QBE INSURANCE GROUP

2008 Results Announcement

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CEO, QBE Insurance Group
27 February 2009

All amounts in Australian dollars unless otherwise stated.

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 over 20% 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

QBE in great shape

- Quality insurance business with underwriting profit expected to increase by around 30% in 2009
- 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)
- 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

Highlights

- Net profit after tax $1,859 million (2007: $ 1,925 million); a solid financial result considering the adverse impact of the global financial crisis
- Return on equity at 20.9% of weighted average shareholders' funds (2007: 26.1%)
- Insurance profit of $2,183 million (2007: $2,262 million) or 19.7% of net earned premium (2007: 22.2%)
- There were a number of large items related to the global financial crisis affecting the 2008 result
  - realised and unrealised net losses on equities of $554 million before tax (2007: $100 million gain);
  - foreign exchange gains of $409 million before tax mainly from the forward purchase of US dollars for PMI Australia (2007: $15 million gain)
  - profit of $303 million before tax on the repurchase of $1,003 million of perpetual debt at 30% discount
  - our conservative reserves of $200 million before tax for reported and potential claims on financial and credit related insurance policies
  - lower gross yields on cash and fixed interest investments of 5.1%, down from 5.9% last year on an average portfolio of $25 billion – negative impact of approximately $200 million before tax

Highlights

- Diluted earnings per share* of 205.9 cents (2007: 217.3 cents)
- Full year dividend payout up 11% to $1,187 million; dividend per share for 2008 up 3% to 126.0 cents; final dividend on increased shares maintained at 65.0 cents per share (2007: 65.0 cents)
- Cash flow from operations again very strong at $2,251 million (2007: $2,374 million)
- 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
- Premium growth adversely affected by below budget growth for new business due to inadequate pricing, particularly in Europe and the US, offset by better than expected overall premium rate reduction of 1.5% on renewal business
- 11 acquisitions during the year – US-based North Pointe and underwriting agencies in Australia and the US, including recently announced ZC Sterling. Residential lenders' mortgage insurers QBE LMI Australia and Asia completed in fourth quarter. $2.7 billion initial cost expected to generate around $900 million of new gross written premium and total profit before tax of $565 million in 2009

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

Highlights

- 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%

Highlights

- 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
- Net claims ratio from large individual risk and catastrophe claims greater than $2.5 million was considerably higher at 10.2% of net earned premium compared with 6.6% last year
- Claims exceeded the attachment point under our special group aggregate cover for large individual risk claims mainly due to conservative provisions of around $200 million for financial and credit related policies exposed to the global financial crisis
- We retain a reinsurance protection of around $200 million to cover a frequency of catastrophe and large individual risk claims in excess of 8.5% of 2009 targeted net earned premium
- Attritional claims ratio was 47.5%, in line with last year (47.7%) and our expectations

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

- 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
- Undiscounted risk margins are around 9.4% of undiscounted claims provisions; a ratio largely unchanged over the past 4 years
- Government bond yields have increased slightly since year end

Highlights

- Total acquisition cost ratio (expenses and commissions) slightly better than target at 30.9% of net earned premium (2007: 31.6%)
- Commission ratio decreased to 17.2% (2007: 18.5%) due to changes in business mix and the benefit of acquired underwriting agencies
- Expense ratio increased to 13.7% (2007: 13.1%) reflecting:
  - higher expense ratio for acquisitions made last year
  - acquired underwriting agencies
  - cost of increased strategic initiatives to improve efficiencies and distribution
  - 2007 receipt of special performance fee for NSW workers' compensation managed fund
- Net profit before tax of acquired underwriting agencies was $74 million (2007: $16 million)
- Income tax expense reduced to 23% of profit before tax (2007: 24%) due to increased profits in lower tax paying countries

Highlights

Investment Income

- Gross investment income was $766 million (2007: $1,398 million) after net realised and unrealised equity losses of $554 million compared with gain of $100 million last year
- Gross investment yield before borrowing costs and expenses was 2.9% compared with 6.3% last year
- Net investment income (after borrowing costs and expenses) increased to $1,177 million (2007: $1,132 million) with equity losses offset by large foreign exchange gains of $409 million and a profit of $303 million on repurchase of $1,003 million of perpetual debt
- Continued our low risk, absolute return strategy for our cash and fixed interest portfolios with a focus on quality rather than yield. Duration remained relatively short at 0.5 years and our strategy has enabled us to avoid impairment and benefit from wider credit spreads on reinvestment
- Gross yield on cash and fixed interest portfolios was 5.1% (2007: 5.9%)

