART SA	Argentina	83.00	83.00
QBE Atlasz Biztosito Rt	Hungary	100.00	100.00
QBE Australia Pty Limited	Australia	100.00	100.00
QBE Brasil Seguros SA	Brazil	100.00	100.00
QBE Capital Limited	Jersey	100.00	100.00
QBE Corporate Capital Holdings plc	UK	100.00	100.00
QBE Corporate Holdings Ltd	UK	100.00	100.00
QBE Corporate Limited	UK	100.00	100.00
QBE Finance Pty Limited	Australia	100.00	100.00
QBE Funding Limited	Jersey	100.00	100.00
QBE Funding II Limited	Jersey	100.00	100.00
QBE Funding Trust	USA	100.00	100.00
QBE Funding Trust II	USA	100.00	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 Company (UK) Limited	UK	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

11 Shares in controlled entities (parent company) continued

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING 2003 %	2002 %
QBE Makedonija**	Macedonia	65.03	65.03
QBE Management (Bermuda) Limited	Bermuda	100.00	–
QBE Management Inc	USA	100.00	100.00
QBE Management Services Pty Ltd	Australia	100.00	100.00
QBE Management (UK) Limited	UK	100.00	100.00
QBE Marine Underwriting Agency Pte Limited	Singapore	70.00	70.00
QBE-MBF Insurans Berhad	Malaysia	51.00	51.00
QBE Nominees (PNG) Pty Limited	PNG	100.00	100.00
QBE Nominees Pty Limited	Australia	100.00	100.00
QBE Pacific Insurance Limited	PNG	100.00	100.00
QBE (PNG) Pty Limited	PNG	100.00	100.00
QBE Poistovna AS	Slovakia	100.00	100.00
QBE Re Services Pty Limited	Australia	100.00	100.00
QBE Reinsurance Administration Pty Ltd	Australia	100.00	100.00
QBE Reinsurance Corporation	USA	100.00	100.00
QBE Reinsurance (Bermuda) Limited	Bermuda	100.00	100.00
QBE Reinsurance (Europe) Limited	Ireland	100.00	100.00
QBE Reinsurance (UK) Limited	UK	100.00	100.00
QBE Securities Pty Limited (in liquidation)	Australia	100.00	100.00
QBE Specialty Insurance Company	USA	100.00	100.00
QBE Trade Indemnity Pty Limited (in liquidation)	Australia	100.00	100.00
QBE-UGPB Insurance*	Ukraine	50.00	50.00
QBE Underwriting Agency Ltd	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
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	100.00	100.00
Sandsale Limited	UK	100.00	100.00
Sinkaonamahasarn Company Limited*	Thailand	49.00	49.00
Star Trust***	Cayman Is	–	–
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
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:

For accounting purposes, the consolidated entity has effective control of QBE Insurance (Thailand) Co Ltd, QBE-UGPB Insurance and BIDV-QBE Insurance Company Limited.

The issued share capital of Hyfield Company Limited and Sinkaonamahasarn Company Limited owned by the consolidated entity is held by various controlled entities. Other controlled entities have the right to acquire the remaining share capital.

** The shareholding in QBE Makedonija equates to 73.28% (2002 73.28%) of the voting rights.

*** In accordance with the requirements of UIG 28: Consolidation – special purpose entities, Mantis Reef Limited, Mantis Reef Pledge Limited and Star Trust have been included in the consolidated financial statements. Refer note 27(c).

11 Shares in controlled entities (parent company) continued

(a) Change of name

Controlled entity	Former name
DA Constable Syndicate (Ireland) Limited	RJ Wallace Syndicates (Ireland) Limited
DA Constable Syndicate Pty Limited	Limit (Australia) Pty Limited
QBE Insurance Company (UK) Limited	Iron Trades Insurance Company Limited

	2003 $M	2002 $M
(b) Outside equity interests in controlled entities (consolidated)		
Ordinary share capital	57	56
Reserves	(13)	4
Retained profits	11	7
	55	67

(c) Undistributed profits of overseas controlled entities

Undistributed profits of overseas controlled entities amount to $456 million (2002 $167 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 2003 or 2002.

