Enabling a more resilient future

QBE

2023 Half Year Report

QBE INSURANCE GROUP LIMITED

About this report

This is the Half Year Report for QBE Insurance Group Limited (and its controlled entities) for the half year ended 30 June 2023. It should be read in conjunction with the 2022 Annual Report.

This report includes a review of QBE's half year financial performance and outlook for the year, along with the financial statements, which have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards. Detailed information on the basis of preparation of the financial statements is provided on page 16.

Definitions of key performance metrics in section 2 are provided in the glossary on pages 35 and 36. Key metrics disclosed on a statutory basis are derived from unadjusted components of financial statement line items. Financial information prepared on a management basis in section 2 has not been audited or reviewed by QBE's external auditor.

Unless otherwise stated, references in this report to 'QBE', 'the Group', 'we', 'us' and 'our' refer to QBE Insurance Group Limited (and its controlled entities). References to 'the Company' refer to QBE Insurance Group Limited, the ultimate parent entity. Any references in this report to a 'half year' refer to the six months ended 30 June.

All dollar figures are expressed in US dollars unless otherwise stated.

2023 Half Year reporting suite

2022 Annual Report

QBE's Annual Report for the year ended 31 December 2022, containing the directors' report, operating and financial review, information on our governance practices and financial statements.

2023 Half Year Report

QBE's regulatory compliance document containing the directors' report, review of operations and financial statements for the half year ended 30 June 2023 prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards.

This report should be read in conjunction with the 2022 Annual Report.

2023 Half Year Investor Report

A deep dive into our strategic and financial performance for the half year ended 30 June 2023. Financial information in the Investor Report has not been audited or reviewed by QBE's external auditor.

Table of contents

2023 HALF YEAR REPORT

SECTION 1

Directors' Report

Directors' Report 2
Auditor's independence declaration 3

SECTION 2

Half year in review

Summary financial performance 4
Underwriting performance 5
Investment performance 7
Balance sheet and capital management 7
Statutory to management result reconciliation 8

SECTION 3

Financial Report

Financial statements 11
Notes to the financial statements 16
Directors' declaration 33
Independent auditor's review report 34

SECTION 4

Other information

Glossary 35

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Directors' Report

FOR THE HALF YEAR ENDED 30 JUNE 2023

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 2023.

Directors

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

Yasmin Allen AM
Andrew Horton
Tan Le
Kathryn Lisson
Sir Brian Pomeroy
Jann Skinner
Eric Smith (until 10 March 2023)
Rolf Tolle
Michael Wilkins AO (Chair)

Review of operations

Information on the Group's performance and outlook is set out in the half year in review section on pages 4 to 9 of this Half Year Report.

Dividends

The directors are announcing an interim dividend of 14 Australian cents per share for the half year ended 30 June 2023 (2022 9 Australian cents per share). The interim dividend will be 10% franked (2022 10%). The total interim dividend payout is A$209 million (2022 A$133 million).

Events after balance date

Other than the declaration of the interim dividend, no matter or circumstance has arisen since 30 June 2023 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.

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 3.

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 10 August 2023 in accordance with a resolution of the directors.

Michael Wilkins AO
Director

Andrew Horton
Director

Auditor's independence declaration

FOR THE HALF YEAR ENDED 30 JUNE 2023

As lead auditor for the review of QBE Insurance Group Limited for the half year ended 30 June 2023, 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
10 August 2023

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Half year **in review**

QBE reported a statutory profit after tax attributable to ordinary equity holders of the Company of $400 million for the half year ended 30 June 2023 compared with $48 million for the prior period.

Summary financial performance

		MANAGEMENT		STATUTORY	
FOR THE HALF YEAR ENDED 30 JUNE		2023	RESTATED 2022	2023	RESTATED 2022
Insurance revenue	US$M	**9,911**	8,942	**9,921**	8,955
Reinsurance expenses	US$M	**(1,934)**	(1,614)	**(2,278)**	(1,691)
Insurance service result	US$M	**197**	436	**479**	507
Insurance operating result	US$M	**95**	375	**377**	386
Net investment income (loss)	US$M	**461**	(874)	**461**	(874)
Income tax expense	US$M	**(180)**	(10)	**(180)**	(10)
Profit after income tax attributable to ordinary equity holders	US$M	**400**	48	**400**	48
Key metrics					
Gross written premium	US$M	**12,803**	11,576	**12,803**	11,576
Net claims ratio	%	**69.0**	65.5	**63.6**	63.6
Net commission ratio	%	**18.1**	17.7	**19.2**	18.5
Expense ratio	%	**11.7**	11.7	**12.2**	12.6
Combined operating ratio	%	**98.8**	94.9	**95.0**	94.7

Unless otherwise stated, discussion of performance in this section of the report is on a management basis which is consistent with how performance is assessed internally. The management basis reflects adjustments to the statutory result to provide greater transparency over the underlying drivers of the Group's performance. A reconciliation between the management basis and the statutory result is provided on page 8.

Catastrophe costs resulted in a disappointing underwriting result in the period, and serve to reinforce our focus on reducing volatility, and building greater resilience. Underwriting profitability was challenged by both current and prior year catastrophe costs. The combined operating ratio deteriorated to 98.8% from 94.9% in the prior period, which includes a 1.2% impact from the upfront cost of the $1,889 million reserve transaction announced in February 2023.

Interest rates continued to increase over the period, as central banks have struggled to contain core inflation. Total investment income for the half, excluding fixed income losses from changes in risk-free rates, was $662 million or a return of 2.4%, compared with a loss of $20 million or (0.1)% in the prior period. During the period, there was an adverse impact from asset liability management activities of around $30 million, which represents the net impact from changes in risk-free rates on the balance sheet.

QBE's balance sheet remains soundly positioned. The indicative APRA PCA multiple increased to 1.80x from 1.79x at 31 December 2022, and remains at the upper end of our 1.6–1.8x target range. Capital released from the $1,889 million reserve transaction added around 6 basis points to the PCA multiple.

QBE adopted AASB 17 *Insurance Contracts* from 1 January 2023. The new standard is applied retrospectively, resulting in restatement of the comparative period. The impacts of adoption are detailed in note 1.1 of the consolidated financial statements on page 17. Definitions of key metrics, including how they are calculated, are provided in the glossary on pages 35 and 36. As a result of changes to the presentation of insurance line items introduced by AASB 17, the key metrics used by QBE to manage and assess underwriting performance are derived from components that are no longer separately presented in the financial statements. An analysis of the insurance operating result by these components is provided on page 9.

Outlook

During the second half of 2023, our focus will continue to centre around initiatives to build resilience, with an emphasis on achieving an appropriate risk-adjusted return on capital in North America. We have strong enterprise-wide alignment around sound plans and strategies. It's pleasing to see foundational work on our strategic priorities driving business improvement, and greater engagement across our people.

The operating backdrop is expected to remain favourable, where premium rates should remain supportive. 2023 catastrophe experience is another reminder of the need for discipline across the industry to be sustained.

Underwriting performance

Unless otherwise stated, discussion of performance is on a management basis. A reconciliation to the equivalent statutory result is provided on page 8.

Net insurance revenue

Gross written premium

Gross written premium increased 11% on a headline basis to $12,803 million from $11,576 million in the prior period. On a constant currency basis, gross written premium increased 13% reflecting continued rate increases and organic growth. Excluding Crop, gross written premium growth was 14% on the same basis. The Group achieved an average renewal premium rate increase of 10.2% compared with 8.1% in the prior period, driven by a re-acceleration in property classes. Premium rate changes exclude North America Crop and Australian compulsory third party motor (CTP).

Reinsurance expenses

Reinsurance expense increased 20% to $1,934 million from $1,614 million in the prior period. Much of the increase relates to Crop, where the majority of growth in this portfolio was ceded to the Federal reinsurance scheme, in an effort to manage Crop net retention and earnings volatility. Reinsurance expense also included a charge of $98 million, representing the upfront cost of the $1,889 million reserve transaction announced in February 2023.

Net insurance revenue

Group net insurance revenue increased 12% on a constant currency basis, broadly in line with growth in gross written premium on the same basis. The upfront cost associated with the aforementioned reserve transaction was incurred in our North America and International business segments.

Net claims

The net claims ratio increased to 69.0% from 65.5% in the prior period. Elevated catastrophe costs had a material impact on both the current and prior year, where a higher frequency and severity of secondary perils was observed in a number of regions. While premium rate increases have remained supportive, elevated short-tail inflation and the changing nature of property catastrophe risk continue to result in a challenging operating backdrop.

The ex-cat claims ratio decreased to 60.6% from 61.6% in the prior period. The result included strain from current year risk adjustment of $316 million, which reduced from $348 million in the prior period. Excluding risk adjustment, the ex-cat claims ratio reduced to 56.6% from 56.9% in the prior period. Inflation preparedness and management remained a primary focus over the period. Across most lines, rate increases remained at or above observed inflation. The industry continues to exhibit good discipline in response to inflationary challenges, alongside other economic, geopolitical and climate-related sources of uncertainty. Inflation observations continue to be most clear and acute across short-tail property and motor classes. While evidence of higher claims inflation across many longer tail classes is limited, QBE remains attuned to the potential for lags and persistency of inflation in these lines, alongside the risks posed by social inflation.

The net cost of catastrophe claims increased to $699 million or 8.7% of net insurance revenue, which compares to the first half allowance of $535 million, and catastrophe costs of 6.2% in the prior period. Natural catastrophe costs in the period were underscored by Cyclone Gabrielle and the North Island flooding events in New Zealand, a particularly large number of North American convective storm events, a series of storm and flood events in Australia and reinsurance claims associated with the Turkey earthquake.

QBE strengthened the central estimate by $177 million due to adverse development on a number of 2022 catastrophe events, principally reflecting winter storm Elliott in North America and flood events in Australia. This reserve strengthening was more than offset by favourable development of $207 million related to the unwind of risk adjustment from prior accident years, a decrease from $221 million in the prior period. This resulted in favourable prior accident year claims development of $30 million or 0.3% of net insurance revenue, decreasing from $169 million or 2.3% in the prior period.

Commission and expenses

The net commission ratio increased to 18.1% from 17.7% in the prior period, primarily due to business mix changes, where the impact from quota share reinsurance ceding commissions is now recorded within reinsurance income under AASB 17.

The Group's expense ratio was unchanged at 11.7%. This reflected constant currency expense growth of 13%, alongside the continued benefit from positive operating leverage. Expense growth included the impact of two Group salary increases, where an out of cycle increase was provided in July 2022 to reflect rising cost of living pressure, in addition to a 2023 increase as part of QBE's usual annual cycle.

