



QBE INSURANCE GROUP

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All amounts in Australian dollars unless otherwise stated.

A track record of underwriting profits

	*COR 2004 %	COR 2005 %	COR 2006 %	COR 2007 %	COR 2008 %
Australia	89.7	83.6	82.9	82.9	90.6
Asia Pacific	86.4	82.3	82.7	82.7	82.9
Europe	95.6	90.0	88.9	92.1	93.8
Lloyd's	91.6	94.5	82.1	75.7	74.2
Americas	93.5	92.9	89.7	93.6	93.6
Equator Re	68.8	89.8	81.4	80.5	83.8
GROUP	91.2	89.1	85.3	85.9	88.5

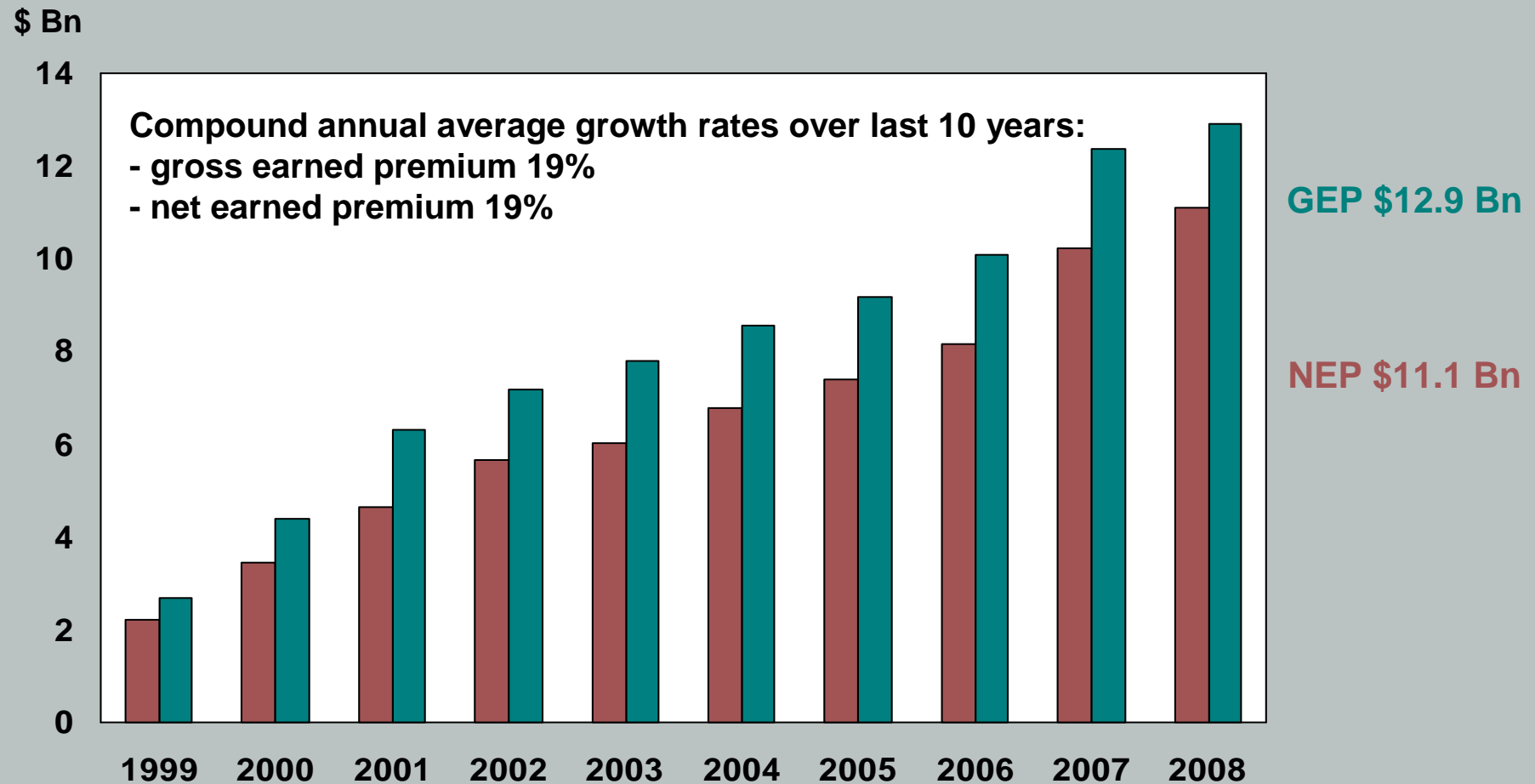
2009 Group Expectations:

