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13 August 2020

The Manager
Market Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Report on results and financial statements for the half year ended 30 June 2020

The Directors of QBE Insurance Group Limited announce the financial results for the half year ended 30 June 2020.

The following documents are attached:

1. Appendix 4D – half year report; and

2. QBE's half year report including financial statements for the half year ended 30 June 2020.

This release has been authorised by the QBE Board of Directors.

Yours faithfully

Carolyn Scobie
Company Secretary

Attachments

QBE Insurance Group Limited
Appendix 4D – Half year report for the period to 30 June 2020

Results for announcement to the market

FOR THE HALF YEAR ENDED 30 JUNE	UP / DOWN	% CHANGE	2020 US$M	2019 US$M
Revenue from ordinary activities from continuing operations	Up	10%	**7,985**	7,231
(Loss) profit from ordinary activities after income tax attributable to equity holders of the company from continuing operations	Down	249%	**(712)**	479
Net (loss) profit for the period attributable to ordinary equity holders of the company from continuing operations	Down	249%	**(712)**	479

Net loss after income tax for the half year ended 30 June 2020 was $712 million compared with a profit of $463 million in the prior period. The pre-tax result was materially impacted by underwriting impacts from COVID-19 ($335 million), adverse prior accident year claims development, higher than anticipated catastrophe experience, and a net investment loss of $90 million compared with a net investment profit of $755 million in the prior period. Whilst fixed income assets benefited from falling sovereign bond yields, widening corporate bond spreads and realised losses on emerging market and high yield debt assets negatively impacted fixed income returns. Growth assets were substantially impacted by market volatility during the period.

The Group reported an underwriting loss of $524 million compared with a loss of $24 million for the prior period, equating to a combined operating ratio of 109.5% compared with 100.4%. Excluding the impacts of changes in risk-free rates in both periods, the combined operating ratio was 103.5% compared with 96.3% in the prior period. The COVID-19 impact referenced above added 6.0% to the combined operating ratio.

The Group's effective tax rate was 9% compared with 16% in the prior period, reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates and the non-recognition of deferred tax assets arising from current period taxable losses in the US tax group.

DIVIDENDS	AMOUNT PER SECURITY (AUSTRALIAN CENTS)	FRANKED AMOUNT PER SECURITY (AUSTRALIAN CENTS)
Interim dividend	**4**	**0.4**

The Dividend Reinvestment Plan and Bonus Share Plan will be satisfied by the issue of shares at a discount of 1.5%. The interim dividend will be 10% franked.

The unfranked part of the dividend is declared to be conduit foreign income.

The share issue price for the Dividend Reinvestment Plan and the Bonus Share Plan will be based on a volume weighted average in the 10 trading days between Friday 28 August 2020 and Thursday 10 September 2020 (both dates inclusive).

The record date for determining shareholder entitlements to the dividend is 21 August 2020.

The last date for receipt of election notices applicable to the Dividend Reinvestment Plan and the Bonus Share Plan will be 24 August 2020.

The interim dividend will be paid on 25 September 2020.

Additional disclosures

Additional Appendix 4D disclosure requirements can be found in the QBE Insurance Group Limited Half Year Report for the period to 30 June 2020 (Attachment A). The Half Year Report should be read in conjunction with any market or public announcements made by QBE Insurance Group Limited during the period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules. The independent auditor's review report is included at page 51 of the Half Year Report.

Other information

During the period, QBE Insurance Group Limited held an interest in Pacific Re Limited (30.97%) and Raheja QBE General Insurance Company (49%). On 6 July 2020, QBE announced the sale of Raheja QBE General Insurance Company Limited. The agreed transaction is currently awaiting regulatory approval in India. The Group's aggregate share of profits of these entities is not material.

QBE Insurance Group Limited
Attachment A: Half year report for the period ended 30 June 2020

2020 Half Year Report

QBE INSURANCE GROUP LIMITED

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

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2020 half year snapshot[1]

Shareholder highlights

Dividend per share (A¢)

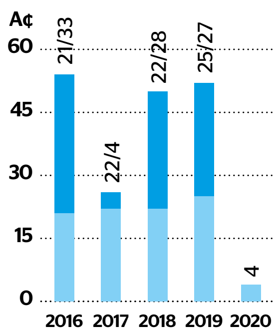
4

84% from HY19

Total shareholder payout (A$M)

59

88% from HY19



Basic (loss) earnings per share (US¢)

(51.9)

HY19 **34.9**

Financial highlights[2]

Combined operating ratio (COR)[3]

103.4%

HY19 **95.2%**[4]

Gross written premium by class of business (%)

	HY20 %	HY19 %
Commercial & domestic property	28.9	28.3
Agriculture	17.7	17.3
Public/product liability	11.5	11.2
Motor & motor casualty	11.1	14.0
Marine energy & aviation	8.6	7.1
Professional indemnity	7.6	6.8
Accident & health	5.8	6.0
Workers' compensation	5.6	6.5
Financial & credit	2.7	2.8
Other	0.5	-

Net earned premium (US$M)

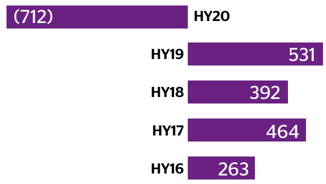
5,506

3% from HY19[5]

Net (loss) profit after income tax (US$M)

(712)

HY19 **531**[4]



Insurance (loss) profit (US$M)

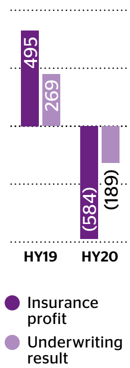
(584)

HY19 **495**[4]

Underwriting result (US$M)[3]

(189)

HY19 **269**[4]



Net earned premium by type

90% direct and facultative insurance

10% inward reinsurance

1 The information in the tables above is extracted or derived from the Group's half year financial statements on pages 34 to 49 of this Half Year Report. The Group Chief Financial Officer's report sets out further analysis of the results.
2 Continuing operations basis for HY17, HY18, HY19.
3 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
4 Excludes one-off impact of the Ogden decision in the UK.
5 Constant currency basis and excludes impact of 2019 disposals.

Balance sheet highlights

PCA

1.80x [1]

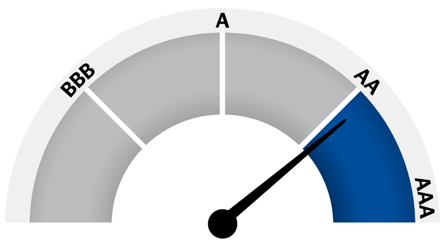
FY19 **1.71x**

Probability of Adequacy

91.2%

FY19 **90.0%**

S&P capital > 'AA'



Credit ratings of core subsidiaries

Standard & Poor's	Fitch
A+	**A+**
Moody's	**AM Best**
A1	**A**

Pro forma borrowings (US$M) [2]

2,665

430 from FY19

Pro forma debt to equity [2]

30%

FY19 **38%**

Sustainability highlights

Assisting in global COVID-19 response and recovery (US$M)

1.7

charitable donations

QBE Foundation

Supporting financial inclusion

FIAP Financial Inclusion Action Plan

Australian Workplace Equality Index (AWEI)

AWEI 2020

Maintained our Gold Tier Employer status as an LGBTI Inclusive employer for the second consecutive year

Included as a member of the 2020 Bloomberg Gender-Equality Index

2020 Bloomberg Gender-Equality Index

Green Insurer of the Year at the Finder Green Awards 2020

Green finder Awards 2020 Insurer of the Year

1 Indicative APRA PCA calculation at 30 June 2020.

2 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity.

Navigating volatility from a position of strength

The COVID-19 pandemic has triggered a widespread health and economic crisis that has created enormous uncertainty and volatility for our business, our customers and for the entire world, the effects of which will undoubtedly reverberate for many years to come.

Governments and central banks around the world have moved quickly to inject necessary stimulus into the economy and to support businesses and individuals impacted by the pandemic. These interventions have helped mitigate some of the worse-case scenarios; however, this remains a nervous time as markets watch developments closely and as the unprecedented global effort to find a vaccine continues.

Notwithstanding these obvious headwinds and the impact of the Australian bushfires and other catastrophe events which occurred earlier in the year, I am pleased to report that QBE continues to navigate this period of volatility from a position of strength. This is evident in the Group's underlying financial performance for this first half of 2020, the detail of which is explored in subsequent pages in the reports of both the Group Chief Executive Officer and Group Chief Financial Officer.

This strength is built upon the critical foundations your company has created in recent years by simplifying the business, streamlining our operations and strengthening our underwriting capability and company culture.

The comprehensive capital plan we executed in April further bolstered the Group's capital position, improved our earnings resilience and positions the business to be able to take advantage of opportunities that might arise as the world recovers.

Importantly, the strength of your company is also derived from the hard work and dedication of the more than 11,000 people who present for work at QBE every day, determined to find solutions for the current and emerging needs of our customers.

On behalf of the Board, I want to extend my thanks to our teams in 27 countries around the world, who have demonstrated enormous agility and adaptability in the rapid transition to working from home. We recognise the additional pressures this placed on many of our people, particularly those also juggling home schooling or other carer commitments.

I also want to acknowledge Pat Regan's leadership and the focus and dedication of the entire Group Executive Committee during these very challenging times.

While COVID-19 and other catastrophic events have impacted the underwriting performance of the Group in this first half of 2020, the Board has determined to pay a dividend of 4 Australian cents per share for the half. Our decision to do so underscores the Board's confidence in the strength and stability of QBE and the future opportunities which we believe will emerge in coming periods.

As we look to the future, we know that the road ahead will be challenging for many of our customers who are experiencing significant hardship as a result of this pandemic. I am extremely proud of the support measures that QBE has put in place around the world to alleviate some of the financial pressures the pandemic has created.

Importantly, we continue to pay claims as quickly as possible, recognising the reliance our customers place on their insurer in times of crisis. Nonetheless, the pandemic has also clearly shone a spotlight on some areas where insurance policies do not respond and this should trigger a broader discussion within the industry, together with regulators, governments and others, about how we can better plan for and respond to low probability, high impact events in the future.

QBE is determined to play an active and constructive role in these discussions.

Finally, as we continue to build the QBE of the future, Board renewal is an ongoing and important way that we can bring fresh ideas and perspectives to the business and it is with great pleasure that we today announce the appointment of two new non-executive directors to the QBE Group Board. Eric Smith and Tan Le bring unique experience to the Board, broadening our skills in the North American insurance market and, importantly, supporting our digital agenda, respectively.

On behalf of the Board, I would like to thank you, our shareholders, for your ongoing support of QBE during these very challenging times. As we continue to navigate the road ahead, you can have confidence in the strength and stability of your company and our determination to continue to deliver shareholder value while protecting the health, safety and wellbeing of our people, our customers and partners and the wider communities in which we operate.

Mike Wilkins AO
Chairman

Maintaining continuity

The COVID-19 pandemic has created enormous uncertainty right around the world, unlike anything we have ever seen before. While the search for an effective vaccine continues, and economies are supported by unprecedented fiscal and monetary support, the pathway to recovery remains unclear.

As we continue to confront the health and economic impacts of the pandemic, the safety and wellbeing of our people, customers, partners and their communities remains our priority at this challenging time.

I am very proud of the way our team of more than 11,000 people around the world has responded to these unprecedented circumstances and the resilience and commitment they demonstrate every day.

We moved quickly to equip and transition our entire workforce to work remotely. Pleasingly, our strong culture together with the investments we have made in technology and systems ensured our teams remained connected, while maintaining continuity of service for our customers and distribution partners.

To assist our people with this transition, we extended a range of new benefits and support, including regular wellbeing-focused activities, additional leave for those impacted by COVID-19 and allowances to support additional expenses while working from home.

Our regular organisation-wide wellbeing survey has shown that this assistance has been genuinely appreciated. In many areas, we have seen wellbeing scores improve as our people capitalise on the benefits of flexible working arrangements.

At the same time and despite the challenges presented by this extended period of remote working, we continue to invest in organisational development and learning opportunities, with a focus on improving digital knowledge and capability right across the organisation. These skills will be critical as we build the business for the future.

Supporting our customers and communities

Just as we moved quickly to provide support for our people, we also put in place a range of initiatives to support our customers and alleviate financial pressures.

In Australia, these included freezing premium rates on policy renewals across a number of business lines, deferring premium payments and continuing insurance cover for vacant business premises for small and medium business customers experiencing financial hardship. Our COVID-19 relief

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benefit also returned up to A$50 to each of our Australian private motor insurance customers.

In North America, the QBE COVID-19 Resource Centre was established to help customers manage risk, file claims and answer billing questions. Measures such as grace periods and revised premiums and payment schedules have been negotiated with customers across a number of business lines, while our Crop customers have benefited from deferral of premium collections and some reporting and inspection requirements.

In our International division, our teams also similarly negotiated tailored insurance coverage that enabled customers to rapidly respond to the COVID-19 crisis, including by diversifying their operations to produce essential supplies such as respirators and sanitiser gel.

During times of crisis, we recognise that it is incumbent on business to support the communities in which we operate. In April, we directed $1.7 million to the QBE Foundation's existing charity partners around the world to assist them in dealing with increased demand for their services due to the pandemic. These funds are being deployed through a range of agencies including QBE's disaster relief partners Red Cross and Save the Children.

As we navigate these unprecedented circumstances, we will work closely with customers and their communities to support their recovery, while also recognising the need for the industry to work together to evolve products and services that can better respond to events such as these in the future. We will also work with our partners, regulators and governments in this regard.

Financial performance

As we indicated in July, the COVID-19 pandemic adversely impacted the first half underwriting result by $335 million, affecting multiple lines of business.

When combined with elevated catastrophe costs and adverse prior accident year claims development, as well as a net investment loss of $90 million due to extreme investment market volatility, this contributed to a statutory net loss after tax of $712 million for the half. The Group's combined operating ratio (COR) for the half was 103.4% [1] or 97.4% [1] excluding COVID-19 impacts.

While the global economic outlook remains uncertain, the speed and resolve with which governments and central banks responded to the health and economic challenges around the globe provide comfort that the more adverse scenarios we thought possible earlier in the year look increasingly less likely. Accordingly, we currently estimate the ultimate net cost of COVID-19 to be around $600 million (pre-tax). This includes an estimated $265 million of potential further net claims that could emerge over the next 12–18 months, primarily in trade credit and Australian lenders' mortgage insurance (LMI).

Importantly, while COVID-19 has challenged the business, the underlying fundamentals of QBE remain strong with the business reporting a normalised COR of 93.7% [2,3] in the first half – a 3.3% [4] improvement on the prior period.

Cell reviews and Brilliant Basics continue to grow in sophistication and remain key drivers of our performance. Despite the logistical challenges of the pandemic, our attritional claims ratio improved a further 2.2% [3,5] during the half, including a strong contribution from all divisions. The Group's attritional claims ratio has now improved by around 9% [3,5] since the end of 2017.

On a constant currency basis and excluding the impact of 2019 disposals, gross written premium grew by 10% [3] during the half, underpinned by premium rate increases, improved retention and conversion of emerging new business opportunities.

The positive rate momentum enjoyed in 2019 accelerated through the first half of 2020, with renewal premium rate increases averaging 8.7% [6] during the half compared with 4.7% [6,7] in the prior period. Renewal premium rate increases averaged 10.2% [6] in the second quarter, up from 7.3% [6] in the first quarter of 2020.

As indicated in July 2020, the Group's catastrophe claims exceeded our allowance for the half, with first quarter events in Australia including the unprecedented Black Summer bushfires and severe storms and hailstorms, particularly impactful. However, catastrophe costs were broadly in line with plan across the rest of the Group and the targeted de-risking initiatives undertaken through Brilliant Basics have seen a promising reduction in large individual risk claims costs.

COVID-19 support

Premium refunds

$30M

Customer giftcard

$16M

Assisting in global COVID-19 response and recovery

$1.7M

charitable donations

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Current accident year COR adjusted to reflect catastrophe claims held at allowance and excluding risk margin strengthening.
3 Excludes impact of COVID-19.
4 Excludes one-off impact of the Ogden decision in the UK.
5 Excludes Crop and LMI.
6 Excludes premium rate changes relating to Australian compulsory third party motor (CTP).
7 Continuing operations basis.

A strong balance sheet

With the emergence of the pandemic, we moved quickly to strengthen our capital position, executing a comprehensive capital plan to fortify the balance against almost any foreseeable downside scenario.

The capital plan included an ordinary equity raising of $813 million, including an overwhelmingly well supported $750 million institutional placement, and a Share Purchase Plan for our retail investors priced at A$7.51 per share that raised $63 million. The Group also issued US$500 million of Additional Tier 1 capital on attractive terms.

At the same time, we significantly de-risked our investment portfolio, exiting virtually all equities and all non-core credit. We also improved our reinsurance protections by purchasing additional crop hail reinsurance and we further reduced the catastrophe retention of our North America division ahead of the North American windstorm season.

Notwithstanding the significant first half loss, our swift actions increased QBE's capital strength to the top of our target regulatory capital range and reduced pro forma [1] gearing to the midpoint of our target range. We also retain a surplus above Standard & Poor's 'AA' minimum capital levels.

Conclusion

While the COVID-19 pandemic has created significant challenges, QBE has successfully navigated this period of extreme uncertainty and the Group's demonstrable financial strength positions us well to capitalise on emerging organic growth opportunities while also participating in the eventual economic recovery.

On behalf of everyone at QBE, I would like to extend our sincere thanks to all of our customers, brokers and partners for their loyalty and ongoing support of QBE at this challenging time.

Finally, thank you to our more than 11,000 people for your commitment and dedication as we strive to deliver on our purpose to give people the confidence to achieve their ambitions.

Pat Regan
Group Chief Executive Officer

Looking ahead

Having simplified the business, overhauled our underwriting capability and achieved further strong progress towards our cost reduction targets, we are now well placed to take advantage of organic growth opportunities that might arise through this period of upheaval.

At the same time, digital disruption and related trends that were underway before the onset of the global pandemic will only accelerate and become more pronounced through the recovery. COVID-19 has forever changed how we use and engage with technology and our customers expect that we keep pace.

Accordingly, with customer experience a primary focus, we are accelerating our program of work to build best in class data and digital capabilities and to strengthen our digital offering.