Tax

QBE's effective statutory tax rate was 30.8% compared with 16.4% in the prior period. The effective tax rate reflects the mix of corporate tax rates across QBE's key regions, including the statutory loss in North America, alongside a small recognition of deferred tax assets. During the period, QBE paid $74 million in corporate income tax globally, with no payments in the Australian tax group due to tax loss utilisation from prior periods. The balance of the franking account stood at A$46 million as at 30 June 2023. Having regard to QBE's franked AT1 distribution commitments and carry over tax losses, the dividend franking percentage is expected to remain around 10%.

Divisional underwriting performance

Key metrics are defined in the glossary on pages 35 and 36. Key metrics disclosed on a statutory basis are derived from unadjusted components of financial statement line items.

North America

Gross written premium increased by 6% to $4,967 million, reflecting strong premium rate increases and targeted growth, partially offset by the impact of terminated programs and other non-core lines. Excluding Crop, gross written premium declined by 1%. North America reported a combined operating ratio of 106.9%, which compares to 95.9% in the prior period. Catastrophe costs were 9.3% of net insurance revenue, up from 2.8% in the prior period due to a high frequency and severity of convective storm and flood events over the half year. The result also included prior year reserve strengthening of 3.9% which reflected adverse development for winter storm Elliott and Crop, and compared to 3.6% favourable in the prior period. The combined commission and expense ratio improved to 29.7% from 30.5% in the prior period where favourable business mix and operating leverage more than offset investment initiatives.

		MANAGEMENT[1]		STATUTORY	
FOR THE HALF YEAR ENDED 30 JUNE		2023	RESTATED 2022	2023	RESTATED 2022
Key underwriting metrics					
Gross written premium	US$M	**4,967**	4,708	**4,967**	4,708
Net insurance revenue	US$M	**2,285**	2,170	**2,148**	2,037
Net claims ratio	%	**77.2**	65.4	**71.0**	63.1
Net commission ratio	%	**20.5**	20.7	**21.9**	22.0
Expense ratio	%	**9.2**	9.8	**9.8**	10.4
Combined operating ratio	%	**106.9**	**95.9**	**102.7**	95.5

1 Adjusted for subsequent impacts of in-force reinsurance loss portfolio transfer transactions (LPT), underlying prior accident year development (PYD) adjustments relating to Crop and the inclusion of unwind of discount on claims.

International

Gross written premium increased by 18% in constant currency to $5,072 million, reflecting an acceleration in rate increases for property and reinsurance lines, and organic growth across a number of multi-year opportunities. International reported a combined operating ratio of 93.2%, which compares to 95.4% in the prior period. Favourable prior year development of 0.9% was meaningfully improved compared to adverse of 0.8% in the prior period, which included an unfavourable COVID-19 business interruption court ruling. The combined commission and expense ratio increased to 30.0% from 29.1% in the prior period. While operating leverage supported further improvement in the expense ratio, the commission ratio increased due to mix.

		MANAGEMENT[1]		STATUTORY	
FOR THE HALF YEAR ENDED 30 JUNE		2023	RESTATED 2022	2023	RESTATED 2022
Key underwriting metrics					
Gross written premium	US$M	**5,072**	4,367	**5,072**	4,367
Net insurance revenue	US$M	**3,278**	2,890	**3,088**	2,902
Net claims ratio	%	**63.2**	66.3	**56.9**	66.1
Net commission ratio	%	**17.9**	16.8	**19.0**	16.8
Expense ratio	%	**12.1**	12.3	**12.8**	12.2
Combined operating ratio	%	**93.2**	95.4	**88.7**	95.1

1 Adjusted for subsequent impacts of in-force reinsurance LPT, underlying PYD adjustments relating to premium and periodic payment order (PPO) liabilities and the inclusion of unwind of discount on claims.

Australia Pacific

Gross written premium increased 18% on a constant currency basis to $2,771 million, reflecting supportive premium rate increases and selective growth. Australia Pacific reported a combined operating ratio of 98.9%, which compares to 92.9% in the prior period. Catastrophe costs were 11.8% of net insurance revenue, up from 9.6% in the prior period due to Cyclone Gabrielle and the North Island flooding events in New Zealand, and a series of storm and flood events in Australia. The combined commission and expense ratio increased by 0.6% to 29.1% largely due to an increase in the expense ratio, reflecting investment to support a number of modernisation projects.

		MANAGEMENT[1]		STATUTORY	
FOR THE HALF YEAR ENDED 30 JUNE		2023	RESTATED 2022	2023	RESTATED 2022
Key underwriting metrics					
Gross written premium	US$M	**2,771**	2,503	**2,771**	2,503
Net insurance revenue	US$M	**2,393**	2,255	**2,397**	2,313
Net claims ratio	%	**69.8**	64.4	**66.0**	61.0
Net commission ratio	%	**15.6**	15.7	**16.8**	17.3
Expense ratio	%	**13.5**	12.8	**13.4**	15.0
Combined operating ratio	%	**98.9**	92.9	**96.2**	93.3

1 Adjusted for the subsequent impacts of CTP LPT, underlying PYD adjustment related to CTP, Australian pricing promise review (APPR) and the inclusion of unwind of discount on claims.

Investment performance

Total investment income, excluding any fixed income losses from changes in risk-free rates, was $662 million for the period, which equated to a return of 2.4%. The result improved substantially from a loss of $20 million or (0.1)% in the prior period due to higher risk free rates since the beginning of 2023, and the mark to market benefit from slightly tighter credit spreads in the half year. As core inflation has proved more persistent than expected, aggressive action from global central banks has resulted in further improvement in fixed income returns, while risk asset returns were broadly in line with our long term target return.

Core fixed income includes cash and cash equivalents, and excludes enhanced fixed income risk assets which comprise emerging market debt, high yield debt and private credit. Enhanced fixed income risk assets are analysed as part of risk assets. The core fixed income portfolio delivered a return of 2.3% or $583 million, a significant increase on $6 million in the prior period. The result included a modest benefit from tighter credit spreads of $52 million, compared to an adverse impact of $208 million in the prior period.

The running yield for the core fixed income portfolio continued to trend higher through the period, with the 30 June 2023 exit running yield of 4.9% around 80 basis points higher than at 31 December 2022.

Risk asset performance improved meaningfully compared to the prior period. The portfolio delivered a return of 2.7% or $87 million compared to a loss of (0.4)% in the prior period, and was broadly in line with our long term target return for the portfolio. During the period, equities, enhanced fixed income and infrastructure assets delivered strong returns which helped to offset negative performance in the unlisted property portfolio due to lower property valuations.

Funds under management

Funds under management comprise cash and cash equivalents, investments and investment properties. Funds under management of $27,426 million declined by 3% compared to $28,167 million at 31 December 2022, or 1% on a constant currency basis. Strong investment returns, further premium growth and the issuance of additional Tier 2 notes in June were offset by the material reduction in investment assets associated with the $1,889 million reserve transaction announced in February 2023.

Portfolio mix continued to evolve over the half. The allocation to risk assets increased during the period to 13%, from 11%, with the core fixed income portfolio now representing 87% of total investments. QBE expects risk asset allocation will continue to trend higher in the near term, in line with the target strategic asset allocation of 15%.

Balance sheet and capital management

Net outstanding claims

Net outstanding claims comprise claims reserves within the net liability for incurred claims net of recoveries on reinsurance loss portfolio transfers. At 30 June 2023, the net discounted central estimate was $15,885 million, which decreased from $16,141 million at 31 December 2022 due to the impact of the undiscounted $1,889 million reserve transaction and higher interest rates, partially offset by further organic growth, catastrophe reserve strengthening and Crop seasonality. At 30 June 2023, the risk adjustment was $1,271 million or 8.0% of the net discounted central estimate, consistent with 31 December 2022, and at the top end of our 6–8% target range.

Borrowings

At 30 June 2023, total borrowings were $2,959 million, an increase of $215 million from $2,744 million at 31 December 2022. The increase primarily reflects the issuance of A$300 million of subordinated floating Tier 2 notes in June 2023. The notes are capital qualifying under APRA's capital adequacy framework. Gross interest expense on borrowings for the half year was $83 million, a decrease from $87 million in the prior period. The average annualised cash cost of borrowings at 30 June 2023 was 6.0%, an increase from 5.8% at 31 December 2022.

Capital

QBE's indicative PCA multiple improved to 1.80x at 30 June 2023 from 1.79x at 31 December 2022. The result was driven by a 6 basis point reduction in the insurance risk charge associated with the $1,889 million reserve transaction, in addition to the generation of new qualifying capital following the issuance of capital qualifying Tier 2 subordinated notes in June 2023. These items more than offset the capital absorbed through ongoing premium growth, further deployment toward our long term investment portfolio strategic asset allocation, and the payment of the 2022 final dividend.

Balance sheet and share information

		STATUTORY	
AS AT		30 JUNE 2023	RESTATED 31 DECEMBER 2022
Net assets	US$M	**9,008**	8,857
Less: intangible assets	US$M	**2,019**	2,018
Net tangible assets	US$M	**6,989**	6,839
Number of shares on issue	millions	**1,492**	1,485
Net tangible assets per share	US$	**4.68**	4.61

Statutory to management result reconciliation

	STATUTORY	ADJUSTMENTS					MANAGEMENT
		DISCOUNT UNWIND	UNDERLYING PYD	LPT	INVESTMENT RFR	APPR	
FOR THE HALF YEAR ENDED 30 JUNE 2023	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Insurance revenue	**9,921**	**–**	**(10)**	**–**	**–**	**–**	**9,911**
Insurance service expenses [1]	**(8,978)**	**(416)**	**10**	**–**	**–**	**–**	**(9,384)**
Reinsurance expenses	**(2,278)**	**–**	**–**	**344**	**–**	**–**	**(1,934)**
Reinsurance income [1]	**1,814**	**134**	**–**	**(344)**	**–**	**–**	**1,604**
Insurance service result	**479**	**(282)**	**–**	**–**	**–**	**–**	**197**
Other expenses [1]	**(126)**	**–**	**–**	**–**	**–**	**–**	**(126)**
Other income [1]	**24**	**–**	**–**	**–**	**–**	**–**	**24**
Insurance operating result	**377**	**(282)**	**–**	**–**	**–**	**–**	**95**
Net insurance finance (expense) income	**(133)**	**282**	**–**	**–**	**–**	**–**	**149**
Fixed income losses from changes in risk-free rates		**–**	**–**	**–**	**(201)**	**–**	**(201)**
Net investment income on policyholders' funds	**301**	**–**	**–**	**–**	**131**	**–**	**432**
Insurance profit	**545**	**–**	**–**	**–**	**(70)**	**–**	**475**
Net investment income on shareholders' funds	**160**	**–**	**–**	**–**	**70**	**–**	**230**
Financing and other costs	**(112)**	**–**	**–**	**–**	**–**	**–**	**(112)**
Share of net loss of associates	**(1)**	**–**	**–**	**–**	**–**	**–**	**(1)**
Restructuring and related expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation and impairment of intangibles	**(8)**	**–**	**–**	**–**	**–**	**–**	**(8)**
Profit before income tax	**584**	**–**	**–**	**–**	**–**	**–**	**584**
Income tax expense	**(180)**						**(180)**
Profit after income tax	**404**						**404**
Non-controlling interests	**(4)**						**(4)**
Net profit after income tax	**400**						**400**

