QBE Insurance Group 2006 half year results presentation

All amounts in Australian dollars unless otherwise stated

Highlights

- Record operating profit after tax for the half year up 20% to $591 million (2005: $491 million)
- Profit before tax up 20% to $809 million (2005: $675 million)
- Insurance profit up 35% to $748 million (2005: $553 million) with an insurance profit margin of 18.7% (2005: 15.8%)
- Results reflect continued low frequency of claims and better than expected overall weighted average premium rate increases
- Results and premium rate increases also reflect the benefits of our geographic spread and product diversification
- Shareholders' funds increased by 9% to $5,565 million since 31 December 2005
- Diluted earnings per share, including hybrid securities, up 17% to 69.1¢ per share (2005: 59.2¢ per share)
- Return on average shareholders' funds 22.2% (2005: 23.1%)

Highlights

- Gross written premium up 10% to $5,656 million (2005: $5,123 million) due to acquisitions in 2005, improved customer retention and higher than expected premium rate increases
- Gross earned premium up 14% to $4,932 million (2005: $4,331 million)
- Net earned premium up 14% to $3,998 million (2005: $3,506 million)
- Acquisitions to date will add $350 million annualised premium for the Group
  - General aviation business in Denmark
  - General aviation team and new syndicate in Lloyd's
  - Farm and agricultural portfolio in mid-west US

Highlights

- QBE's global weighted average premium rate increases were around 6.5% for first half, compared with our previous forecast of 4%
  - Rates on catastrophe exposed property portfolios and our Lloyd's marine and energy syndicates substantially increased
  - Partly offset by reduction in rates for our non-US casualty products and other Australian portfolios
- QBE's global premium rates for June renewals slightly ahead of six month weighted average and reductions on non-US casualty products and other Australian portfolios less than anticipated
- In Australia, our average premium rate reductions were less than expected at minus 3% compared with our forecast of minus 5%; June renewals average was around minus 4%

Highlights

- Combined operating ratio improved to 87.9% (2005: 90.3%)
- Underwriting profit up 42% to $482 million due to premium growth and strong performance of our diversified portfolios
- Reinsurance costs reduced to just less than 19% of gross earned premium despite higher cost of protection for inwards reinsurance business
- Maximum event retention as a percentage of net earned premium slightly reduced from 2005 levels
- Claims ratio down to 58.3% (2005: 61.0%) assisted by
  - overall increase in premium rates
  - continued low frequency of claims
- Favourable runoff of prior accident year outstanding claims offset by increased risk margins for 2006

Analysis of claims incurred

	Half year	Full year		
	Actual 2006 %	**Target 2006 %**	**Actual 2005 %**	**Actual 2004 %**
Claims ratio [1]	58.3	61.5	59.9	61.3
Analysis of claims ratio				
- attritional [2]	46.6	46.5	45.7	46.4
- large and catastrophe	7.2	14.1	11.7	10.4
- risk margin	4.5	0.9	2.5	4.5
	58.3	61.5	59.9	61.3

(1) Represents claims incurred as a % of net earned premium

(2) Claims with a net cost to QBE of less than $2.5 million

Highlights

- Net investment income down slightly to $331 million (2005: $337 million)
- Gross investment income $403 million compared with $409 million for the 2005 half year
- Total cash and fixed interest income up 12% to $359 million and outperformed benchmarks for all major portfolios
- Underperformance on equities due to relatively low exposure during January to March 2006
- Realised and unrealised equity gains were $15 million (2005: $55 million)
- Cash flow from operations was $322 million (2005: $672 million) due to payment of 2005 catastrophe claims, timing of reinsurance recoveries and funding of pension deficits
- Cash flow expected to be strong in the second half

