

ANNUAL REPORT DECEMBER 2004



**QBE Insurance Group**



2004

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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

## The year in review

# 2004

### PROFIT AND DIVIDEND PAYOUT

		2004	2003	% CHANGE
Net profit after tax	\$M	820	572	43
Net profit before tax	\$M	1,080	765	41
Basic earnings per share	cents	117.8	86.5	36
Diluted earnings per share*	cents	104.5	77.5	35
Dividend per share	cents	54.0	42.0	29
Shareholders' funds	\$M	4,420	3,313	33

### GROUP OPERATING PERFORMANCE

		2004	2003	% CHANGE
Gross written premium	\$M	8,766	8,350	5
Gross earned premium	\$M	8,571	7,816	10
Net earned premium	\$M	6,781	6,036	12
Combined operating ratio	%	91.2	93.8	
Insurance profit	\$M	908	627	45
Insurance profit to net earned premium	%	13.4	10.4	
Cash flow from operations	\$M	2,110	2,089	1

### DIVISIONAL OPERATING PERFORMANCE

			2004	2003	% CHANGE
Australian general insurance	Gross earned premium	\$M	2,114	1,715	23
	Combined operating ratio	%	88.1	92.8	
Asia-Pacific general insurance	Gross earned premium	\$M	534	549	(3)
	Combined operating ratio	%	85.4	90.0	
the Americas	Gross earned premium	\$M	1,354	1,213	12
	Combined operating ratio	%	92.3	93.1	
European company operations	Gross earned premium	\$M	2,304	2,302	–
	Combined operating ratio	%	94.3	94.7	
Lloyd's division (trading as Limit)	Gross earned premium	\$M	2,265	2,037	11
	Combined operating ratio	%	92.1	95.1	
Investment income	Gross	\$M	640	537	19
	Net of borrowing costs and investment expenses	\$M	508	413	23

\* assumes that all hybrid securities are dilutive

ALL AMOUNTS IN THIS REPORT ARE DENOMINATED IN AUSTRALIAN DOLLARS UNLESS OTHERWISE SPECIFIED.

**John Cloney**  
Chairman



## Chairman's report

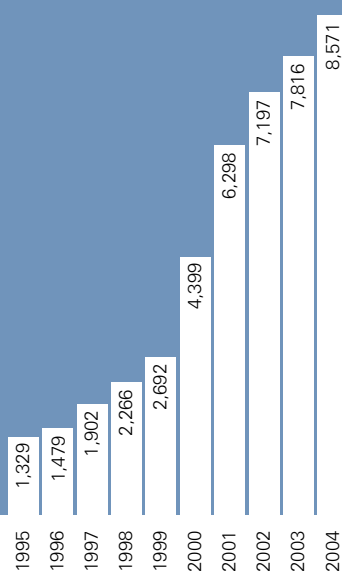
The 2004 financial year was very successful for our Group in both technical underwriting and financial terms. Net profit after tax was \$820 million, up 43% from the profit of \$572 million in 2003.

The Group produced a strong return on average shareholders' funds of 21.2% compared with 18.3% in 2003. The overall underwriting result and insurance profit is the best on record even after the Group absorbed significant claims from four major hurricanes in the US and Caribbean in August and September and the tragic earthquake and following tsunami in Asia in December. The results reflect the benefits of our strategy of geographic and product diversification and risk management and the relatively stable and favourable insurance market conditions.

In recognition of the substantial profit increase and our confidence in future earnings, the directors have declared a final dividend of 30.0 cents per share, up 36% on the final dividend of 22.0 cents in 2003. The final dividend will be 50% franked. The higher franking rate compared with prior years is due to increased taxation payments from the strong profits in Australia. The dividend reinvestment plans continue at a 2.5% discount.

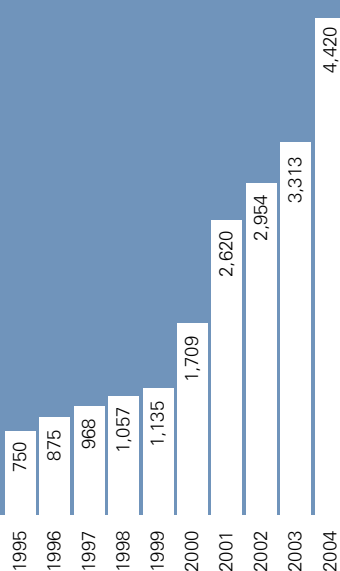
The increased profit, the dividend reinvestment programmes and the conversion of hybrid securities have resulted in an increase in shareholders' funds by 33% to \$4,420 million at 31 December 2004. While individual assets and liabilities held in foreign currencies have been affected by movements in major currencies, the net pre-tax effect on shareholders' funds was minimal reflecting our policy of actively managing, where possible, our net foreign currency exposures back to the Australian dollar.

The number of issued shares has grown by 74 million during the year due to a continuation of the dividend reinvestment programmes and the issue of 54 million shares following the conversion of hybrid securities. Basic earnings per share for the year was 117.8 cents, up 36% from 2003. On a fully diluted basis, including the conversion of all hybrid securities and options, earnings per share was 104.5 cents, up 35% from 2003.



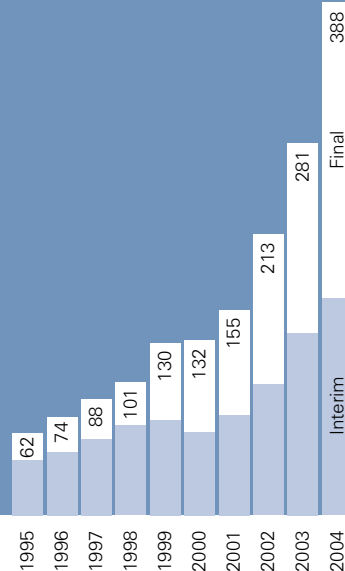
**Gross earned premium \$M**

**\$8,571M**  
up 10%



**Shareholders' funds \$M**

**\$4,420M**  
up 33%



**Dividend payout \$M**

**\$388M**  
up 38%

## SHAREHOLDERS' HIGHLIGHTS

FOR THE YEAR TO 31 DECEMBER

		2004	2003
Net profit after tax	\$M	820	572
Basic earnings per share	cents	117.8	86.5
Diluted earnings per share*	cents	104.5	77.5
Dividend payout	\$M	388	281
Dividend per share	cents	54.0	42.0
Net tangible assets per share	\$	4.47	4.17
Cash flows from operations	\$M	2,110	2,089
Total investments and cash**	\$M	15,067	11,823
Total assets	\$M	25,102	20,443
Return on average shareholders' funds	%	21.2	18.3
Shareholders' funds	\$M	4,420	3,313
Borrowings to shareholders' funds***	%	40.5	40.3
Capital adequacy multiple		1.9	2.1

\* assumes that all hybrid securities are dilutive

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

\*\*\* excludes ABC securities for funds at Lloyd's

QBE's share performance has benefitted from the anticipation of higher insurance margins and generally stronger investment markets. QBE shares outperformed the Australian all ordinaries accumulation index and inflation with a growth rate of 50.4% for 2004 and a compound annual average growth of 21.6% over the last five years and 22.5% over the last 10 years.

In order to strengthen QBE's position in key insurance markets and take advantage of favourable capital markets, we completed a number of acquisitions and debt issues in 2004. The balance sheet remains strong with a ratio of borrowings to shareholders' funds of 40.5% and a capital adequacy multiple well above our minimum benchmark. The well structured balance of tier 1 and tier 2 capital provided a capital adequacy multiple at 31 December 2004 of 1.9 times the estimated minimum capital requirement for Australian regulated insurance companies. The capital adequacy multiple was down slightly from 2.1 times at 31 December 2003, reflecting acquisitions made during the year and the impact of exchange rate movements. We note that the Australian Prudential Regulatory Authority ("APRA") has not yet finalised prudential standards for calculating consolidated capital adequacy requirements for non-operating holding companies. We have made a number of assumptions in applying APRA's risk-based capital approach for Australian insurers to the Group.

QBE continues to meet the demanding criteria of rating agencies for increased capital adequacy and financial strength, with Standard & Poor's reaffirming the A+ financial strength rating of QBE's main insurance subsidiaries in May 2004. It is the intention of the directors to ensure that the financial strength of all QBE's operating subsidiaries is maintained at a level adequate to meet the requirements of our business counterparties, regulatory authorities and rating agencies.

To maximise the returns to shareholders and maintain a competitive cost of capital, we raised US\$375 million of hybrid securities which, at the directors' discretion and subject to certain conditions, may be converted to a maximum of 29 million QBE shares or settled in cash or a combination of both. Details of the hybrid securities are provided in note 17 to the financial statements. In addition to the hybrid securities, £175 million of five year senior debt was raised, with the proceeds of these arrangements used mainly to support the acquisition of ING's 50% interest in the QBE Mercantile Mutual joint venture in Australia and for general corporate purposes. In support of our business at Lloyd's, we increased the level of contingent securities used to provide our funds at Lloyd's. US\$220 million of contingent securities was raised, providing an opportunity to replace bank letters of credit and other forms of security to give an effective low cost of capital.

QBE has a strong focus on staff development, succession planning and the provision of adequate rewards and incentives to retain our quality people. The QBE staff incentive schemes and the achievement of financial targets, primarily return on equity, are closely aligned with the interests and expectations of our shareholders, both in the short and long term. The long term incentives for our senior executives incorporate deferred share and option allocations as a reward for achieving financial performance hurdles and are structured to encourage long term commitment to QBE. Many of our incentive schemes are based on achieving return on opening shareholders' funds targets using the seven year spread basis of accounting, which spreads realised and unrealised gains on equities and properties evenly over a period of seven years. Net profit after tax for 2004 using the seven year spread basis of accounting was \$759 million compared with \$507 million in 2003. The return on opening shareholders' funds adjusted for dividends and share capital issued during the year was 22.8% compared with 18.4% last year. Details of these incentive arrangements and senior management remuneration are set out in notes 21 and 22 to the financial statements.

The annual report includes a number of statements on the robust corporate governance structure and risk management framework prevailing throughout the Group. In recent years, increased regulatory focus, particularly for companies operating in the financial sector, has resulted in a substantial increase in compliance costs with our board and management spending more of their time attending to the requests of regulators, rating agencies, corporate governance bodies and others on risk management and corporate governance matters. Management and the board continue to refine our practices in risk management and corporate governance. Our history shows that QBE has an effective risk management culture with an emphasis on the key value drivers, such as business acumen and integrity, in our dealings with our customers and transparent and efficient business practices to ensure that the operations of the Group are enhanced and the assets of the Group are protected. The Group's statement of corporate governance is set out on pages 36 to 41 of this report.

The development of effective strategies, short and long term planning and risk management practices are a key focus of management to minimise risks relating to our insurance and investment operations and to protect the interests of all our stakeholders. The directors have approved management's strategy to reduce insurance risk for both aggregate exposure and claims frequency supported by our extensive reinsurance protections and a low risk investment strategy for our policyholders' and shareholders' funds.

The Australian Accounting Standards Board has now issued all Australian equivalents to International Financial Reporting Standards ("AIFRS") which will have effect from 1 January 2005. QBE's first AIFRS compliant financial statements will be for the half year ending 30 June 2005 and the year ending 31 December 2005. As a first time adopter of AIFRS, QBE must restate its opening comparative statement of financial position under AIFRS. Details of the expected changes that will impact QBE are included in note 2 to the financial statements.

## 10 YEAR HISTORY

FOR THE YEAR TO 31 DECEMBER		2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Gross written premium	\$M	<b>8,766</b>	8,350	7,723	6,793	4,406	2,877	2,409	2,054	1,561	1,336
Gross earned premium	\$M	<b>8,571</b>	7,816	7,197	6,298	4,399	2,692	2,266	1,902	1,479	1,329
Net earned premium	\$M	<b>6,781</b>	6,036	5,642	4,634	3,456	2,204	1,914	1,609	1,204	1,105
Claims ratio	%	<b>61.4</b>	63.3	67.6	76.6	71.2	70.1	68.1	68.6	67.0	68.1
Commission ratio	%	<b>17.5</b>	18.2	17.7	20.2	18.3	19.9	18.3	17.1	17.3	17.8
Expense ratio	%	<b>12.3</b>	12.3	12.4	12.8	13.0	13.9	13.9	13.8	15.0	14.5
Combined operating ratio	%	<b>91.2</b>	93.8	97.7	109.6	102.5	103.9	100.3	99.5	99.3	100.4
Investment income*											
before investment gains/losses	\$M	<b>417</b>	303	340	336	250	189	161	143	129	119
after investment gains/losses	\$M	<b>508</b>	413	189	349	310	243	164	163	182	181
Insurance profit (loss)	\$M	<b>908</b>	627	406	(119)	186	56	147	116	101	88
Insurance profit (loss) to net earned premium	%	<b>13.4</b>	10.4	7.2	(2.6)	5.4	2.5	7.7	7.2	8.4	8.0
Operating profit (loss)											
before tax	\$M	<b>1,080</b>	765	311	(99)	220	156	157	170	189	176
after tax and outside equity interests	\$M	<b>820</b>	572	279	(25)	179	132	141	131	150	136
Number of shares on issue	millions	<b>745</b>	672	615	585	429	395	383	374	288	224
Shareholders' funds	\$M	<b>4,420</b>	3,313	2,954	2,620	1,709	1,135	1,057	968	875	750
Total assets	\$M	<b>25,102</b>	20,443	20,567	18,611	13,948	8,559	5,964	5,065	4,113	3,141
Basic earnings per share	cents	<b>117.8</b>	86.5	42.7	(10.5)	42.6	33.8	37.3	35.6	42.2	39.6
Diluted earnings per share**	cents	<b>104.5</b>	77.5	43.4	(4.9)	40.7	33.8	37.3	35.6	42.2	39.6
Return on average shareholders' funds***	%	<b>21.2</b>	18.3	10.0	(1.1)	12.6	12.0	13.9	14.2	18.4	19.7
Dividend per share	cents	<b>54.0</b>	42.0	35.0	30.0	31.0	32.5	26.5	24.0	20.8	17.9
Dividend payout	\$M	<b>388</b>	281	213	155	132	130	101	88	74	62

\* excludes amortisation of goodwill and write-off of intangibles

\*\* assumes that all hybrid securities are dilutive in 2004

\*\*\* includes convertible preference shares from 2000 to 2003 and the equity portion of hybrid securities issued in 2002 and 2004

While economic conditions in the major international markets are stable at present with generally continued favourable conditions for the insurance sector, your directors will maintain a careful watch on global economic conditions and closely monitor markets to ensure the effectiveness of our strategies and plans. We encourage management to continue our proven successful strategy of growth through acquisitions. We are confident that the current capital level, together with expected profits, are sufficient to finance our anticipated growth in the medium term.