We are making good progress with our Australia Pacific team having launched a new digital platform for motor insurance customers in June, while last month our efforts were recognised with Digital Insurance Initiative of the Year (Hong Kong) and Digital General Insurance Initiative of the Year (Singapore) at the Insurance Asia Awards 2020.

The strong QBE culture we have built over the last couple of years, underpinned by our QBE DNA, has been critical to our success in navigating the challenges of this pandemic. While we expect work from home arrangements will remain in place for most of our teams for the foreseeable future, we will continue to rely on our strong cultural foundations and find new and innovative ways to maintain our sense of connectedness. We also continue to invest in building the skills and capabilities of our people as we adapt to our 'new normal'.

Finally, we remain relentlessly focused on the key drivers of performance – cell reviews and Brilliant Basics – and continue to execute on our operational efficiency program as we seek to create value for our shareholders in a hardening market. Incremental premium rate increases during the first half of 2020 will largely offset, if not exceed, reduced investment return prospects and we anticipate continued premium rate momentum across the remainder of 2020 and into 2021.

1 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity.

2020 priorities

Performance

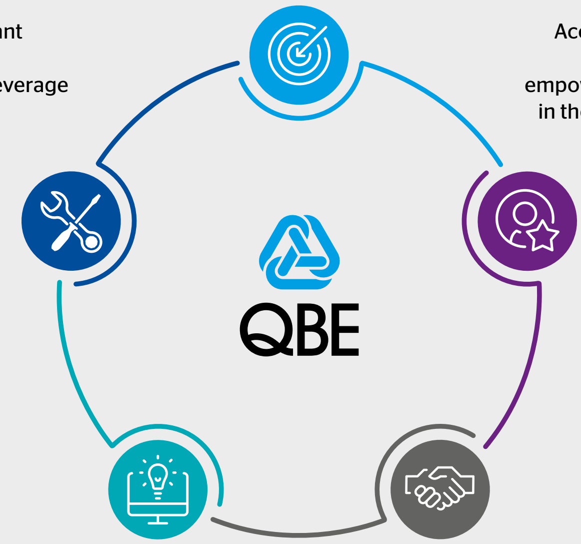
Continue to develop our cell review process to deliver our target COR. Deliver against key sustainability and climate commitments. Turn our focus to organic growth opportunities.

Brilliant Basics +

Execute the next phase of Brilliant Basics with a sharper focus on delivering for our customers. Leverage best in class AI, data, and digital capabilities to embed everyday brilliance in underwriting and pricing and, in particular, throughout our customer claims experience.

Talent & Culture

Accelerate our talent and leadership strategy, building on our DNA to empower our people to thrive, now and in the future. Continue to enhance our performance management system, ME@QBE, supporting our people and leaders in managing career and talent development.



Innovation & Technology

Enhance our digital and data capability, update our IT platforms and accelerate the transition to the cloud. Through innovative partnerships and QBE Ventures, cultivate skills and capabilities for the future and create an environment that nurtures innovation and continuous improvement.

Customer Focus

Expand the breadth and depth of our customer focus by embedding our Customer@QBE framework, leveraging customer research to build deeper industry expertise and customer insights. Implement leading digital technologies to create seamless end-to-end experiences for our customers.

Operating and financial review

QBE reported a combined operating ratio of 103.4%[1], up from 95.2%[1,2,3] in the prior period.

A further improvement in the attritional claims ratio and a promising reduction in large individual risk claims were more than offset by the impact of COVID-19, increased catastrophe costs and a strengthening of prior accident year claims reserves.

Following balance sheet strengthening, QBE is well positioned to capitalise on continued strong pricing momentum and emerging organic growth opportunities.

Overview

While the Group recorded a significant headline loss for the half, I am pleased with the continued improvement in underlying earnings quality as evidenced by the further improvement in the attritional claims ratio and an encouraging reduction in large individual risk claims.

Since the start of 2018, we have put significant effort into reducing large individual risk claims costs through better risk selection and portfolio management under the Brilliant Basics program.

During the first half of 2020, we experienced a pleasing reduction in risk claim frequency and severity, with the Group's large individual risk claims ratio improving to 7.5%[4] from 8.2%[2] in the prior period.

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Continuing operations basis.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes impact of COVID-19.

We are currently ahead of our three-year cost-out timetable due to our disciplined approach to cost management, and COVID-19 has provided scope to further accelerate efficiency initiatives, particularly through digitisation.

In early April 2020, the Group announced a comprehensive capital plan comprising a capital raising coupled with targeted de-risking initiatives, including significantly reduced investment risk and the purchase of additional reinsurance.

Successful execution of that capital plan has increased QBE's regulatory capital multiple to the top of the Group's 1.6–1.8x target PCA range after incurring significant COVID-19 costs in the half and after allowing for prospective COVID-19 claims in premium liabilities.

The pro forma [1] ratio of borrowings to shareholders' funds (debt to equity) has reduced to the midpoint of the Group's 25%–35% target range and Group Head Office liquidity stands at $1.5 billion.

The Group's greatly improved capital strength provides us with resilience to weather most recessionary scenarios. At the same time, it positions us to capitalise on accelerating pricing momentum and emerging organic growth opportunities, particularly in the northern hemisphere. In this regard, QBE is currently viewed as offering a stable and clearly articulated risk appetite by our broker partners at a time when many peers are in the midst of, or have only recently commenced, significant underwriting change agendas.

Given the significant fall in risk-free rates, the investment return assumption embedded in premium rate adequacy models has been revised to ensure underwriters strive for an appropriate risk adjusted return on capital. Pricing tools are continually being enhanced and enriched with external data to improve the accuracy and granularity of our premium adequacy assessment capability.

As the premium pricing landscape continues to firm, we will actively and aggressively redeploy capital towards better performing cells (and sub-sets of cells) as well as pursuing attractive organic growth opportunities to further optimise returns.

Operational efficiency program

In December 2018, QBE announced a three-year operational efficiency program targeting gross cost savings of more than $200 million by 2021, translating into net savings of $130 million over the same time horizon, after allowing for underlying inflation and further investment in technology, digitisation and the Brilliant Basics program.

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

Now at the half-way point of a three-year schedule of work, the efficiency program is progressing ahead of plan. Meaningful progress has been made in technology rationalisation and modernisation as we simplify our technology estate. Additional expense savings were realised from disposal of the retail personal lines business in North America, operating model efficiencies across Australia, New Zealand and Asia, and further reductions in third party consulting, travel and other discretionary costs.

Excluding $17 million of elevated risk and regulatory costs as previously flagged, first half expenses were $776 million [3]. Adjusting for variable remuneration costs that were well below plan and for the impact of North America reinsurance de-risking initiatives on net earned premium, run-rate costs were $825 million which equates to a 14.4% expense ratio. The Group remains on track to achieve FY21 expense targets ahead of schedule.

To support the program and as previously foreshadowed, we incurred an $18 million restructuring charge that was not reported as part of the Group's underwriting results. Further restructuring charges of up to $34 million are anticipated during the remainder of 2020.

Gross written premium (US$M)

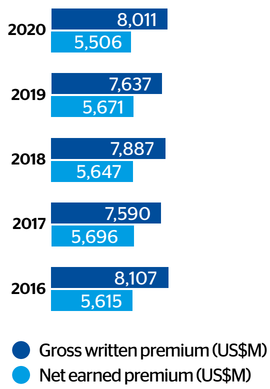
8,041 [3]

10% from HY19 [2,4]

Net earned premium (US$M)

5,556 [3]

4% from HY19 [2,4]



1 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity.
2 Continuing operations basis.
3 Excludes impact of COVID-19.
4 Constant currency basis and excludes impacts of 2019 disposals.

2020 interim result

With respect to the 2020 interim result, I would like to discuss three broad areas:

1. Financial performance
2. Impact of COVID-19 on QBE's half year result
3. Financial strength, capital management and investment strategy

1. Financial performance

QBE reported a net loss after tax of $712 million compared with a $463 million profit in the prior period. The current year performance reflects a substantial reduction in investment income due to extreme market volatility, coupled with a deterioration in the reported underwriting performance due to COVID-19, adverse prior accident year development and higher than expected catastrophe claims.

Despite the loss, the Board declared an interim dividend of 4 Australian cents per share, reflecting the Group's significantly strengthened capital position, improved industry pricing and strong underlying underwriting performance.

The Group's combined operating ratio of 103.4% [1] was up from 95.2% [1,2,3] in the prior period, reflecting significant costs associated with COVID-19, prior accident year claims development and heightened catastrophe claims in Australia.

Normalised for catastrophe experience relative to allowance and excluding COVID-19 and the increase in risk margins, the current accident year combined operating ratio improved to 93.7% [1] from 97.0% [1,2,3] in the prior period. This is a pleasing uplift in underlying profitability and primarily reflects a further 2.2% [4,5,6] improvement in the attritional claims ratio, a 0.7% [4] reduction in the large individual risk claims ratio and a 0.2% [4] reduction in the combined commission and expense ratio.

The underwriting expense ratio improved by 0.5% [4] due to ongoing benefits from the Group's operational efficiency initiatives.

On a constant currency basis and excluding the impact of disposals, organic gross written premium growth was 10% [4], reflecting strong premium rate increases, improved retention and strong new business growth, particularly in North America and International.

Looking briefly at divisional performance, the key themes to emerge from the 2020 first half result are set out below.

North America – accelerating rate momentum and premium growth but result impacted by reserve strengthening

North America reported a combined operating ratio of 108.8% [1], up from 99.9% [1] in the prior period, largely due to COVID-19 costs and adverse prior accident year claims development. Excluding COVID-19, the current accident year combined operating ratio improved to 96.8% [1] from 98.8% [1] in the prior period, reflecting a 1.6% [4,5] improvement in the attritional claims ratio and an improved Crop underwriting result compared with the prior period which was heavily impacted by significant prevented planting claims.

Premium rate momentum accelerated during the half, with North America achieving an average renewal premium rate increase of 9.8% compared with 4.1% in the prior period which underpinned gross written premium growth of 14% [7].

International – accelerating rate and premium growth with improved attritional and large risk claims experience more than offset by COVID-19 related claims

International recorded a strong underlying result. While the combined operating ratio increased to 97.5% [1] from 94.3% [1,2,3] in the prior period reflecting significant COVID-19 costs, the result improved materially to 91.4% [1] excluding COVID-19 impacts. A further 1.7% [4] improvement in the attritional claims ratio, coupled with a substantial reduction in the net cost of large individual risk claims, more than offset a material increase in catastrophe claims, albeit relative to an especially benign prior period.

Premium rate momentum accelerated during the half, with International achieving an average renewal premium rate increase of 10.0% compared with 3.8% in the prior period which underpinned constant currency gross written premium growth of 12% [7].

Australia Pacific – materially lower attritional claims ratio more than offset by severe catastrophe experience

Despite severe catastrophe experience and reduced positive prior accident year claims development, Australia Pacific delivered a strong result reporting a combined operating ratio of 96.4% [1] or 95.3% [1] excluding COVID-19 impacts, compared with 90.5% [1] in the prior period. The result included a further 3.2% [4] improvement in the attritional claims ratio (3.5% [4] excluding LMI).

Premium rate momentum remains robust with renewal premium rate increases averaging 5.5% [8] compared with 6.8% [8] in the prior period. The average renewal premium rate during the half was adversely impacted by our decision to temporarily freeze premium rate increases on business packages, commercial motor and accident & health (A&H) in response to COVID-19.

The combined operating ratio of our LMI business improved to 55.1% [1,4] from 57.1% [1] in the prior period, reflecting higher reinsurance commission income, profit commission clawback and improved cost efficiency.

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Continuing operations basis.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes impact of COVID-19.
5 Excludes Crop.
6 Excludes LMI.
7 Excludes impact of 2019 disposals.
8 Excludes premium rate changes relating to CTP.

2. Impact of COVID-19 on QBE's half year result

COVID-19 was declared a pandemic by the World Health Organisation in March 2020. The virus itself, as well as the measures to slow its spread, have had a significant and immediate impact on the global economy which resulted in extreme investment market volatility and a further material reduction in global interest rates. Investment market volatility materially impacted the result and, due to significant ongoing uncertainty, led to our decision to adopt an especially conservative asset allocation for the foreseeable future.

The pandemic also impacted the first half underwriting result by $335 million. In order to assist in more directly comparing the Group and divisional underwriting results with the prior period, the Group's underwriting results are tabled overleaf including and excluding COVID-19. The underwriting results in the divisional commentaries are disclosed on the same basis.

While QBE has separately identified obvious COVID-19 revenue and expense impacts, there will be other less significant impacts, both positive and negative, that are not readily identifiable or quantifiable.

Reflecting significant ongoing uncertainty, QBE is taking a measured and "risk aware" approach to the pandemic. The Group currently estimates the ultimate cost of COVID-19 to be around $600 million pre-tax comprising the $335 million first half charge coupled with an allowance for a further $265 million of potential claims that could emerge over the next 12–18 months, primarily relating to trade credit and lenders' mortgage insurance. A combination of significant risk margins and extensive reinsurance protections, particularly pertaining to business interruption insurance, provide confidence in the robustness of this estimate.

3. Financial strength, capital management and investment strategy

QBE's capital position is demonstrably strong when measured against both regulatory and rating agency capital requirements. As at 30 June 2020, the Group's indicative APRA PCA multiple was 1.80x, up from 1.71x at 31 December 2019, which is at the top of the Group's 1.6–1.8x target PCA range and above Standard & Poor's (S&P) 'AA' minimum capital levels.

The increase in the Group's PCA multiple during the period reflects the successful implementation of the comprehensive capital plan announced to the market on 14 April 2020. This included the raising of $813 million of ordinary equity and $495 million of additional Tier 1 (AT1) capital (both net of transaction costs) coupled with a series of risk reduction initiatives including materially de-risking the investment portfolio and purchasing significant additional reinsurance protection. In addition to the first half loss, the PCA multiple was adversely impacted by an explicit allowance for $175 million of potential future COVID-19 related claims within premium liabilities.

QBE's pro forma ratio of borrowings to shareholders' funds was 30.2% [1], down significantly from 38.0% at 31 December 2019, to now be at the midpoint of the Group's internal benchmark range of 25%–35%. The impact of the interim loss and payment of the 2019 final dividend were more than offset by the aforementioned capital raising and the post balance date reclassification of the $400 million of perpetual fixed rate capital notes out of borrowings into equity following the consent solicitation to amend the terms of the capital notes.

Closing Group Head Office liquidity was $1.5 billion, which affords the Group significant flexibility. Subject to market conditions and to preserve that flexibility, QBE may issue a new Tier 2 instrument before year end to take advantage of currently record low interest rates and to allow for upcoming potential subordinated debt redemptions over the next 12 months.

The probability of adequacy (PoA) of outstanding claims increased to 91.2%, above the midpoint of our targeted PoA range of 87.5%–92.5%, reflecting a $138 million constant currency increase in risk margins including $115 million of additional risk margin directly related to the uncertainty due to COVID-19.

The Group's investment strategy has been progressively moving to be more liability aware and peer comparable. We have several competitive advantages with respect to our objective of delivering sustainable and sufficient risk adjusted returns and adding value more broadly to the organisation. These include our leading impact investing role in support of Premiums4Good, being an early mover on infrastructure, relatively low levels of inflexible/illiquid/private assets and a global balance sheet.

We will further leverage these strengths, enhancing our active risk management toolkit and capability, and building investment portfolios at a local level that are reflective of the volatility and nature of the underlying insurance liabilities and constructed to minimise concentrations and correlations. Group entities, including our captive reinsurer Equator Re, may play a bigger future role in assuming asset and/or insurance risk where this is advantageous from a capital or liquidity perspective.

1 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity.

Operating and financial performance

Summary income statement

FOR THE HALF YEAR ENDED 30 JUNE	STATUTORY RESULT 2020 US$M	STATUTORY RESULT 2019 US$M	ADJUSTMENTS 2020 US$M	ADJUSTMENTS 2019 US$M	ADJUSTED RESULT 2020 US$M	ADJUSTED RESULT 2019[1] US$M
Gross written premium	**8,011**	7,637	**–**	–	**8,011**	7,637
Gross earned premium	**6,509**	6,458	**–**	–	**6,509**	6,458
Net earned premium	**5,506**	5,671	**–**	–	**5,506**	5,671
Net claims expense	**(4,307)**	(3,944)	**–**	62	**(4,307)**	(3,882)
Net commission	**(903)**	(912)	**–**	–	**(903)**	(912)
Underwriting and other expenses	**(820)**	(839)	**–**	–	**(820)**	(839)
Underwriting result	**(524)**	(24)	**–**	62	**(524)**	38
Net investment (loss) income on policyholders' funds	**(60)**	457	**–**	–	**(60)**	457
Insurance (loss) profit	**(584)**	433	**–**	62	**(584)**	495
Net investment (loss) income on shareholders' funds	**(30)**	298	**–**	–	**(30)**	298
Financing and other costs	**(125)**	(129)	**–**	–	**(125)**	(129)
(Losses) gains on sale of entities and businesses	**(6)**	16	**–**	–	**(6)**	16
Restructuring and related expenses	**(18)**	(15)	**–**	–	**(18)**	(15)
Share of net losses of associates	**(2)**	(1)	**–**	–	**(2)**	(1)
Amortisation and impairment of intangibles	**(13)**	(32)	**–**	–	**(13)**	(32)
(Loss) profit before income tax from continuing operations	**(778)**	570	**–**	62	**(778)**	632
Income tax credit (expense)	**68**	(92)	**–**	(10)	**68**	(102)
(Loss) profit after income tax from continuing operations	**(710)**	478	**–**	52	**(710)**	530
Loss after income tax from discontinued operations	**–**	(16)	**–**	–	**–**	(16)
Non-controlling interests	**(2)**	1	**–**	–	**(2)**	1
Net (loss) profit after income tax	**(712)**	463	**–**	52	**(712)**	515

1 Excludes one-off impact of the Ogden decision in the UK.

Overview of the 2020 interim result

The Group reported a statutory net loss after tax of $712 million compared with a profit of $463 million in the prior period. This reflected investment losses due to extreme market volatility and an underwriting result impacted by COVID-19, significantly above budget catastrophe experience and adverse prior accident year claims development, which together more than offset a further improvement in attritional claims and a pleasing reduction in the individual risk claims.