Subject to the usual caveats:

- Combined operating ratio expected to be less than 88%
- Overall premium rates expected to increase by 4%
- 2008 agency acquisitions will assist combined operating ratio by around 2.5%

* Combined operating ratio, representing total claims, commissions and expenses as a percentage of net earned premium

History of premium income - a growth story



QBE in great shape

- Businesses and balance sheet in great shape to capitalise on many opportunities available
- Substantial majority of our products and businesses in the 45 countries in which we operate producing returns above our 15% minimum ROE requirement
- QBE continues to outperform its peers in most markets
- Stable and proven team of insurance professionals
- 2009 overall average premium rates expected to be up 4% on renewals and positive signs of hardening market conditions
- 2009 gross written and net earned premium expected to be up by 20% to 25% using budgeted fx rates
- 2009 combined operating ratio expected to be less than 88% - subject to large individual risk and catastrophe claims not exceeding 10% of net earned premium
- Quality insurance business with underwriting profit expected to increase by around 30% in 2009

QBE in great shape

- Our short duration strategy on cash and fixed interest investments has allowed us to benefit from the wider credit spreads on reinvestment and avoid impairment on any one of our \$27 billion of cash and fixed interest securities
- Total regulatory capital is \$3.3 billion above our calculation of APRA's increased stringent risk based minimum capital requirement (MCR) of \$4.6 billion (MCR 2007: \$3.6 billion) – further discussions being held with APRA which could substantially improve capital adequacy
- Debt to equity at lowest level (32.9%) for many years providing opportunity for future funding when markets return to normal levels
- Total insurance liabilities (outstanding claims and unearned premium) at 93% probability of adequacy using “risk free” government bond discount rates
- We will maintain a low risk strategy for cash and fixed interest investments which means that investment yields will be lower for 2009
- QBE's profit potential when investment markets return to normal is very encouraging

QBE defies financial market turmoil and a year of large claims activity for industry

- Net profit after tax \$1,859 million (2007: \$ 1,925 million); a solid financial result considering the adverse impact of the global financial crisis
- Insurance profit of \$2,183 million (2007: \$2,262 million) or 19.7% of net earned premium (2007: 22.2%)
- Gross written premium up 6% to \$13,142 million, due mainly to acquisitions in 2007 and 2008 and a high retention of business, partly offset by the stronger average Australian dollar against sterling
- Cash flow from operations again very strong at \$2,251 million (2007: \$2,374 million)
- Net investment income increased from \$1,132 million last year to \$1,177 million and includes realised and unrealised net equity losses of \$554 million, foreign exchange gains of \$409 million and profit on repurchase of QBE perpetual debt of \$303 million – investments all marked to market through profit
- Strong cash flow, the weaker Australian dollar and funds from acquisitions resulted in a 16% increase in invested funds to \$28.5 billion (2007: \$24.6 billion)
- Return on equity at 20.9% of weighted average shareholders' funds (2007: 26.1%)

** Assumes all hybrid securities are dilutive and weighted for the new shares issued in December 2008*

QBE defies financial market turmoil and a year of large claims activity for industry

- Reinsurance expense was 13% of gross written premium improving on our target of 15% primarily due to lower reinsurance costs and synergies from acquisitions
- QBE's estimated net exposure to the largest single realistic disaster scenario at year end was 3.7% of net earned premium (2007: 3.5%)
- Net earned premium up 9% to \$11,087 million
- Combined operating ratio (COR) was 88.5% compared with 85.9% last year
- All insurance divisions achieved underwriting profits in a difficult environment with CORs ranging from 82.9% to 93.6%
- Gross claims ratio increased from 53.8% to 60.2% reflecting an increase in large individual risk and catastrophe claims
- Net claims ratio increased from 54.3% to 57.6% - 2008 includes \$200 million prudent claims reserves for credit crunch
- There were 29 natural peril catastrophe claims with a net cost to QBE of \$424 million compared with 21 last year at a net cost of \$317 million
- Income tax expense reduced to 23% of profit before tax (2007: 24%) due to increased profits in lower tax paying countries