Impact of change in value of A$ in 2008

	2008 actual	2008 at 2007 exchange rates*	Impact	
	$m	$m	%	$m
Gross written premium	13,142	13,296	(1)	(154)
Gross earned premium	12,853	12,998	(1)	(145)
Net earned premium	11,087	11,138	(1)	(51)
Net investment income	1,177	1,198	(2)	(21)
Net profit after income tax	1,859	1,887	(2)	(28)
Total investments and cash	28,541	26,327	8	2,214
Gross outstanding claims	21,204	19,663	7	1,541

* Income statement items are restated to 31 December 2008 cumulative average rates of exchange and balance sheet items to 31 December 2008 closing rates of exchange

	2008		2007		Movement in 2008	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate %	Average rate %
Euro	50.2	57.6	60.1	61.0	**(16.5)**	**(5.6)**
GBP	48.1	45.8	44.2	41.8	**8.8**	**9.6**
USD	70.2	83.8	87.7	83.8	**(20.0)**	**-**

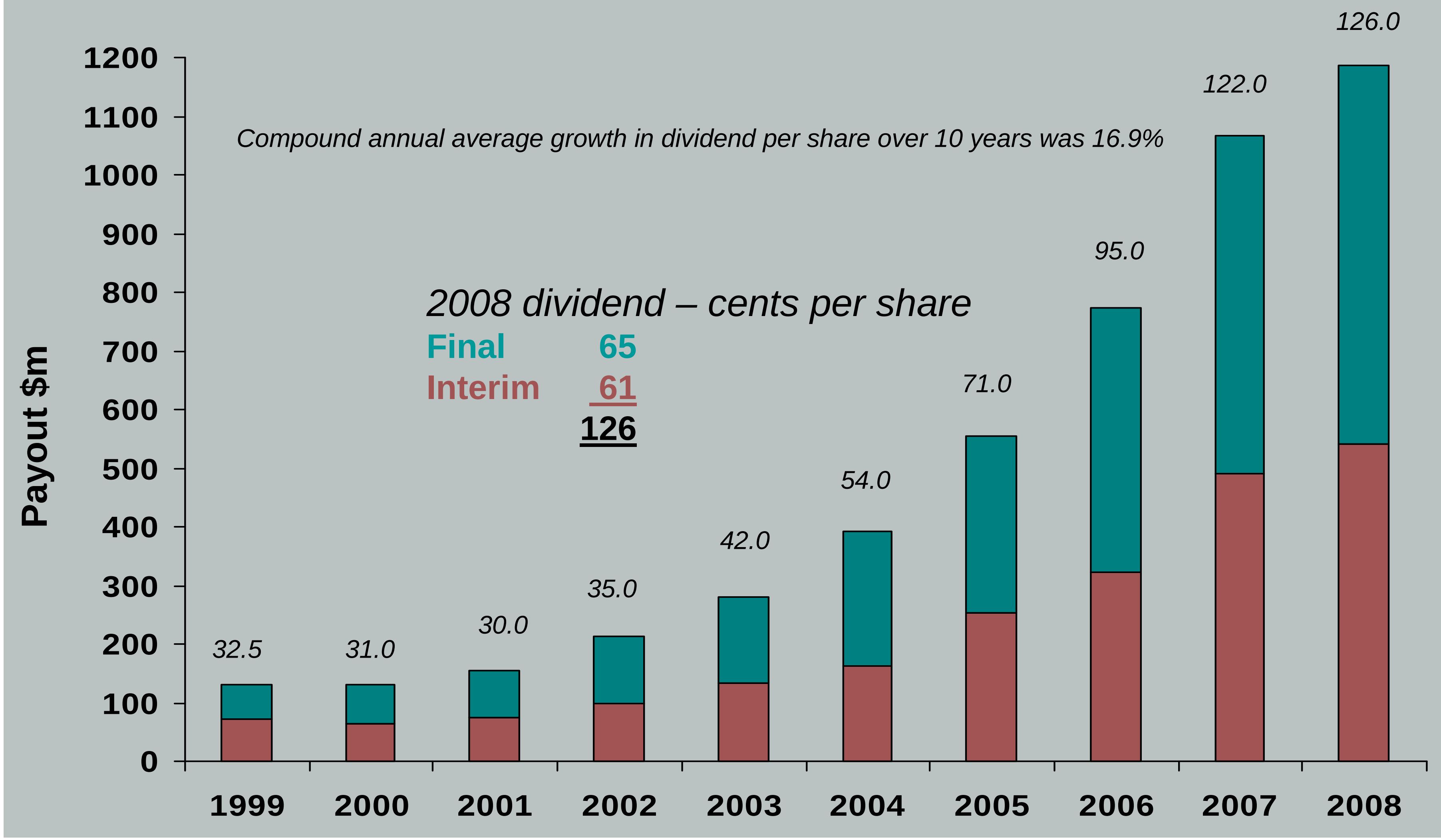
Movements in parentheses indicate a weaker Australian $

