CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

On February 25th the board reported a record net profit after tax of $572 million, an increase of 105% on the profit of $279 million for 2002.

The increased profit arose from outstanding results in all our insurance divisions and improved equity markets. The result is particularly impressive in light of the negative impact of the rising Australian dollar in 2003, which diluted the underlying results of our substantial overseas businesses, when translated to Australian dollars.

The basic earnings per share was 86.5 cents per share up 103% when compared with 42.7 cents last year.

The directors have declared and paid a final dividend of 22 cents per share, up 19% on the final dividend of 18.5 cents per share in 2002.

The final dividend was 30% franked.

On current forecasts the franking for dividends in the immediate future is likely to be at a slightly higher rate due to increased profits and higher tax payments in Australia.

The total dividend payout of $281 million for 2003 has increased from $213 million for the previous year. The dividend reinvestment plans have been well supported with $156 million or 55% of the 2003 payout reinvested in your company.

QBE's share performance has benefited from the increase in profit and generally improved conditions in the insurance sector, with an investment in QBE's shares outperforming the Australian All Ordinaries Accumulation Index and inflation with a compound annual average growth of 14.2% over 5 years, 16.8% over 10 years and 22.5% over 20 years.

There was considerable volatility in foreign exchange markets during 2003 with the Australian dollar appreciating against all major currencies.

As an example, the US dollar fell 25% and Sterling 17% against the A$ during the year.

With around 80% of QBE's premium income, assets and liabilities in overseas currencies, the movement in currencies had a considerable impact, as can be seen in the slide now displayed.

However, foreign exchange hedging has resulted in shareholders' funds being largely protected from the major currency movements.

QBE holds forward exchange contracts solely for the purpose of hedging and no speculative foreign exchange positions are entered into.

Our low risk investment strategy has been maintained. In line with improving equity markets, the company has increased the weighting in listed equities from 7.9% to 10.5% of total investments at 31 December 2003.

The increase was mainly in US equities.
The company also shortened the maturity of fixed interest investments to reduce the effect of potential market value volatility from anticipated rising interest rates.

Shareholders' funds have grown by 12% to $3.3 billion at 2003 year end, reflecting the increased net profit and dividend reinvestment plans, offset by the movement in the foreign currency translation reserve.

The balance sheet and all key financial ratios are strong and an improvement on the previous year.

With improved debt markets and continuing low interest rates, the company was able to secure a US$250 million long term subordinated debt issue at more favourable terms to replace existing bank debt and to support lower tier 2 capital requirements.

Also, QBE replaced virtually all bank letters of credit supporting part of our Lloyd's capital funds, with a US$550 million issue of contingent securities.

These are explained in detail in note 27 on page 74 of the annual report.

Both these securities have enhanced our capital flexibility and financial strength.

Borrowings as a percentage of shareholders' funds were 40.3% at the end of 2003 compared to 49.3% at the end of 2002.

On our calculations, QBE Group's regulatory capital is around 2.1 times the estimated minimum capital requirement under the risk based approach of APRAs' rules for Australian licensed insurers.

It should be noted that our calculations include all subordinated debt and hybrid securities as lower tier 2 capital.

This is an increase from 1.6 times in the previous year.

The increase is due to higher shareholders' funds, strengthening of our capital base, the stronger Australian dollar and increased prudential margins in insurance liabilities.

The financial strength of the QBE Group balance sheet has also been affirmed by the A+ ratings given by Standard & Poor's and Fitch for the Group's main subsidiaries.

The US$471 million of hybrid securities (LYONs) issued in 2002, when appropriate, may at the sole discretion of the directors be converted into QBE shares, settled in cash or a combination of both.

These securities have provided significant economic benefits to shareholders.

The current economic value of these securities favours conversion into QBE shares at some time in the future.

I repeat my statements in the annual report that our aim is only to convert these securities into QBE shares to support growth, through potential acquisitions that are earnings per share positive.
Our growth targets over the next 2 years, excluding major acquisitions, are more than adequately supported by expected profits and present capital levels.