Analysis of claims incurred

	2008 %	2007 %	2006 %
Analysis of net claims ratio:			
– Attritional ⁽²⁾	47.5	47.7	47.4
– Large and catastrophe ^{(2) (3)}	10.2	6.6	8.9
– Risk margin upgrade	(0.1)	0.1	1.4
Net claims ratio ^{(1) (4)}	57.6	54.4	57.7

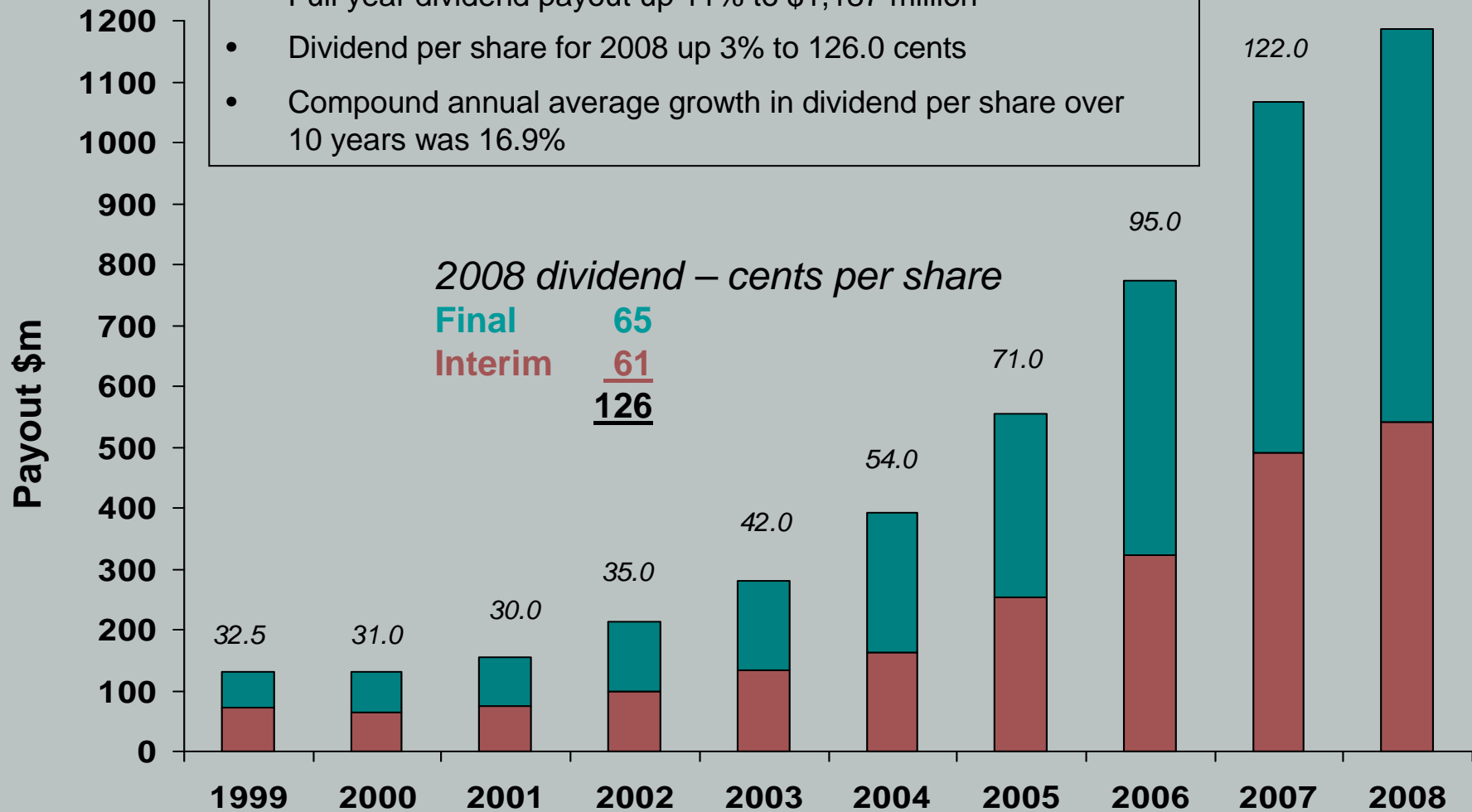
- 1) Represents net claims incurred as a % of net earned premium - the net claims ratios have been restated from actual reported ratios to include US acquisitions on an “as if” basis for 2006 and 2007 years
- 2) Attritional claims are defined as claims with a net cost to QBE of less than \$2.5 million; large individual risk and catastrophe claims are \$2.5 million and above
- 3) Increase in large individual risk and catastrophe claims in 2008 due to higher frequency and \$200 million conservative allowance for financial and credit related claims resulting from the financial crisis
- 4) 2008 **accident** year net undiscounted claims ratio (including risk margins) was 67.0% compared with 64.5% for 2007 due to an additional 3.6% in large individual risk and catastrophe claims partly offset by reduced risk margins due to lower interest rates