Shareholders' returns

- Final dividend of 65.0 cents per share, 20% franked (2007: 65.0 cents, 50% franked)
  - Ex dividend date — 4 March 2009
  - Record date — 11 March 2009
  - Payment date — 31 March 2009

- The unfranked portion of dividends payable to non-resident shareholders will receive a Conduit Foreign Income credit and will not be subject to Australian withholding tax
- The Dividend Reinvestment Plan has been reinstated. The reinvestment plans are now offered at a 2.5% discount
- Shares on issue at year end increased to 987 million (2007: 886 million) mainly from an institutional share placement and a further 6 million shares issued in January 2009 under the Share Purchase Plan

Dividend performance



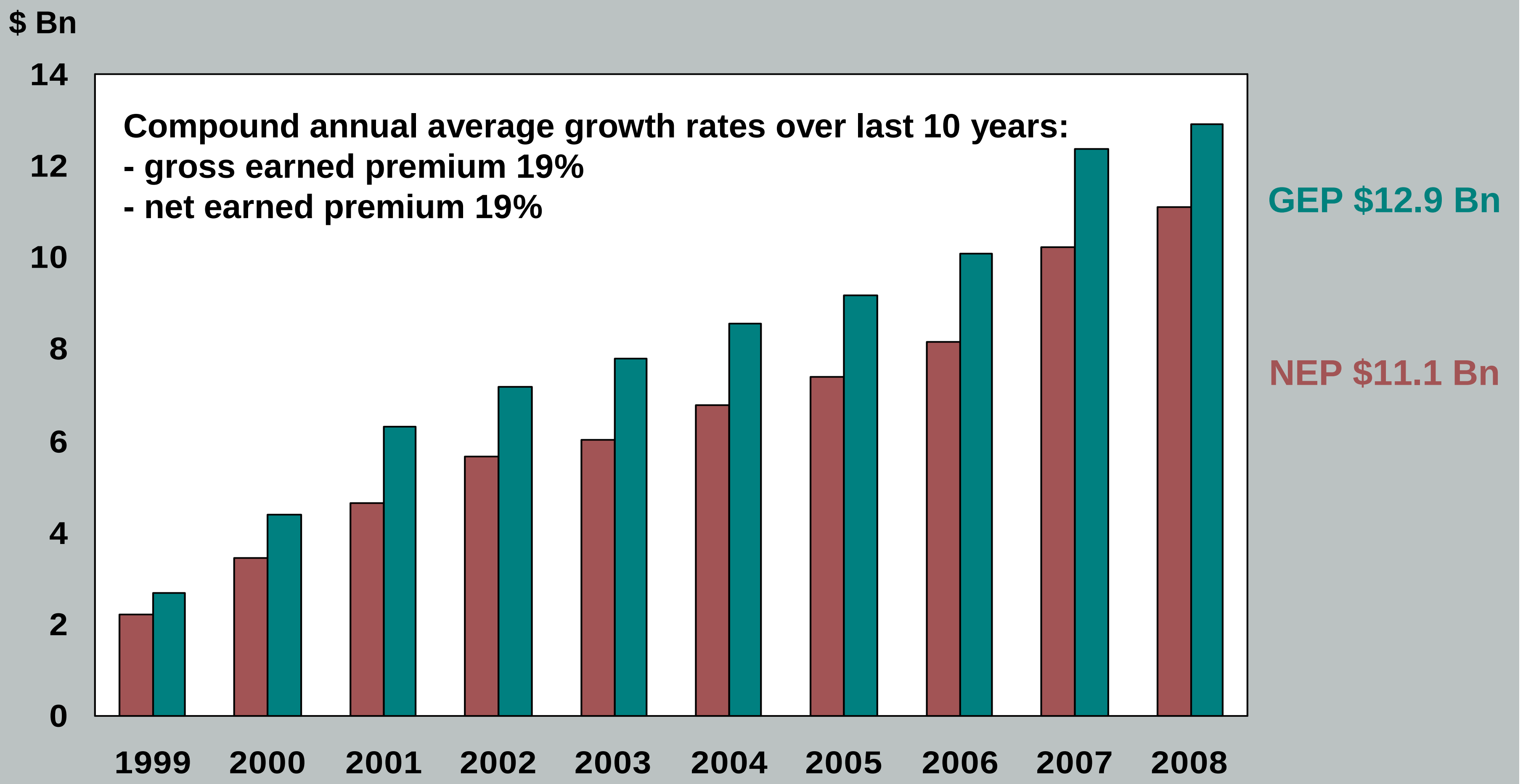
Worldwide operations

		Jun 2008	Dec 2008	Dec 2008	Dec 2007
Gross written premium	**$m**	**6,603**	**6,539**	**13,142**	**12,406**
Gross earned premium	$m	5,958	6,895	12,853	12,361
Net earned premium	$m	5,108	5,979	11,087	10,210
Claims ratio	%	54.7	60.1	57.6	54.3
Commission ratio	%	17.2	17.2	17.2	18.5
Expense ratio	%	13.9	13.5	13.7	13.1
Combined operating ratio	**%**	**85.8**	**90.8**	**88.5**	**85.9**
Underwriting profit	$m	727	548	1,275	1,438
Investment income - policyholders’ funds	$m	389	519	908	824
Insurance profit	$m	1,116	1,067	2,183	2,262
Insurance profit	**% to NEP**	**21.8**	**17.7**	**19.7**	**22.2**
Investment income - shareholders’ funds	$m	(10)	279	269	308
Amortisation of intangibles	$m	(11)	(21)	(32)	(21)
Net profit before tax	**$m**	**1,095**	**1,325**	**2,420**	**2,549**
Income tax expense	$m	(235)	(319)	(554)	(615)
Minority interest	$m	(1)	(6)	(7)	(9)
Net profit after income tax and minority interest	**$m**	**859**	**1,000**	**1,859**	**1,925**