	STATUTORY	ADJUSTMENTS					MANAGEMENT
		DISCOUNT UNWIND	UNDERLYING PYD	LPT	INVESTMENT RFR	APPR	
FOR THE HALF YEAR ENDED 30 JUNE 2022 (RESTATED) [2]	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Insurance revenue	8,955	–	(13)	–	–	–	8,942
Insurance service expenses [1]	(8,942)	(220)	(6)	–	–	–	(9,168)
Reinsurance expenses	(1,691)	–	19	58	–	–	(1,614)
Reinsurance income [1]	2,185	149	–	(58)	–	–	2,276
Insurance service result	507	(71)	–	–	–	–	436
Other expenses [1]	(179)	–	–	–	–	60	(119)
Other income [1]	58	–	–	–	–	–	58
Insurance operating result	386	(71)	–	–	–	60	375
Net insurance finance income	713	71	–	–	–	–	784
Fixed income losses from changes in risk-free rates		–	–	–	(854)	–	(854)
Net investment loss on policyholders' funds	(581)	–	–	–	568	–	(13)
Insurance profit	518	–	–	–	(286)	60	292
Net investment loss on shareholders' funds	(293)	–	–	–	286	–	(7)
Financing and other costs	(135)	–	–	–	–	15	(120)
Gain on sale of entities and businesses	36	–	–	–	–	–	36
Share of net loss of associates	(3)	–	–	–	–	–	(3)
Remediation		–	–	–	–	(75)	(75)
Restructuring and related expenses	(54)	–	–	–	–	–	(54)
Amortisation and impairment of intangibles	(8)	–	–	–	–	–	(8)
Profit before income tax	61	–	–	–	–	–	61
Income tax expense	(10)						(10)
Profit after income tax	51						51
Non-controlling interests	(3)						(3)
Net profit after income tax	48						48

1 Further analysed as net claims expense, net commission and expenses and other income in the management discussion as shown in the table on the next page.

2 2022 has been restated to reflect the application of AASB 17 *Insurance Contracts*.

Analysis of the insurance operating result

The insurance operating result is further analysed as net insurance revenue, net claims, net commission and expenses and other income for the purposes of explaining the key drivers of the Group's operating result and calculating key metrics. Analysis of the nature of income and expenses within the insurance operating result provides useful additional information about underlying trends in relation to the different components of underwriting profitability.

FOR THE HALF YEAR ENDED 30 JUNE	NET INSURANCE REVENUE 2023 US$M	NET INSURANCE REVENUE RESTATED 2022 US$M	NET CLAIMS EXPENSE 2023 US$M	NET CLAIMS EXPENSE RESTATED 2022 US$M	NET COMMISSION 2023 US$M	NET COMMISSION RESTATED 2022 US$M	EXPENSES AND OTHER INCOME 2023 US$M	EXPENSES AND OTHER INCOME RESTATED 2022 US$M	TOTAL 2023 US$M	TOTAL RESTATED 2022 US$M
Statutory										
Insurance revenue	**9,921**	8,955	**–**	–	**–**	–	**–**	–	**9,921**	8,955
Insurance service expenses	**–**	–	**(6,744)**	(6,920)	**(1,401)**	(1,225)	**(833)**	(797)	**(8,978)**	(8,942)
Reinsurance expenses	**(2,278)**	(1,691)	**–**	–	**–**	–	**–**	–	**(2,278)**	(1,691)
Reinsurance income	**–**	–	**1,884**	2,300	**(70)**	(115)	**–**	–	**1,814**	2,185
Insurance service result	**7,643**	7,264	**(4,860)**	(4,620)	**(1,471)**	(1,340)	**(833)**	(797)	**479**	507
Other expenses	**–**	–	**–**	–	**–**	–	**(126)**	(179)	**(126)**	(179)
Other income	**–**	–	**–**	–	**–**	–	**24**	58	**24**	58
Insurance operating result	**7,643**	7,264	**(4,860)**	(4,620)	**(1,471)**	(1,340)	**(935)**	(918)	**377**	386
Adjustments										
Discount unwind	**–**	–	**(282)**	(71)	**–**	–	**–**	–	**(282)**	(71)
Underlying PYD	**(10)**	6	**13**	8	**(3)**	(14)	**–**	–	**–**	–
LPT	**344**	58	**(376)**	(116)	**32**	58	**–**	–	**–**	–
APPR	**–**	–	**–**	–	**–**	–	**–**	60	**–**	60
Management basis	**7,977**	7,328	**(5,505)**	(4,799)	**(1,442)**	(1,296)	**(935)**	(858)	**95**	375

Adjustments

The statutory result has been adjusted for the following items when discussing the result to provide greater transparency over the underlying drivers of performance.

Discount unwind

The subsequent unwind of claims discount within net insurance finance income is analysed as part of the net claims expense component of the insurance operating result as these are associated with claims and directly relate to the impact of initial discounting of claims reported within insurance service expenses.

Underlying prior year development (PYD)

Underlying prior accident year claims development within net claims expense amounting to $13 million (2022 $8 million) has been reclassified to net insurance revenue and net commission. In the current period, this principally related to Crop (North America) for additional premium cessions to the US government on prior year claims under the MPCI scheme, CTP within Australia Pacific for profit commission income arising from favourable development under the 2021 reinsurance loss portfolio transfer and periodic payment order (PPO) liabilities within International to reflect their annuity characteristics.

Reinsurance loss portfolio transfer transactions (LPT)

The subsequent impacts of in-force reinsurance loss portfolio transfer contracts within reinsurance expenses and reinsurance income are analysed on a net basis within net claims expense to provide a view of the underlying development on these contracts against the corresponding development of the subject gross reserves, consistent with the focus on net underwriting performance. The current period adjustments include amounts related to the reinsurance of North American E&S reserves entered into in 2022 ($80 million; 2022 $36 million), other reinsurance loss portfolio transfer contracts in North America entered into in prior periods ($31 million; 2022 $19 million) and the current period transaction to reinsure reserves in North America and International ($219 million).

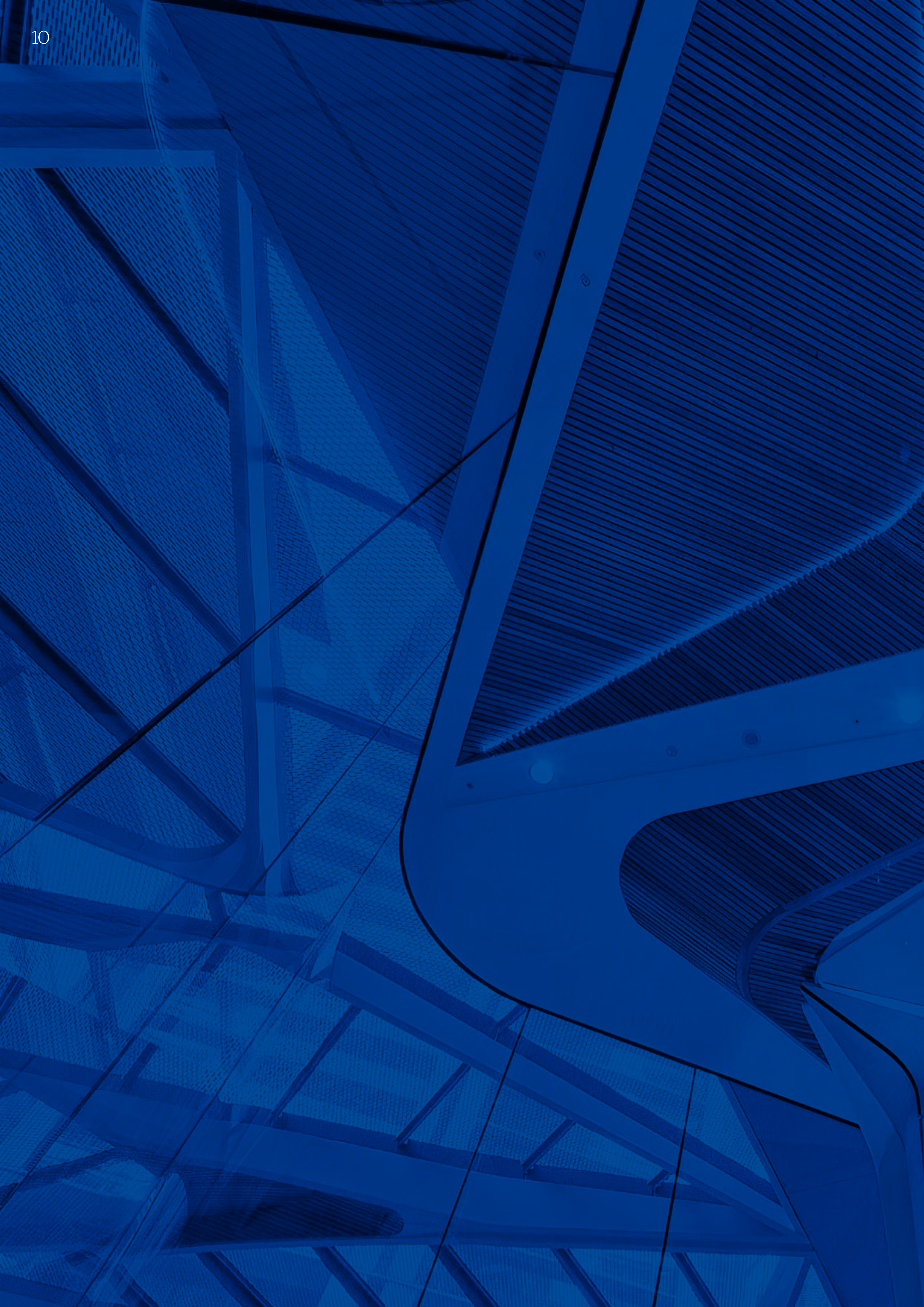
Australian pricing promise review (APPR)

In 2022, the Group recognised a $75 million net cost (before tax) following a review of pricing promises across a range of retail products which identified instances where the policy pricing promise was not fully delivered. The net cost comprises amounts for customer remediation, interest payable and other costs associated with administering the program. There has been no material change to this estimate during the current period.