The record 2004 result was a significant achievement and the directors are confident that, subject to unforeseen circumstances, the successful formula for continued profit and growth in

shareholder wealth will continue. The board congratulates the CEO, Frank O'Halloran, and thanks him, his management team and QBE staff throughout the world for their contribution, dedication and commitment. In particular, I acknowledge the support of my fellow directors. Specific acknowledgement and thanks are extended to Charles Curran, who retires at the Annual General Meeting in April in accordance with our general policy on tenure of directors. Charles has served on the board since 1991 and his work has been appreciated by all of his colleagues over those years.

**John Cloney**  
Chairman



## Chief executive officer's report

I am pleased to report that QBE has exceeded its 2004 profit targets with a 43% increase in operating profit after tax to \$820 million and a 45% increase in insurance profit before tax to \$908 million.

It is also very satisfying that all insurance divisions produced improved underwriting and insurance profits even though QBE experienced significantly more claims from catastrophes in 2004 than in 2003. The operating profit after tax of \$820 million includes net realised and unrealised gains on investments of \$66 million after tax compared with gains of \$84 million after tax last year.

The impact of the stronger Australian dollar on gross and net earned premium and profit after tax was significant. More details of the impact are set out on page 9.

The insurance profit to net earned premium ratio improved from 10.4% to 13.4% even though the Group had net claims from large catastrophes of \$320 million compared with \$27 million last year, and prudential margins in outstanding claims were further strengthened to achieve a probability of adequacy of 94%.

In 2004, overall premium rate increases slowed, mainly as a result of the significant improvement in underwriting profitability achieved by the industry and QBE over the past two years. Very importantly, the improved policy terms and conditions achieved in 2002 and 2003 were substantially maintained in 2004.

Cash flow from operations was again very strong at \$2,110 million compared with \$2,089 million last year.

Income tax expense decreased slightly from 24.6% of profit before tax last year to 23.4%, primarily as a result of untaxed dividends, low rates of tax in some countries and the release of prior year provisions.



## WORLDWIDE PORTFOLIO MIX

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER		2004	2003
Marine and aviation		6.6%	8.4%
Accident and health		6.1%	5.6%
Property		29.9%	30.7%
Motor and motor casualty		12.3%	10.4%
Financial and credit		2.4%	3.1%
Liability		21.8%	17.9%
Professional indemnity		9.5%	9.2%
Workers' compensation		9.6%	9.2%
Other		1.8%	5.5%

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

- Purchased the Ensign commercial motor business (syndicate 980) in the UK, which generated \$328 million of gross written premium in 2004 and an expected \$575 million in 2005.
- Purchased ING's 50% interest in the QBE Mercantile Mutual joint venture in Australia, which increased gross written premium by \$290 million in 2004 and an expected \$600 million in 2005.
- Acquired additional capacity in the QBE managed Lloyd's syndicate 386 to give QBE a 68.4% interest in the estimated \$1,150 million of gross premium expected to be written by that syndicate in 2005.
- Acquired a group life and personal accident portfolio in Brazil.
- Acquired Zurich's insurance operations in Singapore.
- Hired trade credit, surety, property and commercial motor underwriting teams in the UK.
- Acquired a workers' compensation portfolio in Argentina.
- Acquired a general insurance business in Estonia.

- Acquired Icon Schemes' (formerly Tolson Messenger) self-employed insurance internet business in the UK.
- Added new agency programmes in the US to complement existing business written.
- Restructured our management teams in the UK, which will produce at least \$60 million of annual savings by the end of 2007.
- Benefitted from synergies from the acquisition of the QBE Mercantile Mutual joint venture, which is estimated to give us savings of \$40 million per annum by the end of 2006.
- Agreed terms for the purchase of three large and profitable agency businesses in Australia, namely AIS Green Slip Group ("AIS"), CHU Underwriting Agencies ("CHU") and 50% of Concord Underwriting Agencies ("Concord"). The latter two agencies are on performance incentives designed to increase QBE's profitability for the next two to three years. These agencies currently produce \$375 million of gross written premium for QBE.



**Neil Drabsch**  
Chief financial officer

In summary, the acquisitions and other activities above will add in excess of \$800 million of gross written premium in 2005 together with the profit that will flow from this business. In addition, they will generate around \$100 million of expense and reinsurance cost savings by the end of 2007.

### **Insurance profitability**

Insurance profit increased from \$627 million last year to \$908 million. Insurance profit comprises the underwriting result plus investment income on investments set aside to meet our liabilities to policyholders. The further improvement in the underwriting result was after the significant increase in catastrophe claims in 2004 and the increase in prudential margins in outstanding claims. The Group's combined operating ratio (the total of claims, commissions and expenses as a percentage of net earned premium) was 91.2% compared with 93.8% last year. All insurance divisions produced improved underwriting profits and the substantial majority of our products around the world were again profitable. As a percentage of average shareholders' funds, insurance profit increased from 20.0% last year to 23.5%.

The substantial cash flow from operations of \$2,110 million for the year resulted from the growth in net earned premium and the continuation of a low frequency of claims. Net invested funds set aside to meet insurance liabilities increased by \$2.8 billion. Cash flow from operations and acquisitions has been considerable for the past five years with over \$7.5 billion added to the investment portfolio.

Gross written premium increased 5% to \$8,766 million despite the stronger Australian dollar, which reduced reported growth by 6%. Gross earned premium was up 10%. The strong premium growth was due to acquisition activity and a higher retention of business. Organic growth slowed in some classes because of competition and our unwillingness to reduce premium rates. QBE's offshore businesses now contribute 76% to the Group's gross written premium and the general insurance/reinsurance mix is

now 77%/23%. Net earned premium increased 12% to \$6,781 million with the stronger Australian dollar during 2004 reducing reported growth by 5%.

The Group's reinsurance costs as a percentage of gross earned premium decreased from 23% last year to 21% as expected. The cost of reinsurance is made up of 48% for proportional reinsurance (mainly for programme business in the US) and 52% for catastrophe and other excess of loss reinsurance. The longstanding relationships with many of our reinsurers and the mutually profitable experience over the past few years have assisted us to obtain lower reinsurance costs and favourable terms. QBE's net exposure to major catastrophes continued to decrease with a 2004 maximum retention from the largest modelled catastrophe event being 14% lower than 2003. QBE's reinsurers again earned a significant profit from the business we placed with them in 2004.

Gross claims incurred as a percentage of gross earned premium increased from 61.7% to 62.3%. The increase in the claims ratio reflects higher catastrophe claims and increased prudential margins partially offset by the continuation of low claims frequency from improved policy terms and conditions and premium rate increases. Gross and net claims from the four hurricanes in the US and Caribbean were \$670 million and \$230 million respectively. The gross and net claims from the tragic earthquake and following tsunami in Asia in December 2004 are estimated to be \$165 million and \$80 million respectively. The net claims ratio, which includes the net cost of these catastrophes, decreased from 63.3% to 61.4%.

The commission ratio decreased from 18.2% to 17.5%, reflecting a change in the mix of business and the impact of acquisitions during the year.

The Group's expense ratio was unchanged at 12.3%. The expense ratio reflects further synergies from acquisitions and other initiatives, partly offset by the increased cost of short and long term staff incentives for improved insurance results, further increases in the cost of corporate governance and regulatory requirements and the cost of the restructure in the UK in September 2004.

### **Investment income**

Investment income, which is net of borrowing costs, foreign exchange gains and losses and investment expenses, increased from \$413 million to \$508 million. Higher interest rates in Australia, the US and the UK, acquisitions and strong cash flow from operations benefitted investment income during the year. Gross investment income was \$640 million compared with \$537 million last year. The gross investment yield is unchanged at 4.6%. We continue to reduce the maturity profile of our cash and fixed interest investments in anticipation of rising interest rates. The average maturity of our cash and fixed interest portfolios at the end of 2004 was 0.6 years.

We also continued our policy of investing in highly rated fixed interest securities and value equities. Our weighting in listed equities reduced from 10.5% of total investments and cash to 8.9% at 31 December 2004. The reduction occurred in the last two months of 2004 as we realised gains from the strong equity markets.

### **Impact of the stronger Australian dollar**

We have mentioned at regular intervals over the past 18 months that a stronger Australian dollar would have a negative impact on revenue and profit after tax. The Group translates income and expense items using a cumulative average rate of exchange and, on this basis, the Australian dollar rose 12.5% against the US dollar and 2.1% against sterling compared with last year. Balance sheet items are translated at the closing rate of exchange. On this basis, the Australian dollar rose 3.9% against the US dollar and fell 3.2% against sterling. There was a substantial strengthening of sterling against the US dollar during 2004, which had a significant impact on the US dollar premium written by our Lloyd's and European company operations when converted into sterling. Examples of the impact of exchange rate movements are included in the table on page 9.

## KEY RATIOS — GROUP

		HALF YEAR TO 30 JUN 2004	HALF YEAR TO 31 DEC 2004	FULL YEAR TO 31 DEC 2004	HALF YEAR TO 30 JUN 2003	HALF YEAR TO 31 DEC 2003	FULL YEAR TO 31 DEC 2003
Gross written premium	\$M	4,763	4,003	8,766	4,821	3,529	8,350
Gross earned premium	\$M	3,982	4,589	8,571	3,882	3,934	7,816
Net earned premium	\$M	3,114	3,667	6,781	3,083	2,953	6,036
Claims ratio	%	62.0	60.9	61.4	65.1	61.4	63.3
Commission ratio	%	16.8	18.1	17.5	18.7	17.7	18.2
Expense ratio	%	12.0	12.5	12.3	12.2	12.4	12.3
Combined operating ratio	%	90.8	91.5	91.2	96.0	91.5	93.8
Insurance profit ratio	%	13.1	13.6	13.4	8.4	12.5	10.4

## CONTRIBUTIONS BY REGION

FOR THE YEAR TO 31 DECEMBER	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		NET PROFIT AFTER TAX		COMBINED OPERATING RATIO	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M	2004 \$M	2003 \$M	2004 %	2003 %
Australian general insurance	2,102	1,869	1,831	1,425	258	180	88.1	92.8
Asia-Pacific general insurance	520	542	439	430	56	38	85.4	90.0
the Americas	1,382	1,342	805	740	68	46	92.3	93.1
European company operations	2,453	2,441	1,971	1,908	216	168	94.3	94.7
Lloyd's division	2,309	2,156	1,735	1,533	222	140	92.1	95.1
Group	8,766	8,350	6,781	6,036	820	572	91.2	93.8
General insurance	6,715	6,059	5,184	4,265	687	392	89.4	92.4
Inward reinsurance	2,051	2,291	1,597	1,771	133	180	97.3	97.2
Group	8,766	8,350	6,781	6,036	820	572	91.2	93.8

## GROUP FINANCIAL HIGHLIGHTS

FOR THE YEAR TO 31 DECEMBER	2004 %	2003 %	2002 %	2001 %	2000 %
Premium growth					
– gross written	5.0	8.1	13.7	54.2	53.1
– net earned	12.3	7.0	21.8	34.1	56.8
Reinsurance ceded to gross written premium	20.3	21.7	21.1	26.8	21.6
Net written premium to gross written premium	79.7	78.3	78.9	73.2	78.4
Insurance profit (loss) to net earned premium	13.4	10.4	7.2	(2.6)	5.4
Insurance profit (loss) to shareholders' funds*	23.5	20.0	14.6	(5.5)	13.1

\* average shareholders' funds at net market value

## IMPACT OF STRONGER AUSTRALIAN DOLLAR

	2004 ACTUAL \$M	2004 AT 2003 EXCHANGE RATES \$M	EXCHANGE RATE IMPACT %
Gross earned premium	8,571	9,090	6
Net earned premium	6,781	7,135	5
Net investment income	508	536	6
Profit after tax	820	878	7
Total investments and cash	15,067	15,147	1
Total assets	25,102	25,566	2
Gross outstanding claims	12,469	12,595	1
Total liabilities	20,622	20,734	1

### Reinsurance recoveries

Reinsurance recoveries on outstanding claims increased from \$2,885 million at 31 December 2003 to \$3,098 million, but reduced as a proportion of total assets from 14% to 12%. The increase is primarily due to acquisitions, recoveries on current year catastrophe claims and an increase in recoveries in respect of our old US casualty and Australian asbestos claims. Reinsurance recoveries on incurred but not reported claims included in this amount were \$1,216 million compared with \$1,193 million last year. We continue to maintain strict controls over our exposure to reinsurance counterparties and are confident that our provision of \$163 million for doubtful recoveries is adequate. We negotiated a number of commutations with reinsurers during the year to finalise amounts due on many reinsurance contracts.

