QBE INSURANCE GROUP

Australia Conference – May 2009

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7 May 2009

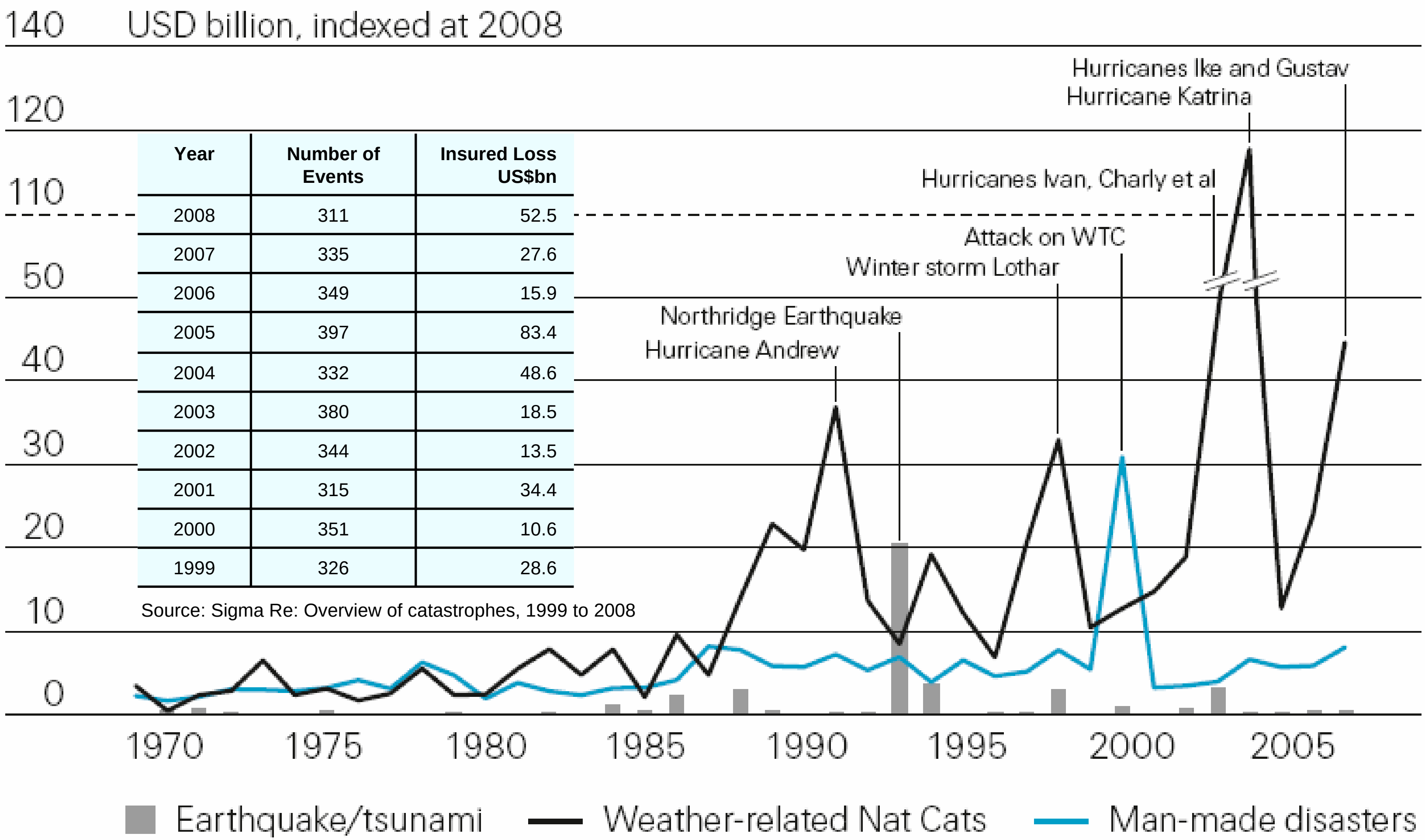
All amounts in Australian dollars unless otherwise stated.

2008 results highlights

- A solid financial result considering the adverse impact of the global financial crisis
  - Net profit after tax $1,859 million (2007: $1,925 million);
  - Gross written premium up 6% to $13,142 million
  - Net earned premium up 9% to $11,087 million
  - Return on equity at 20.9% of weighted average shareholders' funds* (2007: 26.1%)
- Strong technical results
  - Combined operating ratio was 88.5% (2007: 85.9%)
  - Insurance profit of $2,183 million (2007: $2,262 million)
  - Insurance profit as a percentage of net earned premium was 19.7% (2007: 22.2%)
  - Net claims ratio increased from 54.3% to 57.6% - 2008 includes $200 million prudent claims reserves for credit crunch
- Net investment income increased from $1,132 million last year to $1,177 million
- Cash flow from operations very strong at $2,251 million (2007: $2,374 million)