Highlights

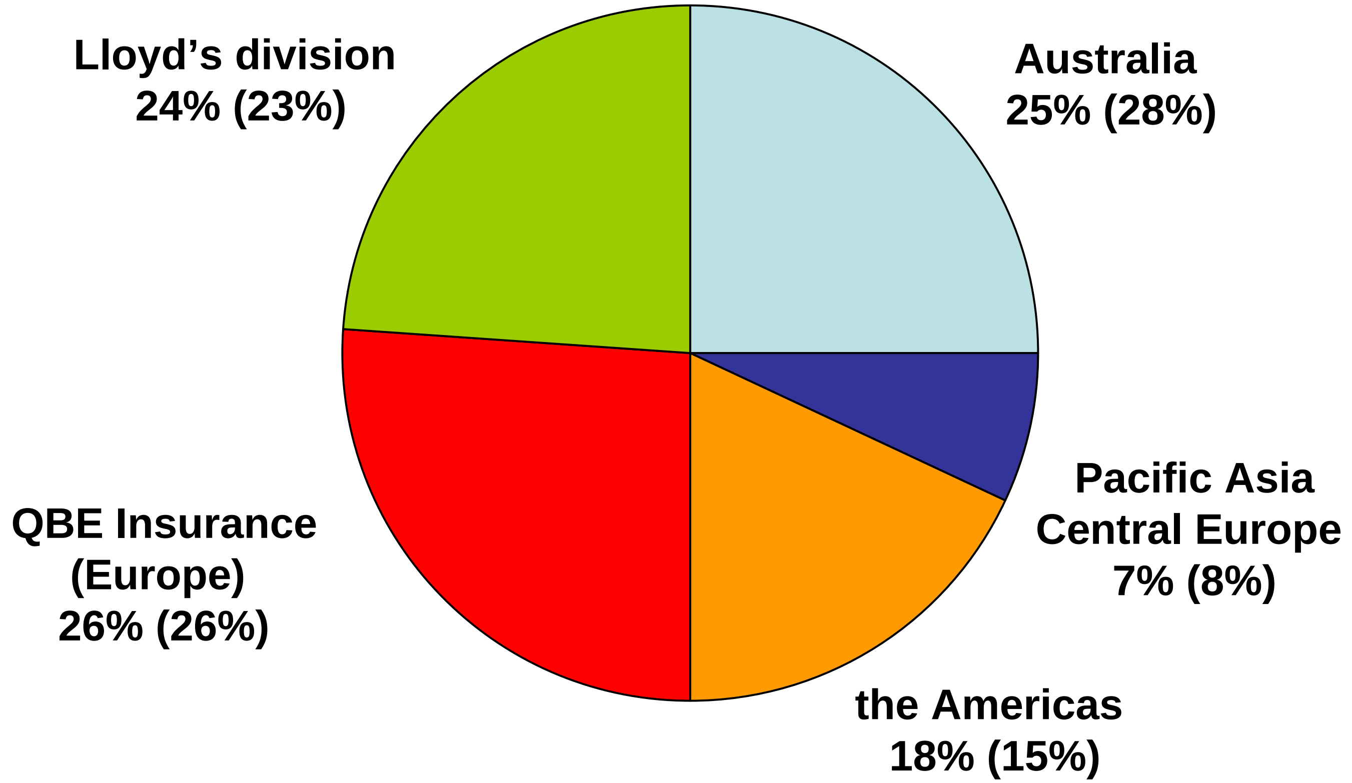
- Total acquisition cost ratio (expenses and commissions) was 29.6% of net earned premium (2005: 29.3%)
- Commission ratio increased to 17.6% (2005: 17.0%) due to changes in business mix
- Expense ratio reduced from 12.3% to 12.0% reflecting synergies previously announced, offset by increased systems implementation costs globally
- Income tax expense reduced slightly to 26.5% of profit before tax, due to increased profits in lower tax paying countries

Shareholder returns
half year ended 30 June 2006

- Interim dividend up 21% to 40.0¢ per share, 60% franked (2005: 33.0¢, 50% franked)
  - Ex dividend date 28 August 2006
  - Record date 1 September 2006
  - Payment date 14 September 2006
- Interim dividend payout $322 million, up 27% from the interim dividend paid in September 2005
- The Dividend Reinvestment Plan and Dividend Election Plan (bonus share plan) have been suspended due to strong capital adequacy