### Outlook

Based on current exchange rates, we expect our gross written premium to grow by 10% in 2005 to \$9.6 billion and our net earned premium to grow by 12.5% to \$7.6 billion. Growth is expected to be achieved from the acquisitions made in 2004 and a continued high retention of customers. Organic growth is likely to be only slightly in excess of lapsed business. Overall premium rate increases are expected to be less than claims inflation, however, they remain sufficient to meet our profit targets for most of our classes of business. We were slightly below our expectation for premium rates and new business at the major renewal date of 1 January 2005. Our target annual net earned premium growth of 10% beyond 2005 will depend on acquisitions and the value of the Australian dollar.

The risk profile of our insurance and reinsurance operations will continue to be monitored through portfolio management, improved aggregate management and the purchase of additional reinsurance protections for large catastrophes. The 2005 net retention from our largest realistic disaster scenario will be slightly lower than 2004. Current pricing to achieve our insurance profit targets is estimated to include allowances for

catastrophes and large losses of more than four times the net retention from our largest realistic disaster scenario.

The reinsurance expense ratio is expected to decrease in 2005 to 19% of gross earned premium. This targeted reduction is subject to a normal level of large and catastrophe losses, 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 2005 reinsurance protections on terms slightly better than expected and with no increase in the Group's retentions for any one risk or event.

Our analysis of the claims ratio between attritional losses, large losses and catastrophes indicates that the 2005 business plan allowances for large losses and catastrophes substantially exceed the amounts incurred in each of the past seven years.

The combined commission and expense ratio is targeted to decrease slightly in 2005, with further reductions in 2006 and 2007 as the synergies from the restructures in the UK and Australia and other acquisitions are realised.

The gross investment yield is targeted to be 4.5% for 2005. This includes a 5% capital appreciation on equities. We do not expect improvements in stock markets to be at the same level as the past two years. The improvements in interest yields on our substantial US and UK investment portfolios will assist our expectations for improved yields. At our current level of equity investments, a 1% change in equity markets impacts profit after tax by approximately \$10 million and a 1% change in interest rates impacts profit after tax by approximately \$58 million.

Based on current exchange rates, net invested funds are expected to exceed \$15 billion by 31 December 2005 as a result of the expected strong cash flow and other initiatives.

The income tax expense is expected to increase to around 26% of pre-tax profit for 2005.

We will continue to focus on the personal and technical development of our senior people to ensure continuity of management and to maintain a very low senior staff turnover. This development will include enhancements to our QBE manager programme, which continues to be invaluable in maintaining the QBE approach to integrity, leadership and business acumen in our operations around the world.

The Group's probability of adequacy for outstanding claims is now at the high end of our internal target range. In addition, our provision for unearned premium includes a significant allowance for large losses and catastrophes in 2005. These factors, together with the current premium rate environment, give us confidence of achieving an insurance profit between 12.5% and 13.5% and increasing net profit after tax by more than 10% in 2005. As always, this is 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 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, have ensured that the current positive environment has lasted longer than any previous insurance cycle in the past 30 years. In the last few months, we have seen some downward adjustment to pricing to reflect the substantially improved market conditions for insurers and reinsurers. This correction in pricing was primarily for the larger property, marine and energy risks. The lower frequency of liability claims excluding the US also affected liability pricing. Premium rates continue to be strong for the majority of classes of business that are written by QBE.



QBE has extensive experience in all forms of commercial and domestic liability insurance.

In 2004, QBE further increased the prudential margins held in its outstanding claims provisions. Group prudential margins in outstanding claims now provide a probability of adequacy of 94%. The increase in prudential margins in recent years is largely a result of the increase in our exposure to non-US long tail classes of business. The current level of probability of adequacy is at the high end of our internal target range and well in excess of the minimum APRA requirement of a 75% probability of adequacy for Australian licensed insurers. The probability of adequacy of the Group's outstanding claims provisions will vary from time to time depending on the mix of short, medium and long tail business and economic and industry conditions such as latency claims, claims inflation and foreign currency movements. QBE has again increased its provisions for its relatively limited exposure to asbestos-related claims. The Group's survival ratio for asbestos-related claims, measured as a ratio of net provisions held to the average of the past three years' net claims paid, is now over 33 times.

The substantially stronger Australian dollar has made it difficult to achieve targets for premium income. However, we have been very successful with our acquisition activity in 2004, which will have a positive impact on performance going forward. Additional funds invested by our shareholders in the past three years, together with the increase in long term debt, have enabled QBE to grow its business and profitability at the right time in the insurance cycle. The excellent 2004 result and our positive outlook have been achieved through the disciplined and professional approach of our 7,300 plus staff worldwide.

We are looking at a number of acquisitions in the Asia-Pacific region, the Americas and Europe. We are confident that our strong capital position and the expected conversion of some of the hybrid securities in 2005 will give us sufficient shareholders' funds to support any potential growth from our current acquisition activity between now and the end of 2005.

QBE has a well diversified spread of business both geographically and by product. We lead terms and conditions on the substantial majority of business in most of the countries in which we

operate. We have been successful in integrating the significant number of highly skilled and experienced people in key roles throughout the Group across underwriting, claims, finance, actuarial, information technology, administration and management. Many of our employees are capable of filling senior roles as they arise in the Group. These favourable factors, together with a very strong focus on creating further wealth for our shareholders from our many excellent businesses around the world within the parameters of measurable business plans, give us confidence about our future performance.

I extend my sincere appreciation to all of my fellow employees for their hard work, loyalty and significant contribution over the past year and to our directors for the support they have provided on the many initiatives that we have undertaken. I look forward to working with the QBE team to achieve the financial targets for 2005 and to build an even stronger QBE going forward.

**Frank O'Halloran**  
Chief executive officer

## Group financial targets and performance goals

# 04

### FINANCIAL PERFORMANCE 2004

#### Financial targets

- achieve an insurance profit margin of 10% to 11%
- increase profit after tax and diluted earnings per share by more than 10%
- achieve a return on equity in excess of 13.4%, being 1.5 times the weighted average cost of capital
- gross written premium growth of 10%
- net earned premium growth of 12.5%
- 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 4.0%

#### Actual

- insurance profit margin 13.4%
- profit after tax increased 43% and diluted earnings per share increased 35%
- return on equity of 21.2% exceeded 1.5 times the weighted average cost of capital
- gross written premium increased 5% affected by the impact of translation to the stronger Australian dollar
- net earned premium increased 12%
- reinsurance expense ratio 21%
- expense ratio 12.3%
- tax rate 23%
- capital adequacy multiple of 1.9 times the minimum requirement
- gross investment yield 4.6%

### OPERATIONAL PERFORMANCE 2004

#### Performance goals

- achieve overall premium rate increases at least equal to claims inflation
- further increase customer retention
- further reduce risk profile of insurance business
- achieve gross investment yield target with a low risk investment strategy
- continue promotion of QBE manager programme

#### Actual

- majority of business in the aggregate was renewed at rates slightly below claims inflation
- retention ratios increased for the majority of portfolios
- maximum event retention reduced
- internal benchmarks exceeded
- programme run in a number of countries

# 05

## FINANCIAL PERFORMANCE 2005

### Financial targets\*

- achieve an insurance profit margin of 12.5% to 13.5%
- increase profit after tax by more than 10%
- achieve a return on equity of more than 18.0%
- gross written premium growth of 10%
- net earned premium growth of 12.5%
- reinsurance expense ratio of 19%
- maintain expense ratio of 12.3% or less
- tax rate of 26%
- maintain Group capital adequacy multiple of more than 1.5 times APRA's minimum requirement for Australian licensed insurers
- gross investment yield of 4.5%

## OPERATIONAL PERFORMANCE 2005

### Performance goals

- maintain premium rates at levels sufficient to achieve targeted attrition loss ratios
- maintain existing terms, conditions and deductibles
- further reduce risk profile of insurance business
- achieve gross investment yield targets with a low risk investment strategy
- continue high retention of key staff and managers
- effectively manage the impact of a strengthening Australian dollar and US dollar volatility

\* 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.

## Strategy and planning

QBE has developed a business planning framework which ensures that there is a systematic and disciplined approach to planning throughout the Group.

The framework helps to:

- establish a clear direction for each operating division;
- build confidence in our ability to execute our corporate strategies and deliver against our business plans;
- more accurately project profitability and financial performance;
- improve alignment of internal resources with external opportunities;
- generate greater accountability and transparency in decision making; and
- target the reduction of uncertainty and volatility, thereby reducing the likelihood and impact of events that could threaten our ability to meet our business objectives.

The QBE board of directors approves the Group's strategy and detailed business plans prepared by management and reviews actual performance against the plans. The strategy is consistent with shareholder expectations, our corporate financial profile, our organisational culture and our capacity to effectively manage risks. The strategy and plans form the basis for our risk tolerance within the Group.

Business plans are developed for all classes of insurance business, for our investment portfolios and for all support functions. The plans clearly document our strategy for achieving financial targets and performance goals within the limits set. Annual budgets included in the business plans form the basis for delegating authorities to all managers and staff with specific responsibilities, including underwriters, investment managers and claims managers.

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



A diverse range of insurance products is a key part of QBE's global strategy.

## Risk management

QBE is committed to sound, practical risk management in order to protect shareholders' and policyholders' interests.



**Gayle Tollifson**  
Chief risk officer

The risk management framework implemented by QBE is based on a pragmatic approach. This approach provides the flexibility and efficiency which is required to maintain high standards in an ever-changing regulatory and business environment. Robust systems and processes are also fundamental to the supervision and management of a diverse international group. This framework is established around a suitably qualified and dedicated team which is focused on managing with integrity:

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

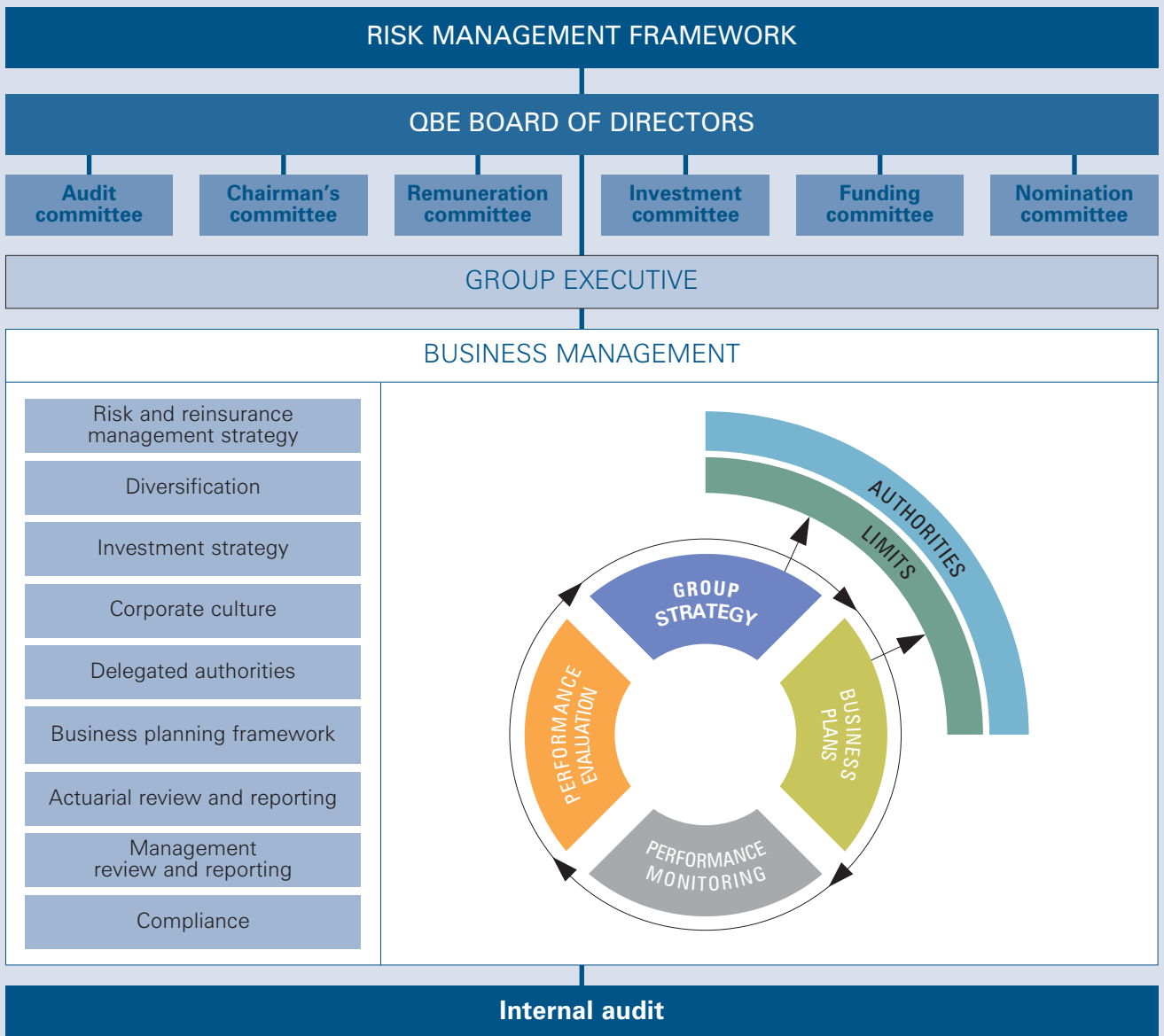
Throughout the Group a culture of utmost integrity prevails. This requires open and honest dealings with our employees, customers, shareholders, legislative bodies and the community at large.