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

Insured global catastrophe losses, 1970 - 2008



Year	Number of Events	Insured Loss US$bn
2008	311	52.5
2007	335	27.6
2006	349	15.9
2005	397	83.4
2004	332	48.6
2003	380	18.5
2002	344	13.5
2001	315	34.4
2000	351	10.6
1999	326	28.6

Source: Sigma Re: Overview of catastrophes, 1999 to 2008

Competitor performance
2004 - 2008

Top 10 global P & C insurers

Average combined operating ratio

Rank	Company	Combined Operating Ratio 2004 %	2005 %	2006 %	2007 %	2008 %	Weighted Average %
1	FM Global	78.0	77.0	74.9	75.4	98.8	81.2
2	Tryg Vesta	87.9	86.4	83.8	82.6	89.0	85.9
3	**QBE**	**91.2**	**89.1**	**85.3**	**85.9**	**88.5**	**87.8**
4	Progressive	85.0	88.0	86.7	92.6	94.6	89.4
5	Chubb	94.7	94.4	85.5	84.4	90.9	90.0
6	Berkshire Hathaway	94.0	99.7	82.2	88.5	87.8	90.1
7	Sampo	90.1	90.9	90.1	90.9	91.9	90.8
8	W R Berkley	91.0	90.2	89.7	90.3	94.6	91.1
9	USAA	89.4	93.4	83.7	93.0	99.3	91.8
10	ACE	96.3	98.9	88.1	87.9	89.6	92.1
	Top 50 Average	**98.3**	**101.2**	**93.9**	**96.0**	**99.4**	**97.7**