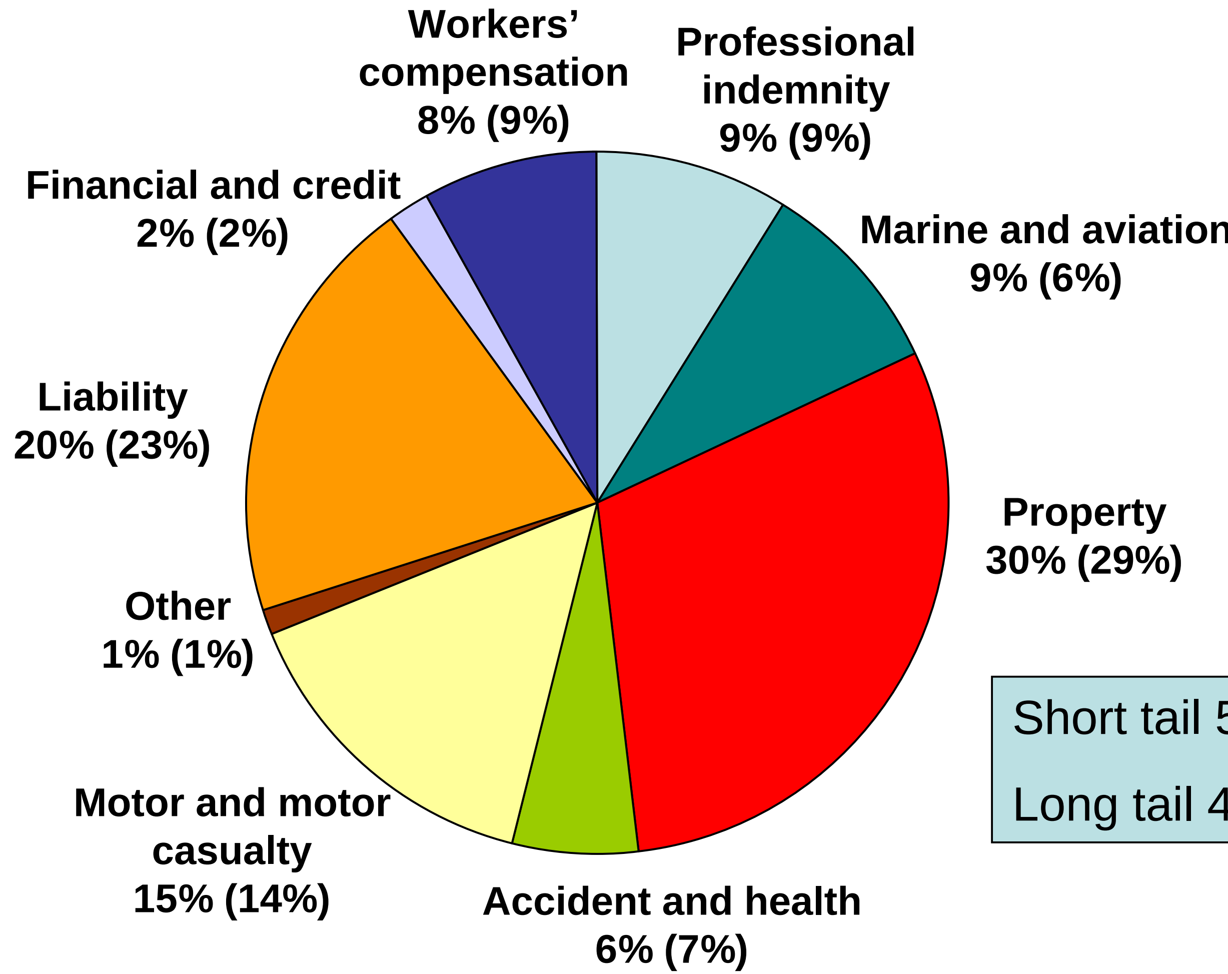
Geographical diversification

gross earned premium
half year ended 30 June 2006



Note - amounts in parentheses represent June 2005 comparatives

Worldwide portfolio mix
gross earned premium
half year ended 30 June 2006



Short tail 56% (53%)

Long tail 44% (47%)