The QBE culture is based upon disciplined policies and risk management practices, supported by the QBE manager programme. Through this programme and other key initiatives, QBE promotes risk management as a core managerial competency.

QBE has in place a global risk management framework, with clear authorities defining the type and extent of risk to be accepted by each of our businesses and a common approach to managing those risks. The foundation of our risk management policy is the obligation and desire to manage our future and create wealth for our shareholders by:

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





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

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures geographically and by product, thereby reducing the volatility of results. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of insurance business. A combination of core and speciality products allows QBE to be a lead underwriter in many of the markets in which we operate. Geographic diversification is achieved by operating in 38 countries.

QBE manages its risks within the following categories:

- Insurance – including underwriting, claims and actuarial risk factors.
- Operational – including areas such as human resources, valuation of assets,

corporate security and outsourcing, regulatory risks and the adequacy of processes and systems.

- Acquisition – including due diligence and integration processes.
- Funds management and treasury – including operational, cash flow, trading and security risks.

Risk management at QBE is a continuous process that is a key aspect of the way we conduct our business. Our approach is to integrate risk management into the management processes within the organisation.



QBE is a major provider of workers' compensation and employers' liability products and services in the Australian, UK, Latin American and selected Asian and Pacific markets.

## QBE people

QBE recognises that its people are critical to successfully delivering its business strategy and plans.



**Jenni Smith**  
Group general manager,  
human resources

QBE has developed a culture based on utmost integrity, sound business acumen and strong leadership, supported by effective corporate guidelines and disciplined risk management practices. These qualities have contributed to consistently high business standards and a consistent increase in the wealth of shareholders.

Our high performance culture is built upon the recruitment, motivation and retention of high quality people, entrusting them with responsibility, rewarding success and adopting a "can do" approach to our business and our development.

Our employee numbers have grown to 7,320 in 2004, up from 6,746 in 2003, following acquisitions and growth in the business. QBE has a preference to grow its own talent leveraging off the experience of our highly skilled and professional teams across the world. We regularly review our development programmes to provide opportunities for employees to realise their full potential. Succession planning is a focus at all levels throughout QBE.

Underpinning our strategy for attracting, retaining, developing and motivating our quality people is the QBE manager programme, which was introduced in 1995. The programme is actively promoted through structured seminars to staff across the Group. The programme reinforces nine essential behaviours with the acronym "OPENUQBE", which form the basis of our business and leadership standards.

These behaviours ensure a consistent approach in all our key activities and have facilitated the integration of the many diverse teams that have joined QBE through the numerous acquisitions we have made worldwide. The QBE manager programme, with its focus on our vision, values and essential behaviours, together with the delivery of quality staff management programmes and the promotion of a culture of excellence, create a common thread throughout our organisation.

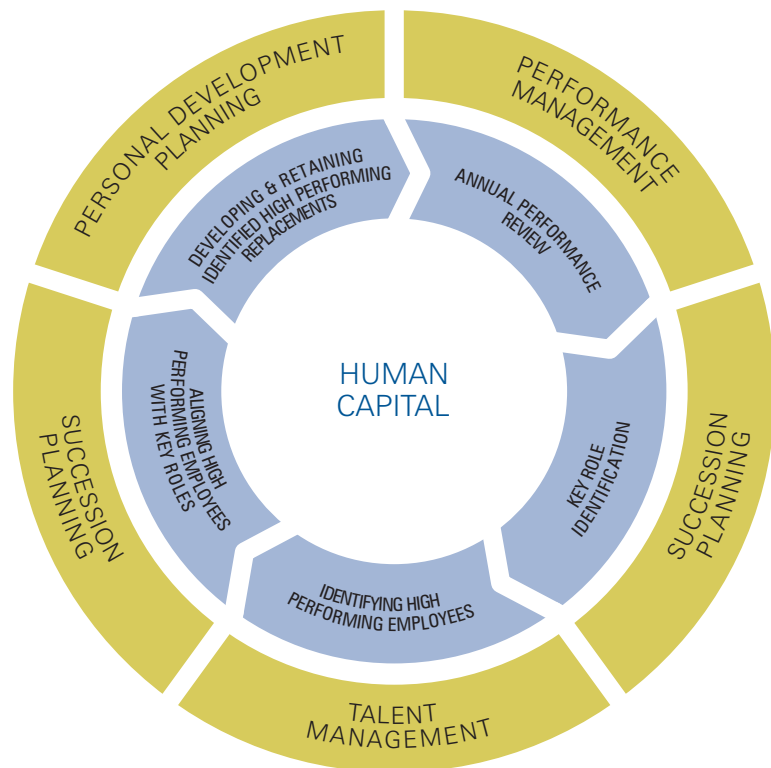
## STAFF NUMBERS

AS AT 31 DECEMBER	2004	2003
Australian general insurance	2,910	2,758
Group head office	67	70
Asia-Pacific general insurance the Americas	1,303	1,288
European company operations	2,011	1,942
Lloyd's division	725	395
Investments	48	41
<b>Total</b>	<b>7,320</b>	<b>6,746</b>

The QBE essential behaviours are further promoted through:

- performance management;
- succession planning;
- talent management; and
- personal development planning.

QBE's people are selected for their ability, their experience and their "can do" approach to achieving corporate objectives. Our aim is to ensure that the interests of our shareholders and staff are aligned. In order to encourage high levels of performance and to achieve our key objective to increase shareholders' wealth, "at risk" incentive arrangements are in place for most of the staff worldwide through participation in profit share incentive ("PSI") arrangements. These arrangements reward staff when they achieve or exceed financial targets and meet personal performance objectives. Also central to our incentive arrangements is the Employee Share and Option Plan ("the Plan") which has been in place since 1981. Almost 4,800 or two thirds of our employees at all levels of the organisation now hold shares in QBE through the Plan, providing a further motivation for them to achieve the Group's objective of increasing wealth for our shareholders.



The Group's senior management also participate in a long term incentive programme called the Senior Executive Equity Scheme ("the SEES"). Senior managers are only entitled to participate in the SEES if they have already qualified for the short term incentives by achieving their financial targets. Details of the Plan and the SEES are set out in notes 21 and 22 to the financial statements.

QBE recognises the importance of its employees and the need to provide a safe working environment and opportunities to grow and benefit from the experience and success of the Group.

# Operations overview

## Key activities

### Australian general insurance

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

### Asia-Pacific general insurance

- general insurance business in the Asia-Pacific region
- ongoing operations in 16 overseas locations with divisional head office in Sydney
- provides personal, commercial and specialist insurance covers, including professional and general liability, marine, corporate property and trade credit

### the Americas

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

### European company operations

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

### 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 7.1% share of total market capacity in 2005
- manages six syndicates

### Investments

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

## Major events

- another year free of major catastrophes
- acquired Mercantile Mutual Insurance (Australia) Limited ("MMIA") and its 50% share of the QBE Mercantile Mutual joint venture
- acquired key underwriting agencies AIS, CHU and Concord (50%)
- *Financial Services Reform Act* compliance required from March 2004
- APRA introduced discussion papers on business continuity and fit and proper tests

- the tragic earthquake and following tsunami in Asia in December 2004 resulted in a significant loss of life
- the stronger Australian dollar reduced the level of premium and profit
- despite a number of catastrophic events in the region during the year, almost all ongoing operations made an underwriting profit for the year
- acquired the general insurance business of Zurich in Singapore
- assumed management of Central European operations from 1 January 2005 and renamed the division Pacific Asia Central Europe ("PACE")

- premium rates continued to increase for most insurance and reinsurance classes of business
- four significant hurricanes in the US and Caribbean caused market losses estimated at US\$23 billion
- QBE Brazil acquired a specialist group life and general accident portfolio
- QBE Argentina acquired the workers' compensation insurance portfolio of Boston Seguros in December 2004
- regulatory reforms led to further increases in costs of compliance
- QBE Specialty, a specialist surplus lines vehicle, began writing programme business

- integrated European management structure in September 2004 to merge the former European company operations and Lloyd's division into one operation
- experienced above average frequency and severity of catastrophe and risk losses, including significant US hurricane activity
- successfully merged marine syndicates 1036 and 2724, including integration of the entire marine portfolio into syndicate 2999 permitting greater capital and reinsurance flexibility
- completed Ensign (syndicate 980) commercial motor acquisition
- transferred management of Central European operations to Asia-Pacific general insurance effective 1 January 2005

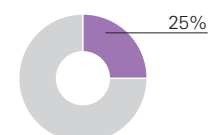
- strong global economic recovery in first half year but mixed picture in second half
- equity markets improved in second half and produced positive returns in all major markets
- as expected, fixed interest markets sold off and market yields rose in 2004
- the Australian dollar finished the year marginally stronger against the US dollar and slightly weaker against sterling
- rising oil prices and possibility of terrorist threats continued to affect investor sentiment

## Achievements

- continued to achieve an excellent return on equity
- achieved synergies from the MMIA acquisition by rationalising reinsurance programmes
- increased retention of profitable, quality customers in a competitive market
- improved outcomes for workers' compensation claimants using QBE Connect
- successfully implemented *Financial Services Reform Act*
- retained key management and maintained a low staff turnover

## Key statistics

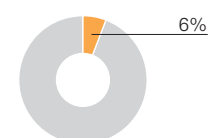
Gross written premium \$2,102M  
Gross earned premium \$2,114M  
Net earned premium \$1,831M  
Combined operating ratio 88.1%  
Staff numbers 2,910



Percentage of Group's gross earned premium

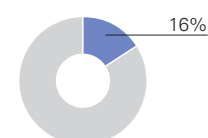
- reported the lowest net combined operating ratio in 20 years
- responded quickly to claims arising from the tsunami
- reduced expense ratio due to savings from process re-engineering initiatives, partly offset by information system development costs and higher incentive payments due to improved profitability
- increased business from brokers due to further strengthening of capabilities in specialist lines

Gross written premium \$520M  
Gross earned premium \$534M  
Net earned premium \$439M  
Combined operating ratio 85.4%  
Staff numbers 1,303



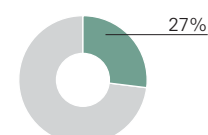
- achieved strong underwriting profits in all major product classes
- achieved overall premium rate increases and maintained improved deductibles and terms and conditions
- achieved controlled growth in both insurance and reinsurance businesses
- net cost of hurricanes contained through effective reinsurance purchasing
- increased portfolio diversification by implementing several new insurance programmes while continuing to be a major market for reinsurance and admitted and non-admitted insurance products

Gross written premium \$1,382M  
Gross earned premium \$1,354M  
Net earned premium \$805M  
Combined operating ratio 92.3%  
Staff numbers 256

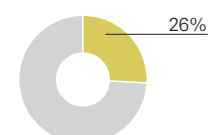


- maintained strong underwriting profitability across all major products
- maintained strong premium rates coupled with stable terms and conditions
- completed management integration with minimum disruption to operations
- disposed of all legacy Ensign properties and leased a single property for the European retail division
- delivered the first production version of new underwriting system and delivered new credit control system in European company operations
- mitigated the financial impact of major losses through effective and cost efficient reinsurance programmes
- increased QBE's economic interest in our non-US liability syndicate 386 to 68.4% for 2005

Gross written premium \$2,453M  
Gross earned premium \$2,304M  
Net earned premium \$1,971M  
Combined operating ratio 94.3%  
Staff numbers 2,011



Gross written premium \$2,309M  
Gross earned premium \$2,265M  
Net earned premium \$1,735M  
Combined operating ratio 92.1%  
Staff numbers 725



- fixed interest and equity returns ahead of budget
- higher investment income driven by strong finish to year by equity markets
- short duration fixed interest strategy paid off
- continued enhancements to funds management and treasury systems
- majority of Limit investment portfolios successfully transitioned in-house

Net investment income \$508M  
Net investment income before gains and losses \$417M  
Net investment losses on fixed interest securities \$13M  
Net investment gains on equities and properties \$104M  
Staff numbers 48

## Review of operations

One of QBE's specialty products is trade credit, providing credit insurance protection in Australia and many of the world markets.