	2003 $M	2002 $M
12 Plant and equipment (consolidated)		
Cost	297	308
Accumulated depreciation	(187)	(175)
	110	133
13 Intangibles (consolidated)		
Goodwill at cost, less amounts written off	200	102
Accumulated amortisation	(38)	(18)
	162	84
Identifiable intangibles	349	432
	511	516

During 2003, intangibles of $90 million were transferred from identifiable intangibles to goodwill and are being amortised over a period not exceeding 20 years.

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
14 Trade and other creditors				
Trade creditors	–	–	624	800
Amounts due to controlled entities	1,030	1,545	–	–
Other creditors and accrued expenses	12	–	273	301
Treasury creditors	4	–	19	95
Investment creditors	1	–	40	3
	1,047	1,545	956	1,199

15 Outstanding claims (consolidated)

	2003 $M	2002 $M
Gross outstanding claims including prudential margins	12,001	13,215
Discount to present value	(1,521)	(1,555)
	10,480	11,660
Current	3,011	3,511
Non-current	7,469	8,149
	10,480	11,660
Reinsurance and other recoveries on outstanding claims	3,241	4,100
Discount to present value	(356)	(434)
	2,885	3,666
Current	772	1,137
Non-current	2,113	2,529
	2,885	3,666
NET OUTSTANDING CLAIMS	7,595	7,994
Net outstanding claims by geographic segment		
Australian general insurance	1,615	1,251
Asia-Pacific general insurance	372	419
the Americas	465	590
European company operations	2,518	2,859
Lloyd's division	2,625	2,875
	7,595	7,994

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 debts provision of $86 million (2002 $89 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:

	2003 %		2002 %	
	SUCCEEDING YEAR	SUBSEQUENT YEARS	SUCCEEDING YEAR	SUBSEQUENT YEARS
Australian general insurance				
Inflation rate	4.00–11.00	4.00–11.00	3.50–10.50	3.50–10.50
Discount rate	5.87–6.10	5.84–6.55	5.25	5.25–6.20
Asia-Pacific general insurance				
Discount rate	0.02–10.24	0.23–12.60	0.03–13.50	0.16–13.50
the Americas				
Discount rate	1.70	1.70	2.50	2.50
European company operations				
Discount rate	0.90–5.40	1.30–5.70	2.00–5.25	2.50–6.20
Lloyd's division				
Discount rate	4.50	4.50	4.50	4.50

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

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:

	2003 YEARS	2002 YEARS
Australian general insurance	3.1	2.8
Asia-Pacific general insurance	1.7	1.8
the Americas	2.1	2.2
European company operations	3.0	2.9
Lloyd's division	3.2	3.2
Consolidated entity	3.0	2.9

16 Borrowings

Borrowings are repayable as follows:

		THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Bank loans					
1 March 2003	MKD39 million	–	–	–	1
31 March 2003	A$150 million	–	–	–	150
19 June 2003	US$20 million	–	–	–	36
14 October 2003	US$6 million	–	–	–	11
21 November 2003	US$30 million	–	–	–	53
21 January 2004	US$30 million	–	–	40	–
27 April 2004	US$6 million	–	–	8	–
15 October 2004	EUR16 million	–	–	27	30
21 December 2004	US$8 million	–	–	11	14
11 July 2005	EUR1 million	–	–	1	–
		–	–	87	295
Eurobonds*					
2 August 2010	A$150 million/GBP58 million	–	–	138	168
2 August 2010	A$20 million/GBP8 million	–	–	18	22
2 August 2010	EUR115 million/GBP70 million	–	–	145	177
		–	–	301	367
Hybrid securities**					
15 April 2022	US$816 million	–	–	614	794
Subordinated debt					
1 July 2023	US$250 million	332	–	332	–
Total borrowings		332	–	1,334	1,456
Current		–	–	86	251
Non-current		332	–	1,248	1,205
		332	–	1,334	1,456

Refer to note 27(c) for details of ABC securities for funds at Lloyd's.

* 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. Refer note 16(b).

16 Borrowings 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 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 2002, a controlled entity issued US$471 million of 20 year hybrid securities. Interest accumulates on the securities and is payable at the end of the 20 year term. In the event of 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 three 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).