Note - amounts in parentheses represent June 2005 comparatives

Worldwide operations

	HALF YEAR		FULL YEAR	
	June 2006	June 2005	Dec 2005	Dec 2004
Gross written premium $M	**5,656**	**5,123**	**9,408**	**8,766**
Gross earned premium $M	4,932	4,331	9,171	8,571
Net earned premium $M	3,998	3,506	7,386	6,781
Claims ratio %	58.3	61.0	59.9	61.3
Commission ratio %	17.6	17.0	16.9	17.5
Expense ratio % *	12.0	12.3	12.3	12.4
Combined operating ratio %	**87.9**	**90.3**	**89.1**	**91.2**
Underwriting profit $M	482	339	808	597
Investment income on policyholders' funds $M **	266	214	480	331
Insurance profit $M	748	553	1,288	928
Insurance profit % to NEP	**18.7**	**15.8**	**17.4**	**13.7**
Investment income on shareholders' funds $M	65	123	238	188
Amortisation	(4)	(1)	(3)	(1)
Net profit before tax $M	**809**	**675**	**1,523**	**1,115**
Income tax expense	(214)	(181)	(425)	(251)
Minority interest	(4)	(3)	(7)	(7)
Net profit after income tax and minority interest	**591**	**491**	**1,091**	**857**

* All expenses other than investment expenses and borrowing costs are allocated to the underwriting result

** Investment yield on average policyholders' funds 4.5% (2005: 4.1%). Increase reflects higher interest rates

Worldwide operations
half year ended 30 June 2006

	GWP	Growth	COR		Insurance profit margin		Net profit after tax	
	2006	2006	2006	2005	2006	2005	2006	2005
	$M	%	%	%	%	%	$M	$M
Australia	1,291	3	82.7	86.2	25.2	21.4	184	166
Pacific Asia Central Europe	345	(4)	83.0	88.8	21.1	15.8	39	34
QBE Insurance (Europe)	1,370	(3)	90.8	90.2	16.8	14.5	159	148
Lloyd's division	1,667	20	90.3	96.2	15.7	11.8	121	91
the Americas	983	38	91.0	93.2	12.5	10.1	47	28
Equator Re	517	112	86.9	83.1	22.2	20.8	41	24
Elimination – internal reinsurance	(517)	(112)	-	-	-	-	-	-
Group	5,656	10	87.9	90.3	18.7	15.8	591	491
General insurance	4,139	8	86.0	90.3	20.7	15.8	503	373
Inward reinsurance	1,517	16	93.6	90.4	13.2	15.8	88	118
Group	5,656	10	87.9	90.3	18.7	15.8	591	491

- Inward reinsurance as a proportion of GWP increased to 27% (2005: 26%) due to significant premium rate increases (not exposures). 2006 inward reinsurance result is after increased risk margins
- Excluding facultative reinsurance, inward reinsurance is 18% (2005: 19%) of GWP

Australia Pacific Asia Central Europe (APACE)

half year ended 30 June 2006

	Australia		PACE		Total APACE	
	2006	2005	2006	2005	2006	2005
Gross written premium $M	1,291	1,255	345	358	1,636	1,613
Gross earned premium $M	1,213	1,199	335	348	1,548	1,547
Net earned premium $M	1,031	1,004	265	260	1,296	1,264
Claims ratio %	55.2	59.1	40.8	44.6	52.3	56.1
Commission ratio %	13.1	14.3	19.6	19.2	14.4	15.3
Expense ratio %	14.4	12.8	22.6	25.0	16.1	15.3
Combined operating ratio	**82.7**	**86.2**	**83.0**	**88.8**	**82.8**	**86.7**
Insurance margin %	**25.2**	**21.4**	**21.1**	**15.8**	**24.4**	**20.3**

- Recent overall premium rate reductions countered by continued focus on insurance profitability, risk selection and statistical analysis to control attritional loss ratios
- High customer retention for business preferred by QBE
- Majority of portfolios and countries produced underwriting profits
- Premium rates at levels to achieve our profit expectations
- Confident that APACE can achieve gross written premium of around $3.2 billion and profitability targets for 2006