The Group's effective tax rate was 9%, down materially from 16% in the prior period, with the reduction largely reflecting the non-recognition of current year tax losses in the US tax group due to uncertainty over recoverability.

Excluding non-cash and material non-recurring items as reconciled on the opposite page, the adjusted cash loss for the period was $666 million compared with an adjusted cash profit of $561 million in the prior period.

On a constant currency basis and excluding the impact of 2019 disposals and the impact of COVID-19, gross written premium increased by 10% reflecting the strengthening pricing environment coupled with strong growth in North America and International. On the same basis, net earned premium increased by 4% relative to the prior period, impacted by increased reinsurance spend. Net earned premium growth should accelerate as business written at higher premium rates earns over the next 12 months.

The annualised net return on investments backing policyholders' funds fell to negative 0.5% from positive 6.7% in the prior period reflecting extreme COVID-19 related volatility across all asset classes. Fixed income returns were lower relative to the prior period. Significantly wider credit spreads resulted in realised losses on high yield and emerging market debt and $21 million of unrealised losses on investment grade corporate bonds, partly offset by gains associated with materially lower global risk-free rates. Growth asset returns were also weak, reflecting realised equity losses and unrealised property and infrastructure losses during the half.

Reflecting the uncertain outlook, asset allocation remains especially conservative. Importantly, our high quality investment grade fixed income portfolio has proven more resilient to credit headwinds than the broader market, with fewer rating downgrades, a lower incidence of negative outlook or watch, and no 'fallen angels' (slippage into high yield).

The Group's underwriting results are discussed in detail on the page opposite and overleaf.

Consistent with the reduced investment return on policyholders' funds, investment income on shareholders' funds was also significantly lower, being a loss of $30 million compared with a gain of $298 million in the prior period.

Financing and other costs reduced slightly to $125 million compared with $129 million in the prior period.

Final completion adjustments relating to the North American retail personal lines sale transacted in 2019 resulted in a current period pre-tax loss of $6 million.

Reconciliation of cash profit

FOR THE HALF YEAR ENDED 30 JUNE	2020 US$M	2019 US$M
Net (loss) profit after tax	(712)	463
Amortisation and impairment of intangibles after tax [1]	30	38
Reclassification of foreign currency translation reserve after tax [2]	–	19
Net cash (loss) profit after tax	(682)	520
Restructuring and related expenses after tax	15	11
Net loss (profit) on disposals after tax	6	(22)
Additional Tier 1 capital coupon accrual [3]	(5)	–
Ogden decision after tax	–	52
Adjusted net cash (loss) profit after tax	(666)	561
Annualised return on average shareholders' funds – adjusted cash basis (%)	(16.6)	13.4
Basic earnings per share – cash basis (US cents)	(49.7)	39.2
Dividend payout ratio (percentage of adjusted cash profit) [4]	na	41%

1 $24 million of pre-tax amortisation expense is included in underwriting expenses (2019 $21 million).
2 The sale of certain operations gave rise to a foreign currency translation reserve (FCTR) reclassification charge which was a non cash item and did not impact shareholders' funds or QBE's regulatory or rating agency capital base.
3 Additional Tier 1 capital issued in May 2020 pays distributions out of after tax profits and thus impacts adjusted cash profit for the purposes of assessing ordinary dividend capacity.
4 Dividend payout ratio is calculated as the total AUD dividend divided by cash profit converted to AUD at the period average rate of exchange.

2020 half year underwriting result

Inclusive of a significant impact from COVID-19, the Group reported a combined operating ratio of 103.4% [1], up from 96.3% [1] in the prior period.

COVID-19 UNDERWRITING RESULT IMPACTS FOR THE HALF YEAR ENDED 30 JUNE	2020 STATUTORY RESULT US$M	COVID-19 IMPACTS					2020 ADJUSTED EX-COVID US$M
		NORTH AMERICA US$M	INT'L US$M	AUSTRALIA PACIFIC US$M	CORPORATE US$M	TOTAL US$M	
Gross written premium	8,011	(30)	–	–	–	(30)	8,041
Gross earned premium	6,509	(30)	–	–	–	(30)	6,539
Net earned premium	5,506	(30)	(20)	–	–	(50)	5,556
Net claims expense	(4,307)	(32)	(116)	(3)	(115)	(266)	(4,041)
Net commission	(903)	6	2	–	–	8	(911)
Underwriting and other expenses	(820)	(9)	1	(18)	(1)	(27)	(793)
Underwriting result	(524)	(65)	(133)	(21)	(116)	(335)	(189)
Net investment (loss) income on policyholders' funds	(60)	–	–	–	–	–	(60)
Insurance (loss) profit before income tax	(584)	(65)	(133)	(21)	(116)	(335)	(249)

The table above provides detail on the $335 million of underwriting impacts directly attributable to COVID-19 including:

- $50 million net earned premium impact reflecting additional reinsurance reinstatement premiums in International and premium refunds in North America, primarily relating to workers' compensation;
- $266 million net incurred claims impact comprising:
  - $151 million net claims impact from attritional, large individual risk and catastrophe claims and prior accident year claims development across multiple classes of business, primarily impacting International and North America;
  - $115 million risk margin charge directly related to the uncertainty due to COVID-19;
- $8 million commission benefit attributable to premium refunds, primarily in North America; and
- $27 million expense impact reflecting premium refunds (returned by way of gift cards) and bad debts, primarily impacting North America and Australia Pacific.

Divisional result commentary includes further in-depth discussion of the above COVID-19 impacts.

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

Unless otherwise stated, the commentary hereafter refers to the Group's first half underwriting results excluding COVID-19 and the prior period underwriting results on the adjusted basis described above.

The Group's combined operating ratio increased to 97.4% [1] from 95.2% [1,2] in the prior period. A further material improvement in the attritional claims ratio and a pleasing reduction in large individual risk claims were more than offset by a significant increase in catastrophe claims, particularly in Australia, coupled with adverse prior accident year claims development primarily in North America.

Despite significantly increased catastrophe claims, the current accident year combined operating ratio improved to 95.2% [1] from 96.0% [1,2] in the prior period.

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.

Foreign exchange rates

The table below summarises the foreign exchange rates for the major currencies against the US dollar, used in the preparation of the Group's financial statements:

FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS
AUD	**0.690**	**0.657**	0.702	0.706
GBP	**1.240**	**1.259**	1.270	1.294
EUR	**1.123**	**1.102**	1.137	1.129

Premium income

Gross written premium increased 5% to $8,041 million from $7,637 million in the prior period.

On an average basis and compared with the first half of 2019, the Australian dollar, sterling and euro depreciated against the US dollar by 7%, 3% and 2% respectively. Currency movements adversely impacted gross written premium and net earned premium by $208 million and $177 million respectively relative to the prior period.

On a constant currency basis and excluding the $127 million impact of 2019 disposals, gross written premium increased 10% reflecting strong premium rate driven growth in North America and International while underlying growth in Australia Pacific was constrained by CTP market reform.

The Group achieved an average renewal premium rate increase of 8.7% [1] compared with 4.7% [1] in the first half of 2019. Premium rate momentum accelerated during the first half of 2020, especially in North America and International (particularly in International Markets and the UK) which achieved average 2Q20 renewal premium rate increases of 10.4% and 14.2% respectively.

North America reported a 10% increase in gross written premium, underpinned by an average renewal premium rate increase of 9.8% compared with 4.1% in the prior period. Adjusting for the 2019 disposal of the personal lines business, underlying growth was 14%, reflecting premium rate increases coupled with strong growth in property programs, A&H and Crop.

International reported gross written premium growth of 9% or 12% [2] on a constant currency basis, underpinned by an average renewal premium rate increase of 10.0% compared with 3.8% in the prior period. Our European operations achieved an average premium rate increase of 10.3% compared with 3.9% in the prior period while Asia achieved an average premium rate increase of 6.6% compared with 2.2% in the prior period. European operations achieved gross written premium growth of 13% on a constant currency basis reflecting accelerating pricing momentum and emerging new business opportunities, particularly in International Markets, QBE Re and Continental European insurance. This was partly offset by 9% contraction in Asia on the same basis, due to the sale of operations in the Philippines and Indonesia coupled with COVID-19 impacts, particularly in travel insurance, trade credit and marine cargo.

Australia Pacific reported a 7% reduction in gross written premium, or up 0.4% on a constant currency basis including an average renewal premium rate increase of 5.5% [1] compared with 6.8% [1] in the prior period. Rate driven growth was largely offset by normalisation of market share in South Australian CTP following the opening of the scheme to competition from 1 July 2019, the 2019 sale of the travel insurance business and the impact of COVID-19 on workers' compensation premium income.

Net earned premium fell 2% to $5,556 million from $5,671 million in the prior period. On a constant currency basis and excluding the $171 million impact of 2019 disposals, net earned premium increased 4%. Underlying growth lagged gross written premium growth partly due to increased reinsurance spend, particularly the additional Crop hail quota share reinsurance and the North America peak zone catastrophe buydown announced in April 2020 as part of the comprehensive capital plan.

1 Excludes premium rate changes relating to CTP.
2 Excludes impact of 2019 disposals.

Underwriting performance

Key ratios – Group

FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	STATUTORY %	EX-COVID %	STATUTORY %	ADJUSTED [2] %
Net claims ratio	**78.2**	**72.7**	69.5	68.4
Net commission ratio	**16.4**	**16.4**	16.1	16.1
Expense ratio	**14.9**	**14.3**	14.8	14.8
Combined operating ratio	**109.5**	**103.4**	100.4	99.3
Adjusted combined operating ratio [1]	**103.4**	**97.4**	96.3	95.2
Insurance profit margin	**(10.6)**	**(4.5)**	7.6	8.7

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.

Divisional performance

Contributions by region

FOR THE HALF YEAR ENDED 30 JUNE	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE (LOSS) PROFIT BEFORE INCOME TAX	
	2020 US$M	2019 US$M	2020 US$M	2019 US$M	2020 %	2019 %	2020 US$M	2019 US$M
North America	**3,081**	2,804	**1,672**	1,849	**104.8**[1]	99.9[1]	**(227)**	19
International	**3,150**	2,880	**2,191**	2,019	**91.4**[1]	94.3[1,2]	**(5)**	231[2]
Australia Pacific	**1,829**	1,960	**1,696**	1,797	**95.3**[1]	90.5[1]	**25**	244
Corporate adjustments	**(19)**	(7)	**(3)**	6	**–**	–	**(42)**	1
Group ex-COVID/adjusted	**8,041**	7,637	**5,556**	5,671	**97.4**[1]	95.2[1]	**(249)**	495
Risk-free rate impact	**–**	–	**–**	–	**6.1**	4.1	**–**	–
COVID-19 impact	**(30)**	–	**(50)**	–	**6.0**	–	**(335)**	–
Ogden adjustment	**–**	–	**–**	–	**–**	1.1	**–**	(62)
Group statutory	**8,011**	7,637	**5,506**	5,671	**109.5**	100.4	**(584)**	433
Direct and facultative	**7,017**	6,711	**4,942**	5,209	**109.3**	100.6	**(516)**	390
Inward reinsurance	**994**	926	**564**	462	**110.9**	98.7	**(68)**	43
Group statutory	**8,011**	7,637	**5,506**	5,671	**109.5**	100.4	**(584)**	433

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact of the Ogden decision in the UK.

Incurred claims

The Group's net claims ratio increased to 72.7% from 68.4% in the prior period, partly reflecting a further material reduction in risk-free rates used to discount net outstanding claims liabilities. Risk-free rate movements aside, a further improvement in the attritional claims ratio and a reduction in large individual risk claims were more than offset by a material increase in catastrophe claims coupled with adverse prior accident year claims development.

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

FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	STATUTORY %	EX-COVID %	STATUTORY %	ADJUSTED[1] %
Attritional claims	**48.1**	**47.5**	50.7	50.7
Large individual risk and catastrophe claims	**15.7**	**13.0**	11.4	11.4
Claims settlement costs	**3.5**	**3.5**	3.4	3.4
Claims discount	**(0.5)**	**(0.5)**	(0.7)	(0.7)
Net incurred central estimate claims ratio (current accident year)	**66.8**	**63.5**	64.8	64.8
Changes in undiscounted prior accident year central estimate	**2.0**	**1.8**	(2.0)	(2.0)
Impact of Ogden	**–**	**–**	1.1	–
Changes in discount rates	**6.1**	**6.0**	4.1	4.1
Movement in risk margins	**2.5**	**0.4**	0.6	0.6
Other (including unwind of prior year discount)	**0.8**	**1.0**	0.9	0.9
Net incurred claims ratio (current financial year)	**78.2**	**72.7**	69.5	68.4

1 Excludes one-off impact of the Ogden decision in the UK.

As set out in the table overleaf, excluding Crop insurance and LMI, the attritional claims ratio improved 2.2% to 45.5% from 47.7% in the prior period, reflecting strong improvement in all divisions.

Excluding Crop insurance, North America's attritional claims ratio improved 1.6% relative to the prior period. The benefits of underwriting and pricing initiatives, as well as the sale of the retail personal lines (independent agency) business, were partly offset by the adoption of more prudent current accident year actuarial assumptions, increased reinsurance spend to reduce North America peak zone catastrophe exposure and strong growth in A&H which normally operates on a materially higher attritional claims ratio than the portfolio average.

International's attritional claims ratio improved 1.7% relative to the prior period reflecting targeted underwriting actions coupled with the favourable pricing landscape.

Excluding LMI, Australia Pacific's attritional claims ratio improved by 3.5% with improvement observed across all portfolios except for business packages, householders and personal accident.

Analysis of attritional claims ratio

FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	NEP US$M	ATTRITIONAL EX-COVID %	NEP US$M	ATTRITIONAL %
Rest of portfolio	**5,132**	**45.5**	5,160	47.7
Crop insurance	**352**	**79.5**	428	89.5
LMI	**72**	**34.1**	83	32.5
QBE Group ex-COVID	**5,556**	**47.5**	5,671	50.7

Large individual risk and catastrophe claims

Large individual risk and catastrophe claims net of reinsurance are summarised in the table below.

FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	EX-COVID US$M	% OF NEP	US$M	% OF NEP
Catastrophe claims	**308**	**5.5**	180	3.2
Large individual risk claims	**416**	**7.5**	468	8.2
Total large individual risk and catastrophe claims	**724**	**13.0**	648	11.4

The additional Crop hail quota share reinsurance and North American catastrophe reinsurance purchased in 2020 adversely impacted the Group's large individual risk and catastrophe claims ratios relative to the prior period by reducing net earned premium.

The net cost of catastrophe claims increased to $308 million or 5.5% of net earned premium compared with $180 million or 3.2% in the prior year. This was $56 million or 1.1% above our interim allowance reflecting particularly adverse experience in Australia due to widespread bushfires and significant Australian east coast hail and storm claims. Catastrophe experience was broadly in line with plan in North America and better than expected in International, albeit significantly worse than the especially benign prior period.

The net cost of large individual risk claims reduced to $416 million or 7.5% of net earned premium from $468 million or 8.2% in the prior period in line with expectations. This is a pleasing outcome and supportive of our Brilliant Basics program with modest improvement experienced in International and Australia Pacific while North America was adversely impacted by worse than expected large individual risk claims experience in aviation.

Weighted average risk-free rates

As summarised in the table below, the currency weighted average risk-free rate used to discount net outstanding claims liabilities decreased to 0.31% at 30 June 2020 from 1.05% at 31 December 2019. Risk-free rates reduced appreciably across all currencies.

Weighted average risk-free rates

CURRENCY		30 JUNE 2020	31 DECEMBER 2019[1]	30 JUNE 2019[1]	31 DECEMBER 2018[1]
Australian dollar	%	**0.50**	1.11	1.14	2.06
US dollar	%	**0.69**	1.95	2.09	2.74
Sterling	%	**0.16**	0.80	0.80	1.08
Euro	%	**(0.34)**	(0.08)	(0.22)	0.23
Group weighted	%	**0.31**	1.05	1.10	1.66
Estimated impact of discount rate (charge) benefit	$M	**(335)**	(231)	(231)	13

1 Continuing operations basis.

The very significant reduction in risk-free rates during the half gave rise to a $335 million underwriting charge that increased the net claims ratio by 6.0%, compared with a $231 million charge in the prior period that increased the net claims ratio by 4.1%. Given the longer duration of our GBP and euro denominated net claims liabilities, the fall in UK and euro risk-free rates during the period contributed disproportionately to the overall impact of lower weighted average risk-free rates on the Group's underwriting result.

The $335 million adverse risk-free rate impact on the underwriting result was more than offset by a $434 million benefit in investment income due to the maintenance of a surplus duration position during the period.

Prior accident year claims development

The result included $101 million of adverse prior accident year claims development that impacted the claims ratio by 1.8%.

The claims development includes $19 million of positive prior accident year claims development pertaining to North American Crop insurance that is matched by additional premium cessions under the MPCI scheme.

Excluding this impact, adverse prior accident year claims development was $120 million or 2.2% of net earned premium:

- North America recorded $136 million of adverse development, primarily in closed portfolios (E&S and multi-line reinsurance), an additional allowance for social inflation impacting casualty lines and development on Hurricane Irma;
- International recorded $12 million of adverse development, primarily reflecting further deterioration in shorter tail classes in European operations, particularly the 2019 Japanese typhoons;
- Australia Pacific reported $17 million of favourable development, largely in NSW CTP; and
- Corporate reported $11 million of favourable development.

Commission and expenses

The Group's combined commission and expense ratio improved slightly to 30.7% from 30.9% in the prior period.

The commission ratio increased to 16.4% from 16.1% in the prior period, in part reflecting the increased contribution to net earned premium from International where the more specialty nature of the business results in commission rates typically higher than the rest of the Group. Notwithstanding divisional mix related impacts, North America's commission ratio increased as result of significant profitable growth in property programs while Australia Pacific also reported a modest business mix related increase in the commission ratio due to particularly strong growth in strata insurance.

The Group's expense ratio improved to 14.3% from 14.8% in the prior period. This reflected a material cost and operating leverage driven improvement in International and Australia Pacific, partly offset by a modest increase in North America's expense ratio largely due to the significant increase in reinsurance spend associated with de-risking initiatives.