Worldwide operations

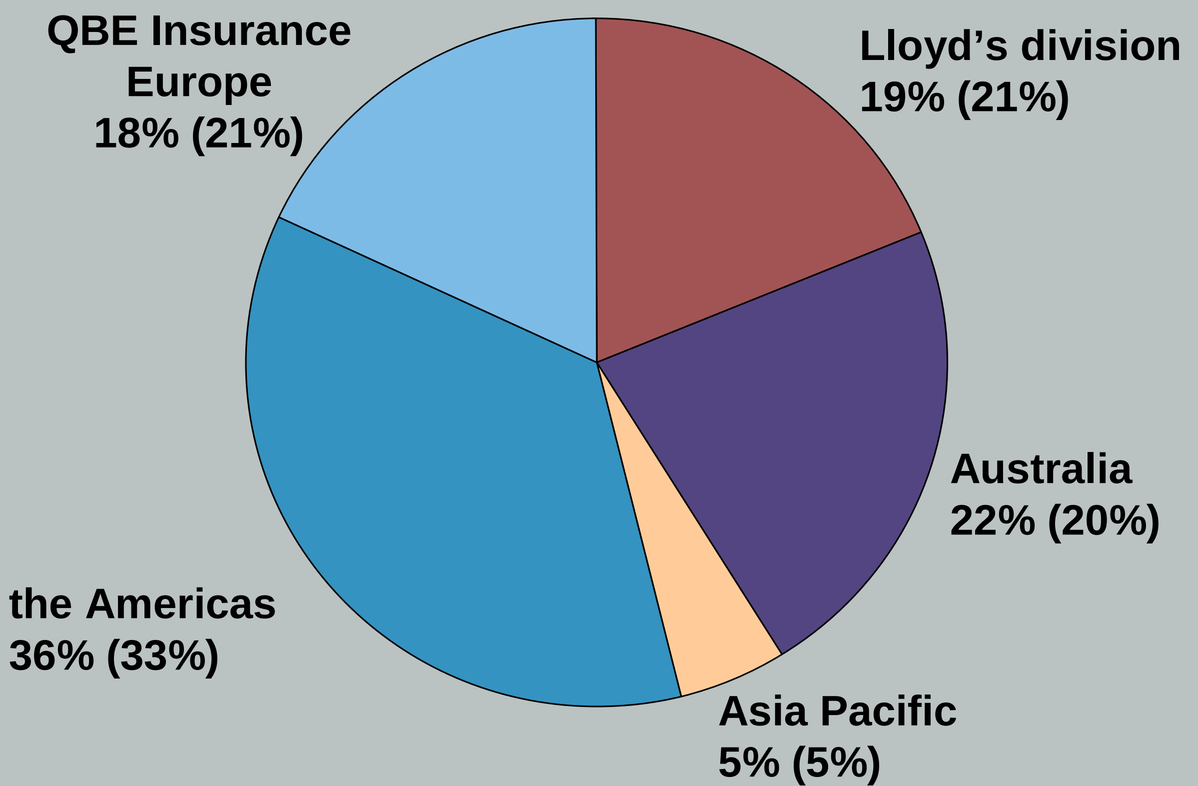
	GWP	Growth	COR		Net profit after tax	
	2008 $m	2008 %	2008 %	2007 %	2008 $m	2008 $m
Australia	2,914	12	90.6	82.9	560	445
Asia Pacific	661	13	82.9	82.7	76	89
QBE Insurance Europe	2,525	1	93.8	92.1	201	341
Lloyd's division	2,486	(6)	74.2	75.7	373	465
the Americas	4,462	22	93.6	93.6	281	247
Equator Re	2,231	12	83.8	80.5	368	338
Elimination – internal reinsurance	(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**