European operations

half year ended 30 June 2006

	QBE Insurance (Europe)		Lloyd's division		Total European operations	
	2006	2005	2006	2005	2006	2005
Gross written premium $M	1,370	1,407	1,667	1,393	3,037	2,800
Gross earned premium $M	1,280	1,138	1,201	1,015	2,481	2,153
Net earned premium $M	1,081	971	877	786	1,958	1,757
Claims ratio %	63.1	62.7	58.9	64.8	61.3	63.6
Commission ratio %	15.8	15.6	21.0	19.2	18.1	17.2
Expense ratio %	11.9	11.9	10.4	12.2	11.2	12.1
Combined operating ratio %	**90.8**	**90.2**	**90.3**	**96.2**	**90.6**	**92.9**
Insurance margin %	**16.8**	**14.5**	**15.7**	**11.8**	**16.3**	**13.3**

- Gross written premium up 9% and net earned premium up 11% due to high business retention, acquisitions in 2005 and average overall increase in premium rates of around 10%
- Improvement in COR reflects our focus on portfolio profitability and relatively few catastrophes in first half
- Risk profile reduced through cancellation of business with insufficient reward and higher deductibles for catastrophe exposed business
- New aviation team will commence writing business in October 2006
- Confident of achieving gross written premium target of around $5.1 billion for 2006

the Americas

half year ended 30 June 2006

	2006	2005
Gross written premium $M	983	710
Gross earned premium $M	903	631
Net earned premium $M	546	355
Claims ratio %	57.8	62.0
Commission ratio %	24.2	24.2
Expense ratio %	9.0	7.0
Combined operating ratio %	**91.0**	**93.2**
Insurance margin %	**12.5**	**10.1**

- Gross written premium up 38% and net earned premium up 54% due to acquisitions in 2005 and overall increase in premium rates of around 12%
- All general and reinsurance portfolios in the Americas producing underwriting profits
- Improved combined operating ratio of 91.0% (2005: 93.2%) reflecting careful risk selection, growth of general insurance business and rate increases in half year
- General insurance business now represents 76% of gross written premium (2005: 71%) in line with our strategy
- Claims ratio of 57.8% (2005: 62.0%) after increasing risk margins in outstanding claims
- In process of acquiring portfolio of farm and agricultural insurance business which supports strategy of building diversified, stable portfolios across the Americas
- On target to produce $2.0 billion of gross written premium in 2006

Equator Re
half year ended 30 June 2006

- Gross written premium up 112% to $517 million and net earned premium up 52% to $198 million due to higher premium rates on excess of loss protections and new quota share arrangements for our Lloyd's syndicates
- As previously indicated, Equator has increased its proportional reinsurance premium income from QBE insurance divisions whilst not substantially increasing exposures to any one catastrophe
- Combined operating ratio of 86.9% (2005: 83.1%) after increasing risk margins in outstanding claims
- Insurance profit of $44 million or 22.2% of net earned premium (2005: $27 million or 20.8%)

Investment income

half year ended 30 June 2006

	2006 $M	2005 $M
Dividends	22	25
Realised gains on equities	26	38
Unrealised (losses) gains on equities	(11)	17
Income from equities	**37**	**80**
Interest	340	281
Realised gains on fixed interest securities	32	17
Unrealised (losses) gains on fixed interest securities	(13)	22
Income from fixed interest and cash	**359**	**320**
Other income	**7**	**9**
Gross investment income*	**403**	**409**
Exchange gains (losses)	14	(9)
Interest expense	(57)	(46)
Other expenses	(18)	(10)
Net cost of ABCs	(11)	(7)
Net investment income	**331**	**337**

* Gross yield 4.5% (2005: 5.3%)

Comparison of AAA cash yields versus actual yields

	Average AAA cash yields %	Actual yields achieved by QBE %
2002	2.4	2.5
2003	3.1	4.6
2004	3.4	4.8
2005	4.2	5.2
2006 (half year)	4.7	4.5

Investment mix 30 June 2006	Portfolio mix by currency %	Current cash rate %
Australian dollar	28	6.0
US dollar	26	5.3
Sterling	34	4.8
Other	12	3.5
Weighted average yield		5.1