The Group's expense ratio also benefited from variable remuneration costs that were well below plan, partly offset by $17 million of elevated risk and regulatory costs as previously flagged. Adjusting for these factors as well as the impact of North America reinsurance de-risking initiatives on net earned premium, run-rate costs were $825 million which equates to a 14.4% expense ratio.

Income tax expense

The Group's statutory income tax credit of $68 million equated to an effective tax rate of 9% compared with tax expense of $102 million or 16% in the prior period. The especially low current period effective tax rate reflects the mix of corporate tax rates in the countries where we operate coupled with the non-recognition of current year tax losses in the US tax group due to uncertainty over recoverability.

During the half, QBE paid $36 million in corporate income tax to tax authorities globally, including $9 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A$51 million as at 30 June 2020. The Group is therefore capable of fully franking dividends of A$120 million. Having regard to the $500 million AT1 security issued in May 2020 which pays franked distributions, the dividend franking percentage is expected to remain around 10% for the foreseeable future.

Balance sheet

Capital management summary

Key financial strength ratios

AS AT	BENCHMARK	30 JUNE 2020	31 DECEMBER 2019
Debt to equity	25% to 35%	**36.3%**	38.0%
Debt to tangible equity		**53.8%**	57.7%
PCA multiple [1]	1.6x to 1.8x	**1.80x**	1.71x
Premium solvency [2]		**51.2%**	46.2%
Probability of adequacy of outstanding claims	87.5% to 92.5%	**91.2%**	90.0%

1 Indicative APRA PCA calculation at 30 June 2020.
2 Premium solvency ratio is calculated as the ratio of net tangible assets to annualised adjusted net earned premium.

The Group's indicative APRA PCA multiple of 1.80x is at the top end of the Group's 1.6–1.8x target PCA range while the Group retains an excess above S&P 'AA' minimum capital levels.

PCA summary

AS AT	30 JUNE 2020[1] US$M	31 DECEMBER 2019[2] US$M
QBE's regulatory capital base	**8,775**	8,502
APRA's Prescribed Capital Amount (PCA)	**4,875**	4,966
PCA multiple	**1.80x**	1.71x

1 Indicative APRA PCA calculation at 30 June 2020.
2 31 December 2019 figures have been restated to be consistent with APRA returns finalised subsequent to year end.

The increase in the Group's PCA multiple to 1.80x at 30 June 2020 from 1.71x at 31 December 2019, reflects the following:

- successful execution of the comprehensive capital plan announced on 14 April 2020;
- significantly reduced asset risk charge following the decision to reduce credit and market risk;
- reduced insurance concentration risk charge (ICRC) as a result of the purchase of additional reinsurance protection; partly offset by
- allowance for COVID-19 claims within outstanding claims and premium liabilities; and
- the first half operating loss and payment of the 2019 final dividend.

Debt to equity was 36.3% at 30 June 2020, down from 38.0% at 31 December 2019. Subsequent to the balance date, QBE's consent solicitation to amend the terms of the Group's $400 million 2017 perpetual fixed rate capital notes was successful and will result in the reclassification of the notes out of borrowings and into equity. On a pro forma basis, debt to equity falls to 30.2%, the midpoint of the Group's internal benchmark range of 25%–35%.

Following our 2019 full year results, the major rating agencies revised their outlooks as follows:

- On 5 May 2020, Fitch affirmed the long-term issuer default rating (IDR) at 'A-' on the parent entity and the insurer financial strength (IFS) ratings of its subsidiaries at 'A+'. The outlook across all entities remained 'stable'.
- On 2 July 2020, S&P affirmed the 'A-' long-term issuer credit rating (ICR) on the parent entity and the 'A+' IFS ratings on the Group's core operating entities. The outlook across all entities remained 'stable'.
- A.M. Best and Moody's are expected to publish their rating actions for the Group during the second half of 2020.

Capital summary

AS AT	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Net assets	**8,438**	8,153
Less: intangible assets	**(2,746)**	(2,791)
Net tangible assets	**5,692**	5,362
Add: borrowings	**3,064**	3,095
Total tangible capitalisation	**8,756**	8,457

Borrowings

As at 30 June 2020, total borrowings were $3,064 million, down $31 million or 1% from $3,095 million at 31 December 2019. Following the reclassification of the $400 million of 2017 perpetual fixed rate capital notes out of borrowings and into equity effective 16 July 2020, pro forma borrowings fall to $2,665 million.

Gross interest expense on long term borrowings for the half was $96 million, down from $103 million in the prior period. The average annualised cash cost of borrowings remains at 6.3% as at 30 June 2020, unchanged from 6.3% as at 31 December 2019.

As at 30 June 2020, virtually all the Group's debt continued to count towards regulatory capital.

Borrowings maturity [1]

AS AT	30 JUNE 2020 %	31 DECEMBER 2019 %
Less than one year	**11**	5
One to five years	**49**	56
More than five years	**40**	39

1 Based on first call date.

Borrowings profile

AS AT	30 JUNE 2020 %	31 DECEMBER 2019 %
Subordinated debt	**87**	87
Additional tier 1 securities	**13**	13

Further details of borrowings are set out in note 4.1 to the financial statements.

Other capital instruments

The Group issued $500 million of Perpetual Fixed Rate Resetting Capital Notes in May 2020. These Capital Notes were issued as part of the Group's $4 billion Note Issuance Program and are AT1 qualifying under APRA's capital adequacy framework.

The notes are classified as equity on the balance sheet, pay franked after tax distributions and do not impact the weighted average number of shares for earnings per share calculations (since the notes are written off in whole or in part if APRA determines QBE is, or would become, non-viable).

The notes entitle holders to receive a fixed rate coupon of 5.875% per annum, payable semi-annually until the first reset date. The notes are callable at QBE's option (subject to APRA's prior written approval) on 12 May 2025 and every five years thereafter.

Together with the reclassified 2017 perpetual fixed rate capital notes, the annual after tax distribution on QBE's AT1 capital will be $50 million while the reclassification of the 2017 notes will result in annual financing and other costs reducing by $21 million.

Outstanding claims

Net outstanding claims liabilities

AS AT	30 JUNE	31 DECEMBER			
	2020 US$M	2019 US$M	2018 US$M	2017 US$M	2016 US$M
Net central estimate	**14,025**	13,675	12,870	14,029	12,693
Risk margin	**1,258**	1,136	1,158	1,239	1,088
Net outstanding claims	**15,283**	14,811	14,028	15,268	13,781
	%	%	%	%	%
Probability of adequacy of outstanding claims	**91.2**	90.0	90.1	90.0	89.5
Weighted average discount rate	**0.3**	1.1	1.7	1.7	1.5
Weighted average term to settlement (years)	**3.8**	3.6	3.3	3.1	2.9

Net outstanding claims liabilities are discounted using sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate on our investments.

At 30 June 2020, risk margins in net outstanding claims were $1,258 million or 9.0% of the net central estimate of outstanding claims compared with $1,136 million or 8.3% of the net central estimate at 31 December 2019. Excluding foreign exchange movements, risk margins increased $138 million during the period compared with a $32 million increase in the prior period.

The PoA increased to 91.2% from 90.0% as at 31 December 2019. The increase in risk margin is mainly in response to the heightened reserve uncertainty arising from COVID-19.

Intangible assets

The carrying value of identifiable intangibles and goodwill at 30 June 2020 was $2,746 million, down from $2,791 million at 31 December 2019.

During the half, the carrying value of intangibles reduced by $45 million primarily due to a foreign exchange impact of $42 million coupled with amortisation and impairment expense of $37 million, which more than offset net additions in the period, being mainly the capitalisation of software in relation to various information technology projects.

At 30 June 2020, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard. No material impairment was identified.

Investment performance and strategy

The investment portfolio was heavily impacted by COVID-19 related market volatility during the first half of 2020, returning an annualised net negative return of 0.6% compared with an annualised net positive return of 6.8% in the prior period.

Fixed income assets generated a return of 0.8% compared with 2.7% in the prior period, buoyed by falling sovereign bond yields across all our key markets. Our decision to maintain a surplus duration position relative to net outstanding claims liabilities of approximately 0.5 years generated approximately $99 million in excess risk-free rate gains following substantial cuts to global cash rates. Unrealised losses of $21 million on core fixed income holdings due to a widening in corporate bond spreads, coupled with material realised losses on emerging market and high yield debt positions, detracted from fixed income returns.

Importantly, our high quality investment grade fixed income portfolio has proven more resilient to credit headwinds than the broader market, with fewer rating downgrades, a lower incidence of negative outlook or watch, and no 'fallen angels' (slippage into high yield).

Growth assets were substantially impacted by market volatility during the half (especially in March), returning a loss of 9.4% compared with a gain of 7.6% in the prior period, driven primarily by realised losses in our equity portfolio. Returns on unlisted property were also impacted as COVID-19 related lockdowns disrupted rental income and consequently valuations while some property classes such as commercial and retail were also impacted by longer term valuation concerns focused around occupancy/demand in a post-COVID-19 world. Infrastructure assets experienced only modest weakness, benefiting from lower risk-free rates.

At 30 June 2020, the running yield of the fixed income portfolio was 0.7%, down from 1.5% at 31 December 2019. Lower yields reflect stimulatory moves by central banks to cut cash rates globally and market expectations of sustained low interest rates. Credit spreads, having initially widened significantly early in the year, narrowed as financial conditions eased and governments and central banks moved to purchase corporate credit. Fixed income portfolio duration at 30 June 2020 was 2.2 years, down from 2.6 at 31 December 2019, reflecting a broadly economically matched position relative to net outstanding claims liabilities.

Closing total cash and investments was $24,432 million, largely unchanged from $24,374 million at 31 December 2019, reflecting the net capital raising activities over the period offset by net cash outflows from operating activities (due to increased reinsurance spend and reduced reinsurance recoveries), net fair value losses and currency movements.

Growth asset exposure is now 7% of the portfolio and is comprised primarily of unlisted property and infrastructure assets, as well as a small amount of private equity. Following moves to de-risk the investment portfolio in March, we no longer have any meaningful exposure to listed equities and have no exposure to high yield or emerging market debt.

Asset duration is expected to be broadly matched to the interest sensitivity of our outstanding claims, managed around a 2.2-year target. While uncertainty persists, the risk profile of the investment portfolio is unlikely to significantly increase in 2020.

Total net investment income

FOR THE HALF YEAR ENDED 30 JUNE	POLICYHOLDERS' FUNDS 2020 US$M	POLICYHOLDERS' FUNDS 2019 US$M	SHAREHOLDERS' FUNDS 2020 US$M	SHAREHOLDERS' FUNDS 2019 US$M	TOTAL 2020 US$M	TOTAL 2019 US$M
Fixed interest, short-term money and cash income	**129**	371 [2]	**69**	224 [2]	**198**	595 [2]
Income on growth assets	**(165)**	113 [2]	**(96)**	77 [2]	**(261)**	190 [2]
Gross investment (loss) income [1]	**(36)**	484	**(27)**	301	**(63)**	785
Investment expenses	**(5)**	(6)	**(3)**	(3)	**(8)**	(9)
Net investment (loss) income	**(41)**	478	**(30)**	298	**(71)**	776
Foreign exchange (loss) gain	**(15)**	(14)	**–**	–	**(15)**	(14)
Other (expenses) income	**(4)**	(7)	**–**	–	**(4)**	(7)
Net investment and other (loss) income	**(60)**	457	**(30)**	298	**(90)**	755

1 Includes fair value losses of $312 million (2019 $482 million gains) comprising losses on investments supporting policyholders' funds of $196 million (2019 $295 million gains) and shareholders' funds of $116 million (2019 $187 million gains).

2 From 1 January 2020 and to align more closely with peer reporting, emerging market and high yield debt instruments were reallocated to fixed income from growth assets. Accordingly, income from emerging market and high yield debt instruments are presented in income on fixed Income securities, short-term money and cash, having previously been presented in income on growth assets. The comparative period has been restated for consistency.

Annualised gross and net investment yield

FOR THE HALF YEAR ENDED 30 JUNE	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 2020 %	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 2019 %	YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 2020 %	YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 2019 %	TOTAL 2020 %	TOTAL 2019 %
Gross investment yield [1]	**(0.4)**	6.8	**(0.7)**	7.0	(0.5)	**6.8**
Net investment yield [2]	**(0.5)**	6.7	**(0.7)**	6.9	(0.6)	**6.8**
Net investment income and other income yield [3]	**(0.8)**	6.4	**(0.7)**	6.9	(0.7)	**6.6**

1 Gross investment yield is calculated with reference to gross investment income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

2 Net yield is calculated with reference to gross investment income less investment expenses as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

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

Total cash and investments

AS AT	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 30 JUNE 2020 US$M	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS 31 DECEMBER 2019 US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 30 JUNE 2020 US$M	INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS 31 DECEMBER 2019 US$M	TOTAL 30 JUNE 2020 US$M	TOTAL 31 DECEMBER 2019 US$M
Cash and cash equivalents	**603**	359	**335**	188	**938**	547
Short-term money	**1,831**	699	**1,019**	367	**2,850**	1,066
Government bonds	**3,168**	3,811	**1,762**	2,002	**4,930**	5,813
Corporate bonds	**8,698**	8,698	**4,838**	4,570	**13,536**	13,268
Infrastructure debt	**251**	253	**140**	133	**391**	386
Developed market equity	**12**	150	**7**	131	**19** [1]	281
Emerging market equity	**–**	71	**–**	37	**–**	108
Emerging market debt	**–**	363	**–**	191	**–**	554
High yield debt	**–**	263	**–**	138	**–**	401
Unlisted property trusts	**425**	469	**237**	247	**662**	716
Infrastructure assets	**550**	592	**306**	311	**856**	903
Private equity	**137**	133	**76**	70	**213**	203
Alternatives	**–**	60	**–**	31	**–**	91
Investment properties	**24**	24	**13**	13	**37**	37
Total investments and cash	**15,699**	15,945	**8,733**	8,429	**24,432**	24,374

1 Primarily reflects QBE's cornerstone investment in an ASX listed investment company (FGG) which includes a social objective in its investment charter.

1 Performance overview
2 Business review
3 Directors' Report
4 Financial Report
5 Other information

Interest bearing financial assets – S&P security grading

AS AT	30 JUNE 2020 %	31 DECEMBER 2019 %
S&P rating		
AAA	**14**	13
AA	**37**	38
A	**35**	34
<A	**14**	15

Currency mix of investments

	GROWTH ASSETS		TOTAL CASH AND INVESTMENTS	
AS AT	30 JUNE 2020 %	31 DECEMBER 2019 %	30 JUNE 2020 %	31 DECEMBER 2019 %
US dollar	**59**	51	**36**	34
Australian dollar	**34**	29	**25**	27
Sterling	**3**	9	**16**	17
Euro	**4**	11	**13**	12
Other	**–**	–	**10**	10

Interim dividend

Our dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business.

The interim dividend for 2020 is 4 Australian cents per share, a reduction from 25 Australian cents per share for the 2019 interim dividend. The dividend will be 10% franked and is payable on 25 September 2020. The Dividend Reinvestment Plan and Bonus Share Plan will be satisfied by the issue of shares at a discount of 1.5%.

The 2020 interim dividend payout is A$59 million.

Closing remarks

The near-term outlook remains uncertain as government actions to contain and mitigate the health impacts of COVID-19 continue to significantly impact global economic activity and a number of more adverse economic downturn scenarios remain plausible. Amidst this uncertain operating environment, we remain razor-focused on executing against our core program of work:

- maintaining focus on improving underwriting performance and discipline through the cell review process;
- leveraging benefits from the successful execution of the Brilliant Basics program, particularly given the improved property & casualty industry premium rate backdrop;
- executing on material profit improvement plans in North America;
- accelerating the delivery of benefits from our operational efficiency program; and
- positioning QBE to optimise risk-adjusted returns on capital heading into 2021.

I look forward to reporting on our progress with the release of our 2020 full year result.

Inder Singh
Group Chief Financial Officer

North America
business review

Accelerating rates, coupled with improved retention and new business, contributed to strong growth. While the improved current accident year result is encouraging, the overall result was impacted by COVID-19 and prior accident year development.

Todd Jones
Chief Executive Officer • North America

Gross written premium (US$M)

3,081[1]

↑ 10% from HY19

Net earned premium (US$M)

1,672[1]

↓ 10% from HY19

Underwriting result (US$M)[2]

(79)[1]

↓ 80 from HY19

Combined operating ratio[2]

104.8%[1]

HY19 99.9%

Insurance profit margin

(13.6%)[1]

HY19 1.0%

2020 overview

North America comprises four business units: Alternative Markets (third-party distribution including programs), Specialty & Commercial (retail agent and broker specialty and commercial insurance), Crop and QBE Re (part of QBE's global reinsurance business).

Market conditions continue to improve. North America achieved an average renewal premium rate increase of 9.8% compared with 4.1% in the prior period and 7.7% in the second half of 2019. As the industry strives to achieve premium rate adequacy, rate increases accelerated across most lines including 17% in property programs, 13% in A&H and 19% in professional lines.

North America achieved strong growth due to improved retention and new business in lines where we have market leading positions including Crop, A&H and property programs.

Brilliant Basics remains a key focus, underpinning a disciplined approach to selecting and pricing risk as evidenced by improved premium rate adequacy and a lower attritional claims ratio. We continue to enhance our data and analytics capability with improved monitoring of business quality at origination and more timely and decisive action in managing underperforming books including E&S and multi-line reinsurance.

The Crop business enjoyed a favourable planting season. Following heightened hail losses in recent years, we purchased additional quota share reinsurance to minimise hail exposure and a commodity price hedge to reduce exposure to a material fall in corn and soybean prices.

Adverse claims cost trends gave rise to $136 million[3] of adverse prior accident year development, around half of which related to run-off portfolios including E&S and multi-line reinsurance. At the same time, we recognised further industry-wide social inflation in certain casualty lines and adverse development on Hurricane Irma.

COVID-19 is undoubtedly a challenge for the industry, customers and our people.

The responsiveness and adaptability of our people is encouraging. As we pivoted to a more virtual way of doing business during the half, the strong engagement we observed with our customers and distribution partners indicates a potential advantage relative to some competitors that rely on larger sales and field organisations.