Highlights

- Undiscounted risk margins are around 9.4% of undiscounted claims provisions; a ratio largely unchanged over the past 4 years
- Probability of adequacy of outstanding claims is well in excess of APRA's 75% minimum benchmark
 - 86.1% using risk free government bond rates (as required by APRA)
 - 89.4% using risk free swap rates (as applied by life insurers)
 - around 93% using risk free government bond rates for 2009 and 2010 and normalised risk free government bond rates of US\$ 3.25%, £ 4.25% and A\$ 6.0% from 2011 onwards
- Total risk margins adversely impacted by approximately \$800 million using the substantially lower risk free government bond rates. Average interest rates down 3.1% for Australia, 1.9% for US and 2.2% for UK
- No explicit changes to inflation assumptions except for Australia
- Government bond yields have increased slightly since year end

Dividend performance

- Full year dividend payout up 11% to \$1,187 million
- Dividend per share for 2008 up 3% to 126.0 cents
- Compound annual average growth in dividend per share over 10 years was 16.9%

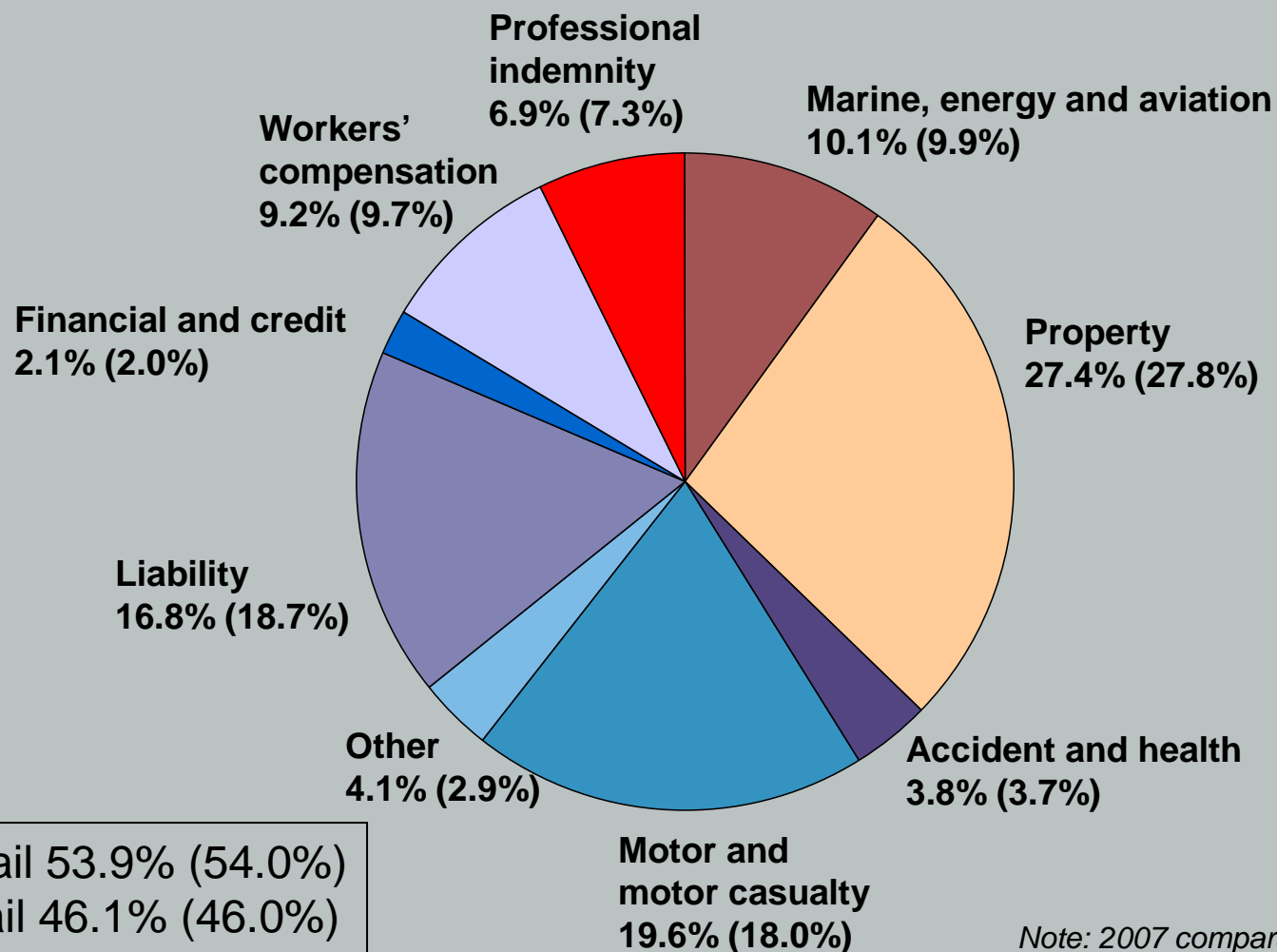


Worldwide operations

	GWP	Growth	COR		Net profit after tax	
	2008	2008	2008	2007	2008	2007
	\$m	%	%	%	\$m	\$m
Australia	2,914	12	90.6	82.9	560	445
Asia Pacific	661	13	82.9	82.7	76	89
QBE Insurance Europe	2,525	1	93.8	92.1	201	341
Lloyd's division the Americas	2,486	(6)	74.2	75.7	373	465
Equator Re	4,462	22	93.6	93.6	281	247
Elimination – internal reinsurance	2,231	12	83.8	80.5	368	338
	(2,137)		-	-	-	-
Group	13,142	6	88.5	85.9	1,859	1,925
Direct and facultative	11,779	5	88.0	86.5	1,697	1,623
Inward reinsurance	1,363	10	92.5	81.6	162	302
Group	13,142	6	88.5	85.9	1,859	1,925

Worldwide portfolio mix

gross earned premium



Capital adequacy

	Sensitivity	31 Dec 2008 \$m	31 Dec 2007 \$m
Tier 1			
Share capital and reserves	11,224	11,230	8,472
Perpetual securities	382	382	1,294