Investment risk-free rate (RFR) impacts

Net investment income (loss) is analysed separately between risk-free rate movement impacts on fixed income assets, and remaining income (loss). This enables analysis of these risk-free rate movement impacts alongside the corresponding offsetting impacts on net insurance liabilities within insurance finance income.

1 Directors' Report
2 Half year in review
3 Financial Report
4 Other information



Financial Report contents

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income 12
Consolidated balance sheet 13
Consolidated statement of changes in equity 14
Consolidated statement of cash flows 15

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW 16

1.1 Basis of preparation 16
1.2 Critical accounting judgements and estimates 18
1.3 Segment information 21

2. UNDERWRITING ACTIVITIES 23

2.1 Insurance revenue 23
2.2 Insurance and reinsurance contract assets and liabilities 23

3. INVESTMENT ACTIVITIES 27

3.1 Investment income 27
3.2 Investment assets 27
3.3 Fair value hierarchy 28

4. CAPITAL STRUCTURE 29

4.1 Borrowings 29
4.2 Derivatives 30
4.3 Contributed equity 30
4.4 Dividends 31
4.5 Earnings per share 31

5. GROUP STRUCTURE 32

5.1 Disposals 32

6. OTHER 32

6.1 Contingent liabilities 32
6.2 Offsetting financial assets and liabilities 32
6.3 Events after the balance date 32

DIRECTORS' DECLARATION 33

INDEPENDENT AUDITOR'S REVIEW REPORT 34

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 30 JUNE 2023

	NOTE	30 JUNE 2023 US$M	RESTATED 30 JUNE 2022 US$M
Insurance revenue	2.1	**9,921**	8,955
Insurance service expenses		**(8,978)**	(8,942)
Reinsurance expenses	2.2	**(2,278)**	(1,691)
Reinsurance income	2.2	**1,814**	2,185
Insurance service result		**479**	507
Other expenses		**(126)**	(179)
Other income		**24**	58
Insurance operating result		**377**	386
Insurance finance (expenses) income		**(203)**	1,206
Reinsurance finance income (expenses)		**70**	(493)
Investment income (loss) – policyholders' funds	3.1	**312**	(573)
Investment expenses – policyholders' funds	3.1	**(11)**	(8)
Insurance profit		**545**	518
Investment income (loss) – shareholders' funds	3.1	**166**	(289)
Investment expenses – shareholders' funds	3.1	**(6)**	(4)
Financing and other costs		**(112)**	(135)
Gain on sale of entities and businesses	5.1	**–**	36
Share of net loss of associates		**(1)**	(3)
Restructuring and related expenses		**–**	(54)
Amortisation and impairment of intangibles		**(8)**	(8)
Profit before income tax		**584**	61
Income tax expense		**(180)**	(10)
Profit after income tax		**404**	51
Other comprehensive income (loss)			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve		**23**	(349)
Net movement in cash flow hedge and cost of hedging reserves		**1**	41
Income tax relating to these components of other comprehensive income		**–**	(12)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans		**(5)**	(2)
Income tax relating to this component of other comprehensive income		**1**	–
Other comprehensive income (loss) after income tax		**20**	(322)
Total comprehensive income (loss) after income tax		**424**	(271)
Profit after income tax attributable to:			
Ordinary equity holders of the Company		**400**	48
Non-controlling interests		**4**	3
		404	51
Total comprehensive income (loss) after income tax attributable to:			
Ordinary equity holders of the Company		**420**	(274)
Non-controlling interests		**4**	3
		424	(271)

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	30 JUNE 2023 US CENTS	RESTATED 30 JUNE 2022 US CENTS
For profit after income tax			
Basic earnings per share	4.5	**25.2**	1.6
Diluted earnings per share	4.5	**25.0**	1.5

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

The Group adopted AASB 17 *Insurance Contracts* from 1 January 2023 and has restated the comparative period. The impacts of adoption are detailed in note 1.1.

Consolidated balance sheet

AS AT 30 JUNE 2023

	NOTE	30 JUNE 2023 US$M	RESTATED 31 DECEMBER 2022 US$M
Assets			
Cash and cash equivalents		**767**	833
Investments	3.2	**26,624**	27,299
Derivative financial instruments	4.2	**356**	284
Other receivables		**599**	423
Current tax assets		**65**	45
Reinsurance contract assets	2.2	**8,964**	7,126
Other assets		**2**	2
Defined benefit plan surpluses		**44**	46
Right-of-use lease assets		**281**	276
Property, plant and equipment		**147**	151
Deferred tax assets		**614**	613
Investment properties		**35**	35
Investment in associates		**29**	32
Intangible assets		**2,019**	2,018
Total assets		**40,546**	39,183
Liabilities			
Derivative financial instruments	4.2	**586**	387
Other payables		**459**	347
Current tax liabilities		**58**	39
Insurance contract liabilities	2.2	**26,731**	26,130
Lease liabilities		**304**	301
Provisions		**194**	203
Defined benefit plan deficits		**27**	26
Deferred tax liabilities		**220**	149
Borrowings	4.1	**2,959**	2,744
Total liabilities		**31,538**	30,326
Net assets		**9,008**	8,857
Equity			
Contributed equity	4.3	**9,155**	9,242
Treasury shares held in trust		**(4)**	(1)
Reserves		**(1,196)**	(1,363)
Retained profits		**1,051**	977
Shareholders' equity		**9,006**	8,855
Non-controlling interests		**2**	2
Total equity		**9,008**	8,857

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

The Group adopted AASB 17 *Insurance Contracts* from 1 January 2023 and has restated the comparative period. The impacts of adoption are detailed in note 1.1.

Consolidated statement of changes in equity

FOR THE HALF YEAR ENDED 30 JUNE 2023

	SHAREHOLDERS' EQUITY						
	CONTRIBUTED EQUITY US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
At 1 January 2023 (restated)	**9,242**	**(1)**	**(1,363)**	**977**	**8,855**	**2**	**8,857**
Profit after income tax	**–**	**–**	**–**	**400**	**400**	**4**	**404**
Other comprehensive income (loss)	**–**	**–**	**24**	**(4)**	**20**	**–**	**20**
Total comprehensive income	**–**	**–**	**24**	**396**	**420**	**4**	**424**
Transactions with owners in their capacity as owners							
Shares issued under Employee Share and Option Plan and held in trust	**36**	**(36)**	**–**	**–**	**–**	**–**	**–**
Share-based payment expense	**–**	**–**	**22**	**–**	**22**	**–**	**22**
Shares vested and/or released	**–**	**33**	**(33)**	**–**	**–**	**–**	**–**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(297)**	**(297)**	**(4)**	**(301)**
Dividend Reinvestment Plan	**32**	**–**	**–**	**–**	**32**	**–**	**32**
Distribution on capital notes	**–**	**–**	**–**	**(25)**	**(25)**	**–**	**(25)**
Foreign exchange	**(155)**	**–**	**154**	**–**	**(1)**	**–**	**(1)**
At 30 June 2023	**9,155**	**(4)**	**(1,196)**	**1,051**	**9,006**	**2**	**9,008**

	SHAREHOLDERS' EQUITY						
	CONTRIBUTED EQUITY US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	TOTAL US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
At 1 January 2022, as previously reported	9,777	(2)	(1,608)	714	8,881	1	8,882
Impact of initial application of AASB 17 (note 1.1)	–	–	–	46	46	–	46
At 1 January 2022 (restated)	9,777	(2)	(1,608)	760	8,927	1	8,928
Profit after income tax	–	–	–	48	48	3	51
Other comprehensive loss	–	–	(320)	(2)	(322)	–	(322)
Total comprehensive (loss) income	–	–	(320)	46	(274)	3	(271)
Transactions with owners in their capacity as owners							
Shares issued under Employee Share and Option Plan and held in trust	29	(29)	–	–	–	–	–
Share-based payment expense	–	–	20	–	20	–	20
Shares vested and/or released	–	29	(29)	–	–	–	–
Dividends paid on ordinary shares	–	–	–	(208)	(208)	(3)	(211)
Dividend Reinvestment Plan	25	–	–	–	25	–	25
Distribution on capital notes	–	–	–	(25)	(25)	–	(25)
Foreign exchange	(451)	–	443	–	(8)	–	(8)
At 30 June 2022 (restated)	9,380	(2)	(1,494)	573	8,457	1	8,458

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

The Group adopted AASB 17 *Insurance Contracts* from 1 January 2023 and has restated the comparative period. The impacts of adoption are detailed in note 1.1.

Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 30 JUNE 2023

	NOTE	30 JUNE 2023 US$M	RESTATED 30 JUNE 2022 US$M
Operating activities			
Premium received	2.2	**8,644**	7,444
Reinsurance recoveries received	2.2	**1,144**	418
Reinsurance premium paid net of ceding commissions received	2.2	**(3,339)**	(1,846)
Acquisition costs paid	2.2	**(1,286)**	(1,097)
Claims and other insurance service expenses paid	2.2	**(6,025)**	(4,349)
Interest received		**318**	187
Dividends received		**15**	88
Other operating payments		**(206)**	(320)
Interest paid		**(113)**	(101)
Income taxes paid		**(74)**	(43)
Net cash flows from operating activities		**(922)**	381
Investing activities			
Net proceeds on sale (payments for purchase) of growth assets		**105**	(635)
Net proceeds on sale of interest-bearing financial assets		**853**	738
Net proceeds from (payments for) foreign exchange transactions		**97**	(70)
Payments for purchase of intangible assets		**(52)**	(48)
Payments for purchase of property, plant and equipment		**(13)**	(16)
Payments for investments in associates		**–**	(2)
Proceeds on disposal of entities and businesses (net of cash disposed)		**–**	361
Proceeds on sale of joint venture investment		**3**	–
Net cash flows from investing activities		**993**	328
Financing activities			
Payments relating to principal element of lease liabilities		**(28)**	(32)
Proceeds from borrowings		**198**	–
Repayments of borrowings		**(6)**	(412)
Dividends and distributions paid		**(294)**	(211)
Net cash flows from financing activities		**(130)**	(655)
Net movement in cash and cash equivalents		**(59)**	54
Cash and cash equivalents at 1 January		**833**	819
Effect of exchange rate changes		**(7)**	(72)
Cash and cash equivalents at 30 June		**767**	801

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

The Group adopted AASB 17 *Insurance Contracts* from 1 January 2023 and has restated the comparative period. The impacts of adoption are detailed in note 1.1.