The 2020 adjusted result in the table overleaf excludes impacts directly attributable to the COVID-19 pandemic, including: a $30 million estimate for workers' compensation wage audit related premium refunds, partly offset by both lower exposure and commissions; $32 million of claims, primarily impacting workers' compensation and aviation; and a $9 million expense impact, primarily reflecting anticipated bad debts.

Unless otherwise stated, the profit and loss commentary following refers to the result excluding the impacts of COVID-19.

Operating and financial performance

Underwriting performance

North America reported a combined operating ratio of 104.8%[2], up from 99.9%[2], in the prior period.

The underwriting result was heavily impacted by adverse prior accident year claims development, which increased the combined operating ratio by 8.0%[3] compared with 1.1%[3] in the prior period.

The current accident year combined operating ratio improved to 96.8%[2] from 98.8%[2] in the prior period, due to an improved Crop result and a further reduction in attritional claims, partly offset by increased large individual risk and catastrophe claims.

The net cost of large individual risk and catastrophe claims increased as a result of heightened tornado activity, the impact of recent civil unrest and unusually high aviation claims.

The total acquisition cost ratio increased to 30.5% from 29.5% in the prior period. While operating expenses reduced, net earned premium was lower reflecting the sale of the retail personal lines business, increased Crop hail quota share reinsurance and the purchase of additional catastrophe reinsurance.

The Crop underwriting contribution was consistent with the long-term average combined operating ratio of around 90% and a material improvement from 97.7% in the prior period which was impacted by a high level of prevented planting claims.

1 Excludes impact of COVID-19.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes Crop development that is matched by premium cessions under the MPCI scheme (resulting in a nil profit impact).

The combined operating ratio included an 8.5% or $143 million adverse impact from the decrease in risk-free rates used to discount net outstanding claims compared with a 3.3% or $61 million adverse impact in the prior period.

Premium income

Gross written premium increased 10% to $3,081 million from $2,804 million in the prior period. Adjusting for the sale of the retail personal lines business in 2019, underlying growth was 14% reflecting premium rate increases, focused new business initiatives and improved retention, especially in retail commercial.

Specialty & Commercial gross written premium grew 19% due to new business and premium rate driven growth, principally in A&H, as well as strong rate increases in aviation and professional lines. Growth in these areas more than offset the targeted run-off of the E&S portfolio.

Crop gross written premium increased 11% due to growth in policy count which more than offset lower commodity prices and reduced volatility factors.

Alternative Markets' gross written premium increased 13%. Premium growth in programs, particularly from rate and improved retention in property and specialty, was partly offset by premium contraction in the affiliated home insurance portfolio due to reduced levels of new business.

Net earned premium fell 10% to $1,672 million from $1,849 million in the prior period, primarily due to the sale of the retail personal lines business and the purchase of additional Crop hail and catastrophe reinsurance. Adjusting for these items, underlying net earned premium growth was around 4%.

Claims expense

The attritional claims ratio (excluding Crop) improved by 1.6% to 46.8% from 48.4% in the prior period.

The result included adverse prior accident year claims development of $136 million[4] or 8.0% of net earned premium compared with $21 million[4] or 1.1% in the first half of 2019.

Around $55 million of the development relates to closed portfolios, notably E&S and multi-line reinsurance. Furthermore, we continue to respond cautiously to rising claims costs in portfolios which have been impacted by industry-wide inflationary trends, notably in casualty lines which resulted in a charge of around $30 million. We also strengthened Hurricane Irma reserves by $24 million in response to industry-wide loss creep in advance of the expiry of the statute of limitations on new claims in September 2020.

The net cost of large individual risk and catastrophe claims increased to 10.6% of net earned premium from 8.7% in the prior period. This was primarily due to heightened tornado activity coupled with recent civil unrest while several unusually large aviation claims drove an increase in the large individual risk claims ratio.

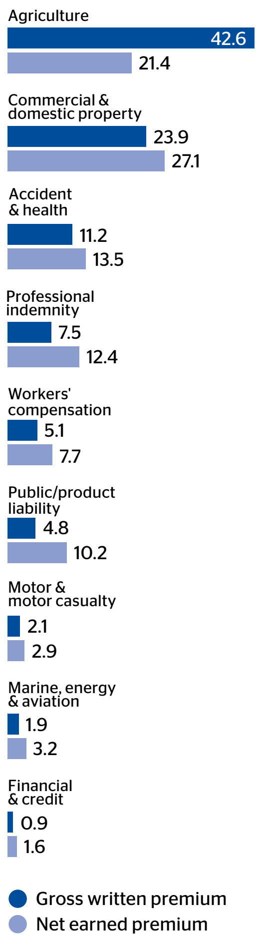
Commission and expenses

The combined commission and expense ratio increased to 30.5% from 29.5% in the prior period.

The net commission ratio increased to 16.3% from 15.7% in the prior period driven by business mix as we exited our retail personal lines and experienced strong growth in programs.

The expense ratio increased to 14.2% from 13.8% in the prior period. While underwriting expenses fell 7% reflecting rigorous cost management, the expense ratio increased as a result of the reduction in net earned premium due to additional reinsurance spend and the sale of retail personal lines.

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



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2020	2020 EX-COVID[1]	2019	2018	2017 ADJUSTED[3]
Gross written premium	US$M	**3,051**	**3,081**	2,804	2,896	2,803
Gross earned premium	US$M	**2,168**	**2,198**	2,194	2,162	2,187
Net earned premium	US$M	**1,642**	**1,672**	1,849	1,753	1,832
Net incurred claims	US$M	**1,417**	**1,385**	1,362	1,150	1,253
Net commission	US$M	**266**	**272**	292	277	295
Expenses	US$M	**246**	**237**	255	268	277
Underwriting result	US$M	**(287)**	**(222)**	(60)	58	7
Net claims ratio	%	**86.3**	**82.8**	73.7	65.6	68.4
Net commission ratio	%	**16.2**	**16.3**	15.7	15.8	16.1
Expense ratio	%	**15.0**	**14.2**	13.8	15.3	15.1
Combined operating ratio	%	**117.5**	**113.3**	103.2	96.7	99.6
Adjusted combined operating ratio[2]	%	**108.8**	**104.8**	99.9	99.0	99.4
Insurance profit margin	%	**(17.8)**	**(13.6)**	1.0	5.9	2.8

1 Excludes impact of COVID-19.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes transactions to reinsure liabilities.
4 Excludes Crop development that is matched by premium cessions under the MPCI scheme (resulting in a nil profit impact).

International business review

Trading conditions continue to improve in all of our geographies and customer segments. In several areas we are experiencing the best underwriting environment in a decade.

Richard Pryce
Chief Executive Officer • International

Gross written premium (US$M)

3,150

↑ 12% from HY19[1]

Net earned premium (US$M)

2,191[2]

↑ 11% from HY19[3]

Underwriting result (US$M)[4]

26[2]

↑ 26 from HY19[5]

Combined operating ratio[4]

91.4%[2]

HY19 94.3%[5]

Insurance profit margin

(0.2%)[2]

HY19 11.4%[5]

2020 overview

International delivered an encouraging underwriting performance during a period of unprecedented new challenges combined with the lingering after-effects of a deep and extended soft market. Several competitors continue to adjust their risk appetites by reducing capacity and underwriting authority which is generating some quality new business opportunities, especially in London.

The significant improvement in underlying performance across the entire division is very encouraging and driven by the continuing strong premium rate environment.

International achieved an average premium renewal rate increase of 10.0% compared with 3.8% in the prior period, including 10.3% in European operations and 6.6% in Asia, compared with increases of 3.9% and 2.2% respectively in the prior period. Premium rate momentum continued to build across the half.

The London Market and Specialty business continues to experience the greatest premium rate increases closely followed by the UK.

In the London Market we recorded an average premium renewal rate increase of 14.8% compared with 6.3% in the prior period. All product segments are achieving strong increases, particularly catastrophe-exposed property and financial lines.

The UK market has seen significant improvement, recording an average premium renewal rate increase of 14.2% compared with 5.4% in the prior period, with strong broadly based rate increases across property, motor and financial lines.

While we are seeing more encouraging signs for QBE Re, the reinsurance sector is still lagging the primary market especially in Continental Europe. We anticipate this rating environment will improve over the next 12 months as demand increases while there is less capacity deployed, especially in the insurance-linked securities sector.

Both our European insurance and Asian operations are experiencing more encouraging underwriting conditions but premium rate momentum continues to lag the rest of the world.

We continue to invest in our core strategic enablers. The digital underwriting and claims capability in Asia has been enhanced and it is encouraging to see this capability receiving industry recognition.

Optimum, our underwriting and sales modernisation program, has successfully delivered the first phase of improvements in Continental Europe to support ongoing premium growth. We remain committed to an ambitious program of modernisation across the business which will improve efficiency and allow more sophisticated and data driven decision making in underwriting and claims.

The 2020 adjusted result in the table overleaf excludes impacts directly attributable to the COVID-19 pandemic including: a $20 million net premium impact, primarily reflecting additional reinsurance restatement premiums; $116 million of claims across our insurance businesses and QBE Re, net of a small benefit from reduced claims volumes in some classes during the lockdown period in Europe; and a $3 million net expense impact, primarily reflecting additional commission income.

Unless otherwise stated, the profit and loss commentary following refers to the result excluding the impacts of COVID-19.

Operating and financial performance

Underwriting performance

International's combined operating ratio improved to 91.4%[4] from 94.3%[4] in the prior period, reflecting a very strong underwriting performance in our European operations combined with material improvement in Asia.

All our European insurance operations produced strong underwriting results with London Market and Speciality benefiting the most from the improved market conditions.

Across Asia we have seen improved profitability driven by an ongoing focus on underwriting margins combined with further expense reductions.

Despite some adverse prior accident year claims development on Japanese typhoons, QBE Re produced another good underwriting performance.

1 Constant currency basis and excludes 2019 disposals in Asia. Up 9% on a reported basis.
2 Excludes impact of COVID-19.
3 Constant currency basis. Up 8% on a reported basis.
4 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes one-off impact of the Ogden decision in the UK.

Premium income

Gross written premium was up 9% to $3,150 million from $2,880 million in the prior period, and increased 12%[1] on a constant currency basis.

The European insurance operations recorded particularly strong growth with the London and Specialty markets businesses experiencing an excellent first half. Premium growth in Asia is being heavily impacted by COVID-19, particularly in Hong Kong travel insurance and marine cargo.

QBE Re experienced strong premium growth in London and the United States as demand for property catastrophe and financial lines reinsurance has increased; however, we remain very selective to ensure we protect our historically strong underwriting margins. Our new operation in Dubai has made a very encouraging start.

Across International we are seeing significant new business opportunities, but we will maintain a high level of underwriting discipline. The predictive analytical tools we have built enable most of our insurance underwriting teams to triage new business to ensure we are focusing on the most profitable and prospective opportunities. New business growth has been particularly strong in QBE Re and insurance in Continental Europe.

Net earned premium increased by 9% to $2,191 million from $2,019 million in the prior year, and increased 11% on a constant currency basis.

Claims expense

The net claims ratio reduced to 59.4%[2] from 61.8%[2,4] in the prior year.

The attritional claims ratio improved to 41.5% from 43.2% in the prior period, reflecting targeted underwriting actions in both our European operations and Asia, coupled with the beneficial rating environment.

Net catastrophe claims were below the historical average and our plan allowance, albeit a significant increase over the prior period which was largely catastrophe free. The net cost of catastrophe claims was $65 million or 2.9% of net earned premium, up from $11 million or 0.5% in the prior period.

Large individual risk claims improved significantly to 11.0% of net earned premium from 15.3% in the prior period. This reflects the improvement in market conditions coupled with ongoing de-risking of parts of the portfolio such as financial lines, international liability and large account property.

The result included $12 million of net adverse prior accident year claims development compared with $28 million[3] in the prior period. Following significant strengthening in previous years, the claims development in financial lines has been more stable. The modest level of adverse development largely reflects deterioration in shorter tail classes in our European operations, and an increase in the estimated net cost of the 2019 Japanese typhoons within QBE Re.

Lower risk-free rates used to discount net outstanding claims liabilities adversely impacted the underwriting result by $161 million or 7.4% of net earned premium compared with only $115 million and 5.7% in the prior period.

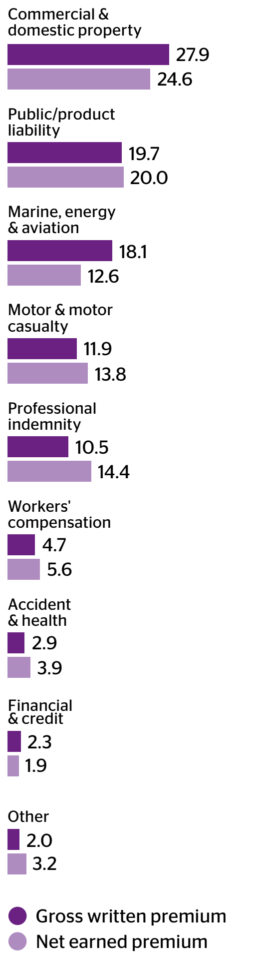
Commission and expenses

The net commission ratio deteriorated to 17.6% from 17.3% in the prior period reflecting less profit commission earned in the current period. Disappointingly, commission levels in some areas remain too high despite the general improvement in market conditions.

Our underwriting teams will remain highly vigilant in ensuring that the net profit margin meets our expectations in those classes that carry higher levels of commission.

The expense ratio improved to 14.4% from 15.2% in the prior period. Asia continues to deliver on its long-term expense reduction program while elsewhere we are seeing the benefits of higher net earned premium and a stable expense base.

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



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2020	2020 EX-COVID[4]	2019 ADJUSTED[3]	2018 ADJUSTED[5]	2017 ADJUSTED[3]
Gross written premium	US$M	**3,150**	**3,150**	2,880	2,896	2,738
Gross earned premium	US$M	**2,498**	**2,498**	2,319	2,435	2,229
Net earned premium	US$M	**2,171**	**2,191**	2,019	2,098	1,922
Net incurred claims	US$M	**1,580**	**1,464**	1,363	1,318	1,008
Net commission	US$M	**384**	**386**	350	380	359
Expenses	US$M	**314**	**315**	306	329	311
Underwriting result	US$M	**(107)**	**26**	–	71	244
Net claims ratio	%	**72.9**	**66.8**	67.5	62.8	52.4
Net commission ratio	%	**17.6**	**17.6**	17.3	18.1	18.7
Expense ratio	%	**14.5**	**14.4**	15.2	15.7	16.2
Combined operating ratio	%	**104.9**	**98.8**	100.0	96.6	87.3
Adjusted combined operating ratio[2]	%	**97.5**	**91.4**	94.3	96.8	89.3
Insurance profit margin	%	**(6.4)**	**(0.2)**	11.4	6.3	15.9

1 Excludes 2019 disposals in Asia.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes impact of COVID-19.
5 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Australia Pacific business review

Despite increased catastrophe claims, Australia Pacific recorded a strong combined operating ratio of 95.3%[1,2]. Rate increases, coupled with benefits from cell reviews and Brilliant Basics, contributed to a further 3.5%[2,3] reduction in the attritional claims ratio.

Pat Regan
Group Chief Executive Officer

Gross written premium (US$M)
1,829
↑ 4% from HY19[4]

Net earned premium (US$M)
1,696
↑ 6% from HY19[5]

Underwriting result (US$M)[1]
52[2]
↓ 61 from HY19

Combined operating ratio[1]
95.3%[2]
HY19 90.5%

Insurance profit margin
1.5%[2]
HY19 13.6%

2020 overview

Catastrophe events in Australia during the first quarter significantly impacted our customers and the first half result. Despite this and the impact of the COVID-19 pandemic, Australia Pacific delivered a strong underwriting result.

Earnings quality continues to improve as evidenced by a further improvement in both the attritional claims ratio and earnings diversity.

Australia Pacific achieved an average renewal premium rate increase of 5.5%[6], compared with 6.8%[6] in the prior period. Worsening economic conditions, coupled with our decision to temporarily suspend rate increases for business package, commercial auto and A&H in response to COVID-19, contributed to a moderation in rate increases during the second quarter.

Ongoing investment in Brilliant Basics underwriting and claims initiatives was key to a strong underwriting result despite materially higher catastrophe claims and pandemic related impacts.

Underwriting initiatives continue to drive better risk selection and targeted growth as well as a more consistent experience for customers and distribution partners. Claims initiatives to improve supply chain and operational capabilities are benefiting both performance and customer experience.

QBE remains focused on improving outcomes for customers and our people. Their safety and wellbeing remains a key priority and this is especially true during these unprecedented times. We are supporting customers through various initiatives including premium returns and premium deferrals, extending credit counselling services to vulnerable customers and accelerating claims payments.

The 2020 adjusted result in the table overleaf excludes impacts directly attributable to the COVID-19 pandemic.

The net impact of COVID-19 on claims costs during the half is estimated at only $3 million reflecting $49 million of COVID-19 related claims offset by a $46 million benefit due to an observed reduction in claims activity across motor, workers' compensation and commercial packages.

The beneficial impact of reduced traffic volumes on personal motor claims frequency during the COVID-19 lockdown was returned to customers by way of gift cards which, together with working from home set-up costs, impacted expenses by $18 million.

Unless otherwise stated, the profit and loss commentary following refers to the result excluding the impacts of COVID-19.

Operating and financial performance

Underwriting performance

Australia Pacific recorded a combined operating ratio of 95.3%[1,2] compared with 90.5%[1] in the prior period.

The underwriting result was impacted by increased catastrophe costs in Australia, coupled with a reduced level of positive prior accident year claims development following NSW CTP scheme reform. This was largely offset by a further reduction in attritional and large individual risk claims resulting from refinements to risk selection and targeted pricing and claims initiatives.

The combined operating ratio of our LMI business improved to 55.1%[1] from 57.1%[1] in the prior period. While the claims ratio increased in line with expectations to 37.3%[1] from 34.9%[1] in the prior period, the result benefited from higher reinsurance commission income, profit commission clawback and reduced expenses.

On a constant currency basis, LMI net earned premium was down 7% to $72 million due to the industry-wide contraction in lending and strengthened lending standards.

Assuming a rise in the unemployment rate to 10.5%[7] and a 7.5% decline in house prices, LMI claims frequency and severity is likely to increase. While these revised base case economic assumptions did not give rise to a liability adequacy test (LAT) deficiency for the division, the increase in expected future claims reduced the LAT surplus by $52 million and this reduction has been recognised in the Group's regulatory capital (PCA) multiple.