Balance sheet

	30 June 2006 $M	31 Dec 2005 $M	30 June 2005 $M
ASSETS			
Investments and cash	18,165	17,597	15,721
Receivables	5,031	3,689	4,312
Recoveries on outstanding claims	4,219	4,213	3,237
Deferred insurance costs	1,651	1,446	1,674
Intangibles	1,389	1,382	1,056
ABC financial assets pledged for funds at Lloyd's	1,040	1,032	1,005
Fixed and other assets	362	306	360
TOTAL ASSETS	**31,857**	**29,665**	**27,365**
LIABILITIES			
Outstanding claims	15,714	15,083	13,235
Unearned premium	5,135	4,287	4,740
Borrowings	2,163	2,130	1,742
Swaps relating to ABC securities	63	29	13
ABC securities for funds at Lloyd's	994	1,015	992
Other creditors and provisions	2,161	1,962	2,097
TOTAL LIABILITIES	**26,230**	**24,506**	**22,819**
NET ASSETS	**5,627**	**5,159**	**4,546**
EQUITY			
Shareholders' funds	5,565	5,093	4,486
Minority interest	62	66	60
TOTAL EQUITY	**5,627**	**5,159**	**4,546**

Balance sheet
30 June 2006

- Net invested funds increased by $535 million since 31 December 2005 to $16.0 billion
- Approximately 89% of fixed interest and cash is Moody's Aa rated or better
- Approximately 99% of investments are liquid
- We continue to actively manage our fixed interest portfolios which averaged 0.8 years duration
- Equity investments represent 8.0% of the total investment portfolio (31 December 2005: 3.8%)

Balance sheet
net invested funds

	30 June 2006		31 Dec 2005	
	$M	**%**	**$M**	**%**
Cash and cash equivalents	1,752	9.6	1,061	6.0
Short term money	7,172	39.5	8,292	47.1
Fixed interest securities and other	7,746	42.7	7,537	42.9
Equities	1,461	8.0	674	3.8
Investment properties	34	0.2	33	0.2
Total investments and cash (1)	**18,165**	**100.0**	**17,597**	**100.0**
Borrowings (2)	2,163		2,130	
Net invested funds	**16,002**		**15,467**	

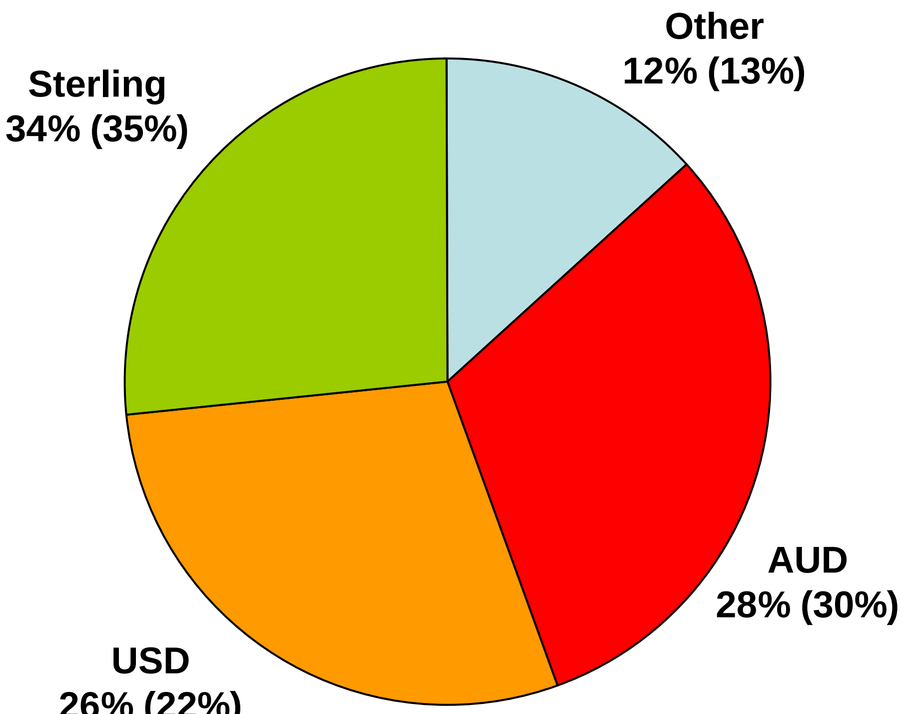
(1) Excludes ABC financial assets and ABC securities