Notes to the financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2023

1. OVERVIEW

1.1 Basis of preparation

This general purpose consolidated financial report for the half year ended 30 June 2023 (Half Year Financial Report) has been prepared in accordance with AASB 134 *Interim Financial Reporting* as issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, and complies with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

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 2022 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. Where appropriate, comparative information has been restated to be comparable with information presented in the current period.

New and amended accounting standards adopted by the Group

The Group adopted the following new and amended accounting standards from 1 January 2023:

TITLE	
AASB 17	*Insurance Contracts*
AASB 2020-1	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*
AASB 2021-2	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*
AASB 2021-5	*Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
AASB 2022-6	*Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*
AASB 2023-2	*Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*

AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* amends AASB 112 *Income Taxes* to introduce a mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income tax legislation. The Group has applied the exception during the current period.

With the exception of AASB 17, the impacts of which are detailed on the next page, the adoption of these new and amended standards did not significantly impact the Group's Half Year Financial Report.

AASB 17 *Insurance Contracts*

AASB 17 establishes new accounting requirements for insurance contracts. Significant changes to key estimates and judgements resulting from the application of AASB 17 are described in note 1.2.1. Disclosure of the applicable new accounting policies is also included in the relevant notes where it is considered useful to an understanding of the amounts disclosed.

The new standard was adopted in accordance with its transitional provisions which require retrospective application and restatement of comparative information as if AASB 17 had always been in effect, except to the extent that it is impracticable to do so, in which case permitted modifications have been applied ('modified retrospective approach'). The adoption of AASB 17 has resulted in an increase in net assets as at 1 January 2022 of $46 million. This amount, being the cumulative retrospective effect of adoption, was recognised as an adjustment to the opening balance of retained earnings as shown in the statement of changes in equity. The opening net asset impact mainly reflects increases from the application of the AASB 17 risk adjustment ($130 million) and higher discount rates due to the inclusion of the illiquidity premium ($168 million), partly offset by decreases driven by onerous contracts ($39 million), the impact of changes in the pattern of revenue recognition for certain classes of business (largely resulting from the application of the general model) ($174 million), tax impacts ($36 million) and other smaller items.

The following permitted modifications under the modified retrospective approach have been applied to present and measure certain groups of insurance and reinsurance contracts on transition to AASB 17:

- certain contracts acquired in the past (e.g. as part of a business combination) that, at the time of acquisition, were considered past expiry and were in their claims settlement period. For these contracts, the related liabilities were classified as liabilities for incurred claims, on the basis that it was impracticable to treat these liabilities as related to unexpired coverage;
- determination of the contractual service margin (CSM), being the unearned profit for contracts measured under the general model, for which sufficient data on historical assumptions was not available for the estimation of future cash flows and risk adjustment at initial recognition as well as the amount of CSM earned to profit or loss up to the transition date, which are key inputs. To the extent that this information was not available without the use of hindsight, permitted modifications in AASB 17 have been applied to estimate these amounts based on transition date expectations about changes that occurred between initial recognition and the transition date; and
- identification of groups of onerous contracts relating to past underwriting years. These have been assessed based on information available at the transition date to the extent that reasonable and supportable information about facts and circumstances prior to that date was not available without the use of hindsight.

1. OVERVIEW

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 2023.

1.2.1 Insurance and reinsurance contract assets and liabilities

Insurance contract liabilities represent the rights and obligations arising from insurance and reinsurance contracts issued, and comprise the following components:

- the liability for remaining coverage, being the obligation to provide future insurance services in relation to contracts in force at the balance date; and
- the liability for incurred claims, being the obligation to pay claims reported but not yet paid, IBNR, IBNER and other incurred insurance service expenses such as claims handling costs.

Reinsurance contract assets represent the rights and obligations arising from reinsurance contracts held, and comprise the following components:

- the asset for remaining coverage, being the amounts that are expected to be recoverable from reinsurers in relation to future insured claims that have not yet been incurred; and
- recoveries on incurred claims, being the amounts that are expected to be recoverable from reinsurers in relation to claims that have been incurred on underlying contracts.

The Group's insurance and reinsurance contracts are aggregated into portfolios, each comprising contracts that are of similar risks and managed together. Portfolios of insurance and reinsurance contracts issued that are assets are presented separately from those that are liabilities on the balance sheet. Similarly, portfolios of reinsurance contracts held that are assets are presented separately from those that are liabilities. There were no portfolios of insurance contracts issued that were assets or portfolios of reinsurance contracts held that were liabilities at the balance date and at 31 December 2022.

Measurement models

Insurance and reinsurance contracts must be measured using a general model, unless the contracts meet certain eligibility criteria, in which case they may be measured using a simplified approach known as the premium allocation approach. Contracts are eligible for the simplified approach if they have coverage periods of one year or less or if the liability for remaining coverage under that approach is not expected to materially differ from that under the general model. The Group applies the premium allocation approach to most of its insurance and reinsurance contracts on the basis that these eligibility requirements are met. For contracts with coverage periods greater than one year, the Group's eligibility assessment framework involves a qualitative consideration of contract features and, where applicable, modelling of the liability for remaining coverage under a range of reasonably expected scenarios. The following key assumptions and estimates are modelled:

- expected future cash flows and the risk adjustment as described further below;
- pattern of coverage units used to determine the earning pattern of the CSM (note 2.1), which includes consideration of the economic value of policyholders' insurable interests and any contractual limits to amounts that can be claimed under the relevant insurance contracts; and
- expected variability in assumptions used, such as changes in discount rates.

Further detail on the measurement of the components of insurance and reinsurance contract assets and liabilities is provided in note 2.2.

Future cash flows included within insurance contract liabilities

The determination of the amounts that the Group will ultimately pay for claims arising under insurance and reinsurance contracts issued 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;
- existence of complex underlying exposures;
- 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; and
- changing social, environmental, political and economic trends, for example price and wage inflation.

The key assumptions used in the determination of future claims cash flows within the insurance contract liabilities are materially consistent with those applied to estimate the net central estimate within the outstanding claims liability under AASB 1023 *General Insurance Contracts*. The potential impact of changes in those assumptions 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 2022.

Discount rates

A bottom-up approach is applied to determine the discount rates used to discount insurance and reinsurance contract cash flows, which uses risk-free rates adjusted to reflect the liquidity characteristics of the contracts. The illiquidity premium within discount rates is derived based on the long-term weighted average credit spread of a reference portfolio of assets with a similar currency mix and weighted average duration as the related insurance liabilities over the longer term. The effect of credit risk and other factors that are not relevant to the illiquidity characteristics of insurance contracts is eliminated to estimate the portion of the spread that reflects the illiquidity premium.

Risk adjustment

The risk adjustment is determined by the Board and represents the compensation QBE requires for bearing the uncertainty in the net discounted estimate of future cash flows within the insurance liabilities. The determination of the appropriate level of risk adjustment takes into account:

- the level of economic capital that QBE allocates to support the net discounted cash flows and the weighted average cost of servicing that capital;
- the run-off profile and term to settlement of the net discounted cash flows;
- mix of business, in particular the mix of short-tail and long-tail business;
- the benefit of diversification between classes of business and geographic locations; and
- the level of uncertainty in the cash flow estimates due to estimation error, data quality, variability of key inflation assumptions, and possible economic and legislative changes.

The confidence level for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgement of experienced and qualified actuaries.

Onerous contracts

Insurance contracts are onerous when the liability for remaining coverage is insufficient to pay future claims and other insurance service expenses attributable to the contracts.

Contracts that are measured using the premium allocation approach are assumed not to be onerous unless facts and circumstances indicate otherwise. In identifying facts and circumstances that may be indicators of onerous contracts, the Group has considered management information for Group planning and performance management, in combination with other indicators where relevant. If there are facts and circumstances that may indicate the existence of possible onerous contracts, the onerous contract losses are measured based on the extent to which the fulfilment cash flows (sum of present value of future cash flows and a risk adjustment) attributable to the group of contracts exceed the liability for remaining coverage for that group.

Onerous contract losses are measured on a gross basis (excluding the effect of reinsurance contracts held) and are immediately recognised in profit or loss. A loss component of the liability for remaining coverage is established (or increased) to depict the onerous contract losses recognised. Where the onerous contracts are covered by reinsurance contracts held, reinsurance income is recognised in profit or loss and a corresponding loss-recovery component of the reinsurance asset for remaining coverage is established to depict expected recoveries attributable to the onerous contract losses.

The consideration of facts and circumstances as well as the measurement of any onerous contract losses are determined separately for each underwriting year within a portfolio of contracts that are of similar risks and managed together. Where a subset of contracts within a portfolio would be identified as a separate group from other contracts within the portfolio only because of the existence of specific legal or regulatory constraints to the Group's practical ability to set a different price or level of benefits for policyholders with different characteristics, such contracts are included in the same group for the purposes of identifying and measuring onerous contracts.

The carrying values of the loss and corresponding reinsurance loss-recovery components as at 30 June 2023 are disclosed in note 2.2.

1. OVERVIEW

1.2.2 Intangible assets

QBE monitors goodwill and identifiable intangible assets for impairment in accordance with the Group's policy, which is set out in note 7.2.1 to the consolidated financial statements for the year ended 31 December 2022. At 30 June 2023, QBE has reviewed all intangible assets for indicators of impairment and has completed a detailed impairment test where indicators of impairment were identified.

1.2.3 Recoverability of deferred tax assets

A deferred tax asset (DTA) of $420 million (2022 $390 million) has been recognised in relation to the entities included in the North American tax group. Uncertainty continues to exist in relation to the utilisation of this DTA and QBE has made a judgement that entities in the North American tax group will be able to generate sufficient taxable profits to utilise the DTA balance over the foreseeable future, based on business plans. Losses expire over the next 17 years, with the majority expiring between 2032 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.

1.2.4 Australian pricing promise review

The Group continues to recognise a provision on the balance sheet in relation to the Australian pricing promise review as disclosed in note 1.2.3 of the consolidated financial statements for the year ended 31 December 2022. The provision comprises amounts for customer remediation, interest payable and other costs associated with administering the program.

At 30 June 2023, QBE has reviewed the assumptions underlying the estimates based on the findings of the review to date, resulting in no material change to the amounts recognised.

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.

Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals; 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 2023	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Insurance revenue – external	3,518	3,788	2,604	9,910	11	9,921
Insurance revenue – internal	–	5	–	5	(5)	–
Insurance service expenses	(3,544)	(3,073)	(2,410)	(9,027)	49	(8,978)
Reinsurance expenses	(1,370)	(705)	(207)	(2,282)	4	(2,278)
Reinsurance income	1,357	372	127	1,856	(42)	1,814
Insurance service result	(39)	387	114	462	17	479
Other expenses	(20)	(37)	(49)	(106)	(20)	(126)
Other income	–	–	24	24	–	24
Insurance operating result	(59)	350	89	380	(3)	377
Insurance finance (expenses) income	(145)	(8)	(56)	(209)	6	(203)
Reinsurance finance income	50	2	14	66	4	70
Investment income (loss) – policyholders' funds	66	144	102	312	(11)	301
Insurance (loss) profit	(88)	488	149	549	(4)	545
Investment income – shareholders' funds	65	49	42	156	4	160
Financing and other costs	(1)	(13)	(2)	(16)	(96)	(112)
Share of net loss of associates	–	–	–	–	(1)	(1)
Amortisation and impairment of intangibles	–	–	(1)	(1)	(7)	(8)
(Loss) profit before income tax	(24)	524	188	688	(104)	584
Income tax credit (expense)	4	(124)	(68)	(188)	8	(180)
(Loss) profit after income tax	(20)	400	120	500	(96)	404
Net profit attributable to non-controlling interests	–	–	–	–	(4)	(4)
Net (loss) profit after income tax attributable to ordinary equity holders of the Company	(20)	400	120	500	(100)	400

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2023

1. OVERVIEW

30 JUNE 2022 (RESTATED)	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Insurance revenue – external	3,208	3,292	2,448	8,948	7	8,955
Insurance revenue – internal	–	2	–	2	(2)	–
Insurance service expenses	(3,267)	(3,246)	(2,417)	(8,930)	(12)	(8,942)
Reinsurance expenses	(1,171)	(392)	(135)	(1,698)	7	(1,691)
Reinsurance income	1,314	517	341	2,172	13	2,185
Insurance service result	84	173	237	494	13	507
Other expenses	(22)	(31)	(105)	(158)	(21)	(179)
Other income	28	1	21	50	8	58
Insurance operating result	90	143	153	386	–	386
Insurance finance income	401	569	236	1,206	–	1,206
Reinsurance finance expenses	(240)	(155)	(98)	(493)	–	(493)
Investment (loss) income – policyholders' funds	(87)	(406)	(101)	(594)	13	(581)
Insurance profit	164	151	190	505	13	518
Investment loss – shareholders' funds	(73)	(155)	(41)	(269)	(24)	(293)
Financing and other costs	(1)	(1)	(17)	(19)	(116)	(135)
Gain on sale of entities and businesses	–	–	–	–	36	36
Share of net loss of associates	–	–	–	–	(3)	(3)
Restructuring and related expenses	(7)	(6)	(5)	(18)	(36)	(54)
Amortisation and impairment of intangibles	1	–	(1)	–	(8)	(8)
Profit (loss) before income tax	84	(11)	126	199	(138)	61
Income tax (expense) credit	(18)	8	(49)	(59)	49	(10)
Profit (loss) after income tax	66	(3)	77	140	(89)	51
Net profit attributable to non-controlling interests	–	–	–	–	(3)	(3)
Net profit (loss) after income tax attributable to ordinary equity holders of the Company	66	(3)	77	140	(92)	48

2. UNDERWRITING ACTIVITIES

2.1 Insurance revenue

	30 JUNE 2023 US$M	RESTATED 30 JUNE 2022 US$M
Insurance revenue from contracts measured under the premium allocation approach	**9,828**	8,842
Insurance revenue from contracts measured under the general model	**93**	113
Insurance revenue[1]	**9,921**	8,955

1 Includes $171 million (2022 $326 million) relating to contracts that applied the modified retrospective approach on transition (note 1.1).

How we account for the numbers

Insurance revenue reflects the consideration the Group expects to be entitled to in exchange for providing insurance contract services. Insurance revenue mainly comprises premiums charged for providing insurance coverage, excluding any amounts that are repayable to policyholders in all circumstances (referred to as investment components) and taxes collected on behalf of third parties. Insurance revenue under the premium allocation approach is an allocation of total expected premium to each period of coverage on the basis of the passage of time, or a pattern that reflects the expected timing of incurred insurance service expenses if the expected pattern of incidence of risk differs significantly from the passage of time.

For contracts measured under the general model, insurance revenue comprises:

- changes in the liability for remaining coverage (excluding the loss component) that relate to services provided in the period. The CSM, which represents the unearned profit, is earned to insurance revenue based on a pattern of coverage units which reflects the provision of insurance services over the expected coverage period. The determination of the coverage units pattern is based on the quantity of benefits provided under the contracts in each period and includes consideration of amounts that can be validly claimed by policyholders if an insured event occurs as well as expected lapses. The movement in the CSM during the period is disclosed in note 2.2.
- the recovery of insurance acquisition cash flows, which is determined by allocating a portion of the premium that relates to recovering those cash flows on a straight-line basis over the coverage period of the contracts.

2.2 Insurance and reinsurance contract assets and liabilities

	NOTE	30 JUNE 2023 US$M	RESTATED 31 DECEMBER 2022 US$M
Net insurance contract liabilities	2.2.1	**26,731**	26,130
Net reinsurance contract assets	2.2.2	**(8,964)**	(7,126)
		17,767	19,004

1 Directors' Report
2 Half year in review
3 Financial Report
4 Other information

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2023

2. UNDERWRITING ACTIVITIES

2.2.1 Movement in the net insurance contract liabilities

	30 JUNE 2023				31 DECEMBER 2022 (RESTATED)			
	LIABILITY (ASSET) FOR REMAINING COVERAGE				LIABILITY (ASSET) FOR REMAINING COVERAGE			
	EXCLUDING LOSS COMPONENT US$M	LOSS COMPONENT US$M	LIABILITY FOR INCURRED CLAIMS[1] US$M	TOTAL[2] US$M	EXCLUDING LOSS COMPONENT US$M	LOSS COMPONENT US$M	LIABILITY FOR INCURRED CLAIMS[1] US$M	TOTAL[2] US$M
Insurance contract liabilities at 1 January	**(1,280)**	**112**	**27,298**	**26,130**	(74)	42	26,217	26,185
Insurance revenue (a)	**(9,921)**	**–**	**–**	**(9,921)**	(18,904)	–	–	(18,904)
Incurred claims and other attributable expenses	**(32)**	**(83)**	**7,636**	**7,521**	(92)	(42)	15,468	15,334
Amortisation of insurance acquisition cash flows	**1,408**	**–**	**–**	**1,408**	2,629	–	–	2,629
Changes that relate to past service – prior accident years	**–**	**–**	**(88)**	**(88)**	–	–	(787)	(787)
Losses on onerous contracts and reversals of those losses	**–**	**84**	**–**	**84**	–	115	–	115
Insurance service expenses[3] (b)	**1,376**	**1**	**7,548**	**8,925**	2,537	73	14,681	17,291
Insurance service result (a)+(b)	**(8,545)**	**1**	**7,548**	**(996)**	(16,367)	73	14,681	(1,613)
Insurance finance expenses (income)	**11**	**–**	**192**	**203**	(16)	–	(1,152)	(1,168)
Foreign exchange	**(79)**	**(1)**	**141**	**61**	(64)	(3)	(1,202)	(1,269)
Statement of comprehensive income	**(8,613)**	**–**	**7,881**	**(732)**	(16,447)	70	12,327	(4,050)
Investment components	**(30)**	**–**	**30**	**–**	(71)	–	71	–
Cash flows								
Premium received	**8,644**	**–**	**–**	**8,644**	18,021	–	–	18,021
Acquisition costs paid	**(1,286)**	**–**	**–**	**(1,286)**	(2,709)	–	–	(2,709)
Claims and expenses paid	**–**	**–**	**(6,025)**	**(6,025)**	–	–	(11,317)	(11,317)
Total cash flows	**7,358**	**–**	**(6,025)**	**1,333**	15,312	–	(11,317)	3,995
Insurance contract liabilities at balance date	**(2,565)**	**112**	**29,184**	**26,731**	(1,280)	112	27,298	26,130

1 Includes $29,073 million (2022 $27,152 million) relating to contracts measured under the premium allocation approach, comprising the present value of future cash flows of $27,201 million (2022 $25,376 million) and a risk adjustment of $1,872 million (2022 $1,776 million).

2 The carrying value of contracts measured under the general model of $575 million (2022 $645 million) comprises the present value of future cash flows of $359 million (2022 $340 million), a risk adjustment of $68 million (2022 $68 million) and a CSM of $148 million (2022 $237 million). The movement in the CSM reflects amounts earned to insurance revenue of $27 million (2022 $86 million) (note 2.1), $62 million (2022 $28 million increase) of changes that relate to future services and a foreign exchange decrease of $3 million (2022 $18 million), partly offset by insurance finance expense of $3 million (2022 $7 million). $96 million (2022 $190 million) of CSM relates to contracts that applied the modified retrospective approach on transition (note 1.1).

3 Excludes $53 million (2022 $116 million) of insurance service expenses which represent movements in assets and liabilities that do not form part of insurance contract liabilities on the balance sheet.

2.2.2 Movement in the net reinsurance contract assets

	30 JUNE 2023				31 DECEMBER 2022 (RESTATED)			
	ASSET FOR REMAINING COVERAGE				ASSET FOR REMAINING COVERAGE			
	EXCLUDING LOSS-RECOVERY COMPONENT US$M	LOSS-RECOVERY COMPONENT US$M	RECOVERIES OF INCURRED CLAIMS[1] US$M	TOTAL[2] US$M	EXCLUDING LOSS-RECOVERY COMPONENT US$M	LOSS-RECOVERY COMPONENT US$M	RECOVERIES OF INCURRED CLAIMS[1] US$M	TOTAL[2] US$M
Reinsurance contract assets at 1 January	**(1,619)**	**6**	**8,739**	**7,126**	(1,144)	4	7,954	6,814
Reinsurance expenses (a)	**(2,278)**	**–**	**–**	**(2,278)**	(3,850)	–	–	(3,850)
Recovery of incurred claims and other expenses	**(33)**	**(4)**	**1,610**	**1,573**	(46)	(4)	3,735	3,685
Changes in credit risk	**–**	**–**	**6**	**6**	–	–	6	6
Changes that relate to past service – prior accident years	**–**	**–**	**232**	**232**	–	–	(373)	(373)
Recovery of onerous contract losses and reversals of those recoveries	**–**	**3**	**–**	**3**	–	6	–	6
Reinsurance income (b)	**(33)**	**(1)**	**1,848**	**1,814**	(46)	2	3,368	3,324
Insurance service result (a)+(b)	**(2,311)**	**(1)**	**1,848**	**(464)**	(3,896)	2	3,368	(526)
Reinsurance finance income (expenses)	**1**	**–**	**69**	**70**	(56)	–	(75)	(131)
Foreign exchange	**(17)**	**–**	**54**	**37**	163	–	(221)	(58)
Statement of comprehensive income	**(2,327)**	**(1)**	**1,971**	**(357)**	(3,789)	2	3,072	(715)
Investment components	**(87)**	**–**	**87**	**–**	(235)	–	235	–
Cash flows								
Premium paid net of ceding commissions received	**3,339**	**–**	**–**	**3,339**	3,549	–	–	3,549
Recoveries received	**–**	**–**	**(1,144)**	**(1,144)**	–	–	(2,522)	(2,522)
Total cash flows	**3,339**	**–**	**(1,144)**	**2,195**	3,549	–	(2,522)	1,027
Reinsurance contract assets at balance date	**(694)**	**5**	**9,653**	**8,964**	(1,619)	6	8,739	7,126

1 Includes $9,349 million (2022 $8,693 million) relating to contracts measured under the premium allocation approach, comprising the present value of future cash flows of $8,866 million (2022 $8,218 million) and a risk adjustment of $483 million (2022 $475 million).