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes impact of COVID-19.
3 Excludes LMI.
4 Constant currency basis excluding CTP, disposals and discontinued portfolios. Down 7% on a reported basis.
5 Constant currency basis excluding CTP, disposals and discontinued portfolios. Down 5% on a reported basis.
6 Excludes premium rate changes relating to CTP.
7 Unemployment impacting LMI is likely to be around 1.5% lower than headline unemployment reflecting a disproportionate impact of COVID-19 on non-mortgagors e.g. young, part-time and low-paid workers.

While underlying arrears are broadly stable, the reported result included $15 million of provisions partly to reflect the emergence of claims relating to the impact of COVID-19.

Premium income

Gross written premium fell 7% to $1,829 million from $1,960 million in the prior period but was up 0.4% on a constant currency basis.

Gross written premium was impacted by the deterioration in economic conditions during 2Q20 which led to a reduction in new business opportunities and income levels on portfolios where premiums adjust with activity e.g. workers' compensation.

Premium rate driven growth across the portfolio, especially in strata, farm, aviation and engineering, was moderated by a reduction in CTP income as a result of regulatory reform, the 2019 sale of the travel insurance business and the impact of COVID-19 on workers' compensation premium income.

Excluding these impacts, underlying gross written premium was up 4% on a constant currency basis, broadly reflective of premium rate increases.

Brilliant Basics pricing initiatives remain focused on portfolios where pricing is below technical levels. Australia Pacific achieved an average renewal premium rate increase of 5.5%[1], down slightly from 6.8%[1] in the prior period. Premium retention improved to 85% from 83% in the prior period.

Net earned premium fell by 6% to $1,696 million from $1,797 million in the prior period, but was up 6% on a constant currency basis and excluding disposals.

Claims expense

The net claims ratio increased to 67.9%[2] from 64.4%[2] in the prior period, due to a significant increase in catastrophe costs and a reduced level of positive prior accident year claims development, which more than offset a further reduction in attritional and large individual risk claims.

The attritional claims ratio improved to 49.3%[3] from 52.8%[3] in the prior period. Since the first half of 2016, Australia Pacific's attritional claims ratio has improved by 12.7%[3], reflecting a combination of targeted pricing increases, enhanced risk selection and claims management initiatives.

Continued enhancements to risk selection and claims management initiatives drove a further reduction in the net cost of large individual risk claims, which fell to 2.6% of net earned premium from 3.4% in the prior period.

Net catastrophe costs increased to 11.6% of net earned premium from 6.5% in the prior period, reflecting extreme bushfires, significant Australia-wide hail and storm events and cyclone Mangga in Western Australia.

The underwriting result included $17 million of positive prior accident year claims development or 1.0% of net earned premium compared with $88 million or 4.9% in the prior period. This was largely attributable to favourable development in NSW CTP, commercial property and workers' compensation, partly offset by minor adverse development on short tail classes.

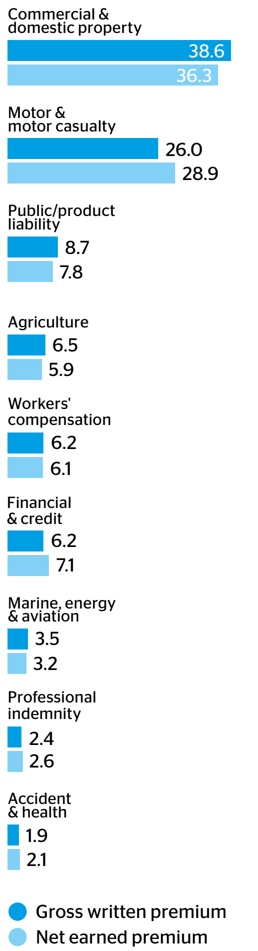
Commission and expenses

The combined commission and expense ratio was largely unchanged at 29.2% compared with 29.3% in the prior period.

The net commission ratio increased to 15.2% from 14.9% in the prior period, reflecting strong growth in strata which attracts a higher commission ratio.

The expense ratio improved to 14.0% from 14.4% in the prior period. Higher regulatory costs and legal fees coupled with a strong performance in NSW CTP which gave rise to a profit normalisation charge (transitional excess profits and losses or TEPL), were more than offset by a reduced level of staff, project, travel and entertainment costs.

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



Underwriting result

FOR THE HALF YEAR ENDED 30 JUNE		2020	2020 EX-COVID[4]	2019	2018	2017
Gross written premium	US$M	**1,829**	**1,829**	**1,960**	2,106	2,070
Gross earned premium	US$M	**1,858**	**1,858**	**1,951**	2,095	2,081
Net earned premium	US$M	**1,696**	**1,696**	**1,797**	1,926	1,906
Net incurred claims	US$M	**1,154**	**1,151**	**1,157**	1,175	1,287
Net commission	US$M	**256**	**256**	**269**	283	271
Expenses	US$M	**255**	**237**	**258**	262	249
Underwriting result	US$M	**31**	**52**	**113**	206	99
Net claims ratio	%	**68.0**	**67.9**	**64.4**	61.0	67.5
Net commission ratio	%	**15.2**	**15.2**	**14.9**	14.7	14.2
Expense ratio	%	**15.0**	**14.0**	**14.4**	13.6	13.1
Combined operating ratio	%	**98.2**	**97.1**	**93.7**	89.3	94.8
Adjusted combined operating ratio[2]	%	**96.4**	**95.3**	**90.5**	89.0	94.5
Insurance profit margin	%	**0.2**	**1.5**	**13.6**	14.8	9.9

1 Excludes premium rate changes relating to CTP.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes LMI.
4 Excludes impact of COVID-19.

Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2020

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the half year ended 30 June 2020.

Directors

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

Stephen Fitzgerald AO
John M Green (Deputy Chairman)
Kathryn Lisson
Sir Brian Pomeroy
Patrick Regan
Jann Skinner
Rolf Tolle
Michael Wilkins AO (Chairman)

Mr Marty Becker was a director from the beginning of the year until 30 April 2020.

Consolidated results

FOR THE HALF YEAR ENDED	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Gross written premium	**8,011**	7,637
Gross earned premium revenue	**6,509**	6,458
Net earned premium	**5,506**	5,671
Net claims expense	**(4,307)**	(3,944)
Net commission	**(903)**	(912)
Underwriting and other expenses	**(820)**	(839)
Underwriting result	**(524)**	(24)
Net investment (loss) income on policyholders' funds	**(60)**	457
Insurance (loss) profit	**(584)**	433
Net investment (loss) income on shareholders' funds	**(30)**	298
Financing and other costs	**(125)**	(129)
(Losses) gains on sale of entities and businesses	**(6)**	16
Share of net loss of associates	**(2)**	(1)
Restructuring and related expenses	**(18)**	(15)
Amortisation and impairment of intangibles	**(13)**	(32)
(Loss) profit before income tax from continuing operations	**(778)**	570
Income tax credit (expense)	**68**	(92)
(Loss) profit after income tax from continuing operations	**(710)**	478
Loss after income tax from discontinued operations	**–**	(16)
(Loss) profit after income tax	**(710)**	462
Net (profit) loss attributable to non-controlling interests	**(2)**	1
Net (loss) profit after income tax attributable to ordinary equity holders of the company	**(712)**	463

Result

The Group reported a net loss after tax attributable to ordinary equity holders of the Company of $712 million for the half year ended 30 June 2020 compared with a profit after tax of $463 million for the prior period. The result was materially impacted by an estimated $335 million loss due to underwriting result impacts from COVID-19 and a net investment loss as a result of extreme investment market volatility.

Gross written premium increased by $374 million mainly due to strong premium rate increases in North America and International, partly offset by the impacts of divestments and movements in foreign exchange rates. Reinsurance expense increased by $216 million compared with the prior period, mainly reflecting increased reinsurance purchases in North America.

The Group reported an underwriting loss of $524 million compared with a loss of $24 million in the prior period, equating to a combined operating ratio of 109.5% compared with 100.4%. Excluding the impacts of changes in risk-free rates in both periods, the combined operating ratio was 103.4% compared with 96.3% in the prior period.

The net claims ratio was 78.2% compared with 69.5% in the prior period. Excluding the impacts of changes in risk-free rates in both periods as well as the Ogden decision in the prior period, the net claims ratio was 72.1% compared with 64.3% in the prior period. The claims ratio was impacted by COVID-19 claims ($151 million), a strengthening of risk margins in response to the uncertainty created by COVID-19 ($115 million) and higher than anticipated catastrophe claims and adverse prior accident year claims development. These were partly offset by a further improvement in the attritional and large individual risk claims ratios.

The combined commission and expense ratio increased slightly to 31.3% from 30.9% in the prior period. Whilst commission and expenses reduced by 2% in absolute terms, the ratio increased due to the 3% reduction in net earned premium.

Net investment and other income was a loss of $90 million compared with a profit of $755 million in the prior period. The investment portfolio was severely impacted by COVID-19 related market volatility. Whilst fixed income assets benefited from falling sovereign bond yields, widening corporate bond spreads and realised losses on emerging market and high yield debt assets negatively impacted fixed income returns. Growth assets were substantially impacted by market volatility during the period. Following moves to de-risk the investment portfolio during the period, the Group now has minimal exposure to listed equities, and has sold all high yield and emerging market debt instruments.

The Group's effective tax rate was 9% compared with 16% in the prior period, reflecting the mix of corporate rates in the jurisdictions in which QBE operates and the non-recognition of deferred tax assets arising from current period taxable losses in the US tax group.

Dividends

The directors are announcing an interim dividend of 4 Australian cents per share for the half year ended 30 June 2020, down from the 2019 interim dividend of 25 Australian cents per share. The interim dividend will be 10% franked (2019 60%). The total interim dividend payout is A$59 million (2019 A$329 million).

Operating and financial review

Information on the Group's results, operations, business strategies, prospects and financial position is set out on pages 2 to 29 of this Half Year Report.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the Group Chief Actuary after consultation with internal actuaries at 30 June and both internal and external actuaries at the 31 December balance date. The assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries and future interest and inflation factors.

As in previous years, the directors consider that substantial risk margins are required to mitigate inherent uncertainty in the actuarial net central estimate. The probability of adequacy of the outstanding claims liability at 30 June 2020 was 91.2%, compared with 90.0% at 31 December 2019, mainly reflecting a $115 million increase in the risk margin in response to the significantly heightened level of uncertainty created by COVID-19.

Material business risks

As an international insurance and reinsurance business, QBE is subject to a substantial variety of business risks. The Board believes that effective management of these risks is critical to delivering value for QBE's stakeholders. It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of QBE's governance structure, QBE's broader business processes and, most importantly, QBE's culture.

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational, compliance and group risks. Explanations of these risks and their mitigations are set out in more detail in note 4 to the Group's financial statements for the year ended 31 December 2019, which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report and the section of the Corporate Governance Statement addressing the ASX Corporate Governance Council's Principle 7: Recognise and Manage Risk, both of which are included in the 2019 Annual Report.

QBE's 2019 Annual Report and Corporate Governance Statement are available on the QBE website at www.qbe.com.

QBE published details of, and progress against, its climate change action plan in both the 2018 and 2019 Annual Reports. We recognise the importance of these disclosures and see this as part of our three to five-year journey to full disclosure. Further update will be provided in the 2020 Annual Report.

Commentary on significant judgements and estimates impacting the half year result and balance sheet is included in note 1.2 to the financial statements for the half year ended 30 June 2020, including information on how QBE has responded to uncertainties in the financial statements created by the COVID-19 pandemic.

Events after balance date

On 6 July 2020, QBE announced the sale of its investment in associate in India (Raheja QBE General Insurance Company Limited). The agreed transaction is currently awaiting regulatory approval in India.

On 16 July 2020, the terms of Additional Tier 1 instruments with a principal amount of $400 million were amended such that the notes are written off at a point of non-viability, as determined by the Australian Prudential Regulation Authority (APRA), with no possibility of conversion into ordinary shares of QBE. The amended instruments will be classified as equity, with the existing liability derecognised.

Other than the matters mentioned above, and the declaration of the interim dividend, no matter or circumstance has arisen since 30 June 2020 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial periods.

Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2020

Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

Rounding of amounts

The Company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191*. Amounts have been rounded off in the Directors’ Report in accordance with that instrument.

Signed in SYDNEY on 13 August 2020 in accordance with a resolution of the directors.

Michael Wilkins
Director

Patrick Regan
Director

Auditor's independence declaration

FOR THE HALF YEAR ENDED 30 JUNE 2020

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of QBE Insurance Group Limited and the entities it controlled during the period.

V. Papageorgiou

Voula Papageorgiou
Partner, PricewaterhouseCoopers

Sydney
13 August 2020

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2020

	NOTE	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Gross written premium		**8,011**	7,637
Unearned premium movement		**(1,502)**	(1,179)
Gross earned premium revenue	2.1	**6,509**	6,458
Outward reinsurance premium		**(1,829)**	(1,404)
Deferred reinsurance premium movement		**826**	617
Outward reinsurance premium expense		**(1,003)**	(787)
Net earned premium (a)		**5,506**	5,671
Gross claims expense	2.2	**(5,605)**	(4,565)
Reinsurance and other recoveries revenue	2.1	**1,298**	621
Net claims expense (b)	2.2	**(4,307)**	(3,944)
Gross commission expense		**(1,081)**	(1,064)
Reinsurance commission revenue	2.1	**178**	152
Net commission (c)		**(903)**	(912)
Underwriting and other expenses (d)		**(820)**	(839)
Underwriting result (a)+(b)+(c)+(d)		**(524)**	(24)
Net investment (loss) income – policyholders' funds	3.1	**(55)**	463
Investment expenses – policyholders' funds	3.1	**(5)**	(6)
Insurance (loss) profit		**(584)**	433
Net investment (loss) income – shareholders' funds	3.1	**(27)**	301
Investment expenses – shareholders' funds	3.1	**(3)**	(3)
Financing and other costs		**(125)**	(129)
(Losses) gains on sale of entities and businesses	5.1	**(6)**	16
Share of net loss of associates		**(2)**	(1)
Restructuring and related expenses		**(18)**	(15)
Amortisation and impairment of intangibles		**(13)**	(32)
(Loss) profit before income tax from continuing operations		**(778)**	570
Income tax credit (expense)		**68**	(92)
(Loss) profit after income tax from continuing operations		**(710)**	478
Loss after income tax from discontinued operations	5.2.1	**–**	(16)
(Loss) profit after income tax		**(710)**	462
Other comprehensive (loss) income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**(122)**	19
Net movement in cash flow hedge and cost of hedging reserves		**11**	4
Income tax relating to these components of other comprehensive income		**(4)**	–
Other comprehensive income from discontinued operations after income tax		**–**	10
Other comprehensive (loss) income after income tax		**(115)**	33
Total comprehensive (loss) income after income tax		**(825)**	495
(Loss) profit after income tax from continuing operations attributable to:			
Ordinary equity holders of the company		**(712)**	479
Non-controlling interests		**2**	(1)
		(710)	478
(Loss) profit after income tax attributable to:			
Ordinary equity holders of the company		**(712)**	463
Non-controlling interests		**2**	(1)
		(710)	462
Total comprehensive (loss) income after income tax attributable to:			
Ordinary equity holders of the company		**(827)**	496
Non-controlling interests		**2**	(1)
		(825)	495

(LOSS) EARNINGS PER SHARE FOR (LOSS) PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	30 JUNE 2020 US CENTS	30 JUNE 2019 US CENTS
For (loss) profit after income tax from continuing operations			
Basic (loss) earnings per share	4.5	**(51.9)**	36.1
Diluted (loss) earnings per share	4.5	**(51.9)**	35.9
For (loss) profit after income tax			
Basic (loss) earnings per share	4.5	**(51.9)**	34.9
Diluted (loss) earnings per share	4.5	**(51.9)**	34.7

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

Consolidated balance sheet

AS AT 30 JUNE 2020

	NOTE	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Assets			
Cash and cash equivalents		**938**	547
Investments	3.2	**23,457**	23,790
Derivative financial instruments	4.2	**259**	195
Trade and other receivables		**6,282**	4,621
Current tax assets		**40**	36
Deferred insurance costs		**2,778**	1,907
Reinsurance and other recoveries on outstanding claims	2.3	**5,553**	5,104
Other assets		**13**	13
Defined benefit plan surpluses		**47**	45
Right-of-use lease assets		**234**	275
Property, plant and equipment		**166**	170
Deferred tax assets		**593**	479
Investment properties		**37**	37
Investment in associates		**24**	25
Intangible assets		**2,746**	2,791
Total assets		**43,167**	40,035
Liabilities			
Derivative financial instruments	4.2	**439**	202
Trade and other payables		**2,116**	1,675
Current tax liabilities		**38**	43
Unearned premium		**7,799**	6,460
Outstanding claims	2.3	**20,836**	19,915
Lease liabilities		**260**	299
Provisions		**115**	136
Defined benefit plan deficits		**41**	42
Deferred tax liabilities		**21**	15
Borrowings	4.1	**3,064**	3,095
Total liabilities		**34,729**	31,882
Net assets		**8,438**	8,153
Equity			
Contributed equity	4.3	**8,889**	7,594
Treasury shares held in trust		**(1)**	(1)
Reserves		**(1,412)**	(1,335)
Retained profits		**962**	1,895
Total shareholder equity		**8,438**	8,153

The consolidated balance sheet above should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2020