### Australian general insurance

QBE's Australian general insurance operations have again produced an excellent underwriting result with a combined operating ratio of 88.1% compared with 92.8% last year.

**Raymond Jones** Managing director, Australian general insurance

The improved results have been achieved from a continued focus on careful risk selection and concentrating on products and markets in which we have a significant influence. The strong premium rate increases and improved terms and conditions achieved in 2002 and 2003 have been substantially maintained in 2004. All portfolios achieved underwriting profits.

Gross written premium increased 12% to \$2,102 million due to the acquisition of ING's 50% share in the QBE Mercantile Mutual joint venture underwriting agency and improved customer retention.

Premium rate increases slowed due to a lower frequency of claims, particularly on liability classes, and increased competition. Net earned premium increased 28% to \$1,831 million.

A continuation of the low frequency of claims has resulted in the net claims ratio improving from 67.2% last year to 61.0%. The commission ratio increased from 11.1% to 13.3% due to the higher commissions on acquired business. The expense ratio was lower at 13.8% compared with 14.5% last year.

The former QBE Mercantile Mutual joint venture (now called QBE Commercial) exceeded its premium and profit targets, with all classes of business producing acceptable returns. The underwriting agency won the National Insurance Brokers Underwriter of the Year Award for the third successive year. Customer retention continued to increase due to the many initiatives designed to make QBE easier to do business with, in particular e-technology which has been successfully implemented with many of our intermediaries. Our objectives are to remove duplicated processes and manual intervention and, by so doing, improve processing efficiencies.













The compulsory third party businesses in NSW and Queensland continue to perform ahead of plan. Premium rates have been reduced to reflect the lower frequency of claims from Government and market initiatives. We have slightly increased our market share in New South Wales and maintained our position in Queensland.

The workers' compensation division continues to produce better than expected results in difficult market conditions and after taking up additional provisions to cover changes in legislation for the benefit of injured workers in Western Australia. The many initiatives introduced to improve the way we manage our claims have reduced the average cost of claims, with technology in place to improve the working relationship and cooperation between QBE, the employer, the injured worker and third party providers.

The corporate division, which concentrates on large property and liability risks, continues to produce excellent results despite a slight reduction in premium rates. The increase in the retention rate of our corporate customers exceeded expectations.

## PORTFOLIO MIX

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER		2004	2003
Professional indemnity		6.2%	7.1%
Credit and surety		5.2%	5.9%
Accident & health		5.8%	3.2%
Property		15.7%	15.2%
Motor vehicle		8.9%	10.2%
Travel		1.9%	2.3%
Householders		9.8%	11.5%
Compulsory third party		9.0%	10.8%
General liability		18.2%	15.2%
Workers' compensation		9.2%	9.7%
Marine and aviation		4.6%	4.9%
Other		5.5%	4.0%

## KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		2004	2003
Gross written premium	\$M	2,102	1,869
Gross earned premium	\$M	2,114	1,715
Net earned premium	\$M	1,831	1,425
Claims ratio	%	61.0	67.2
Commission ratio	%	13.3	11.1
Expense ratio	%	13.8	14.5
Combined operating ratio	%	88.1	92.8

The professional liability division produced an improved underwriting result. Premium rate increases have slowed and in a number of cases business was renewed at lower premium rates due to improved claims experience and competition from new entrants.

The trade credit portfolio continued to produce excellent results reflecting the quality of the portfolio. The portfolio includes business written in Australia, Asia and New Zealand. Premium rate increases have slowed to reflect improved claims experience.

Our direct underwriting unit, Western QBE, improved customer retention and produced an underwriting profit well ahead of plan. We continue to introduce new initiatives to increase our customer base and retain our loyal customers.

QBE Travel also produced better than budget returns by focusing on quality distribution and sound underwriting.

The tort reforms introduced by state and territory governments have reduced the frequency of liability claims, however, these changes must remain in place to ensure public liability premiums remain affordable. Premium rates have been reduced in many cases to reflect the improved experience. We will continue to work closely with governments for the benefit of consumers.

We have strong management and underwriting teams in Australia ready to participate in further consolidation in the Australian market. The current pricing of our products is sufficient to meet required profitability targets from our various products.

#### Our key objectives for 2005 are to:

- maximise premium retention by providing excellent service to our quality customers;
- provide consumers with value for money products that are tailored to meet their needs;

- establish a runoff branch to reduce claims costs;
- continue to reduce expenses through IT applications and process improvements and realise synergies from acquisitions in 2004;
- further enhance management skills and capabilities through advanced training programmes;
- work closely with regulators and governments to ensure a healthy, financially viable industry; and
- exceed divisional return on equity targets.

I sincerely thank all our staff in Australia who have contributed to the excellent result for our shareholders in 2004.

**Raymond Jones**

## Review of operations

QBE is a leading specialist provider of insurance to the corporate sector in New Zealand. QBE leads the cover on the North Harbour Stadium in Auckland.



### Asia-Pacific general insurance

Asia-Pacific general insurance operations achieved a combined operating ratio of 85.4%, its lowest in the past 20 years.

**Vince McLenaghan** Managing director, Pacific Asia Central Europe

The improved result was driven by a continued focus on portfolio profitability and the general improvement in premium rates and policy terms and conditions achieved in the past three years. The combined operating ratio was 85.4% compared with 90.0% last year.

The stronger Australian dollar continued to have a negative impact on gross written premium and net earned premium, as did the decision in 2003 to withdraw from the Guam and Japan general insurance markets. In local currencies, 13 of our 16 ongoing operations produced higher premium income, however, when translated to Australian dollars, gross written premium decreased by 4% to \$520 million. Net earned premium increased by 2% to \$439 million.

The claims ratio was 48.3% compared with 50.0% last year. The lower frequency of claims was partially offset by losses from the tragic Asian earthquake and following tsunami in December 2004.

The commission ratio decreased to 17.1% in line with expectations reflecting a change in the mix of business and geographic spread. The expense ratio decreased from 21.2% to 20.0%. This reflects the savings from process re-engineering initiatives partly offset by higher incentive payments due to improved profitability, new information systems and the stronger Australian dollar. A large percentage of the total expenses for the division is incurred in Australian dollars.

In 2004, Asia-Pacific general insurance had ongoing operations in 58 offices in 16 overseas locations. Underwriting profits were achieved in New Zealand, Papua New Guinea, Vanuatu, Solomon Islands, Fiji, French Polynesia, New Caledonia, Norfolk Island, Hong Kong, Indonesia, Macau, Malaysia, Philippines,










Singapore and Vietnam. Thailand's result was affected by the tsunami in December 2004. All the main insurance products for the division achieved underwriting profits. The area of concern continues to be the motor vehicle portfolios in Malaysia and Singapore. Although results have improved in the past 12 months, we have reduced our exposure to motor vehicle insurance in these two countries. Malaysia continues to be impacted by the frequency of motor theft losses and the low tariff premium rates, which have not been increased for a number of years.

We were successful in acquiring Zurich's general insurance business in Singapore from 1 July 2004. The benefits of this acquisition will be seen over the next 18 months as we integrate the business into QBE.



## PORTFOLIO MIX

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER		2004	2003
Professional indemnity		12.1%	12.2%
Marine		12.3%	13.2%
Workers' compensation		6.1%	6.9%
Motor and motor casualty		16.4%	18.2%
Fire		26.4%	24.5%
Accident and health		7.9%	10.6%
Liability		9.7%	7.6%
Engineering		3.8%	3.5%
Other		5.3%	3.3%

## KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		2004	2003
Gross written premium	\$M	520	542
Gross earned premium	\$M	534	549
Net earned premium	\$M	439	430
Claims ratio	%	48.3	50.0
Commission ratio	%	17.1	18.8
Expense ratio	%	20.0	21.2
Combined operating ratio	%	85.4	90.0

We continue to increase our premium income from specialist property, professional liability, general liability and marine insurance through brokers and to build the skills of staff in the Asia-Pacific region.

We have excellent relationships with our joint venture partners in Asia. QBE has a 50% or greater shareholding and management control of all its operations.

From 1 January 2005, the division changed its name to Pacific Asia Central Europe division ("PACE"). This follows the transfer of the six Central European primary insurance businesses from European company operations, i.e. Ukraine, Slovakia, Hungary, Bulgaria, Macedonia and Moldova. We are currently investigating a number of acquisitions for the PACE division in Asia and Central Europe. We purchased a small general insurance business in Estonia in late December 2004. The results of PACE will be shown in greater detail in the 2005 annual report.

### Our key objectives for 2005 are to:

- achieve growth plans and improve scale in key markets;
- reorganise the divisional management structure to increase effectiveness;
- achieve divisional return on equity targets;
- further develop our professional intermediary distribution systems;
- complete new product development in specialist classes, including liability, energy, marine and construction; and
- fully integrate Central European operations into the division.

The record underwriting profit in 2004 is an excellent achievement, with the majority of ongoing operations and all major products producing underwriting profits. The stronger Australian dollar has had a negative impact on gross premium, however, our focus has been and will continue to be on the bottom line and on building our businesses in each of the countries in which we operate.

I appreciate the loyalty, hard work and dedication of our team. I also appreciate the assistance and support of our joint venture partners and my subsidiary board colleagues in maintaining sound and practical governance of our local subsidiaries. We are confident that the excellent returns achieved in 2004 will continue for 2005, subject to large losses and catastrophes not exceeding the allowances in our business plans.

**Vince McLenaghan**

Condominium and specialist property insurance is part of the diverse product range of our US programme business.



## the Americas

QBE the Americas has again improved its underwriting profit despite the impact of the four hurricanes in the US and Caribbean in August and September.

**Tim Kenny** President and chief executive officer, the Americas

Our operations 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.

The combined operating ratio was 92.3% compared with 93.1% last year. Our strategy of further diversification and growth of our US based primary insurance business was rewarded with strong growth following the acquisition of new insurance programme business with a proven track record. We continued to be a major market for reinsurance and admitted and non-admitted insurance products. Gross written premium increased 3% to \$1,382 million and net earned premium was up 9% to \$805 million. Growth in US dollars was much stronger, at 18% and 23% respectively. Growth came from premium rate increases, new general insurance programme business and a small acquisition in Brazil. General insurance now represents 67% of gross written premium for the division.

Business ceded to highly rated reinsurers includes substantial proportional reinsurance on general insurance programme business which generates overriding commissions and profit commissions for QBE. Of the total reinsurance cost of \$549 million, some 84% related to proportional reinsurance. The percentage of reinsurance ceded is expected to decrease in 2005.

The claims ratio improved from 63.4% to 60.1%. The lower claims ratio was due to the higher premium rates and lower claims frequency from improvements in policy terms and conditions implemented over the past three years. The net claims ratio includes claims from the four hurricanes in August and September.

The commission ratio was 25.7% compared with 23.5% last year reflecting a slight change in mix of business and increased profit commissions paid to our agents on profitable programme business.

## PORTFOLIO MIX

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER	2004	2003
Property	36.7%	41.4%
Casualty	25.1%	25.3%
Motor and motor casualty	17.4%	16.7%
Accident and health	17.4%	13.1%
Workers' compensation	1.4%	1.2%
Other	2.0%	2.3%

## KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
		2004	2003	2004	2003	2004	2003
Gross written premium	\$M	930	745	452	597	1,382	1,342
Gross earned premium	\$M	912	659	442	554	1,354	1,213
Net earned premium	\$M	426	229	379	511	805	740
Claims ratio	%	63.2	73.9	56.6	58.7	60.1	63.4
Commission ratio	%	24.1	16.6	27.5	26.6	25.7	23.5
Expense ratio	%	6.1	6.5	6.9	6.1	6.5	6.2
Combined operating ratio	%	93.4	97.0	91.0	91.4	92.3	93.1

The expense ratio increased from 6.2% to 6.5%. The increase is primarily due to the higher general insurance component of our business, staff incentives from improved insurance profitability and the increased costs of regulatory reform.

All products produced satisfactory underwriting results, with our businesses in Argentina and Brazil producing underwriting profits. QBE the Americas' focus on selected portfolios in regional US and Latin America means that we are not as exposed to the insurance cycle as others who write nationwide and large risks. We continue to develop relationships with our existing client base, pursue acquisitions that meet our criteria and add new general insurance programme business with a proven profitable track record. We generally do not write long tail US casualty or US workers' compensation business. We are now seen as a leader in the segments of the market in which we operate.

For 2005, we have already secured a small workers' compensation business in Argentina, which is complementary to our existing business, and we are looking at acquisitions in the US and Latin America. Our major renewal season at 1 January 2005 was successful. We achieved better than planned premium rate increases overall and maintained policy terms and conditions. We are confident of further solid growth in 2005.