2 The carrying value of contracts measured under the general model of $2,594 million (2022 $907 million) comprises the present value of future cash flows of $2,440 million (2022 $830 million), a risk adjustment of $159 million (2022 $62 million) and a CSM of $(5) million (2022 $15 million). The movement in the CSM reflects amounts earned to reinsurance expenses of $1 million (2022 $5 million) and $19 million (2022 nil) of changes that relate to future services. $(12) million (2022 $9 million) of CSM relates to contracts that applied the modified retrospective approach on transition (note 1.1).

2.2.3 Reinsurance of prior accident year claims liabilities

During the current period, the Group entered into a transaction to reinsure certain prior accident year claims liabilities in North America and International which resulted in the recognition of an upfront net cost of $98 million within reinsurance expenses. Reinsurance expenses also include $344 million (2022 $58 million) relating to this transaction and reinsurance loss portfolio transfer contracts entered into in prior periods that remain in-force, reflecting amounts recognised over the coverage period as the underlying claims settle.

2. UNDERWRITING ACTIVITIES

How we account for the numbers

The liability for remaining coverage under the premium allocation approach is measured as premiums received less amounts recognised as insurance revenue for coverage that has already been provided, and net of any unamortised acquisition cash flows. Insurance acquisition cash flows are amortised over the coverage period of the related insurance contracts on the same basis as the insurance revenue earning pattern (note 2.1) for the business to which the cash flows relate. The liability for remaining coverage is not discounted where the time between providing each part of the services and the related premium due date is no more than a year.

The liability for remaining coverage under the general model is measured as the sum of:

- the present value of future cash flows that are expected to arise as the Group fulfils the contracts, which mainly comprise premium, claims and attributable expenses;
- a risk adjustment for non-financial risk (note 2.2.4); and
- a CSM, representing the profit that has not yet been recognised in profit or loss as it relates to future services to be provided over the remaining coverage of the insurance contracts.

The liability for remaining coverage includes a loss component which depicts amounts recognised on onerous contracts, more detail on which is provided in note 1.2.1. A corresponding loss-recovery component within the reinsurance asset for remaining coverage depicts amounts recoverable in respect of losses on onerous contracts covered by reinsurance contracts held.

Under both measurement models, the liability for incurred claims is measured as the fulfilment cash flows (sum of present value of future cash flows and a risk adjustment) relating to incurred claims and attributable expenses that have not yet been paid, including claims that have been incurred but not yet reported.

2.2.4 Risk adjustment

The risk adjustment included in the liability for incurred claims (net of reinsurance held) corresponds to a confidence level of 90.2%. The net liability for incurred claims excludes recoveries under reinsurance loss portfolio transfer contracts that are accounted for under the general model and recognised within the reinsurance asset for remaining coverage as they relate to underlying claims that have not yet been settled. The confidence level in relation to the net outstanding claims inclusive of these recoveries is 90.6%.

How we account for the numbers

The risk adjustment reflects the compensation required for bearing uncertainty about the amount and timing of cash flows that arises from non-financial risk. For contracts measured under the premium allocation approach, unless the contracts are onerous, an explicit risk adjustment for non-financial risk is only estimated for the measurement of the liability for incurred claims.

The risk adjustment is determined with reference to QBE's weighted average cost of economic capital allocated to earned reserve risk. The risk adjustment also reflects the benefit from the diversification of risk classes and geographical locations of the Group. The Group aims to maintain a risk adjustment for the net outstanding claims liability (being claims reserves within the liability for incurred claims net of recoveries from reinsurance loss portfolio transfers) in the range of 6% to 8% of the net present value of outstanding claims cash flows.

Changes in the risk adjustment are disaggregated between the insurance service result and insurance and reinsurance finance income and expenses.

3. INVESTMENT ACTIVITIES

3.1 Investment income

	30 JUNE 2023 US$M	RESTATED 30 JUNE 2022 US$M
Income (loss) on fixed interest securities, short-term money and cash	**422**	(871)
Income on growth assets	**47**	14
Gross investment income (loss)[1]	**469**	(857)
Investment expenses	**(17)**	(12)
Net investment income (loss)	**452**	(869)
Foreign exchange	**6**	(6)
Other income	**3**	1
Total investment income (loss)	**461**	(874)
Investment income (loss) – policyholders' funds	**312**	(573)
Investment expenses – policyholders' funds	**(11)**	(8)
Investment income (loss) – shareholders' funds	**166**	(289)
Investment expenses – shareholders' funds	**(6)**	(4)
Total investment income (loss)	**461**	(874)

1 Includes net fair value gains of $101 million (2022 losses of $1,091 million), interest income of $348 million (2022 $198 million) and dividend and distribution income of $20 million (2022 $36 million).

3.2 Investment assets

	30 JUNE 2023 US$M	31 DECEMBER 2022 US$M
Fixed income assets		
Short-term money	**5,187**	5,396
Government bonds	**5,016**	5,094
Corporate bonds	**12,757**	13,649
Infrastructure debt	**47**	47
Emerging market debt	**660**	429
High yield debt	**686**	416
Private credit	**173**	113
	24,526	25,144
Growth assets		
Developed market equity	**367**	332
Emerging market equity	**–**	62
Unlisted property trusts	**699**	747
Infrastructure assets	**866**	834
Alternatives	**166**	180
	2,098	2,155
Total investments	**26,624**	27,299

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2023

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 2023				31 DECEMBER 2022			
	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 assets								
Short-term money	**252**	**4,935**	**–**	**5,187**	326	5,070	–	5,396
Government bonds	**3,619**	**1,397**	**–**	**5,016**	3,547	1,547	–	5,094
Corporate bonds	**–**	**12,757**	**–**	**12,757**	–	13,649	–	13,649
Infrastructure debt	**–**	**–**	**47**	**47**	–	–	47	47
Emerging market debt	**–**	**660**	**–**	**660**	–	429	–	429
High yield debt	**–**	**686**	**–**	**686**	–	416	–	416
Private credit	**–**	**–**	**173**	**173**	–	–	113	113
	3,871	**20,435**	**220**	**24,526**	3,873	21,111	160	25,144
Growth assets								
Developed market equity	**367**	**–**	**–**	**367**	332	–	–	332
Emerging market equity	**–**	**–**	**–**	**–**	62	–	–	62
Unlisted property trusts	**–**	**–**	**699**	**699**	–	–	747	747
Infrastructure assets	**–**	**–**	**866**	**866**	–	–	834	834
Alternatives	**100**	**–**	**66**	**166**	112	–	68	180
	467	**–**	**1,631**	**2,098**	506	–	1,649	2,155
Total investments	**4,338**	**20,435**	**1,851**	**26,624**	4,379	21,111	1,809	27,299

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 level 1 in the fair value hierarchy. 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, corporate bonds, emerging market debt and high yield debt

These assets are valued based on quoted prices sourced from external data providers. The fair value categorisation of these assets is based on the observability of the inputs.

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 categorised as level 3.

Private credit

These assets comprise investments in fund vehicles that are valued using current unit prices as advised by the investment fund manager. As the valuation techniques require the use of significant unobservable inputs, these assets have been categorised as level 3.

Developed market equity and emerging market equity

These assets mainly comprise listed equities traded in active markets valued by reference to quoted prices.

Unlisted property trusts and infrastructure assets

These assets are valued using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme. As the valuation techniques require the use of significant unobservable inputs, these assets have been categorised as level 3.

Alternatives

These assets mainly comprise investments in exchange-traded commodity products that are listed, traded in active markets and valued by reference to quoted prices. Alternatives also includes strategic unlisted investments which are valued based on other valuation techniques utilising significant unobservable inputs.

Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs:

LEVEL 3	30 JUNE 2023 US$M	31 DECEMBER 2022 US$M
At 1 January	**1,809**	1,697
Purchases	**192**	200
Disposals/transfers to assets held for sale	**(152)**	(98)
Fair value movement recognised in profit or loss	**–**	70
Foreign exchange	**2**	(60)
At balance date	**1,851**	1,809

4. CAPITAL STRUCTURE

4.1 Borrowings

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

FINAL MATURITY DATE	ISSUE DATE	PRINCIPAL AMOUNT	30 JUNE 2023 US$M	31 DECEMBER 2022 US$M
Senior debt				
25 May 2023	25 September 2017	$6 million[1]	**–**	6
			–	6
Subordinated debt				
25 August 2036	25 August 2020	A$500 million[2]	**332**	338
13 September 2038	13 September 2021	£400 million	**506**	478
28 June 2039	21 June 2023	A$300 million	**199**	–
24 November 2043	21 November 2016	$400 million/A$689 million[2]	**400**	400
2 December 2044	2 December 2014	$700 million/A$1,169 million[2]	**699**	699
12 November 2045	12 November 2015	$300 million	**300**	300
17 June 2046	17 June 2016	$524 million	**523**	523
			2,959	2,738
Total borrowings			**2,959**	2,744

1 The senior notes were redeemed on 24 May 2023.
2 Details of related hedging activities are included in note 4.1.2.

Subordinated debt due 2039

On 21 June 2023, the Group issued A$300 million of subordinated notes maturing on 28 June 2039. Interest is payable quarterly in arrears at a rate equal to the three-month BBSW rate plus a margin of 3.10% per annum. The securities are redeemable at the option of QBE, with the prior written approval of APRA, at any time in the event of certain tax or regulatory events and on 28 June 2029 and each interest payment date thereafter up to but excluding the maturity date. The securities must be converted into a variable number of the Company's ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the volume-weighted average price of the shares in the five trading days before the date of issue of the securities.