	CONTRIBUTED EQUITY US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2020	**7,594**	**(1)**	**(1,335)**	**1,895**	**8,153**	**–**	**8,153**
(Loss) profit after income tax	**–**	**–**	**–**	**(712)**	**(712)**	**2**	**(710)**
Other comprehensive loss	**–**	**–**	**(115)**	**–**	**(115)**	**–**	**(115)**
Total comprehensive (loss) income	**–**	**–**	**(115)**	**(712)**	**(827)**	**2**	**(825)**
Transactions with owners in their capacity as owners							
Shares issued under Employee Share and Option Plan and held in trust	**26**	**(26)**	**–**	**–**	**–**	**–**	**–**
Share-based payment expense	**–**	**–**	**11**	**–**	**11**	**–**	**11**
Shares vested and/or released	**–**	**26**	**(26)**	**–**	**–**	**–**	**–**
Contributions of equity, net of transaction costs	**1,308**	**–**	**–**	**–**	**1,308**	**–**	**1,308**
Net changes in non-controlling interests	**–**	**–**	**2**	**–**	**2**	**–**	**2**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(224)**	**(224)**	**(2)**	**(226)**
Shares issued under Dividend Reinvestment Plan	**16**	**–**	**–**	**–**	**16**	**–**	**16**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**3**	**3**	**–**	**3**
Foreign exchange movement	**(55)**	**–**	**51**	**–**	**(4)**	**–**	**(4)**
As at 30 June 2020	**8,889**	**(1)**	**(1,412)**	**962**	**8,438**	**–**	**8,438**

	CONTRIBUTED EQUITY US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2019	7,830	(7)	(1,363)	1,836	8,296	19	8,315
Profit after income tax	–	–	–	463	463	(1)	462
Other comprehensive income	–	–	33	–	33	–	33
Total comprehensive income	–	–	33	463	496	(1)	495
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	(123)	–	–	–	(123)	–	(123)
Shares acquired and held in trust	–	(50)	–	–	(50)	–	(50)
Share-based payment expense	–	–	22	–	22	–	22
Shares vested and/or released	–	56	(41)	–	15	–	15
Contributions of equity, net of transaction costs and tax	1	–	–	–	1	–	1
Net changes in non-controlling interests	–	–	–	–	–	(4)	(4)
Reclassification on disposal of controlled entities	–	–	8	(8)	–	–	–
Dividends paid on ordinary shares	–	–	–	(266)	(266)	(1)	(267)
Dividend reinvestment under Bonus Share Plan	–	–	–	3	3	–	3
Foreign exchange movement	(26)	–	(2)	–	(28)	–	(28)
As at 30 June 2019	7,682	(1)	(1,343)	2,028	8,366	13	8,379

The consolidated statement of changes in equity above should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2020

	NOTE	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Operating activities			
Premium received		**5,886**	5,853
Reinsurance and other recoveries received		**753**	1,180
Outward reinsurance premium paid		**(1,169)**	(949)
Claims paid		**(3,891)**	(4,207)
Acquisition and other underwriting costs paid		**(1,761)**	(1,835)
Interest received		**224**	245
Dividends received		**45**	55
Other operating payments		**(62)**	(79)
Interest paid		**(111)**	(118)
Income taxes paid		**(36)**	(32)
Net cash flows from operating activities		**(122)**	113
Investing activities			
Net proceeds on sale of growth assets		**177**	237
Net payment for purchase of interest bearing financial assets		**(870)**	(5)
Net proceeds on foreign exchange transactions		**133**	67
Payments for purchase of intangible assets		**(34)**	(34)
Payments for purchase of property, plant and equipment		**(15)**	(15)
Proceeds on sale of property, plant and equipment		**–**	1
Proceeds on disposal of entities and businesses (net of cash disposed)		**–**	83
Net cash flows from investing activities		**(609)**	334
Financing activities			
Proceeds from issue of equity instruments		**1,300**	–
Payments for shares bought on-market and cancelled		**–**	(123)
Purchase of treasury shares		**–**	(50)
Proceeds from settlement of staff share loans		**–**	1
Payments relating to principal element of lease liabilities		**(31)**	(31)
Repayment of borrowings		**–**	(199)
Dividends paid		**(207)**	(250)
Net cash flows from financing activities		**1,062**	(652)
Net movement in cash and cash equivalents		**331**	(205)
Cash and cash equivalents at 1 January		**547**	863
Effect of exchange rate changes		**60**	15
Net cash flows attributable to entities held for sale		**–**	5
Cash and cash equivalents at 30 June		**938**	678

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

Notes to the financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2020

1. OVERVIEW

1.1 Basis of preparation

This general purpose consolidated financial report for the half year ended 30 June 2020 (Half Year Financial Report) has been prepared in accordance with AASB 134 *Interim Financial Reporting* as issued by the Australian Accounting Standards Board, IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board and the *Corporations Act 2001*.

The Half Year Financial Report does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with QBE's Annual Report for the financial year ended 31 December 2019 and any public announcements made by QBE Insurance Group Limited and its controlled entities (QBE or the Group).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

New and amended accounting standards adopted by the Group

The Group adopted the following new or revised accounting standards from 1 January 2020.

TITLE	
Revised Conceptual Framework For Financial Reporting	
AASB 2018-6	*Definition of a Business*
AASB 2018-7	*Definition of Material*
AASB 2019-1	*References to the Conceptual Framework*
AASB 2019-3	*Interest Rate Benchmark Reform*
AASB 2019-5	*Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

The adoption of these new or revised standards did not significantly impact the Group's Half Year Financial Report.

1.2 Critical accounting judgements and estimates

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities. Noted below are the key areas in which critical judgements and estimates are applied and should be considered when reviewing the financial statements for the half year ended 30 June 2020.

1.2.1 COVID-19

COVID-19 was declared a pandemic by the World Health Organisation in March 2020. The virus itself, as well as measures to slow its spread, have had a significant impact on the global economy. QBE has considered a broad range of factors to inform an assessment of the impact of the resulting uncertainty and general market volatility on the consolidated financial statements.

While the critical accounting judgements and estimates did not materially change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the evolving and uncertain impact of COVID-19, we anticipate that there will be changes in market conditions in the future and that the impact of these changes will be accounted for in future reporting periods as they arise and/or are able to be reasonably predicted.

Areas which are potentially significantly impacted by COVID-19 are as follows:

- **Net discounted central estimate:** QBE has recorded net incurred claims of $151 million resulting from COVID-19 impacts in the period to 30 June 2020. Whilst this estimate has been based on a detailed review of the Group's policy exposures, scenario analysis under a variety of macroeconomic outcomes and consideration of the Group's reinsurance protections, significant uncertainty remains around potential claims emergence from credit exposed classes (lenders' mortgage insurance, trade credit and landlords' insurance) given the current levels of government stimulus and credit support from the banking sector. QBE will continue to monitor market developments closely, including the outcome of pending litigation related to policy coverages in certain jurisdictions, to ensure that the net discounted central estimate is reflective of the Group's best estimate of expected future claims. The Group has also considered the impact of changes in key assumptions and variables on the net discounted central estimate disclosed in note 2.3.7 of the consolidated financial statements for the year ended 31 December 2019 and has determined that these remain materially appropriate at the balance date.
- **Risk margin:** The Group aims to maintain a probability of adequacy in the range of 87.5% to 92.5% reflecting the level of uncertainty in the net discounted central estimate. In response to the significantly heightened level of uncertainty created by COVID-19 claims as described above, QBE has increased the risk margin by $115 million which, when combined with the impacts of movements in risk-free rates and foreign exchange rates, resulted in a probability of adequacy at the balance date of 91.2% (2019 90.0%). Refer note 2.3.3.
- **Liability adequacy test:** This assessment is informed by the Group's expectation of future net claims including a risk margin and is therefore subject to the same uncertainties summarised above. Future claims assumptions used in the liability adequacy test have been prepared on a basis that is consistent with the COVID-19 assumptions informing the determination of the net discounted central estimate.

1. OVERVIEW

- **Unlisted investments:** The carrying values of unlisted investments are typically supported by independent valuations obtained by external fund managers. Material uncertainty clauses were included in some unlisted property trust valuations which highlighted the inherent uncertainty in the valuation in the current market conditions and that a higher degree of caution should be applied when using the valuation. Each impacted valuation has been reviewed by the Group and considered appropriate to value the relevant investments at the balance date.

  In light of the material uncertainty clauses and significant reduction in comparable market transactions, investments in unlisted property trusts, which comprise less than 3% of the Group's total investment assets at the balance date, have been reclassified from level 2 to level 3 in the fair value hierarchy (refer note 3.3).
- **North American goodwill impairment testing:** A detailed impairment test has been completed in respect of the carrying value of goodwill in QBE's North American segment given the impact of COVID-19 and prior accident year claims development on the result for the period, and the limited headroom as at 31 December 2019. To address the current heightened levels of uncertainty with respect to the future cash flows, the following changes have been reflected in the impairment test: (i) cash flows have been adjusted with reference to scenario based modelling, taking into account possible impacts of COVID-19 on short to medium term cash flows; (ii) the pre-tax discount rate of 11.1% (2019 10.9%) includes a temporary risk premium adjustment in the cost of equity assumption to reflect the recent volatility in markets and earnings downgrades; (iii) the terminal value growth assumption has been revised down from 2.5% to 2.3% to reflect QBE's current view of long-term growth in the US which is consistent with external benchmarks; and (iv) forecast investment returns have been reassessed, reducing the nearer term returns to align with current market expectations.

  The results of impairment testing at 30 June 2020 and the sensitivity to changes in key assumptions are included in note 1.2.3.
- **US tax group deferred tax asset (DTA) recoverability:** QBE has reassessed the recoverability of this asset in light of the potential impacts of COVID-19. The recoverability assessment has been updated, consistent with the impairment testing completed for the North American cash generating unit and other entities where relevant. Based on the updated assessment, the expected recovery period has increased slightly since 31 December 2019. Refer note 1.2.4.

The Group's COVID-19 financial impact assessment was not limited to the areas identified above. All material components of the balance sheet were considered in detail, as was the effectiveness of QBE's risk management framework in responding to both financial and non-financial risks, with no material issues identified.

1.2.2 Outstanding claims liability

The determination of the amounts that the Group will ultimately pay for claims arising under insurance and inward reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long-tail insurance classes due to the longer period of time that can elapse before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages;
- changing social, political and economic trends, for example price and wage inflation; and
- the impact of COVID-19 as described in note 1.2.1.

The potential impact of changes in key assumptions used in the determination of the central estimate and the probability of adequacy of the outstanding claims liability on the Group's profit or loss is summarised in note 2.3.7 to the consolidated financial statements for the year ended 31 December 2019.

1.2.3 Intangible assets

QBE monitors goodwill and identifiable intangible assets for impairment in accordance with the Group's policy, which is set out in note 7.2 to the consolidated financial statements for the year ended 31 December 2019. At 30 June 2020, QBE has reviewed all intangible assets for indicators of impairment and has completed a detailed impairment test where indicators of impairment were identified.

Based on the detailed impairment test completed in respect of goodwill in QBE's North American segment, the headroom at the balance date decreased to $317 million compared with $596 million at 31 December 2019. The valuation continues to be highly sensitive to a range of assumptions, in particular the terminal value combined operating ratio and investment return assumptions, and the discount rate. The sensitivity of changes in key assumptions is shown in the table below and each change has been calculated in isolation from other changes. In practice, this is considered unlikely to occur due to interrelationships between assumptions.

KEY ASSUMPTION	ASSUMPTION %	SENSITIVITY %	IMPACT OF SENSITIVITY	ASSUMPTION AT WHICH HEADROOM IS NIL
Terminal value combined operating ratio	95.8	+1	Impairment of $55 million	96.7%
	(2019 95.8)	-1	Increase headroom to $689 million	
Terminal value long-term investment return	4.17	+1	Increase headroom to $915 million	3.64%
	(2019 4.17)	-1	Impairment of $281 million	
Post-tax discount rate	9.12	+1	Impairment of $191 million	9.71%
	(2019 8.92)	-1	Increase headroom to $1,002 million	

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2020

1. OVERVIEW

1.2.4 Recoverability of deferred tax assets

A DTA of $415 million (2019 $415 million) has been recognised in relation to the entities included in the US tax group. Uncertainty continues to exist in relation to the utilisation of this DTA and QBE has made a judgement that entities in the US tax group will be able to generate sufficient taxable profits to utilise the DTA balance over the foreseeable future, based on future business plans. Losses expire over the next 20 years, with the majority expiring between 2031 and 2040.

Recovery of the DTA remains sensitive to changes in the forecast combined operating ratio, premium growth and investment yield assumptions as these items are the key drivers of future taxable income.

1.2.5 Liability adequacy test

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

The application of the liability adequacy test at 30 June 2020 did not identify a deficiency (2019 nil).

1.3 Segment information

The Group's operating segments are consistent with the basis on which information is provided to the Group Executive Committee for measuring performance and determining the allocation of capital, being the basis upon which the Group's underwriting products and services are managed within the various markets in which QBE operates.

This note presents the results of continuing operations only. The results of discontinued operations are presented in note 5.2.

Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals except those relating to discontinued operations (refer note 5.2); and financing costs and amortisation of any intangibles which are not allocated to a specific operating segment. It also includes consolidation adjustments and internal reinsurance eliminations.

30 JUNE 2020	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Gross written premium	3,051	3,150	1,829	8,030	(19)	8,011
Gross earned premium revenue – external	2,168	2,490	1,858	6,516	(7)	6,509
Gross earned premium revenue – internal	–	8	–	8	(8)	–
Outward reinsurance premium expense	(526)	(327)	(162)	(1,015)	12	(1,003)
Net earned premium	1,642	2,171	1,696	5,509	(3)	5,506
Net claims expense	(1,417)	(1,580)	(1,154)	(4,151)	(156)	(4,307)
Net commission	(266)	(384)	(256)	(906)	3	(903)
Underwriting and other expenses	(246)	(314)	(255)	(815)	(5)	(820)
Underwriting result	(287)	(107)	31	(363)	(161)	(524)
Net investment (loss) income on policyholders' funds	(5)	(31)	(27)	(63)	3	(60)
Insurance loss	(292)	(138)	4	(426)	(158)	(584)
Net investment (loss) income on shareholders' funds	–	(15)	(21)	(36)	6	(30)
Financing and other costs	(1)	(1)	(2)	(4)	(121)	(125)
Loss on sale of entities and businesses	–	–	–	–	(6)	(6)
Restructuring and related expenses	(2)	(1)	(14)	(17)	(1)	(18)
Share of net loss of associates	–	–	–	–	(2)	(2)
Amortisation and impairment of intangibles	–	–	(1)	(1)	(12)	(13)
Loss before income tax from continuing operations	(295)	(155)	(34)	(484)	(294)	(778)
Income tax credit (expense)	62	33	4	99	(31)	68
Loss after income tax from continuing operations	(233)	(122)	(30)	(385)	(325)	(710)
Net profit from continuing operations attributable to non-controlling interests	–	–	–	–	(2)	(2)
Net loss after income tax from continuing operations attributable to ordinary equity holders of the company	(233)	(122)	(30)	(385)	(327)	(712)

1. OVERVIEW

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

2. UNDERWRITING ACTIVITIES

2.1 Revenue

	NOTE	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Gross earned premium revenue			
Direct and facultative		**5,872**	5,939
Inward reinsurance		**637**	519
		6,509	6,458
Other revenue			
Reinsurance and other recoveries revenue	2.2	**1,298**	621
Reinsurance commission revenue		**178**	152
		7,985	7,231

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2020

2. UNDERWRITING ACTIVITIES

2.2 Net claims expense

	NOTE	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Gross claims and related expenses		**5,605**	4,565
Reinsurance and other recoveries revenue	2.1	**(1,298)**	(621)
Net claims expense		**4,307**	3,944

2.2.1 Prior accident year claims development

Net adverse prior accident year claims development was $108 million in the current period compared with an adverse $176 million (or $112 million excluding the impact of the Ogden rate change in the UK) in the comparative period. The current period movement mainly relates to North America, reflecting adverse development on closed portfolios, allowance for the impact of heightened social inflation and claims development on Hurricane Irma.

2.3 Net outstanding claims liability

	NOTE	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Gross discounted central estimate	2.3.1	**19,578**	18,779
Risk margin	2.3.3	**1,258**	1,136
Gross outstanding claims liability		**20,836**	19,915
Reinsurance and other recoveries on outstanding claims	2.3.2	**(5,553)**	(5,104)
Net outstanding claims liability		**15,283**	14,811

2.3.1 Gross discounted central estimate

	NOTE	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Gross undiscounted central estimate excluding claims settlement costs		**19,440**	19,202
Claims settlement costs		**382**	369
Gross undiscounted central estimate		**19,822**	19,571
Discount to present value		**(244)**	(792)
Gross discounted central estimate	2.3	**19,578**	18,779

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Reinsurance and other recoveries on outstanding claims – undiscounted[1]		**5,620**	5,342
Discount to present value		**(67)**	(238)
Reinsurance and other recoveries on outstanding claims	2.3	**5,553**	5,104

1 Net of a provision for impairment of $20 million (2019 $23 million).

2.3.3 Risk margin

The risk margin included in the net outstanding claims liability is 9.0% (2019 8.3%) of the net discounted central estimate. The probability of adequacy at 30 June 2020 is 91.2% (2019 90.0%) which is well above APRA's 75% benchmark.

The movement in risk margin includes a charge to profit or loss of $138 million partly offset by foreign exchange of $16 million. The risk margin was increased to achieve a higher probability of adequacy of outstanding claims, mainly in response to the uncertainty created by COVID-19. Refer to Note 1.2.1.

Net profit after tax would have increased by $50 million net of tax, at the Group's prima facie income tax rate of 30%, if the probability of adequacy was maintained at 90.0%.

3. INVESTMENT ACTIVITIES

3.1 Investment income

	30 JUNE 2020 US$M	30 JUNE 2019 US$M
Income on fixed interest securities, short-term money and cash[1]	**198**	595
(Loss) income on growth assets[1]	**(261)**	190
Gross investment (loss) income[2]	**(63)**	785
Investment expenses	**(8)**	(9)
Net investment (loss) income	**(71)**	776
Foreign exchange	**(15)**	(14)
Other expenses	**(4)**	(7)
Total investment (loss) income	**(90)**	755
Investment (loss) income – policyholders' funds	**(55)**	463
Investment expenses – policyholders' funds	**(5)**	(6)
Investment (loss) income – shareholders' funds	**(27)**	301
Investment expenses – shareholders' funds	**(3)**	(3)
Total investment (loss) income	**(90)**	755

1 From 1 January 2020, income from emerging market and high yield debt instruments is presented in income on fixed income securities, short-term money and cash, having previously been presented in income on growth assets. Corresponding changes have been made in notes 3.2 and 3.3, and comparative period information has been restated for consistency where relevant throughout the relevant investment notes and in the consolidated statement of cash flows.