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

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

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

17 Provisions – non-current (consolidated)

	2003 $M	2002 $M
Long service leave	7	6
Other provisions	9	11
Amounts payable under acquisition agreements	1	1
	17	18

	2003 $M	2002 $M

18 Share capital (company and consolidated)

	2003 $M	2002 $M
(a) Issued ordinary shares, fully paid	2,340	1,926

(b) Movements in issued ordinary share capital

	NUMBER OF SHARES 000	$M
Issued and fully paid at 1 January 2002	585,319	1,732
Shares issued under Employee Share and Option Plan	3,595	26
Employee options exercised	867	5
Share placement	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
Shares issued under Employee Share and Option Plan	2,935	24
Employee options exercised	422	3
Vendor options exercised	251	2
Conversion of convertible preference shares	35,926	274
Shares issued under Dividend Reinvestment Plan	12,666	111
Shares issued under Dividend Election Plan	2,600	–
Shares issued to holders of hybrid securities	1,318	–
Shares issued under the Senior Executive Equity Scheme	41	–
Issued and fully paid at 31 December 2003	671,647	2,340

(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. Costs of $10 million associated with the issue of the shares were applied against the proceeds of the equity raising. These shares converted to 35,926,397 ordinary shares in the company on 18 August 2003.

The convertible preference shares were entitled to a non-cumulative dividend of 8% per annum, payable on 18 February and 18 August.

(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 in certain circumstances as set out in the Plan, such as termination of employment or breach of condition.

(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 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, although for any 2004 entitlements this period will increase to five years. They must be exercised within a 12 month period. Interest free loans are granted on the terms permitted by the Plan to persons who hold options under the SEES to fund the exercise of the options.

18 Share capital (company and consolidated) continued

(d) Employee share schemes continued

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 through ill health or age, or death), is not subject to disciplinary proceedings on that date and, in certain circumstances, if the financial year results for which the conditional rights were granted have not deteriorated significantly since the grant of the conditional rights.

(iii) Options

During the year, the company granted to 263 (2002 74) qualifying employees options to subscribe for 3,354,901 (2002 982,695) ordinary shares with a total market value of $27 million (2002 $7 million), being the quoted price at the date the options were granted.

At 31 December 2003, 6,811,500 (2002 4,528,059) options were outstanding with an exercise price of $57 million (2002 $38 million). The market value of the options outstanding at balance date is $72 million (2002 $37 million), calculated by reference to the quoted market value of the underlying shares at that date. During the financial year, 422,234 (2002 867,164) options were exercised, resulting in the issue of 422,234 (2002 867,164) shares. Details of options issued, exercised and lapsed or cancelled during the year are as follows:

GRANT DATE	EXERCISE PRICE	BALANCE AT START OF YEAR	ISSUED DURING YEAR	EXERCISED DURING YEAR	CANCELLED/ LAPSED DURING YEAR	BALANCE AT END OF YEAR
15 December 1998	$6.60	392,600	–	61,300	331,300	–
1 October 1999	$5.84	267,200	–	71,100	–	196,100
1 June 2000	$6.53	30,000	–	10,000	–	20,000
1 July 2000	$7.62	40,000	–	–	–	40,000
1 October 2000	$8.63	210,620	–	108,760	–	101,860
1 November 2000	$8.90	50,000	–	–	–	50,000
1 January 2001	$9.76	25,000	–	15,000	–	10,000
2 April 2001	$10.72	132,406	–	6,364	4,200	121,842
19 April 2001	$11.45	200,000	–	–	–	200,000
25 May 2001	$10.65	707,500	–	–	52,500	655,000
1 June 2001	$10.69	175,000	–	–	20,000	155,000
30 June 2001	$11.50	200,000	–	–	50,000	150,000
6 July 2001	$11.20	30,000	–	–	–	30,000
10 December 2001	$7.27	1,095,000	–	25,000	105,000	965,000
28 February 2002	$7.79	30,000	–	6,000	–	24,000
18 March 2002	$7.49	842,733	–	15,822	21,962	804,949
14 November 2002	$7.37	100,000	–	–	–	100,000
13 March 2003	$8.04	–	3,344,901	102,888	64,264	3,177,749
3 November 2003	$10.14	–	10,000	–	–	10,000
		4,528,059	3,354,901	422,234	649,226	6,811,500