History of premium income - a growth story



Geographical diversification
gross earned premium

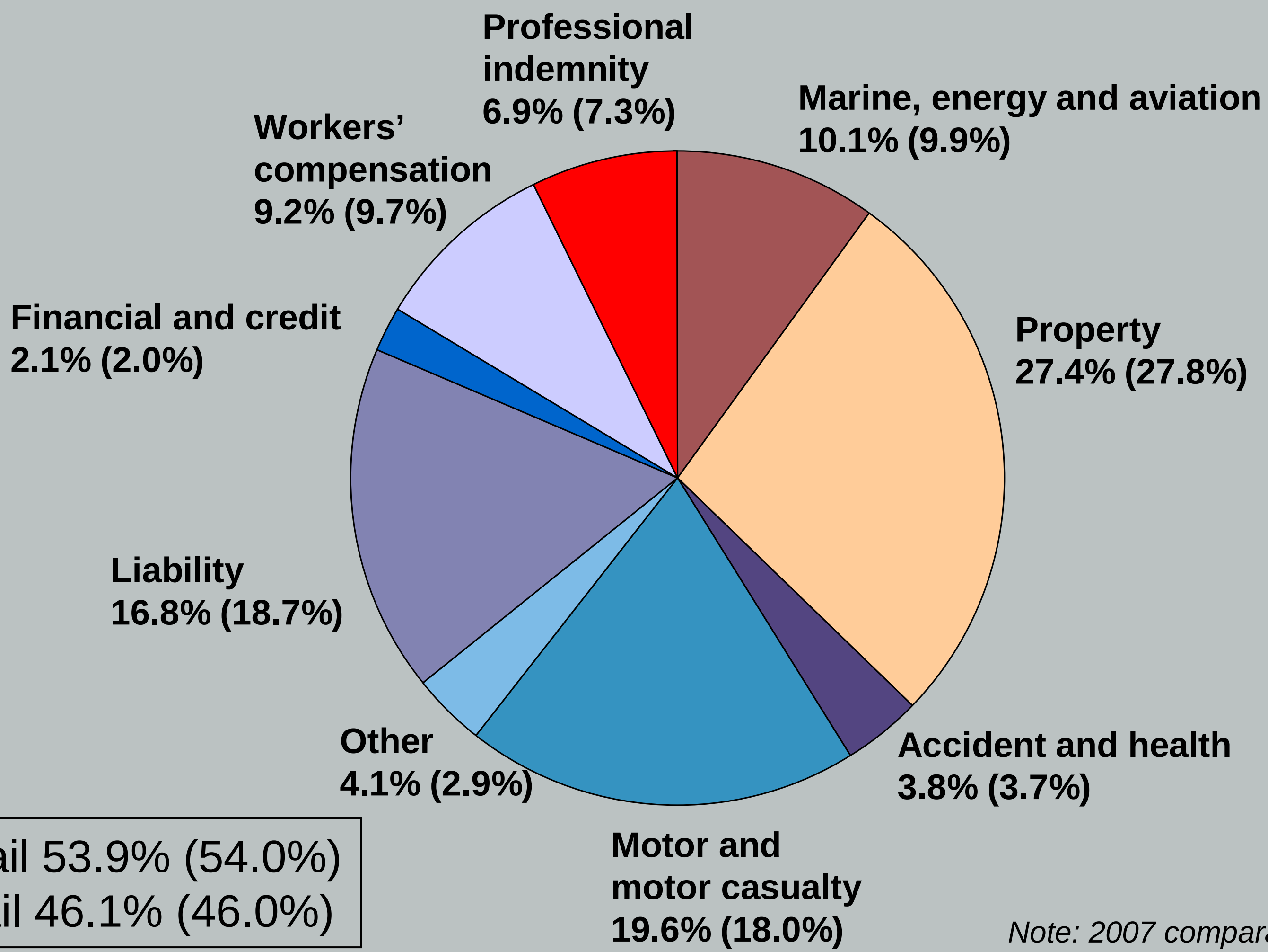
Gross earned premium $12,853 million (2007: $12,361 million)



Note: 2007 comparatives in parentheses

Worldwide portfolio mix

gross earned premium



Short tail 53.9% (54.0%)
Long tail 46.1% (46.0%)