#### Our key objectives for 2005 are to:

- continue to seek acquisition opportunities that complement QBE's strengths and add value to our shareholders;
- maximise existing intermediary relationships to achieve targeted opportunities;
- maintain profitability of both new and existing insurance and reinsurance business;

- further develop our risk management framework across the division; and
- implement enhanced inwards and outwards reinsurance systems.

I express my sincere appreciation to the team in the Americas for the significant contribution they have made to the excellent insurance profit for 2004.

**Tim Kenny**



The acquisition of the Ensign motor business in 2004 has established OBE as a lead underwriter of medium to large haulage and specialist motor risks in the UK.



## European operations

In September 2004, we integrated the European management structure to combine our UK operations.

**Steven Burns** Chief executive officer, European operations

### European operations

In 2004, European operations comprised:

- our European company operations which writes commercial lines products in general insurance and reinsurance operations in London and Dublin and general insurance operations in Paris and six countries in Central Europe; and
- our Lloyd's division (trading as Limit), which is the largest manager and second largest provider of capacity in the Lloyd's market. For the 2004 underwriting year, QBE provided 100% of the capital to four of our six Limit syndicates. For syndicate 386 our share was 54.6% and for the Ensign motor business our share was approximately 67%, supported by both capacity on syndicate 980 and co-insurance by our European company operations.

### European company operations

The combined operating ratio of our European company operations improved slightly from 94.7% to 94.3%. The improvement in results from our general insurance business was largely offset by a deterioration in the results from our reinsurance business, which was affected by the increased number of catastrophes during 2004 and an upgrade of prior year outstanding claims provisions for US casualty, UK motor excess of loss and other old runoff portfolios.

Gross written premium in local currency increased 5% due to growth in general insurance portfolios, including the co-insurance of the Ensign motor business. However, when translated to Australian dollars, gross written premium was broadly unchanged at \$2,453 million, whilst net earned premium was up 3% to \$1,971 million. Gross written premium was also affected by the cancellation of some business due to premium rates not meeting our criteria and the more competitive market conditions.

## PORTFOLIO MIX – European company operations

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER		2004	2003
Professional indemnity		12.2%	11.5%
Financial and credit		3.2%	5.4%
Marine and aviation		4.0%	3.9%
Accident and health		5.1%	6.9%
Bloodstock		2.0%	2.6%
Property treaty		5.8%	5.8%
Property facultative and direct		13.0%	13.8%
Workers' compensation		15.7%	14.3%
Motor vehicle		8.1%	2.5%
Casualty		6.1%	9.1%
Public/product liability		19.9%	13.7%
Other		4.9%	10.5%

### KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
		2004	2003	2004	2003	2004	2003
Gross written premium	\$M	1,809	1,688	644	753	2,453	2,441
Gross earned premium	\$M	1,676	1,552	628	750	2,304	2,302
Net earned premium	\$M	1,444	1,312	527	596	1,971	1,908
Claims ratio	%	62.9	64.4	75.7	71.7	66.3	66.7
Commission ratio	%	14.0	13.2	17.8	20.9	15.0	15.6
Expense ratio	%	12.9	13.0	13.1	11.3	13.0	12.4
Combined operating ratio	%	89.8	90.6	106.6	103.9	94.3	94.7

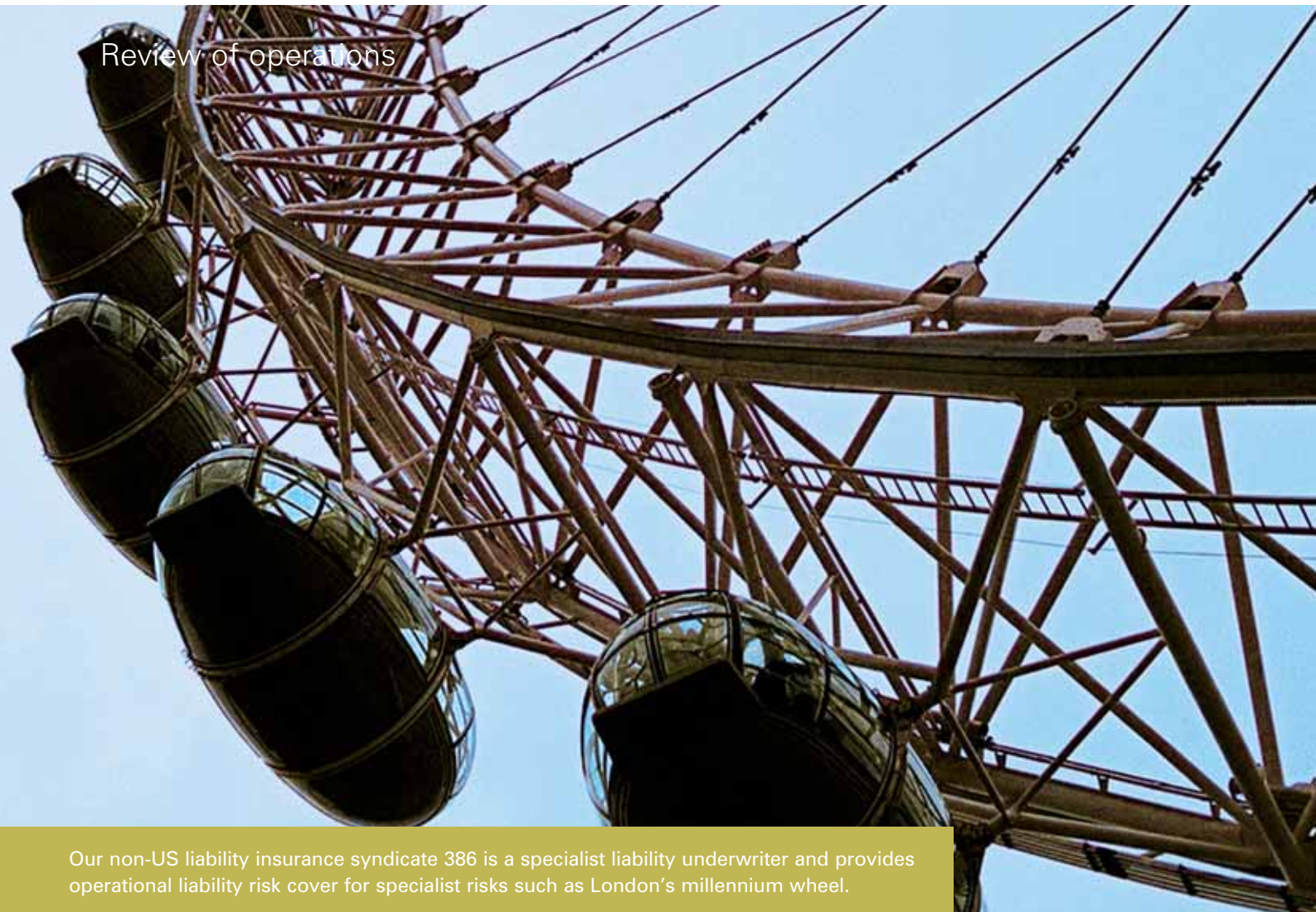
Reinsurance costs as a percentage of gross earned premium reduced from 17% to 14%, primarily due to a restructure of our reinsurance arrangements.

The claims ratio was 66.3% compared with 66.7% last year. The slight reduction in the claims ratio was due to a lower frequency of claims partly offset by an increase in catastrophe claims and the upgrade of 2001 and prior year claims. The commission ratio decreased from 15.6% to 15.0%, reflecting a change in the mix of business and the introduction of the Ensign motor business. The expense ratio increased from 12.4% to 13.0% due to restructure costs, increased costs of corporate governance and regulatory compliance and the write-off of systems development expenditure.

Our general insurance operations produced a combined operating ratio of 89.8% compared with 90.6% last year. This was due to the benefits of an increased focus on portfolio performance and the higher premium rates and improved policy terms and conditions achieved over the past three years. All ongoing portfolios produced underwriting profits. Our combined operating ratio from inward reinsurance operations deteriorated from 103.9% to 106.6% due to the increase in catastrophe activity, particularly the hurricanes in Japan and the Caribbean, and the upgrading of our 2001 and prior year claims for US casualty and motor excess of loss business.

All of our Central European businesses produced underwriting profits on their general insurance business and our Paris office, which now focuses only on French domestic business, produced another positive underwriting result. The Central European businesses have been transferred to QBE's Pacific Asia Central Europe division effective 1 January 2005.

Our major renewal season of 1 January 2005 saw a slight overall reduction in premium rates, however, policy terms and conditions have generally been maintained. We are working on a number of acquisition opportunities to grow the business in 2005. We continue to be a market leader in the majority of portfolios that we write, which enables us to influence terms, conditions and pricing. European company operations will benefit from the transfer of the Ensign motor business from our Lloyd's division for 2005 as well as the increased participation from 67% to 100%.



Our non-US liability insurance syndicate 386 is a specialist liability underwriter and provides operational liability risk cover for specialist risks such as London's millennium wheel.



**Peter Grove**  
Chief underwriting officer,  
European operations

### Lloyd's division trading as Limit

The focus on core products, together with the premium rate increases and improved terms and conditions in the past three years, have enabled the Limit team to outperform its 2004 financial targets. In particular, the combined operating ratio improved from 95.1% to 92.1% despite the increased catastrophe activity during the year.

Gross written premium in local currency increased by 16%, partly due to the inclusion of the Ensign acquisition and the higher participation in syndicate 386. However, when translated to Australian dollars, gross written premium increased 7% to \$2,309 million. Net earned premium increased 13% to \$1,735 million. Premium growth was also affected by the substantial appreciation of sterling against the US dollar. Approximately 40% of Limit's business is written in US dollars.

Premium rate movements were broadly in line with our expectations, however, some of our products saw slight premium reductions to reflect lower claims frequency and market competition.

The claims ratio increased from 59.2% to 60.3% mainly due to large catastrophes and risk losses exceeding 2003 levels and the conservative approach taken in establishing claims liabilities in respect of the 2002, 2003 and 2004 underwriting years. The improved policy terms and conditions implemented over the past three years have assisted the reduction in the frequency of claims.

The commission ratio decreased from 25.4% last year to 20.9% as a result of the change in mix of business, the inclusion of the Ensign motor business (syndicate 980) and a small correction in the ratio in the previous year.

The expense ratio increased slightly from 10.5% last year to 10.9%. Higher staff incentive costs driven by improved profitability, higher regulatory compliance costs and restructure costs were the

## PORTFOLIO MIX — Lloyd's division

### Gross earned premium

FOR THE YEAR TO 31 DECEMBER		2004	2003
Professional indemnity		13.6%	12.2%
Marine and aviation		12.3%	18.7%
Property		36.8%	42.2%
Casualty		31.8%	22.6%
Other		5.5%	4.3%

## KEY RATIOS

FOR THE YEAR TO 31 DECEMBER		GENERAL INSURANCE		INWARD REINSURANCE		TOTAL	
		2004	2003	2004	2003	2004	2003
Gross written premium	\$M	1,397	1,293	912	863	2,309	2,156
Gross earned premium	\$M	1,398	1,194	867	843	2,265	2,037
Net earned premium	\$M	1,086	900	649	633	1,735	1,533
Claims ratio	%	60.6	57.8	59.8	61.1	60.3	59.2
Commission ratio	%	21.2	27.5	20.4	22.5	20.9	25.4
Expense ratio	%	10.4	10.6	11.8	10.4	10.9	10.5
Combined operating ratio	%	92.2	95.9	92.0	94.0	92.1	95.1

principal reasons. From 2005, Lloyd's is ceasing its World Trade Center levy and thus overall market charges will reduce from 1.75% to 1.0% of capacity which, together with synergies from the restructure announced in September 2004, will improve the expense ratio over the next two years.

The major renewal season of 1 January 2005 was reasonably successful with premium rates slightly better than business plan expectations on reinsurance business and broadly in line with plan on direct business. Importantly, the improved policy terms and conditions implemented in recent years were generally maintained. The planned, disciplined reduction in rates in some classes of business, the current weakness of the US dollar against sterling and the transfer of Ensign motor business to our European company operations will, however, make it difficult to achieve any growth for the Limit operation in 2005, notwithstanding that we have hired some new underwriting teams and have a number of new initiatives.

### Our key objectives for 2005 for European operations are to:

- establish the European retail division around the core Ensign commercial motor business plus the recently acquired property team;
- diversify underwriting products into Continental Europe by acquiring distribution capability;
- enhance coordination of our underwriting strategy and integrate our approach to managing the underwriting cycle;
- further increase capacity on our non-US liability syndicate 386;
- deliver a production version of our integrated underwriting and management information systems to the bulk of the business;
- implement a consolidated premises strategy in London to improve efficiency and reduce costs; and
- deliver cost synergies from integration initiatives.

The formation of a single management team to oversee QBE's operations in Europe was announced in September 2004. This unfortunately meant the departure of some senior executives who had contributed to the success of QBE in recent years. Our aim is to obtain synergies of at least \$60 million by the end of 2007 from improved reinsurance purchasing and the integration of our London properties and a number of back office functions. We are very pleased with the progress to date.

I appreciate the enormous support that I have received from my management, underwriting and support teams, particularly during the past few months. I thank them for their focus and hard work and their contribution to the excellent results for 2004.