The options outstanding at the balance date are as follows:

YEAR OF EXPIRY	FUTURE PERFORMANCE OPTIONS	REGULAR OPTIONS	SEES OPTIONS	TOTAL OPTIONS
2004	819,000	47,100	–	866,100
2005	340,000	211,860	–	551,860
2006	731,000	161,842	474,949	1,367,791
2007	965,000	24,000	3,036,749	4,025,749
	2,855,000	444,802	3,511,698	6,811,500

The future performance options have been issued subject to the achievement of specific performance criteria. An example of such criteria is set out on page 43 of the directors' report.

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.

18 Share capital (company and consolidated) continued

(e) Dividend Reinvestment and Dividend Election Plans

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

The last date for receipt of election notices applicable to the final dividend is 8 March 2004 for the Dividend Reinvestment Plan and 24 February 2004 for the Dividend Election Plan.

	2003 $M	2002 $M
(f) Dividends		
Previous year final dividend paid on ordinary shares		
Franked at 30% – 2.22 cents (2002 2.02 cents)	14	12
Unfranked – 16.28 cents (2002 11.48 cents)	100	68
	114	80
Interim dividend paid on ordinary shares		
Franked at 30% – 3.0 cents (2002 1.98 cents)	20	25
Unfranked – 17.0 cents (2002 14.52 cents)	113	74
	133	99
Dividend reinvested under the Dividend Election Plan	(22)	(16)
Total dividend paid on ordinary shares	225	163
Preference dividend paid	19	24
Total dividend paid	244	187

The interim dividend of $133 million was paid on 25 September 2003. On 25 February 2004, the directors declared a 30% franked final dividend of $148 million (2002 12% franked final dividend of $114 million).

The franking account balance on a tax paid basis as at the balance date was a surplus of $103 million (2002 $nil). Changes in Australian income tax legislation require franking accounts to be maintained on a tax paid basis rather than an after-tax profits basis and the comparatives have been restated accordingly.

	THE COMPANY		CONSOLIDATED	
	2003 $M	2002 $M	2003 $M	2002 $M
19 Reserves				
General				
Balance brought forward	–	–	5	5
Transfer to retained profits	–	–	–	–
Balance at the end of the year	–	–	5	5
Realised capital profits				
Balance brought forward	–	–	6	30
Transfer to retained profits	–	–	–	(24)
Balance at the end of the year	–	–	6	6
Foreign currency translation				
Balance brought forward	–	–	(21)	(10)
Deficit for the year	–	–	(109)	(11)
Balance at the end of the year	–	–	(130)	(21)
Total reserves at the end of the year	–	–	(119)	(10)

19 Reserves continued

(a) Retained profits

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Retained profits at the beginning of the year	3	16	705	589
Transfer from reserves	–	–	–	24
Net profit after tax attributable to members of the company	395	150	572	279
Total available for appropriation	398	166	1,277	892
Dividends paid	(225)	(163)	(244)	(187)
Retained profits at the end of the year	173	3	1,033	705

(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. Refer note 1(m).

(c) Equity

	NOTE	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
General					
Equity at the beginning of the year		1,929	1,748	3,021	2,668
Changes in equity recognised in the statements of financial performance		395	150	463	268
Transactions with owners as owners					
Dividends paid	18(f)	(225)	(163)	(244)	(187)
New ordinary shares issued	18(b)	414	194	414	194
Conversion of convertible preference shares	18(c)	–	–	(274)	–
Equity component of hybrid securities	16(b)	–	–	–	59
Changes in outside equity interests	11(b)	–	–	(12)	19
Equity at the end of the year		2,513	1,929	3,368	3,021

	THE COMPANY 2003 $000	THE COMPANY 2002 $000	CONSOLIDATED 2003 $000	CONSOLIDATED 2002 $000

20 Remuneration of directors and executives

	THE COMPANY 2003 $000	THE COMPANY 2002 $000	CONSOLIDATED 2003 $000	CONSOLIDATED 2002 $000
(a) Income paid or payable, or otherwise made available, to directors of the company and entities comprising the consolidated entity	3,866	3,334	4,874	4,481