(2) Borrowings denoted as "interest bearing liabilities" in financial statements

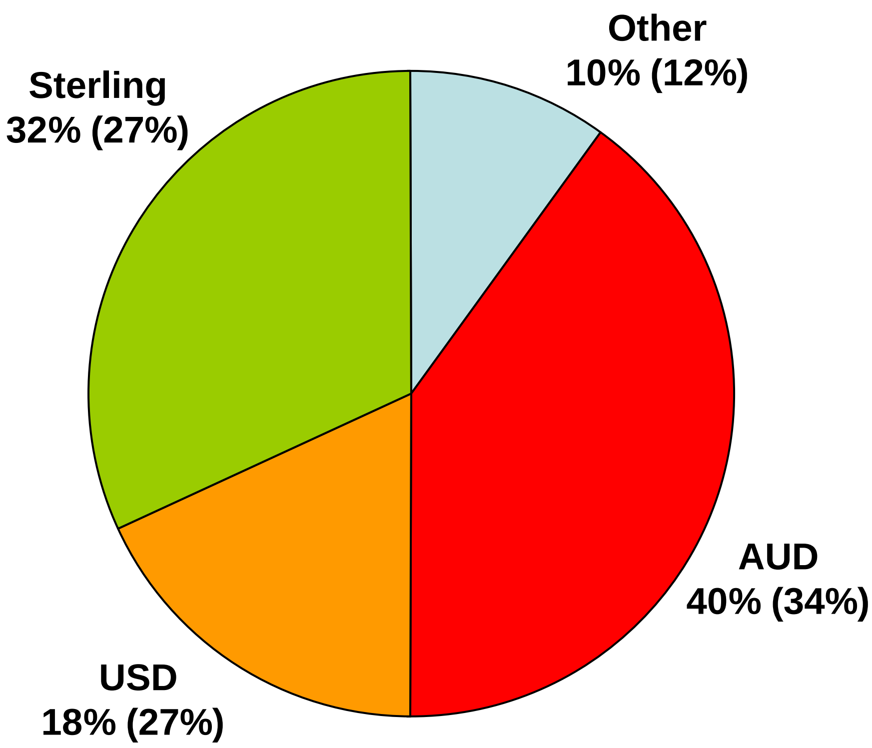
Investments currency mix

30 June 2006

Market value of total investments and cash



Market value of equities



Note - amounts in parentheses represent June 2005 comparatives

Balance sheet
30 June 2006

- Receivables increase is consistent with previous years and also includes higher reinsurance recoveries from 2005 catastrophes
- Receivables over 90 days have reduced with conservative provisions held for doubtful premium debtors
- Reinsurance recoveries on outstanding claims were $4,219 million (31 December 2005: $4,213 million) and include $1,518 million for incurred but not reported claims
- Provision for doubtful debts and recoveries of $285 million considered prudent (31 December 2005: $291 million)
- Bad debt experience continues to be low

Balance sheet
30 June 2006

- Group policy of matching assets and liabilities in local currency and using borrowings and hedges to protect shareholders' funds in overseas subsidiaries was maintained
- Borrowings slightly up to $2,163 million from $2,130 million at 31 December 2005 due to exchange rate movements
- Borrowings to shareholders' funds reduced to 38.9% from 41.8% at 31 December 2005 and expected to remain in 35% to 40% range at year end
- Annualised weighted average cost of borrowings of 5.2% unchanged from 31 December 2005 – post the issue of perpetual securities in July 2006, 5.6% pa

Insurance liabilities
30 June 2006

- Outstanding claims – probability of adequacy slightly above 95% (31 December 2005: 94%). Considered prudent due to cyclical nature of exposures and historically higher incidence of catastrophes in the second half of the year
- Risk margin in outstanding claims up from $1,243 million at 31 December 2005 to $1,422 million representing 14.1% of central estimate compared with 12.9%

Insurance liabilities

	30 June 2006 $M	31 Dec 2005 $M	30 June 2005 $M
Total net outstanding claims (discounted)	11,495	10,870	9,998
Unearned premium net of deferred insurance costs	3,484	2,841	3,066
Net insurance liabilities	**14,979**	**13,711**	**13,064**
Represented by:			
Risk margin - outstanding claims	1,422	1,243	1,222
- unearned premium	933	773	627
Total risk margin*	2,355	2,016	1,849
Central estimate	12,624	11,695	11,215
	14,979	**13,711**	**13,064**
* Risk margin in excess of APRA's minimum 75% probability of adequacy for Australian licensed insurers	1,635	1,411	1,258