4.1.1 Fair value of borrowings

	30 JUNE 2023 US$M	31 DECEMBER 2022 US$M
Senior debt	**–**	6
Subordinated debt	**2,812**	2,561
Total fair value of borrowings	**2,812**	2,567

The fair value of the Group's borrowings is categorised as level 2 in the fair value hierarchy. 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 at par plus accrued interest.

1 Directors' Report
2 Half year in review
3 Financial Report
4 Other information

Notes to the financial statements continued

FOR THE HALF YEAR ENDED 30 JUNE 2023

4. CAPITAL STRUCTURE

4.1.2 Cash flow hedges of borrowings

The Group has hedged foreign currency risk associated with highly probable forecast transactions in relation to $400 million of subordinated debt maturing in 2043 and $700 million of subordinated debt maturing in 2044. Foreign currency risk on future coupons and principal amounts is hedged up to and including the first call dates of the subordinated debt, being 2023 and 2024 respectively. Similarly, an interest rate swaption was put in place to hedge interest rate risk in relation to coupons on A$500 million of subordinated debt maturing in 2036. The swaption is exercisable in August 2023 and hedges coupon payments from that date to the first call date in August 2026. These hedges were put in place to more effectively manage currency exposures and costs of funding.

4.2 Derivatives

Forward foreign exchange contracts are used as a tool to manage the Group's foreign exchange exposures. Interest rate swaptions are used to hedge exposure to interest rate movements in relation to some of the Group's borrowings. Commodity options are used in managing the impact of movements in commodity prices on certain claims.

	30 JUNE 2023			31 DECEMBER 2022		
	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 not in designated hedges	**903**	**317**	**379**	990	251	172
Forward foreign exchange contracts used in cash flow hedges	**(1,335)**	**–**	**152**	(1,404)	–	186
Forward foreign exchange contracts used in hedges of net investments in foreign operations	**1,059**	**–**	**55**	1,081	2	29
Interest rate swaptions	**333**	**32**	**–**	339	31	–
Commodity options	**933**	**7**	**–**	–	–	–
		356	**586**		284	387

The fair value of these derivatives are categorised as level 2 in the fair value hierarchy. They 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

	NOTE	30 JUNE 2023 US$M	31 DECEMBER 2022 US$M
Issued ordinary shares, fully paid	4.3.1	**8,269**	8,356
Capital notes		**886**	886
Contributed equity		**9,155**	9,242

4.3.1 Share capital

	30 JUNE 2023		30 JUNE 2022	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,485**	**8,356**	1,477	8,891
Shares issued under the Employee Share and Option Plan	**4**	**36**	3	29
Shares issued under the Dividend Reinvestment Plan	**3**	**32**	3	25
Foreign exchange	**–**	**(155)**	–	(451)
Issued ordinary shares, fully paid at 30 June	**1,492**	**8,269**	1,483	8,494
Shares notified to the Australian Securities Exchange	**1,492**	**8,271**	1,483	8,497
Less: plan shares subject to non-recourse loans, de-recognised under accounting standards	**–**	**(2)**	–	(3)
Issued ordinary shares, fully paid at 30 June	**1,492**	**8,269**	1,483	8,494

4.4 Dividends

	2022 FINAL	2022 INTERIM	2021 FINAL
Dividend per share (Australian cents)	**30**	**9**	19
Franking percentage	**10%**	**10%**	10%
Franked amount per share (Australian cents)	**3.0**	**0.9**	1.9
Dividend payout (A$M)	**447**	**133**	281
Payment date	**14 April 2023**	**23 September 2022**	12 April 2022

On 10 August 2023, the directors declared a 10% franked interim dividend of 14 Australian cents per share, payable on 22 September 2023. The interim dividend payout is A$209 million. The record date is 18 August 2023.

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 2023	RESTATED 30 JUNE 2022
For profit after income tax		
Profit used in calculating basic and diluted earnings per share (US$M)	**375**	23
Basic earnings per share (US cents)	**25.2**	1.6
Diluted earnings per share (US cents)	**25.0**	1.5

4.5.1 Reconciliation of earnings used for earnings per share measures

Earnings per share is based on profit or loss after income tax attributable to ordinary equity holders of the Company, as follows:

	30 JUNE 2023 US$M	RESTATED 30 JUNE 2022 US$M
Profit after income tax attributable to ordinary equity holders of the Company	**400**	48
Less: distributions paid on capital notes classified as equity	**(25)**	(25)
Profit used in calculating basic and diluted earnings per share	**375**	23

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

	30 JUNE 2023 NUMBER OF SHARES MILLIONS	30 JUNE 2022 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue and used as the denominator in calculating basic earnings per share	**1,488**	1,480
Weighted average number of dilutive potential ordinary shares relating to shares issued under the Employee Share and Option Plan	**10**	9
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,498**	1,489

5. GROUP STRUCTURE

5.1 Disposals

During the prior period, the Group disposed of Westwood Insurance Agency in North America and recognised a gain of $36 million.

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 2022. The Group may also be exposed to the possibility of contingent liabilities in relation to insurance and non-insurance 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. QBE is currently defending a representative class action in Australia relating to policyholders with business interruption policies.

6.2 Offsetting financial assets and liabilities

At 31 December 2022, the Group had a $228 million receivable and payable with a single counterparty which were fully offset in the balance sheet in accordance with Australian Accounting Standards, on the basis that the Group intended to settle these on a net basis and had a legally enforceable right to do so.

The receivable and payable are nil at the balance date as they were net settled during the current period.

6.3 Events after the balance date

Other than the declaration of the interim dividend, no matter or circumstance has arisen since 30 June 2023 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' declaration

FOR THE HALF YEAR ENDED 30 JUNE 2023

In the directors' opinion:

1. the financial statements and notes set out on pages 12 to 32 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 2023 and of its performance for the half year ended on that date; and
2. 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 10 August 2023 in accordance with a resolution of the directors.

Michael Wilkins AO **Director**	Andrew Horton **Director**

Independent auditor's review report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the Half Year Financial Report

Conclusion

We have reviewed the Half Year Financial Report of QBE Insurance Group Limited (the Company) and the entities it controlled during the half year (together the Group), which comprises the consolidated balance sheet as at 30 June 2023, 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, material accounting policy and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the Half Year Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the Half Year Financial Report

Our responsibility is to express a conclusion on the Half Year Financial Report based on our review. ASRE 2410 requires us to conclude whether 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 2023 and of 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*.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Sydney
10 August 2023

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Glossary

SELECTED TERMS

AASB 1023	AASB 1023 *General Insurance Contracts* was the accounting standard that previously applied to accounting for insurance and reinsurance contracts. This standard was replaced by AASB 17 *Insurance Contracts* which became effective from 1 January 2023.
Acquisition costs	Commission and other costs incurred in selling, underwriting and starting insurance contracts.
Attributable expenses	Administrative, general and other expenses that directly relate to fulfilling insurance contracts.
Catastrophe claims	Total of all net claims resulting from catastrophe events. Referred to as catastrophe claims ratio when expressed as a percentage of net insurance revenue.
Combined operating ratio (COR)	The sum of the net claims ratio, commission ratio and expense ratio. A combined ratio below 100% indicates an underwriting profit. A combined operating ratio over 100% indicates an underwriting loss.
Confidence level	A statistical measure of the level of confidence that the insurance contract liabilities will be sufficient to pay claims as and when they fall due. This was previously referred to as probability of adequacy under AASB 1023.
Contractual service margin (CSM)	A component of the asset or liability for remaining coverage of contracts measured under the general model, which represents profit that has not yet been recognised in profit or loss as it relates to future services to be provided over the remaining coverage of the insurance contracts.
Ex-cat claims	Net claims excluding catastrophe claims and prior accident year claims development (including movements in risk adjustment related to prior accident years). Referred to as ex-cat claims ratio when expressed as a percentage of net insurance revenue.
Expenses and other income	The sum of attributable expenses (within insurance service expenses), other expenses and other income. Referred to as expense ratio when expressed as a percentage of net insurance revenue.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during an accounting period, before deduction of reinsurance premium. This metric is used to derive insurance revenue under the premium allocation method, which is an allocation of total expected premium, derived based on gross written premium, to each period of coverage on the basis of the passage of time as described in note 2.1 of the Financial Report.
Insurance profit or loss	The sum of the insurance operating result, net insurance finance income or expenses and net investment income or loss on assets backing policyholders' funds. Referred to as insurance profit margin when expressed as a percentage of net insurance revenue.
Insurance revenue	The proportion of gross written premium recognised as revenue in the current accounting period, reflecting insurance coverage provided during the period. This is the equivalent of gross earned premium under AASB 1023.
Liability for incurred claims (LIC)	The liability established for claims and attributable expenses that have occurred but have not been paid. This replaces the outstanding claims liability under AASB 1023.
Liability for remaining coverage (LfRC)	The liability that represents insurance coverage to be provided by QBE after the balance date. This is the equivalent of unearned premium net of premium receivable, unclosed premium, deferred commission and deferred acquisition costs under AASB 1023.
Loss component	A component of the LfRC within the insurance contract liabilities that relates to losses recognised on onerous contracts.

Glossary continued

SELECTED TERMS

Loss-recovery component	A component of the asset for remaining coverage (AfRC) within the reinsurance contract assets that represents recoveries on reinsurance contracts held that correspond to losses recognised on onerous contracts.
Net claims expense	The portion of insurance service expenses related to gross claims expenses, net of reinsurance income associated with reinsurance recoveries on claims. Management analysis of net claims expense includes the impacts of unwind of discount on claims reserves.
Net claims ratio	Net claims expense as a percentage of net insurance revenue.
Net commission	The portion of insurance service expenses related to commission expenses, net of commission income from reinsurance contracts held that are recognised within reinsurance income.
Net commission ratio	Net commission as a percentage of net insurance revenue.
Net insurance revenue	Insurance revenue net of reinsurance expenses. This is the equivalent of net earned premium under AASB 1023.
Net outstanding claims	Claims reserves within the net LIC net of recoveries from reinsurance loss portfolio transfers.
Prior accident year claims development	The portion of net claims expense attributable to prior accident years. Referred to as prior accident year claims development ratio when expressed as a percentage of net insurance revenue.
Reinsurance	An agreement to indemnify an insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the insurer. The entity accepting the risk is the reinsurer and is said to accept inward reinsurance (or referred to as a reinsurance contract issued). The entity ceding the risks is the cedant or ceding company and is said to place outward reinsurance (or referred to as a reinsurance contract held).
Risk adjustment	A component of insurance and reinsurance contract asset and liabilities that reflects the compensation required for bearing uncertainty about the amount and timing of cash flows that arises from non-financial risk. This replaces the risk margin under AASB 1023.

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