(b) The number of directors of the company whose remuneration was within the following bands is:	2003	2002
$000		
30–40*	–	1
70–80	–	1
100–110	–	1
110–120	–	4
140–150	4	–
150–160	2	–
250–260	–	1
320–330	1	–
2,400–2,410	–	1
2,640–2,650**	1	–

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

** Details of Mr O'Halloran's incentives are included in the directors' report. These incentives are subject to the approval of shareholders.

Remuneration includes 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. It also includes a deemed value for options granted in the year or, in the case of the conditional rights and options issued under the SEES (refer note 18(d)), earned in the year.

Long term incentives have been calculated based on proposed international accounting standards on the recognition of share based payments. In accordance with draft guidelines issued by ASIC, the value attributed to the conditional rights and options earned in the year is calculated using established valuation techniques. Comparative information includes the value of conditional rights and options granted during the period in respect of the 2002 year.

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.

(c) A total of $13,088,000 (2002 $13,364,000) is owed to controlled entities by 83 (2002 85) executives who are directors of entities in the consolidated entity by way of loans relating to shares taken up under the Plan ranging from $8,000 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 2003 received or repaid loans for employee shares during the year: A Ajmanwra, B Bailey, M Brooker, A Broome, J Buckley, D Carroll, M Chalmers, I Chapman, R Chapman, KS Cheng, T Clarke, B Cotterill, I Davey, N Drabsch, J Fiore, C Fish, S Flore, D Fogarty, S Ford, K Hamann, P Haran, J Hunt, F Hynes, D Johnson, R Jones, T Kenny, J La Cava, P Laming, Law Po Tung, T Lawrence, J Lui, P May, E Miller, V McLenaghan, G McSwain, K Morris, M Peat, V Phunthikaphadr, J Price, S Price, D Ramsay, J Rudkin, J Rumpler, M Sheppard, M Sherwood, R Sparks, Tai Lee Heng, S Tandjung, M ten Hove, J Thanupubrungsun, G Tollifson, D Treanor, I Turner, P Turner, N Van der Venne, R Wallace, G Watson, J White, Yong Cho Choon. Loans advanced during the year for employee shares totalled $1,262,000 (2002 $3,659,000). Loans repaid during the period totalled $267,000 (2002 $2,342,000) for employee shares and $nil (2002 $293,000) for housing purposes.

	2003 $000	2002 $000
20 Remuneration of directors and executives continued		
(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	14,758	13,741

	2003	2002
(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
240–250	–	1
250–260	1	–
300–310	1	–
310–320	–	1
320–330	1	2
350–360	1	1
370–380	1	–
380–390	1	1
390–400	2	–
400–410	–	2
410–420	1	–
430–440	–	1
440–450	1	–
460–470	–	1
510–520	1	–
520–530	1	–
540–550	–	1
600–610	2	–
620–630	–	1
670–680	–	1
790–800	–	1
830–840	–	1
840–850	1	–
920–930	–	1
930–940	1	–
1,280–1,290	1	–
1,480–1,490	–	1
1,560–1,570	1	–
1,580–1,590	1	–
1,610–1,620	–	1
2,400–2,410	–	1
2,640–2,650	1	–
	20	20

* Remuneration is 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.

21 Superannuation commitments (consolidated)

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

The accounting policy is set out in note 1(r). Contributions are made to the plans by employees and entities typically as a percentage of salary and within the rules of the plans, and are based on funding schedules prepared by independent actuaries on the dates specified below. In addition, the consolidated entity continues to meet applicable statutory minimum funding requirements set out by legislation in the United Kingdom. The contribution rate in respect of defined benefit plans is agreed between the relevant controlled entity and the plans' trustees and actuaries.

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

Independent actuarial assessments of all significant plans are completed at least once every three years. The main plans were assessed by various qualified employees of Towers Perrin, AON Consulting and Watson Wyatt Worldwide. All valuations have been updated for information available at 31 December 2003.