Capital adequacy
30 June 2006

- QBE estimates the Group capital adequacy multiple is around 1.9 times the minimum capital requirement* consistent with 31 December 2005
- Following the issue of perpetual securities in July 2006, the Group capital adequacy multiple has increased to around 2.1 times the minimum capital requirement*
- Subordinated debt and some of the hybrid securities are included as Tier 2 capital for determining the Group's capital adequacy multiple
- Subsidiaries maintain strong capital adequacy margins for local regulatory purposes
- Standard & Poor's A+ financial strength rating retained for main insurance subsidiaries

* using APRA's risk weighted capital adequacy model for Australian licensed insurers

Capital adequacy

	30 June 2006 $M	31 Dec 2005 $M	30 June 2005 $M
Tier 1			
Share capital*	3,403	3,263	3,046
Reserves and retained earnings	2,184	1,856	1,473
Excess risk margin	1,635	1,411	1,258
Tax on excess risk margin	(491)	(423)	(377)
Proposed dividend	(322)	(196)	(114)
Deductions, mainly intangibles	(1,389)	(1,382)	(1,056)
	5,020	4,529	4,230
Tier 2			
Subordinated debt	674	668	640
Hybrid securities	165	222	292
	839	890	932
Capital base	**5,859**	**5,419**	**5,162**
Group MCR	**3,169**	**2,846**	**2,801**
Capital adequacy multiple	**1.9**	**1.9**	**1.8**

* *notified to Australian Stock Exchange*

2006 outlook

Subject to no material movement in current exchange rates; large losses and catastrophes not exceeding the allowance in our business plans; and no major fall in equity markets or interest rates:

- Achieve insurance profit margin of 17% to 18% for full year
- On target to achieve an increase in gross written premium to around $10.3 billion and net earned premium to around $8.4 billion
- Overall premium rate increases for the full year expected to be around 7%
- Increases in premium rates will assist margins for the second half of 2006 and full year 2007
- Despite competition in most markets, pricing is still sufficient to meet profit targets for the majority of our portfolios
- Attritional claims ratio at half year of 46.6% and increased risk margins leave a significant allowance for large losses and catastrophes in second half to meet revised full year targets for 2006

2006 outlook

- Investigation of a number of small to medium bolt-on acquisitions which may be converted by year end
- Sufficient capital to finance acquisitions of up to $1.5 billion of net written premium
- Excess capital will be carefully monitored to ensure return on equity and earnings per share are optimised
- Maintain equity portfolio at less than 10% of total investments and minimise interest rate volatility on fixed interest book
- Investment income will further benefit from higher interest rates in the US, UK and Australia in second half
- Gross investment yield of around 5% for the full year
- Net invested funds expected to increase from $16.0 billion to $17.5 billion by end 2006 from strong cash flow in the second half
- Net profit after tax now expected to be up by more than 15%

Head office management changes

- Vince McLenaghan appointed Chief Operating Officer for the Group
- Vince is 47 years old with 30 years experience in the insurance industry, including 24 years at QBE
- His recent roles at QBE have been
  - 1995, Assistant General Manager, Pacific
  - 1998, General Manager, Asia Pacific
  - 2004, CEO, Pacific Asia Central Europe (PACE)
  - 2005, CEO, Australia and PACE (26 countries)

Head office management changes

- Blair Nicholls appointed Chief Actuarial Officer for the Group
- Blair is 39 years old with 12 years experience at QBE. His roles have been
  - 1994, Technical Manager, Australian operations
  - 1995, Actuary, Australian operations
  - 1999, Technical Services Manager, QBE Mercantile Mutual Joint Venture
  - 2001, Group Actuary
  - 2004, Chief Actuarial Officer, European operations

Historical share price performance

An investment in QBE has outperformed the Australian All Ordinaries Index and inflation with a compound average annual growth rate of 16.3% over 5 years, 20.3% over 10 years and 22.7% over 20 years