Excess risk margins ^{[1], [4]}	1,400	1,162	1,577
Less deductions	(5,700)	(5,657)	(3,481)
	7,306	7,117	7,862
Tier 2			
Subordinated debt and hybrids ^[2]	1,384	805	745
QBE capital base*	8,690	7,922	8,607
Minimum capital requirement* ^[3] (“MCR”)	4,459	4,621	3,612
Capital adequacy multiple ^[4]	1.9 times	1.7 times	2.4 times

Sensitivity – items under discussion with APRA and expected to benefit QBE Group’s MCR

1. Excess risk margins recalculated using swap rates
2. Assuming hybrids, LYONS IV of \$579 million are allowed as tier 2 capital
3. Allowing for the maximum event retention (“MER”) to be tax effected
4. Potential further benefit of up to 10% of MCR (\$440 million) applying QBE’s economic capital model to satisfy APRA’s prudential standard GPS113 paragraph 28
5. Potential further benefit for tax on excess risk margins of \$400 million

* using our calculation of APRA’s risk weighted capital adequacy model for Australian insurance groups effective March 2009

Acquisitions

- 11 earnings per share accretive acquisitions during the year:
 - Deep South, a specialist commercial motor underwriting agency in the US, effective from 1 January
 - North Pointe Holdings a specialist general insurer in the US, effective from 30 April
 - Residential lenders' mortgage insurers QBE LMI Australia and Asia completed in fourth quarter 2008
 - CAU agency in the US, effective from 1 November
 - ZC Sterling, a specialist home insurance underwriting agency in the US, effective from 1 December
 - Burnetts marine and energy agency in the US, effective from 31 December
 - Compusure, FPUA and UAA underwriting agencies in Australia and the SIU underwriting agency in the US
- \$2.7 billion initial cost expected to generate \$900 million of new gross written premium and total profit before tax of \$565 million in 2009
- Acquisitions of underwriting agencies slightly reduced net tangible asset backing per share