2003	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 02	31 Dec 02	1 Jan 03	1 Apr 02		
Present value of employees' accrued benefits	141	209	11	122	8	491
Net market value of assets held by the plans	159	214	8	100	8	489
Excess (shortfall) of net assets over accrued benefits	18	5	(3)	(22)	–	(2)
Vested benefits*	141	202	11	122	6	482

2002	QBE GROUP STAFF SUPERANNUATION PLAN $M	IRON TRADES INSURANCE STAFF TRUST $M	EUROPEAN STAFF RETIREMENT BENEFIT PLAN $M	JANSON GREEN FINAL SALARY PENSION SCHEME $M	OTHER PLANS $M	TOTAL $M
Date of last actuarial valuation	31 Dec 00	31 Dec 99	1 Jan 01	1 Apr 02		
Present value of employees' accrued benefits	125	232	12	137	6	512
Net market value of assets held by the plans	139	233	7	88	9	476
Excess (shortfall) of net assets over accrued benefits	14	1	(5)	(49)	3	(36)
Vested benefits*	124	224	1	137	5	491

* 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.

	2003 $000	2002 $000
22 Remuneration of auditors		
PricewaterhouseCoopers – Australian firm*		
Audit or review of financial reports of the parent entity	628	539
Audit of financial reports of controlled entities	1,452	1,269
Audit of statutory returns	459	175
Other audit assurance services	393	312
Taxation services	153	240
Systems consulting	–	2
Other consulting and advisory services	73	18
	3,158	2,555
Related practices of PricewaterhouseCoopers – Australian firm*		
(including overseas PricewaterhouseCoopers firms)		
Audit of financial reports of controlled entities	2,821	2,911
Audit of statutory returns	1,216	1,440
Other audit assurance services	184	444
Taxation services	358	409
Systems consulting	–	1,832
Other consulting and advisory services	76	36
Actuarial services	19	165
Legal services	1,895	1,645
	6,569	8,882
	9,727	11,437
Audit and assurance services	7,153	7,090
Other services	2,574	4,347
	9,727	11,437
Other auditors		
Audit of financial reports of controlled entities	842	844

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

	THE COMPANY		CONSOLIDATED	
	2003 $M	2002 $M	2003 $M	2002 $M
23 Contingent liabilities				
The company and the consolidated entity had the following unsecured contingent liabilities:				
Guarantees of borrowings by controlled entities	649	989	–	–
Guarantees of forward foreign exchange contracts entered into by controlled entities	–	88	–	–
Letters of credit issued in support of the consolidated entity's participation in Lloyd's of London	36	736	84	794
Letters of credit issued in support of insurance liabilities of controlled entities	222	87	–	–
Guarantees to investors in hybrid securities	654	851	–	–
Guarantees to investors in ABC securities for funds at Lloyd's	731	–	–	–

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 $581 million (2002 $1,106 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.

Refer to note 27(c) for details of contingent liabilities in respect of ABC securities for funds at Lloyd's.

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
24 Capital commitments				
Estimated capital commitments (not later than one year)	–	–	6	5
25 Commitments for expenditure				
Operating leases				
Aggregate amounts contracted but not provided for in the financial report				
Not later than one year	–	–	27	23
Later than one but less than five years	–	–	66	59
Later than five years	–	–	72	97
	–	–	165	179

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.

ASIC 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.

	2003 $M	2002 $M
Statutory fund statement of financial position		
Current assets		
Cash and short term deposits	772	692
Debtors	148	142
Non-current assets		
Investments – market value	319	265
TOTAL ASSETS	1,239	1,099
Current liabilities		
Creditors	31	35
Unearned premium	199	186
Statutory funds to meet outstanding claims and statutory transfers	1,009	878
TOTAL LIABILITIES AND STATUTORY FUNDS	1,239	1,099

27 Lloyd's division (consolidated)

(a) Non-aligned syndicates

A controlled entity acquired Limit plc and its controlled entities ("Limit") in August 2000. From 1994 to 2000, Limit participated in the results of a number of syndicates managed by other managing agents at Lloyd's (non-aligned syndicates). In 2000, Limit sold its right to participate in the results of these syndicates after 31 December 2000. In 2001, Limit sold the rights to manage syndicate 318, previously managed by its controlled managing agency, to another managing 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 runoff of these syndicates is expected to complete by 31 March 2005. The consolidated entity is expected to have to fund its share of the net outstanding liabilities of these operations, as shown below, and therefore the assets and liabilities are included on a net basis in outstanding claims in the statement of financial position. The net liability has 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.