Note: 2007 comparatives in parentheses

Balance sheet

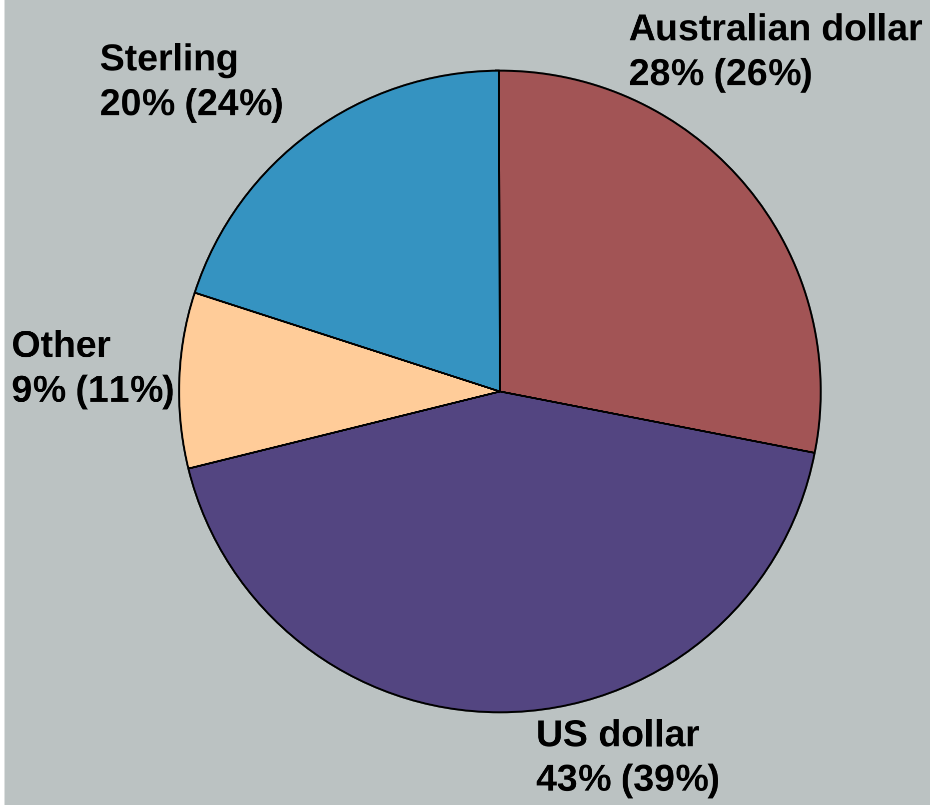
	31 Dec 2008 $m	31 Dec 2007 $m
ASSETS		
Investments and cash	28,541	24,606
Receivables	5,041	4,616
Recoveries on outstanding claims	5,043	4,360
Deferred insurance costs	1,987	1,683
Intangibles	5,586	2,493
ABC financial assets pledged for funds at Lloyd's	250	900
Fixed and other assets	1,935	955
TOTAL ASSETS	**48,383**	**39,613**
LIABILITIES		
Outstanding claims	21,204	18,231
Unearned premium	7,126	5,698
Borrowings	3,666	3,458
ABC securities for funds at Lloyd's	312	867
Other creditors and provisions	4,830	2,816
TOTAL LIABILITIES	**37,138**	**31,070**
NET ASSETS	**11,245**	**8,543**
EQUITY		
Equity attributable to shareholders	11,159	8,479
Minority interest	86	64
TOTAL EQUITY	**11,245**	**8,543**
Key ratios		
Borrowings to shareholders' equity	32.9%	40.8%