**Steven Burns**



## Investments

The investment division outperformed its overall internal investment benchmarks and financial targets in 2004.

**Mark ten Hove** Group general manager, Investments

Investment income was on target as a result of our low risk strategy assisted by growth due to acquisitions, cash flow from operations, generally higher interest yields and strong equity markets in the second half of the year. The Group's gross investment yield on cash and fixed interest securities increased from 3.0% to 3.8% in 2004 with an overall gross yield of 4.6%, consistent with last year. The yield includes net realised and unrealised gains and losses on investments and is before borrowing costs, exchange gains and losses and investment expenses. As previously advised to shareholders, our investment strategy is low risk with targets based on achieving absolute returns. Our objective is to outperform AAA cash returns, which were 3.4% on average for 2004. This low risk strategy has been beneficial for shareholders over the past five years.

Net investment income after realised and unrealised investment gains and losses increased from \$413 million to \$508 million. Net investment income includes borrowing costs, exchange gains and losses and investment expenses. Net realised and unrealised gains on investments were \$91 million before tax compared with gains of \$110 million before tax last year.

The strong cash flow and acquisitions have resulted in a 27% increase in net invested funds from \$10.5 billion at 31 December 2003 to \$13.3 billion at 31 December 2004. We continue to maintain a policy of matching liabilities with assets of the same currency and matching all "tradeable" overseas shareholders' funds back into Australian dollars. Despite volatility in foreign currency markets, our currency management has resulted in a minimal impact on financial performance with a small currency gain of \$2 million.

We performed generally in line with the one to three year benchmarks for the majority of our fixed interest portfolios. However, the performance of our equity portfolios was affected by our overexposure to long held mining stocks Alumina and Consolidated Rutile and an underperformance on US equities in the first half of the year. Since year end, the share price of both Alumina and Consolidated Rutile have risen and we have taken the opportunity to realise some of these gains.

Our strategy of maintaining a low risk investment portfolio with a small exposure to equities, mainly to support our shareholders' funds, and a short duration for fixed interest securities remains in place. We currently have listed equities of 8.9% of total investments and cash. At 31 December 2004, our equity portfolio was invested 37% in Australian equities, 28% in UK equities, 23% in US equities and 12% in portfolios in other currencies. Cash and fixed interest portfolios had an average



## NET INVESTED FUNDS

AS AT	31 DECEMBER 2004		31 DECEMBER 2003	
	\$M	%	\$M	%
Cash	1,121	7.4	717	6.1
Short term money	5,482	36.4	3,499	29.5
Fixed interest securities and other	6,947	46.1	6,209	52.5
Mortgages	10	0.1	7	0.1
Equities	1,390	9.2	1,272	10.8
Properties	117	0.8	119	1.0
Total investments and cash	15,067	100.0	11,823	100.0
Borrowings	(1,789)		(1,334)	
Net invested funds excluding ABCs	13,278		10,489	
ABC investments pledged for funds at Lloyd's	998		731	
ABC securities for funds at Lloyd's	(984)		(731)	
Net invested funds	13,292		10,489	

## INVESTMENT INCOME

FOR THE YEAR TO 31 DECEMBER	2004 \$M	2003 \$M
Dividends	52	46
Interest	483	365
Other income	14	16
	549	427
Realised (losses) gains on fixed interest securities	(31)	1
Realised gains (losses) on equities and properties	54	(13)
Unrealised gains (losses) on fixed interest securities	18	(54)
Unrealised gains on equities and properties	50	176
Gross investment income	640	537
Interest expense	(94)	(80)
Exchange gains (losses)	2	(13)
Other expenses	(24)	(29)
Net cost of ABCs	(16)	(2)
Net investment income	508	413

maturity of 0.6 years, with only one small portfolio maturing beyond three years. However, we expect the duration to increase in 2005.

The recent rise in US interest rates, the substantially increased net invested funds and expected strong cash flow create a positive outlook for 2005. We expect interest rates to continue to increase, particularly in the US, and there are reasonable indications that equity markets will continue to rise, albeit at a lower rate than 2004. We have in place a comprehensive investment model which enables us to review the implications of numerous investment scenarios and asset allocations. This investment model continues to be an integral part of our regular investment management process.

### Our key objectives for 2005 are to:

- outperform our investment income targets;
- continue to actively manage the duration of cash and fixed interest portfolios;
- continue to improve and integrate existing and new systems; and
- contain costs as a percentage of funds under management to internationally competitive levels.

Our investment team has exceeded our financial targets and outperformed overall internal benchmarks for 2004. I thank all those staff who have contributed to our results over the past year.

**Mark ten Hove**

## CURRENCY MIX

### Market value of equities

	2004 %	2003 %
Australian dollar	36.7	39.6
US dollar	22.8	25.6
Sterling	28.2	23.6
Other	12.3	11.2

### Market value of total investments and cash

	2004 %	2003 %
Australian dollar	28.0	22.5
US dollar	25.5	33.6
Sterling	34.1	30.6
Other	12.4	13.3

# Shareholder information

**QBE is incorporated in Australia, is listed on the Australian Stock Exchange ("ASX") and trades under the code 'QBE'.**

## **Annual General Meeting ("AGM")**

11.00am Friday, 8 April 2005  
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.

## **Shareholder information and enquiries**

Most enquiries and correspondence regarding shareholdings can 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 9287 0303

Internet: [www.asxperpetual.com.au](http://www.asxperpetual.com.au)

Email: [registrars@asxperpetual.com.au](mailto:registrars@asxperpetual.com.au)

Please quote your Securityholder Reference Number (SRN) and provide details of your previous address for security purposes.

If you are broker sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. ASX Perpetual cannot assist you with these changes. Please quote your Holder Identification Number (HIN).

## **Relevant interests register**

Orient Capital Pty Limited of 20 Bridge Street, Sydney NSW 2000, Australia maintains QBE's register of information about relevant interests. This new register is required from 1 January 2005 as part of the CLERP 9 legislation. The register contains any responses from custodians on and after that date to searches relating to the beneficial ownership of QBE's shares. Shareholders and other parties can telephone Orient Capital on +61 2 9251 2700 or facsimile on +61 2 9251 1299 if they wish to inspect this register.

## **Quick and easy access to your shareholding details online**

View your shareholdings and update details online at the ASX Perpetual investor service centre website at [www.asxperpetual.com.au](http://www.asxperpetual.com.au). You will be asked to provide either your SRN or HIN, your surname and postcode.

Dividend statements, notices of meetings, annual reports and major company announcements can be received electronically by registering your email address at the ASX Perpetual investor service centre website.

Online proxy voting will be available through the ASX Perpetual investor service centre by April 2005.

## **Removal from annual report mailing list**

If you do not want to receive a copy of the annual report, please notify ASX Perpetual in writing or visit [www.asxperpetual.com.au](http://www.asxperpetual.com.au). QBE does not produce a concise financial report.

## **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 investor service centre 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 dividends paid. Australian shareholders living abroad should advise ASX Perpetual of their resident status as limited exemptions to tax deductions may apply. TFN forms are available from ASX Perpetual or can be downloaded from either QBE's or ASX Perpetual's website.

## **Dividends**

QBE revised the terms of its Dividend Reinvestment Plan ("DRP") and Dividend Election Plan ("DEP") in January 2004. 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 rounding up.

The DRP enables you to apply to subscribe for additional shares at a discounted price. The DEP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. Shares issued under the DRP and DEP are issued at a 2.5% discount to a weighted five day average market price.

Participants may change their election to participate in the DRP or DEP at any time. DRP/DEP election cutoff dates and application forms are available from QBE's website.

QBE encourages shareholders to have cash dividends credited directly to a bank, building society or credit union account in Australia, to eliminate delays in funds clearance and significantly reduce the risk of loss or theft. A dividend advice confirming the deposit details is either mailed to you or is available online on the payment date.

## **Unpresented cheques/unclaimed monies**

Under the *Unclaimed Monies Act*, unclaimed dividend monies must be given to the State Treasury. It is very important that shareholders bank outstanding dividend cheques promptly and advise ASX Perpetual immediately of changes of address or bank account details.

## **Privacy legislation**

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

## **Contacting QBE for more information Registered 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](http://www.qbe.com)

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's dividends, access to standard forms (change of address, direct credit advice and more) and the ability to verify shareholding details.

The half yearly results summary to 30 June 2005 will be mailed with the interim dividend. The next annual report for the year ending 31 December 2005 will be available by March 2006.

## 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
25 March 2004	final	9 March 2004	22.0	30
20 September 2004	interim	30 August 2004	24.0	50

## TOP TWENTY SHAREHOLDERS

AS AT 31 JANUARY 2005

NAME OF REGISTERED SHAREHOLDER	NUMBER OF SHARES	% OF TOTAL
JP Morgan Nominees Australia Limited	155,760,565	20.87
Westpac Custodian Nominees Limited	149,562,393	20.04
National Nominees Limited	108,384,981	14.52
ANZ Nominees Limited	59,806,892	8.01
Citicorp Nominees Pty Limited	38,714,543	5.19
Cogent Nominees Pty Limited	19,773,966	2.65
Queensland Investment Corporation c/- National Nominees Limited	14,822,703	1.99
AMP Life Limited	12,014,325	1.61
HSBC Custody Nominees (Australia) Limited	9,288,844	1.24
RBC Global Services Australia Nominees Pty Limited	5,926,025	0.79
Government Superannuation Office c/- National Nominees Limited	5,766,398	0.77
IAG Nominees Pty Limited	5,358,266	0.72
Victorian WorkCover Authority c/- National Nominees Limited	4,473,662	0.60
QBE Management Services Pty Limited	3,735,971	0.50
Transport Accident Commission c/- National Nominees Limited	3,026,352	0.41
Suncorp Custodian Services Pty Limited	2,477,382	0.33
Perpetual Trustee Company Limited	2,041,855	0.27
Australian Foundation Investment Company Limited	1,959,487	0.26
UBS Nominees Pty Limited	1,793,921	0.24
PSS Board c/- JP Morgan Nominees Australia Limited	1,723,531	0.23
<b>TOTAL</b>	<b>606,412,062</b>	<b>81.24</b>

## QBE SUBSTANTIAL SHAREHOLDERS

AS AT 31 JANUARY 2005

NAME	NUMBER OF SHARES	% OF TOTAL	DATE OF NOTICE
The Capital Group Companies Inc	58,889,590	8.89	3 September 2003
UBS Nominees Pty Ltd and its related bodies corporate	54,152,727	8.64	28 July 2003

## DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS

AS AT 31 JANUARY 2005

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1-1,000	14,592	42.39	7,831,109	1.05
1,001-5,000	15,852	46.05	35,897,435	4.81
5,001-10,000	2,313	6.72	16,289,300	2.18
10,001-100,000	1,489	4.33	35,120,825	4.71
100,001 or more	175	0.51	651,286,055	87.25
<b>TOTAL</b>	<b>34,421</b>	<b>100.00</b>	<b>746,424,724</b>	<b>100.00</b>

## SHAREHOLDINGS OF LESS THAN A MARKETABLE PARCEL

AS AT 31 JANUARY 2005

	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
Holdings of 33 or less shares	691	2.01	10,460	-

# Financial calendar and ASX announcements

## FINANCIAL CALENDAR

### 2005

24 February	Profit and dividend announcement for the year ended 31 December 2004 Annual report available on website
1 March	Shares begin trading ex-dividend
4 March	Annual report posted to shareholders with notice of AGM and proxy form
7 March	Record date for determining shareholders' entitlement to 2004 final dividend payment
23 March	2004 final dividend paid
8 April	AGM
30 June	Half year end
17 August*	Profit and dividend announcement for the six months ending 30 June 2005
23 August*	Shares begin trading ex-dividend
29 August*	Record date for determining shareholders' entitlement to 2005 interim dividend payment
16 September*	2005 interim dividend paid
31 December	Year end

\* dates to be confirmed

## QBE ANNOUNCEMENTS TO THE ASX

### 2005

Announced further conversion of QBE LYONs securities into ordinary shares of the company Subsequent conversions announced 16 February and 18 February	4 February
Announced the exercise of options issued to a third party as part of the consideration for the acquisition of insurance agency distribution businesses in Australia	14 January

### 2004

Announced that the insured losses from the Indian ocean earthquake and resulting tsunamis not expected to have a material impact on the 2004 results	29 December
Advised completion of funding for Lloyd's operation for 2005	28 October
Denied speculation in respect of any merger or acquisition activity with IAG	6 October
Chief financial officer's presentation to JP Morgan Australasian investment conference	5 October
Confirmed that QBE's insurance provisions for large losses and catastrophes are expected to cover the estimated net claims from US hurricanes	29 September
Announced the completion of a fixed five year senior note issue in the UK market	23 September
Announced issue to institutional investors of 20 year zero coupon senior convertible securities	21 September
Announced the initial conversion of QBE LYONs securities into ordinary shares of the company. Further conversions announced 20 September, 22 September, 27 September, 1 October, 11 October, 28 October, 15 November, 18 November, 24 November, 1 December, 16 December and 31 December	16 September
Announced the rationalisation of the structure of QBE's European operations	7 September
Announced a record operating profit after tax of \$320 million for the half year to 30 June 2004	18 August
Advised that net claims from Hurricane Charley in the US expected to be well within the Group's allowances for large losses and catastrophes	16 August
Announced completion of previously announced acquisitions	1 July
Announced the purchase of Zurich Insurance (Singapore) Pty Ltd, effective 30 June 2004	21 May
Announced the agreement to purchase ING's 50% share interest in the QBE Mercantile Mutual joint venture, effective 30 June 2004	13 May
2004 AGM	2 April
Announced the final share price for the company's 2003 Dividend Election Plan and Dividend Reinvestment Plan	17 March
Presentation to Citigroup Australia and New Zealand investment conference by the chief executive officer	12 March
Announced the issue of shares and options for overseas employees	3 March
Announced a record 2003 profit and increased dividend	25 February
Announced revised Dividend Election Plan and Dividend Reinvestment Plan terms	16 January
Advised that QBE's net loss from the Moomba gas explosion will be immaterial	6 January



**John Cloney**



**Len Bleasel AM**



**Charles Curran AC**



**The Hon Nick Greiner AC**



**Belinda Hutchinson**



**Charles Irby**



**Irene Lee**



**Frank O'Halloran**

## Board of directors

### John Cloney

ANZIIF, FAIM, FAICD AGE 64  
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 chairman of the chairman's and funding committees, and a member of the investment and remuneration committees. Mr Cloney is a director of Boral Limited, Maple-Brown Abbott Limited, Patrick Corporation Limited and the Australian Institute of Management NSW & ACT Limited. He is chairman of the Create Foundation and a trustee of the Sydney Cricket & Sports Ground Trust.