	2003 $M	2002 $M
Assets		
Investments – net market value	168	452
Other assets	143	250
TOTAL ASSETS	311	702
Liabilities		
Outstanding claims net of reinsurance recoveries	252	526
Other liabilities	84	210
TOTAL LIABILITIES	336	736
NET LIABILITIES	25	34

(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 77% for the 2004 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 2004 or subsequent dates. It is currently estimated that the amount of the net insurance liabilities and matching assets will exceed $337 million, which will be recognised in the years in which the reinsurance to close is expected to be finalised.

(c) Funds at Lloyd's

In October 2003, the company entered into an arrangement with Mantis Reef Limited (MRL) to issue US$550 million of ABC (asset backed capital) securities to support funds at Lloyd's (FAL) pursuant to Lloyd's collateral requirements. This arrangement substantially replaced bank letters of credit. MRL is a special purpose entity incorporated with limited liability under the laws of the Cayman Islands. The consolidated entity has no ownership interest in MRL. Refer note 11.

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

The company has also entered into an agreement with MRL and MRPL under which, if the need arises, it can call on MRPL to provide up to US$550 million by the sale or transfer of its investment portfolio to meet the company's cash call requirements from Lloyd's, and at that time the company would assume a loan obligation including servicing of interest payments and repayment of the principal. To achieve this, the company would issue debt securities to MRL with similar terms to the ABC securities. Under the arrangement, the company would make fixed interest payments to MRL and in return would receive the benefit of the earnings from the investment portfolio. The company has entered into a fixed for floating interest rate swap with a third party to service its fixed interest rate obligations. Refer note 10(a)(ii).

		2003 $M	2002 $M
ABC investments pledged for funds at Lloyd's*			
Interest bearing short term money		731	–
ABC securities for funds at Lloyd's			
14 November 2008	US$550 million	731	–

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

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	Page 39
Remuneration of directors	Directors' report and note 20
Directors' retirement allowances	Directors' report
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 $658,000 (2002 $731,000) 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 (refer note 18(d)).

29 Earnings per share (consolidated)

	2003 CENTS	2002 CENTS
Basic earnings per share	86.5	42.7
Diluted earnings per share	77.5	43.4

	$M	$M
Reconciliation of earnings used in calculating earnings per share		
Net profit attributable to members of the company	572	279
Less: dividends paid on mandatory convertible preference shares	(19)	(24)
Earnings used in calculating basic earnings per share	553	255
Net profit attributable to members of the company	572	279
Add: borrowing cost of hybrid securities	20	–
Earnings used in calculating diluted earnings per share	592	279

	MILLIONS	MILLIONS
Weighted average number of ordinary shares used as the denominator in calculating:		
Basic earnings per share	639	599
Diluted earnings per share	764	643

On 18 August 2003, the mandatory convertible preference shares converted to 36 million ordinary shares in the company which are included in the calculation of basic earnings per share from that date. In accordance with the requirements of Accounting Standard AASB 1027: Earnings per Share, the calculation of diluted earnings per share includes 36 million (2002 36 million) potential ordinary shares in respect of the mandatory convertible preference shares up to the date of conversion.

The current economic value of the hybrid securities strongly favours conversion into QBE shares at some time in the near future. Diluted earnings per share in 2003 therefore includes the impact of the potential conversion of these securities. Refer note 16(b).