Minimum capital requirement - $m	4,621	3,618
Capital adequacy multiple (APRA criteria)	1.7 times	2.4 times

Balance sheet

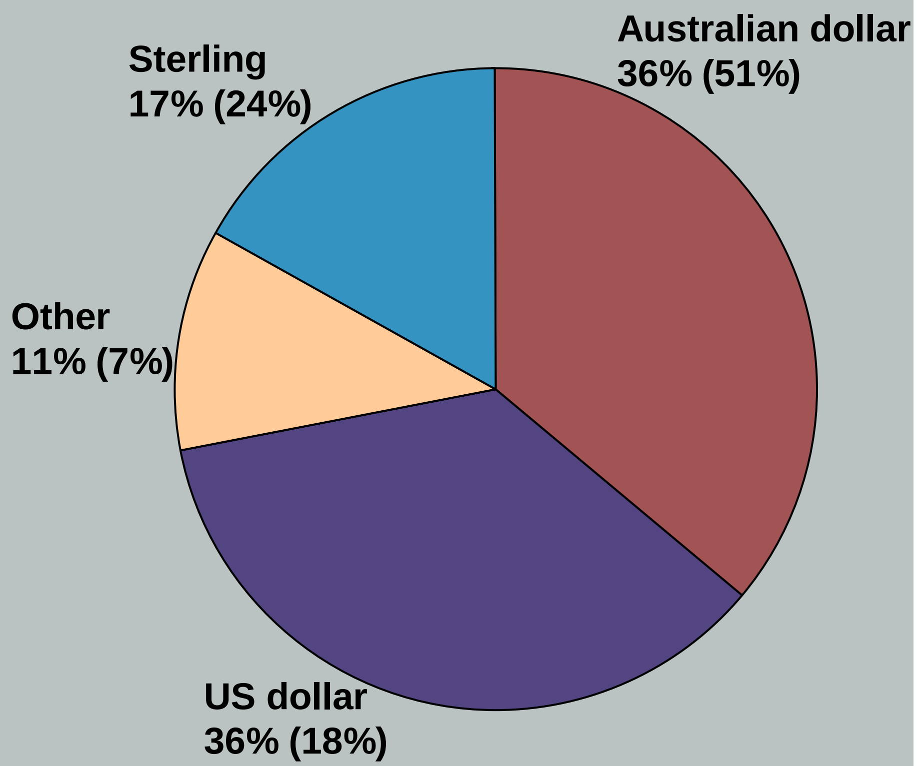
- Investments and cash increased by 16% to $28.5 billion due to strong operational cash flow, funds from acquisitions in 2008 and the weaker Australian dollar
- 98% of our fixed interest and cash was rated Moody's Aa3 or better
- Approximately 99% of investments are highly liquid
- We continue to adopt a conservative approach to our cash and fixed interest portfolios. Cash and fixed interest duration averaged 0.5 years at the end of 2008 (December 2007: 0.3 years)
- No direct investment exposure to US sub-prime mortgage assets, collateralised debt, collateralised loans or similar structured products and no hybrid perpetual securities
- No impairments of fixed interest and cash investment portfolios