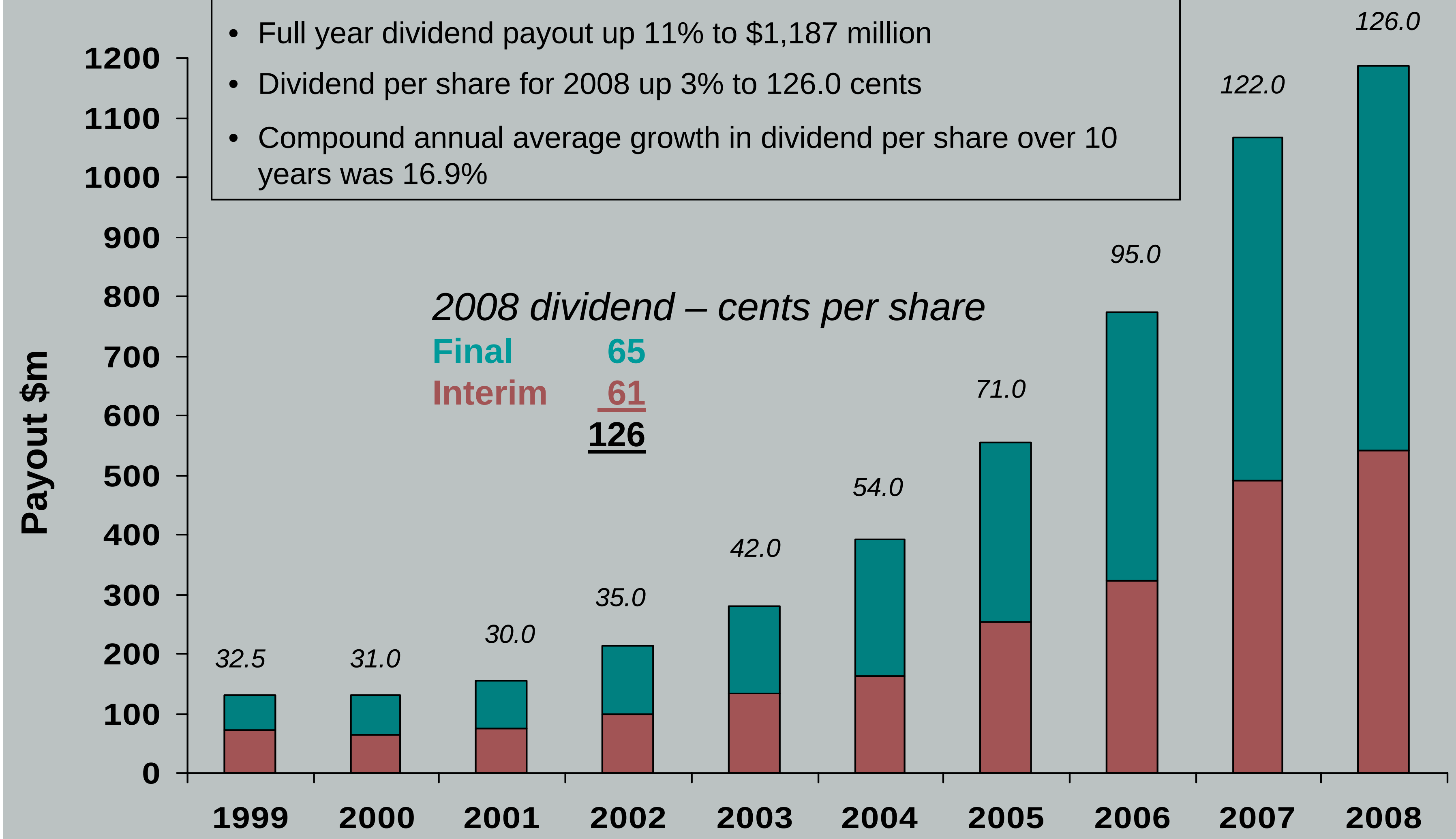
Average return on equity

Rank	Company	Return on Equity 2004 %	2005 %	2006 %	2007 %	2008 %	Weighted Average %
1	**QBE**	**24.5**	**23.9**	**26.1**	**26.1**	**20.9**	**24.0**
2	Tryg Vesta	23.0	28.0	35.0	23.0	9.0	23.4
3	Progressive	30.0	25.0	25.3	19.5	(1.5)	20.5
4	W R Berkley	22.0	21.0	25.0	23.0	7.8	19.0
5	Royal Bank of Scotland	18.9	18.2	19.0	19.9	17.1	18.5
6	Sampo	13.9	20.6	18.7	16.0	19.9	17.8
7	Royal Sun Alliance	17.7	21.6	20.7	21.3	18.5	17.4
8	Chubb	16.6	16.2	19.2	19.8	12.9	17.0
8	Zurich	13.6	15.5	20.4	21.3	12.1	17.0
10	Venna	19.5	21.9	14.8	18.0	14.3	16.2
	Top 50 Average	**11.3**	**7.1**	**12.6**	**11.2**	**3.0**	**8.3**

Notes:
1. Tables reflect the top 10 performers of the worlds top 50 P & C insurers that have reported to date
2. Information sourced from published accounts and company websites for insurance and reinsurance business
3. The COR's include all identifiable expenses related to insurance activities and the COR is expressed as a % of NEP
4. The ROE's are as reported or where not reported are based on average shareholder's equity of general insurance and reinsurance assets
5. The weighted average COR's are the sum of the 5 years net earned premiums divided by total claims, commissions and expenses for the 5 years
6. The weighted average ROE's are the sum of the 5 years NPAT divided by the sum of the net assets for the 5 years
7. The top 50 insurers are measured by Net Earned Premium in US$m

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%



Investor feedback post 2008 results

- Concern over QBE’s capital adequacy
- Did QBE’s 2008 result benefit from excessive release of prior year risk margins?
- QBE’s loan mortgage exposure following the PMI acquisition
  - Potential for surprise?
- Capacity to achieve the target insurance margin of 16% to 18%

Capital adequacy

	Sensitivity QBE model 31 Dec 2008 $m	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]	1,830	1,162	1,577
Less deductions	(5,977)	(5,657)	(3,481)
	7,459	**7,117**	**7,862**
Tier 2			
Subordinated debt and hybrids [2]	1,384	805	745
QBE capital base*	**8,843**	**7,922**	**8,607**
Minimum capital requirement* (“MCR”)	**4,522**	**4,621**	**3,612**
Capital adequacy multiple [3]	**1.95 times**	**1.7 times**	**2.4 times**
Excess capital over MCR	**4,321**	**3,301**	**4,995**

Assumptions underlying QBE model

1. Excess risk margins recalculated using current government bond rates for 2009 and 2010 and normalised government bond rates post 2010
2. Hybrids, LYONS IV of $579 million are treated as tier 2 capital
3. Potential further benefit of up to 10% of MCR ($450 million) applying QBE’s economic capital model to satisfy APRA’s prudential standard GPS113 paragraph 28

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

Analysis of incurred claims and risk margins

	2008	2007	2006	2005
	$m	$m	$m	$m
Net claims incurred analysis (note 9)				
Current year	7,053	5,866	4,857	4,649
Prior year (net release)	**(665)**	**(313)**	**(306)**	**(232)**
Net claims incurred	6,388	5,553	4,551	4,417
Claims ratio to NEP	57.6 %	54.3 %	55.8 %	59.9 %
Insurance profit margin	19.7%	22.2%	21.9%	17.4%
Outstanding Claims & risk margins (note 22)				
Net outstanding claims (discounted)	16,161	13,871	11,645	10,870
Risk margins (discounted)	1,199	1,591	1,389	1,243
2008 risk margins applying normalised government bond rates post 2010	1,698			
Net outstanding claims (undiscounted)	17,196	15,652	13,328	12,290
Inherent margins in undiscounted outstanding claims	1,622	1,473	1,271	1,197
Ratio to net outstanding claims	9.4 %	9.4 %	9.5 %	9.7 %