30 Segment information

(a) Geographical business segments

	AUSTRALIAN GENERAL INSURANCE 2003 $M	ASIA-PACIFIC GENERAL INSURANCE 2003 $M	THE AMERICAS 2003 $M	EUROPEAN COMPANY OPERATIONS 2003 $M	LLOYD'S DIVISION 2003 $M	TOTAL 2003 $M
Total assets	3,943	1,151	1,733	5,804	7,847	20,478
Total liabilities	3,113	798	1,452	4,910	6,837	17,110
Acquisition of plant and equipment, intangibles and other non-current segment assets	21	3	2	12	30	68
Depreciation and amortisation expense	13	8	1	23	11	56
Total revenue	1,892	625	1,441	2,767	2,642	9,367
Gross written premium	1,869	542	1,342	2,441	2,156	8,350
Gross earned premium	1,715	549	1,213	2,302	2,037	7,816
Outward reinsurance premium expense	290	119	473	394	504	1,780
Net earned premium	1,425	430	740	1,908	1,533	6,036
Net claims incurred	959	215	469	1,273	907	3,823
Net commission	158	81	174	297	390	1,100
Underwriting and other expenses	206	91	46	237	161	741
Underwriting result	102	43	51	101	75	372
Investment income on policyholders' funds	76	13	11	60	95	255
Insurance profit	178	56	62	161	170	627
Investment income on shareholders' funds	38	6	4	48	42	138
Profit from ordinary activities before income tax	216	62	66	209	212	765
Income tax	36	20	19	41	72	188
Profit from ordinary activities after income tax	180	42	47	168	140	577
Outside equity interests	–	4	1	–	–	5
Net profit attributable to members of the company	180	38	46	168	140	572

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

30 Segment information continued

(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	3,241	1,332	1,468	6,199	8,395	20,635
Total liabilities	2,513	954	1,237	5,707	7,203	17,614
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

(b) External product segments

	GENERAL INSURANCE 2003 $M	GENERAL INSURANCE 2002 $M	INWARD REINSURANCE 2003 $M	INWARD REINSURANCE 2002 $M	TOTAL 2003 $M	TOTAL 2002 $M
Total revenue	6,815	6,009	2,552	2,492	9,367	8,501
Net profit attributable to members of the company	392	212	180	67	572	279
Total assets	13,377	13,078	7,101	7,557	20,478	20,635
Acquisition of plant and equipment, intangibles and other non-current segment assets	50	83	18	23	68	106

31 Reconciliation of cash flows from operating activities to net profit attributable to members of the company

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Cash flows from operating activities	323	28	2,089	1,511
Depreciation of assets	–	–	(36)	(40)
Amortisation of goodwill and write-off of intangibles	–	–	(20)	(8)
Amortisation of premium/discount on fixed interest securities	–	–	(11)	(2)
Loss on sale of plant and equipment	–	–	(1)	(1)
Net exchange gains (losses)	10	(3)	(13)	22
Other (losses) gains on investments	(79)	(68)	110	(151)
Increase in outstanding claims	–	–	(1,209)	(867)
Increase in unearned premium	–	–	(525)	(450)
Increase in deferred insurance costs	–	–	68	74
Increase in net amounts receivable from controlled entities	735	223	–	–
Increase in trade debtors	–	–	402	979
Increase in other operating assets	111	–	61	160
Decrease (increase) in trade and other creditors	–	1	(138)	(702)
Increase in current tax liabilities	(76)	(3)	(105)	(10)
(Increase) decrease in deferred tax liabilities	(616)	(28)	(60)	5
Increase in provisions	(13)	–	(35)	(242)
Outside equity interests	–	–	(5)	1
Net profit attributable to members of the company	395	150	572	279

32 Non-cash financing and investing activities

	THE COMPANY 2003 $M	THE COMPANY 2002 $M	CONSOLIDATED 2003 $M	CONSOLIDATED 2002 $M
Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan	111	72	111	72
Shares issued under the Employee Share and Option Plan	–	–	27	31

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 46 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 2003 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 25th day of February 2004 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 of QBE Insurance Group Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of QBE Insurance Group Limited and the QBE Insurance Group (defined below) as at 31 December 2003, and of their performance for the year ended on that date; and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both QBE Insurance Group Limited and the QBE Insurance Group (the consolidated entity), for the year ended 31 December 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

JE Skinner
Partner

Sydney
25 February 2004

Designed and produced by Armstrong Miller+McLaren, Sydney–Melbourne–Adelaide

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