Lenders' Mortgage Insurance

- In 2008 QBE acquired PMI Australia (now QBE LMI) a consistently profitable residential LMI insurer for over 40 years, with S&P AA- rating
- Gross earned premium \$203 million (2007: \$194 million) – Target 2009: \$207 million
- Combined operating ratio (pre acquisition adjustments) 94% (2007: 71%)
- QBE LMI statutory entity net assets at 31 December 2008 were \$800 million
- Total insurance liabilities in QBE Group and QBE LMI at year end

	2008	2007
	\$m	\$m
Unearned premiums	685	555
Outstanding claims – predominantly IBNR	<u>605</u>	<u>85</u>
	<u>1,290</u>	<u>640</u>
- External reinsurance protection for mortgage default catastrophe \$145 million excess \$750 million
- Insurance liabilities represent in excess of 15 times the 60 day mortgage default rate of 0.49% (0.46% at 30 June 2008), i.e. over 99.5% of borrowers are not in default

2009 market conditions

- QBE Group overall average premium rate expectations
 - Australia expecting increases of greater than 5%
 - Asia Pacific expecting increases of 3%
 - European operations expecting increases of around 4%
 - the Americas expecting increases of close to 3%, but with tight economic conditions prevailing
- QBE's business plans are based on underwriters achieving a minimum return on allocated capital for products of 15% per annum
- Reinsurance pricing expected to harden further in 2009 and QBE Group well placed to leverage its buying power given the diversified book, economies of scale and proven strong claims track record
- Indications of a hardening general insurance cycle

2009 projected premium income

	Gross written premium A\$bn	Original currency
Australia	3.3	A\$3.3bn
Asia Pacific	0.8	A\$0.8bn
QBE Insurance Europe	3.0	£1.35bn
QBE Underwriting – Lloyd's division	2.9	£1.3bn
the Americas	6.2	US\$4.2bn
Equator Re	2.9	A\$2.9bn
Equator Re elimination	(2.9)	(A\$2.9bn)
Total Group	16.2	

* assumes A\$1 = US\$0.68 and A\$1 to £0.45

2009 outlook

Subject to no material movement in budgeted exchange rates; large individual risk and catastrophe claims not exceeding the substantial allowance in our business plans; and no major fall in equity markets or interest rates, we expect:

- Gross written premium and net earned premium growth by 20% to 25%, excluding new acquisitions in 2009
- Premium forecasts based on average Australian dollar exchange rates of US\$0.68 cents and £0.45
- 2009 premium rates expected to increase by an overall average 4%
 - organic growth expected to match lapsed business with continued high customer retention
 - Australian premium rates expected to increase by more than 5%
- Combined operating ratio of less than 88%, or growth in underwriting profit of around 30%, assisted by acquisitions in 2008
- An insurance margin of 16% to 18% of net earned premium, impacted by lower interest rates
- Attritional claims ratio expected to remain below 50%

2009 outlook

- Expected gross investment yield of around 3% - a 1% movement is equivalent to around \$300 million before tax
- Continue low risk and absolute return investment strategy
- Continue our successful strategy of product and geographic diversification and securing distribution channels by acquisitions that add shareholder value
- Maintain Group capital adequacy well above our minimum threshold of 1.5 times
- A combination of current underwriting profitability, rising premium rates, benefits from 2008 acquisitions, growth opportunities at reduced prices and normalised investment yields, give us confidence of our prospects beyond 2009

Company history

QBE has a history of growth and profitability supported by over 120 acquisitions in the past 25 years

	Gross written premium A\$m	COR %	Insurance profit margin %	Insurance profit A\$m	Total investments A\$m	Net profit after tax A\$m
1999	2,877	103.9	2.5	56	5,232	132
2000	4,406	102.5	5.4	186	7,334	179
2001	6,793	109.6	(2.6)	(119)	9,183	(25)
2002	7,723	97.7	7.2	406	11,504	279
2003	8,350	93.8	10.4	627	11,823	572
2004	8,766	91.2	13.7	928	14,975	857
2005	9,408	89.1	17.4	1,288	17,597	1,091
2006	10,372	85.3	21.9	1,788	19,972	1,483
2007	12,406	85.9	22.2	2,262	24,606	1,925
2008	13,142	88.5	19.7	2,183	28,541	1,859



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