Source: Refer notes 9 and 22 in the financial statements in the 2006 & 2008 annual reports

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
- QBE LMI statutory entity net assets at 31 December 2008 were $800 million
- Substantial insurance liabilities in QBE Group and QBE LMI at year end

	2008 **$m**	**2007** **$m**
Unearned premiums	685	555
Outstanding claims – predominantly IBNR	605	85
	1,290	640

- External reinsurance protection for mortgage default catastrophe $145 million excess $750 million
- Insurance liabilities held at year end are equivalent to a 60 day mortgage default rate of 9%. This is more than 16 times cover for the current default rate of 0.55%

Insurance profit margin

	Target 2009		2008	2007	2006	2005
	%		%	%	%	%
Insurance profit as a ratio to net earned premium	**16.0**	**18.0**	**19.7**	**22.2**	**21.9**	**17.4**
Comprising:						
Underwriting profit	11.5	13.5	11.5	14.1	14.7	10.9
Investment income on policyholders' funds	4.5	4.5	8.2	8.1	7.2	6.5
Insurance profit margin	**16.0**	**18.0**	**19.7**	**22.2**	**21.9**	**17.4**
Yield on policyholders' funds	3.0	3.0	5.3	5.8	4.8	4.4
Average period held (years)	1.50	1.50	1.56	1.39	1.51	1.48

Analysis of claims incurred

	2009 allowance %	2008 %	2007 %	2006 %
Analysis of net claims ratio:				
– Attritional (2)	49.0	47.5	47.7	47.4
– Large and catastrophe (2) (3)	10.0	10.2	6.6	8.9
– Risk margin upgrade	-	(0.1)	0.1	1.4
Net claims ratio (1) (4)	**59.0**	**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

Market conditions

- Overall rates for QBE’s January 2009 renewals met expectations
- Terms and conditions remain strong
- Expect overall rate increases of around 4% for 2009
- Indications of a hardening market, although remain cautious of the impact of the economic downturn
- Reinsurance market stable with continued pricing pressure
- Acquisition pipeline to increase – prices reducing
- Investment markets remain challenging

Managing the global financial crisis

- Focus on protecting assets
  - high grade, lower risk investments
  - limit interest rate/credit spread risk
  - management of receivables
  - reinsurance counterparty risk
- Maintain liquidity and reduce foreign exchange hedging risk
- Opportunistic buyback of debt to realise gains and lower debt equity ratio
- Lower investment yields
- Increase in premium rates
- Acquisition opportunities

QBE's relative strengths

- Strong balance sheet with no significant legacy issues, strong profitability and financial flexibility – quality assets/excess capital/liquidity/risk margins
- Prudent approach to managing insurance and investment risk
  - diversity – geographic/products
  - reinsurance strategy/reduced MER despite growth (3.8% of NEP)
  - absolute return, low risk, flexible investment strategy
  - ability to lead on terms and conditions on most business products
  - ability to manage risk retention through Equator Re
  - excellent loss statistics for monitoring attrition loss ratio and performing portfolio analysis/segmentation
- Strong management team with depth for succession
- Acquisition expertise - track record of successful acquisitions over a period of more than 20 years

Strategy
Operational performance goals 2009

- Protect our quality customer base and take advantage of hardening market conditions and rational competition
- Focus on securing acquisitions that meet our proven criteria
- Maintain attritional loss claims ratio at around 48% of NEP
- Achieve target returns from 2008 and 2007 acquisitions
- Continue high retention of key staff
- Complete process and system changes in Europe and Australia
- Maintain a low risk investment strategy and absolute return criteria

Strategy
Financial performance targets 2009

- Achieve an insurance profit margin of 16% to 18%
- GWP and NEP growth between 20% to 25%
- Reinsurance ratio of less than 13% of GWP
- Achieve a combined commission and expense ratio of 29.0% or less
- Tax rate of around 24%
- Maintain group capital adequacy multiple of more than 1.7 times APRA’s minimum requirement for Australian licenced insurers
- Gross investment yield of around 3.0%
- Target net profit after tax better than 2008 – subject to usual caveats e.g. large losses and catastrophes not exceeding the significant allowances in business plans; no material movement in budgeted exchange rates

QBE's challenges

- Managing the impact of the global financial crisis
- The effect of currency movements on profitability and assets and liabilities
- Keeping our quality customers by ensuring that premium rates are realistic for the loss experience and exposure
- Retaining our key people
- Converting acquisitions to achieve profitable growth

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