### Len Bleasel AM

FAIM, FAICD AGE 62

Mr Bleasel was appointed an independent non-executive director of QBE in January 2001. He is a member of the audit and remuneration committees. He joined the Australian Gas Light Company in 1958 and was managing director and chief executive officer from May 1990 until March 2001. Mr Bleasel is chairman of Foodland Associated Limited and a director of St George Bank Limited. He is also chairman of the Zoological Parks Board of NSW and is on the committees of various charities.

### Charles Curran AO

LLB, FCPA AGE 66

Mr Curran was appointed an independent non-executive director of QBE in January 1991. He is chairman of the remuneration committee and a member of the chairman's, funding and investment committees. 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 JB Were. He is also a member of the Council of the National Gallery of Australia.

### The Hon Nick Greiner AC

BEC, MBA AGE 57

Mr Greiner was appointed an independent non-executive director of QBE in September 1992. He is chairman of the audit committee and a member of the remuneration committee. He is chairman of Bradken Limited and Bilfinger Berger Australia, deputy chairman of Stockland Trust Group and a director of McGuigan Simeon Wines Limited. Mr Greiner was formerly chairman of British American Tobacco Limited, deputy chairman of Coles Myer Limited and a director of BMC Media Limited. He was Premier and Treasurer of NSW from 1988 to 1992. He is a trustee of the Sydney Theatre Company and a director of South Sydney Rugby League club.

### Belinda Hutchinson

BEC, FCA AGE 51

Ms Hutchinson was appointed an independent non-executive director of QBE in September 1997. She is chairman of the investment committee and a member of the audit and funding committees. She is a director of Energy Australia, 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 a vice president of Citibank Limited between 1981 and 1992. She was previously a director of Crane Group Limited, Sydney Water Corporation Limited and TAB Limited.

### Charles Irby

FCA (ENGLAND & WALES) AGE 59

Mr Irby is based in London and was appointed an independent non-executive director of QBE in June 2001. He is a member of the investment committee and chairman of the European operations' audit committee. 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 Great Portland Estates plc, North Atlantic Smaller Companies Investment Trust plc and EC Harris LLP. Mr Irby is also a trustee and governor of King Edward VII's Hospital Sister Agnes.

### Irene Lee

BA, BARRISTER-AT-LAW AGE 51

Ms Lee was appointed an independent non-executive director of QBE in May 2002. She is a member of the audit, funding and investment committees. Ms Lee is a director of Mariner Financial Limited, Ten Network Holdings Limited, Record Investments Limited and Record Realty and was formerly a director of Beyond International Limited and BioTech Capital Limited. She is a member of the Takeovers Panel and a trustee of the Art Gallery of New South Wales. Ms Lee was formerly 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 58

CHIEF EXECUTIVE OFFICER

Mr O'Halloran was appointed chief executive officer in 1998 and is a member of the chairman's, funding and investment committees. 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 14 years and insurance management for over 28 years.



## Corporate governance statement

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 its claims reserves, the quality of its reinsurers and the depth of its culture of honesty, integrity and business acumen.



**Duncan Ramsay**  
General counsel  
and company secretary

### Board of directors

Directors are selected to achieve a broad range of skills, experience and expertise on the board complementary to the Group's activities. These details for individual directors are included on page 35 and can also be found on the QBE website. The board comprises eight directors being the chairman, the chief executive officer and six independent non-executive directors, using the "independence" definition of the ASX Corporate Governance Council. Applying this definition, the board has determined that a non-executive director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 1% of the Group's revenue or expenses.

As a general guide, the board has agreed that a non-executive director's term should be approximately 10 years. Although Mr CP Curran AO and The Hon NF Greiner AC 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. Mr Curran will retire at the 2005 AGM in April. 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.

The chairman is not an "independent" director as recommended by the ASX Corporate Governance Council. This is because he was the former managing director with less than a three year gap before becoming chairman. The chairman's former executive capacity with QBE has been fully disclosed to shareholders. He 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 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.

A majority of the board is independent, being six out of eight directors. The roles of chairman and chief executive are not exercised by the same individual.

The chairman oversees the performance of the board, its committees and each director. The board review procedure involves an annual assessment of the entire board, with the review of each director comprising a combination of written questions and answers covering areas such as role, people, 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 and it is discussed by all directors. This review procedure is a precursor to other directors determining whether to support, via the notice of meeting, a non-executive director for re-election at an AGM. In 2004, a similar review was conducted of the audit, investment and remuneration committees.

QBE's constitution provides that no director (except the chief executive officer) shall hold office for a continuous period in excess of three years or past the third annual general meeting following a director's appointment, whichever is the longer, without submission for re-election. 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.

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 resources (including succession planning), IT and other resources.

The board ensures it has the information it requires to be effective including, where necessary, external professional advice. A non-executive director may seek such advice at the company's cost with the consent of the chairman. 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 budgets 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 at least 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

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 non-executive 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, and a funding committee, comprising the chairman, Mr CP Curran AO, Ms BJ Hutchinson, Ms IYL Lee and the chief executive officer. These committees meet as required, including to deal with such matters as are referred by the board from time to time.

The board regularly discusses its composition and is involved in the selection of new members. All directors are members of the nomination committee. External consultants may be engaged where necessary to search for prospective board members. The board has adopted non-executive director nomination guidelines. As a relatively small board of eight directors (including the chief executive officer), the directors believe that this is an efficient mechanism for dealing with this issue.

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. A report on the committee's last meeting is provided 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"), ASX and shareholders;
- the consolidated entity'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 and other non-executive directors normally 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 audit committee.

The chief executive officer and chief financial officer provide the board with certificates in relation to the financial reports and risk management as recommended by the ASX Corporate Governance Council.

#### **External auditor independence**

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

The audit committee has 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 confers with the audit committee in the absence of management as part of each meeting.

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, it 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 other than excluded 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. External tax services are generally provided by an accounting firm other than the external auditor.

The external auditor has been QBE's auditor for many years. As a diverse international group, QBE requires the services of one of a limited number of international accounting firms to act as auditor. It is the practice of QBE to review from time to time the role of the external auditor. The new CLERP 9 legislation, Australian professional auditing standards and the external auditor's own policy deal with rotation and generally require rotation of the lead engagement partner after five years. In accordance with such policy, the lead engagement partner of the external auditor rotated in 2004.

#### **Investment committee**

The membership of the investment committee comprises five non-executive directors and one executive director. The investment 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 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 the performance of QBE's defined benefit superannuation funds.

#### **Remuneration committee**

The membership of the remuneration committee may only comprise non-executive directors. The remuneration 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 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:

- recommendation of the total remuneration cost ("TRC") of the chief executive officer and approval of the TRC of other members 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 has operations and staff in 38 countries with differing laws and customs. QBE's remuneration policy therefore needs to reflect the fact that QBE is a global organisation, whilst also taking into account local remuneration levels and practices.

#### **Details of remuneration**

Details of remuneration of employees and non-executive directors are included in notes 21 and 22 to the financial statements, including entitlements under the Employee Share and Option Plan and





Professional indemnity and directors' and officers' insurance are highly specialised products tailored to suit our customers in the key European, Asian, Pacific and Australian markets. Our clients' self risk management practices together with our customised wordings are key to the success of these products.

Senior Executive Equity Scheme. Information is also provided on pages 16 and 17 of the annual report.

### Company secretaries

#### DA Ramsay

BComm, LLB, LLM, FANZIIIF, FCIS

Mr Ramsay is general counsel and company secretary of QBE Insurance Group Limited. His legal career commenced in March 1986 with Freehills, working in the general commercial and litigation sections. In June 1993, he joined QBE as general counsel. Since May 2001 he has acted as general counsel and company secretary for the Group, in addition to being a director of a number of QBE subsidiary companies including acting as chairman of the QBE superannuation plan in Australia.

#### NG Drabsch

FCA, FCAID, FCIS

Mr Drabsch was appointed chief financial officer of QBE Insurance Group Limited in 1994 and acts as deputy company secretary of QBE Insurance Group Limited in addition to being a director of a number of QBE subsidiary companies. He joined QBE in 1991 and was the Group company secretary from 1992 to 2001. Mr Drabsch has over 38 years' experience in insurance and reinsurance management, finance and accounting, including 24 years as a practising chartered accountant. He is a member of the Finance & Advisory Committee to the Insurance Council of Australia ("ICA"). He was previously a director of the ICA and a member of other representative

committees for the ICA in relation to development of Australian accounting standards for general insurance.

#### PE Barnes

BEC, FCA

Mr Barnes is taxation manager, deputy company secretary of QBE Insurance Group Limited and company secretary of QBE Insurance (Australia) Limited. Mr Barnes has been a company secretary of many of QBE's Australian companies since November 1991. He has been responsible for taxation matters in QBE's Australian operations for the past 16 years and was formerly a financial accounting manager in QBE's international division. Prior to joining QBE 17 years ago, Mr Barnes was a manager in the chartered accounting firm of Horwath and Horwath and has for the past 11 years been chairman of the ICA's taxation committee.

### 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 geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. 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 standards of control that are needed to manage those risks.

The foundation of our risk management 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;
- complying 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, operational risk and funds

management and treasury 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 approves annually a comprehensive risk management strategy ("RMS") and reinsurance management strategy ("REMS"), both of which are lodged with the Australian Prudential Regulation Authority ("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 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. Information is provided on pages 14 and 15 of the annual report.

### **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 more frequently. 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 authorities for many years. In particular, a written delegated authority with specified limits 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, acquisitions 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 most 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 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 risk and compliance manager 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 local laws and regulations apply to 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. A list of the announcements made since 1 January 2004 is included on page 34.

### **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 released as required. 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](http://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 located in Sydney.

The AGM is held in Sydney each year, usually in April. Shareholders are encouraged to attend the AGM 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 the presentations 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 with which the company may have dealings, by directors and senior Group executives. These are in addition to the insider trading provisions of the *Corporations Act 2001*. In particular, the guidelines state that directors and senior Group executives should:

- never actively trade the company's securities; and
- notify any intended transaction to nominated people within the Group.

The guidelines identify set periods during which directors or senior Group executives may buy or sell the company's securities, being three to 30 days after each of the release of the company's half year results, the release of the company's annual report and the AGM, and also 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 for Australian operations, Group head office and Group investment division, which forms the basis for the manner in which these 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, conflicts of interest and related matters. The non-executive directors have adopted a code of conduct for themselves which is substantially the same as the code above.

Other divisions have or are developing codes of conduct based on the Group code above, with some differences to allow for the requirements of the particular country or countries in which the division operates.

There are other Group policies covering anti-discrimination, employment, harassment, essential behaviours, health and safety, "whistle-blowing" 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.

QBE in Australia has adopted the general insurance code of practice, a self-regulated code developed by the ICA relating to the provision of products and services to customers of the general insurance industry of Australia. The code is currently under review by the ICA in consultation with stakeholders. QBE has also adopted the general insurance information privacy code, another self-regulated code developed by the ICA and approved by the privacy commissioner in Australia.

QBE in Australia is a member of the Insurance Ombudsman Service, an ASIC approved external dispute resolution body for insurance disputes between consumers and insurers. 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 44.

The following documents are available in the corporate governance area of QBE's website or on request from the company secretary:

- board charter;
- audit, investment and remuneration committee charters;
- non-executive director nomination guidelines;
- code of conduct for non-executive directors;
- code of conduct for Australian operations, Group head office and Group investment division;
- guidelines for dealing in securities of QBE Insurance Group Limited or other companies by directors and senior Group executives;
- continuous disclosure guidelines; and
- shareholder communication guidelines.

### **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.





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