QBE's intellectual capital is strong, represented by some 6,700 employees around the world.

It is our policy to invest in the development, retention and motivation of our employees with an emphasis on encouraging business acumen, customer service and performance.

These are consistent with our core corporate values, especially integrity.

The board is strongly supportive of management's focus on staff development, succession planning and the provision of adequate rewards and incentives to retain quality personnel.

Our staff incentive schemes are aligned to the future interests of shareholders, with short and long term incentive schemes based on the achievement of financial targets for performance, principally return on equity.

Shareholders are reminded that employee incentives are determined using our seven year spread basis of accounting, which normalises the effect of the peaks and troughs in the market value of our investments in any one year.

Generally speaking, the minimum return on equity hurdle commences at 13 percent.

Also important to QBE employee motivation is the Employee Share and Option Plan which has been in place since 1981.

The Plan has been extremely successful with 76% of staff at all levels throughout the organization holding QBE shares.

Presently 3.5% of our issued shares are held by employees.

This is within the 5% ceiling approved by shareholders.

There are 217 senior managers eligible for participation in the QBE Senior Executive Equity Scheme.

This is the Group's long term incentive programme which provides share and option allocations as a reward for achievement of the past year's performance hurdles.

The programme is structured to encourage long term commitment to QBE with management, like shareholders, benefiting from a growing share price. The reverse also applies.

The combination of competitively structured performance based incentives and staff who strongly identify with the embedded QBE culture has meant that we continue to have a low turnover of key personnel.

As an example of our incentive arrangements, set out in the slide displayed is a summary of the CEO's incentives for 2003.

The 2003 long term incentive payments, which are rewards for past performance, are made up of a conditional entitlement to shares and options at market value.
exercisable in 3 years or earlier, through redundancy, death or retirement through age or ill health.

There has been much discussion in recent times about corporate governance and risk management in the financial services sector.

History has shown that rigidly following corporate governance rules is no guarantee of financial or other success and that good governance practices must be instilled by the behaviour of a company’s board, management and staff in their daily activities.

The QBE board together with its' management is committed to a robust corporate governance structure and risk management framework and clear and objective disclosure of these practices in a form which may be easily understood by all stakeholders.

Underpinning the governance framework, and of equal importance to the protection of QBE shareholder and customers, is the strength of our claims reserves, the quality of our reinsurers and the depth of the QBE culture of integrity and business acumen in all our dealings.

The QBE board and management spend a considerable amount of time monitoring developments in corporate governance worldwide, such as the guidelines issued by the ASX in March 2003, the progress of the Australian federal government's CLERP 9 legislation and similar supervisory developments in our overseas markets.

Overly extensive regulatory requirements are being imposed by government appointed insurance supervisors, perhaps in reaction to past failures in the insurance industry.

Some of the changes forced upon our industry are of limited value to policyholders and shareholders and are adding considerable cost to the operations of the business.

The cost to QBE of meeting regulatory requirements around the world is now in excess of $50 million per annum or close to 7.5% of the Group's pre tax profit for 2003.

We expect this cost to increase in future years due to further regulatory reforms in Australia, the United Kingdom and other markets as well as the change to International Financial Reporting Standards in 2005.

Now let me talk about this year ie 2004 ...

I am pleased to report that the results for the first quarter are on track to meet our target full year 10% to 11% insurance profit margin and premium growth targets of an increase of 10% in gross written premium and 12.5% net earned premium.

Cash flow for the first quarter is strong and gross investment yields of close to 4% per annum are being achieved.

Subject to the usual caveats, for example, large losses and catastrophes not exceeding the significant allowances in our business plans, we are confident of meeting our profit targets and growth for this year.
Opportunities through acquisition will continue to be considered.

To close, let me congratulate the chief executive officer, the leaders who form our Group executive and the QBE team around the world for their commitment and efforts in producing such an excellent result for the year.

I would also like to thank my fellow directors for their continued support.

I will now hand over to the chief executive officer to present his report on the Group's operations and the way forward.