2 Includes net fair value losses of $312 million (2019 gains of $482 million), interest income of $203 million (2019 $250 million) and dividend and distribution income of $46 million (2019 $53 million).

3.2 Investment assets

	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Fixed income		
Short-term money	**2,850**	1,066
Government bonds	**4,930**	5,813
Corporate bonds	**13,536**	13,268
Infrastructure debt	**391**	386
Emerging market debt	**–**	554
High yield debt	**–**	401
	21,707	21,488
Growth assets		
Developed market equity	**19**	281
Emerging market equity	**–**	108
Unlisted property trusts	**662**	716
Infrastructure assets	**856**	903
Private equity	**213**	203
Alternatives	**–**	91
	1,750	2,302
Total investments	**23,457**	23,790

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2020

3. INVESTMENT ACTIVITIES

3.3 Fair value hierarchy

The Group's investment assets are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of their fair value.

	30 JUNE 2020				31 DECEMBER 2019			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Fixed income								
Short-term money	**44**	**2,806**	**–**	**2,850**	173	893	–	1,066
Government bonds	**3,330**	**1,600**	**–**	**4,930**	4,086	1,727	–	5,813
Corporate bonds	**–**	**13,532**	**4**	**13,536**	–	13,262	6	13,268
Infrastructure debt	**–**	**119**	**272**	**391**	–	122	264	386
Emerging market debt	**–**	**–**	**–**	**–**	554	–	–	554
High yield debt	**–**	**–**	**–**	**–**	401	–	–	401
	3,374	**18,057**	**276**	**21,707**	5,214	16,004	270	21,488
Growth assets								
Developed market equity	**17**	**–**	**2**	**19**	278	–	3	281
Emerging market equity	**–**	**–**	**–**	**–**	108	–	–	108
Unlisted property trusts	**–**	**–**	**662**	**662**	–	716	–	716
Infrastructure assets	**–**	**–**	**856**	**856**	–	–	903	903
Private equity	**–**	**–**	**213**	**213**	–	–	203	203
Alternatives	**–**	**–**	**–**	**–**	91	–	–	91
	17	**–**	**1,733**	**1,750**	477	716	1,109	2,302
Total investments	**3,391**	**18,057**	**2,009**	**23,457**	5,691	16,720	1,379	23,790

The Group's approach to measuring the fair value of investments is described below:

Short-term money

Cash managed as part of the investment portfolio is categorised as a level 1 fair value measurement. Term deposits are valued at par; other short-term money (bank bills, certificates of deposit, treasury bills and other short term instruments) is priced using interest rates and yield curves observable at commonly quoted intervals.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are categorised as level 1 fair value measurements. Bonds which are not traded in active markets are priced using broker quotes, comparable prices for similar instruments or pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt is priced by external data providers where quoted prices are available or by the external fund manager who may use a combination of observable market prices or comparable prices where available and other valuation techniques. When valuation techniques require the use of significant unobservable inputs, these assets have been classified as level 3.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using QBE's share of the net assets of the entity.

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

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Unlisted property trusts have been reclassified to level 3 at the balance date as a result of the current reduction in the availability of observable inputs caused by a significant reduction in market activity and a corresponding increase in the level of judgement applied in their valuation. The assets are expected to return to level 2 classification as market activity normalises.

Private equity

These assets comprise fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and responsibility for the valuation of the underlying securities lies with the external fund manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. A combination of observable market prices or comparable market prices (where available) and other valuation techniques may be used in the determination of fair value. At 30 June 2020, given the heightened market volatility, the Group obtained an independent valuation of these assets, prepared with reference to other valuation techniques.

Alternatives

These assets comprise investments in exchange-traded commodity products. They are listed, traded in active markets and valued by reference to quoted bid prices.

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3. INVESTMENT ACTIVITIES

Movements in level 3 investments

The following table provides an analysis of investment assets valued with reference to level 3 inputs.

LEVEL 3	30 JUNE 2020 US$M	30 JUNE 2019 US$M
At 1 January	**1,379**	1,374
Purchases	**58**	60
Disposals	**(40)**	(57)
Fair value movement recognised in profit or loss	**(41)**	27
Transfers from level 2[1]	**662**	–
Foreign exchange	**(9)**	(1)
At 30 June	**2,009**	1,403

1 Unlisted property trusts were transferred from level 2 to level 3, as disclosed on page 44 and in note 1.2.1.

4. CAPITAL STRUCTURE

4.1 Borrowings

The Group's borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently remeasured at amortised cost.

FINAL MATURITY DATE	PRINCIPAL AMOUNT	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Senior debt			
25 May 2023	$6 million	**6**	6
		6	6
Subordinated debt			
29 September 2040	A$200 million	**138**	140
24 May 2041	$167 million	**167**	167
24 May 2041	£24 million	**30**	32
24 May 2042	£327 million	**405**	433
24 November 2043	$400 million[1]	**400**	400
2 December 2044	$700 million[1]	**697**	696
12 November 2045	$300 million	**300**	300
17 June 2046	$524 million	**522**	522
		2,659	2,690
Additional Tier 1 instruments			
No fixed date	$400 million[2]	**399**	399
		399	399
Total borrowings		**3,064**	3,095

1 Subordinated debt maturing on 24 November 2043 is hedged to A$689 million (2019 A$577 million) and subordinated debt maturing on 2 December 2044 is hedged to A$1,169 million (2019 A$1,009 million). See note 4.1.2.

2 In July 2020, the terms of these instruments were amended, resulting in their classification as equity. Further information is disclosed in note 6.3.

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2020

4. CAPITAL STRUCTURE

4.1.1 Fair value of borrowings

	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Senior debt	**6**	6
Subordinated debt	**2,869**	2,958
Additional Tier 1 instruments	**394**	412
Total fair value of borrowings	**3,269**	3,376

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

4.1.2 Hedging of borrowings

The Group has hedged foreign currency risk associated with highly probable forecast transactions in relation to $400 million of subordinated notes maturing in November 2043 and $700 million of subordinated notes maturing in December 2044. The hedges were put in place to more effectively manage currency exposures and costs of funding. Foreign currency risk on both future coupons and principal amounts is hedged up to and including the first call dates of the notes, being 2023 and 2024, respectively.

During the current period, previously unrealised gains on the hedging instruments were pre-delivered for cash. This was treated as a discontinuation of the existing hedge and a simultaneous designation of a new hedge, ensuring continual coverage, with related execution costs also being amortised over the period to the first call dates.

4.2 Derivatives

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

	30 JUNE 2020			31 DECEMBER 2019		
	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**2,381**	**257**	**214**	1,865	181	164
Forward foreign exchange contracts used in cash flow hedges	**(1,653)**	**–**	**223**	(1,451)	13	33
Forward foreign exchange contracts used in hedges of net investments in foreign operations	**(466)**	**2**	**1**	(101)	1	3
Interest rate swaps	**138**	**–**	**1**	140	–	2
	400	**259**	**439**	453	195	202

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

4.3 Contributed equity

During the current period, the Group issued capital notes which are classified as equity (see note 4.3.2). These notes, together with share capital, are presented as contributed equity in the consolidated balance sheet.

	NOTE	30 JUNE 2020 US$M	31 DECEMBER 2019 US$M
Issued ordinary shares, fully paid	4.3.1	**8,394**	7,594
Capital notes	4.3.2	**495**	–
Contributed equity		**8,889**	7,594

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4. CAPITAL STRUCTURE

4.3.1 Share capital

	30 JUNE 2020		30 JUNE 2019	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,305**	**7,594**	1,327	7,830
Shares issued on-market net of transaction costs	**157**	**813**	–	–
Shares issued under the Employee Share and Option Plan	**3**	**26**	–	1
Shares issued under Dividend Reinvestment Plan	**3**	**16**	–	–
Shares bought back on-market and cancelled	**–**	**–**	(14)	(123)
Foreign exchange	**–**	**(55)**	–	(26)
Issued ordinary shares, fully paid at 30 June	**1,468**	**8,394**	1,313	7,682
Shares notified to the Australian Securities Exchange	**1,468**	**8,397**	1,314	7,686
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	**–**	**(3)**	(1)	(4)
Issued ordinary shares, fully paid at 30 June	**1,468**	**8,394**	1,313	7,682

4.3.2 Capital notes

In May 2020, the Company issued $500 million ($495 million net of transaction costs) of perpetual capital notes. These notes entitle holders to receive a fixed rate coupon of 5.875% per annum payable semi-annually in arrears until 12 May 2025. The rate will reset in May 2025 and on every fifth anniversary thereafter by reference to a reset rate to be determined at that time plus a margin of 5.513%. Distributions are discretionary and non-cumulative and the notes have no fixed redemption date.

The notes are redeemable at the option of QBE, with the prior written approval of APRA, on each interest reset date or at any time in the event of certain tax or regulatory events. In the event that APRA was to declare a point of non-viability, the notes would be written off.

4.4 Dividends

	2019		2018
	FINAL	INTERIM	FINAL
Dividend per share (Australian cents)	**27**	**25**	28
Franking percentage	**30%**	**60%**	60%
Franked amount per share (Australian cents)	**8.1**	**15.0**	16.8
Dividend payout (A$M)	**352**	**329**	372
Payment date	**9 April 2020**	**4 October 2019**	18 April 2019

On 13 August 2020, the directors declared a 10% franked interim dividend of 4 Australian cents per share, payable on 25 September 2020. The interim dividend payout is A$59 million (2019 A$329 million). The record date is 21 August 2020.

The unfranked part of the dividend is declared to be conduit foreign income. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

4.5 Earnings per share

	30 JUNE 2020	30 JUNE 2019
For (loss) profit after income tax from continuing operations		
(Loss) profit used in calculating basic and diluted earnings per share (US$M)	**(712)**	479
Basic (loss) earnings per share (US cents)	**(51.9)**	36.1
Diluted (loss) earnings per share (US cents)	**(51.9)**	35.9
For (loss) profit after income tax		
(Loss) profit used in calculating basic and diluted earnings per share (US$M)	**(712)**	463
Basic (loss) earnings per share (US cents)	**(51.9)**	34.9
Diluted (loss) earnings per share (US cents)	**(51.9)**	34.7

No distributions were due in the current reporting period in respect of capital notes classified as equity instruments. Distributions paid in respect of such instruments in future will not impact profit or loss, but will reduce earnings used in calculating earnings per share for those periods.

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

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2020

4. CAPITAL STRUCTURE

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

	30 JUNE 2020 NUMBER OF SHARES MILLIONS	30 JUNE 2019 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,371**	1,327
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**–**	(1)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,371**	1,326
Weighted average number of dilutive potential ordinary shares relating to shares issued under the Plan[1]	**–**	8
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,371**	1,334

1 Seven million (2019 nil) potential ordinary shares issued under the Plan were excluded from the calculation because they are antidilutive.

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

5. GROUP STRUCTURE

5.1 Disposals during the period

There were no disposals of entities or businesses during the current reporting period. A closing adjustment of $6 million was recognised in the current period in respect of the prior period disposals, mainly in relation to the disposal of the Group's North American personal lines business which settled in the second half of 2019.

During the prior comparative period, the Group disposed of its operations in Colombia for an aggregate pre-tax loss of $12 million which is presented as part of discontinued operations. The Group also disposed of its insurance operations in Indonesia and the Philippines, the travel business and the wool and livestock-in-transit businesses in Australia, and the Unigard Indemnity entity in North America for an aggregate pre-tax gain of $16 million which is presented as part of continuing operations.

5.2 Discontinued operations

The Group's operations in Latin America were classified as discontinued operations and were disposed of prior to 1 January 2020. Summarised information relating to the results and cash flows from discontinued operations in the prior comparative period are disclosed below.

5.2.1 Profit or loss from discontinued operations

	NOTE	30 JUNE 2019 US$M
Loss before income tax from discontinued operations		(5)
Income tax credit		1
Loss after income tax from discontinued operations		(4)
Net loss on disposals	5.1	(12)
Net loss after income tax from discontinued operations attributable to ordinary equity holders of the company		(16)

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

5.2.2 Cash flows from discontinued operations

	30 JUNE 2019 US$M
Net movement in cash and cash equivalents from discontinued operations	(5)

6. OTHER

6.1 Contingent liabilities

The Group continues to be exposed to contingent liabilities in the ordinary course of business in relation to claims litigation and regulatory examinations arising out of its insurance and reinsurance activities, as well as in relation to the Group's support of the underwriting activities of controlled entities which are corporate members at Lloyd's of London, as described in note 8.2 to the consolidated financial statements for the year ended 31 December 2019. The Group also continues to be exposed to the possibility of contingent liabilities in relation to other litigation, including but not limited to regulatory test cases and class actions, taxation and compliance matters, which may result in legal or regulatory penalties and financial or non-financial losses and other impacts.

6.2 Offsetting financial assets and liabilities

The Group has a $240 million receivable and payable (2019 nil receivable and payable) with a single counterparty which are fully offset in the balance sheet in accordance with Australian Accounting Standards, on the basis that the Group intends to settle these on a net basis and has a legally enforceable right to do so.

6.3 Events after the balance date

On 6 July 2020, QBE announced the sale of its investment in associate in India (Raheja QBE General Insurance Company Limited). The agreed transaction is currently awaiting regulatory approval in India.

On 16 July 2020, the terms of Additional Tier 1 instruments with a principal amount of $400 million were amended such that the notes are written off at a point of non-viability, as determined by APRA, with no possibility of conversion into ordinary shares of QBE. The amended instruments will be classified as equity, with the existing liability derecognised.

On 13 August 2020, QBE declared an interim dividend, further information on which is disclosed in note 4.4.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 34 to 49 are in accordance with the *Corporations Act 2001*, including:

 (i) complying with accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

 (ii) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer recommended under the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Signed in SYDNEY on 13 August 2020 in accordance with a resolution of the directors.

Michael Wilkins **Director**	Patrick Regan **Director**

Independent auditor's review report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

pwc

Report on the Half Year Financial Report

We have reviewed the accompanying Half Year Financial Report of QBE Insurance Group Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for QBE Insurance Group Limited (the Group). The Group comprises the Company and the entities it controlled during that half year.

Directors' responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the Half Year Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the Half Year Financial Report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Half Year Financial Report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half Year Financial Report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of QBE Insurance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the Annual Financial Report.

A review of a Half Year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half Year Financial Report of QBE Insurance Group Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Sydney
13 August 2020

Liability limited by a scheme approved under Professional Standards Legislation

Historical review

FOR THE HALF YEAR ENDED 30 JUNE 2020

		HALF YEAR ENDED 30 JUNE					YEAR ENDED 31 DECEMBER				
		2020	2019[1]	2018[1]	2017[1]	2016	2019[1]	2018[1]	2017[1]	2016	2015
Profit or loss information											
Gross written premium	US$M	**8,011**	7,637	7,887	7,590	8,107	13,442	13,657	13,328	14,395	15,092
Gross earned premium	US$M	**6,509**	6,458	6,697	6,547	6,876	13,257	13,601	13,611	14,276	14,922
Net earned premium	US$M	**5,506**	5,671	5,647	5,696	5,615	11,609	11,640	11,351	11,066	12,314
Claims ratio	%	**78.2**	69.5	63.1	65.4	64.8	69.8	63.6	71.5	58.2	60.4
Commission ratio	%	**16.4**	16.1	16.8	16.5	17.7	15.6	16.9	17.1	18.4	17.2
Expense ratio	%	**14.9**	14.8	15.5	14.9	16.5	14.6	15.4	15.9	17.4	17.3
Combined operating ratio	%	**109.5**	100.4	95.4	96.8	99.0	100.0	95.9	104.5	94.0	94.9
Investment income											
before fair value gains/losses	US$M	**225**	279	323	269	291	555	690	576	641	541
after fair value gains/losses	US$M	**(90)**	755	287	424	437	1,036	547	758	746	665
Insurance (loss) profit	US$M	**(584)**	433	450	417	326	647	826	(60)	1,075	1,031
Insurance (loss) profit to net earned premium	%	**(10.6)**	7.6	8.0	7.3	5.8	5.6	7.1	(0.5)	9.7	8.4
Financing and other costs	US$M	**125**	129	135	164	125	257	305	302	294	244
Operating (loss) profit											
before income tax	US$M	**(778)**	570	394	428	347	672	627	(793)	1,072	953
after income tax and non-controlling interest	US$M	**(712)**	479	370	355	265	571	567	(1,212)	844	687
Balance sheet and share information											
Number of shares on issue[2]	millions	**1,468**	1,313	1,348	1,371	1,370	1,305	1,327	1,358	1,370	1,370
Shareholders' funds	US$M	**8,438**	8,366	8,695	10,668	10,325	8,153	8,381	8,859	10,284	10,505
Total assets	US$M	**43,167**	41,193	42,417	45,993	43,273	40,035	39,582	43,862	41,583	42,176
Net tangible assets per share[2]	US$	**3.88**	4.27	4.30	5.09	4.96	4.11	4.22	4.29	4.90	5.07
Borrowings to shareholders' funds	%	**36.3**	36.8	36.9	32.8	33.7	38.0	38.0	40.8	33.8	33.6
Basic (loss) earnings per share[2]	US cents	**(51.9)**	34.9	26.4	25.1	19.3	41.8	29.0	(91.5)	61.6	50.3
Basic (loss) earnings per share – cash basis[3]	US cents	**(49.7)**	39.2	28.5	27.2	20.9	48.4	53.1	(18.9)	65.5	65.3
Diluted (loss) earnings per share	US cents	**(51.9)**	34.7	26.3	25.0	19.2	41.5	28.6	(91.5)	60.8	49.8
Return on average shareholders' funds	%	**(17.2)**	11.1	8.2	6.6	5.1	6.7	4.5	(13.0)	8.1	6.4
Dividend per share	Australian cents	**4**	25	22	22	21	52	50	26	54	50
Dividend payout	A$M	**59**	329	297	302	288	681	669	356	741	685
Total investments and cash[4]	US$M	**24,432**	23,094	23,280	25,665	25,741	24,374	22,887	26,141	25,235	26,708

1 Profit or loss information for 2017 to 2019 excludes the results of discontinued operations.

2 Reflects shares on an accounting basis.

3 Calculated with reference to cash profit, being profit after tax adjusted for amortisation and impairment of intangibles and other non-cash items net of tax.

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

Designed and produced by ArmstrongQ

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