Currency mix

Market value of total investments and cash
***2008 $28,541 million** (2007: $24,606 million)*



Market value of equities
***2008 $1,589 million** (2007: $1,656 million)*



Note: 2007 comparatives in parentheses

Balance sheet

- Weakening Australian dollar, particularly against the US dollar (down 20%), increased the value of assets and liabilities when converted to Australian dollars
- Premium and reinsurance receivables over 90 days remain low with conservative provisions held for doubtful debts. Continued minimal bad debt experience
- Reinsurance recoveries on outstanding claims increased to $5.0 billion from $4.4 billion – increase mainly due to the weaker Australian dollar against the US dollar
- Reinsurance recoveries includes claims incurred but not reported of $2.4 billion (2007: $2.2 billion)
- Standard & Poor's credit rating of reinsurance counterparties at year end:

S&P Rating	**2008 $m**	**%**	**2007 $m**	**%**
AAA	231	4.6	146	3.3
AA	2,739	54.3	2,527	58.0
A	1,756	34.8	1,378	31.6
BBB or lower *	148	2.9	144	3.3
Non rated*	169	3.4	165	3.8
	5,043	100	4,360	100

* Includes $74 million of non-rated subsidiaries of highly rated groups and is before offsets, trust funds and other security held

Balance sheet

- Receivables and reinsurance recoveries are after provisions for doubtful debts of $224 million (2007: $255 million)
- The lower provision is mainly due to reinsurance settlements and higher quality reinsurance counterparties
- Intangibles increased $3,093 million to $5,586 million due mainly to the following acquisitions

	$m
North Pointe Holdings	147
Deep South underwriting agency	517
PMI Australia and Asia	543
ZC Sterling	1,541

- Intangibles (and liabilities) include future payments of $601 million contingent on the acquisitions exceeding profit and premium targets over next 3 years

Balance sheet

- Borrowings* to shareholders' equity 32.9% (2007: 40.8%)
- Borrowings* increased by $208 million to $3,666 million mainly due to weaker Australian dollar
- $1,003 million of perpetual debt exchanged for senior notes of $702 million
- Weighted average cost of borrowings at 31 December was 8.4% (2007: 6.7%) – majority of interest rates are fixed
- Borrowings are 20% short term, 31% long term subordinated debt, 29% senior debt and 20% hybrid securities

* excludes ABC securities for funds at Lloyd's

Total insurance liabilities

	2008 $m	2007 $m	2006 $m	2005 $m
Outstanding claims	16,161	13,871	11,645	10,870
Unearned premium net of deferred insurance costs	5,139	4,015	3,233	2,841
	21,300	**17,886**	**14,878**	**13,711**
Central estimate	19,137	15,433	12,656	11,695
Risk margin* - outstanding claims	1,199	1,591	1,389	1,243
- unearned premium	964	862	833	773
	21,300	**17,886**	**14,878**	**13,711**
* Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model for Australian licensed insurers	1,162	1,577	1,486	1,411

Probability of adequacy of total insurance liabilities is 93.2% (2007: 96.9%)

Capital adequacy

	31 Dec 2008 $m	31 Dec 2007 $m
Tier 1		
Share capital and reserves	11,230	8,472
Perpetual securities	382	1,294
Excess risk margins	1,162	1,577
Less deductions	(5,657)	(3,481)
	7,117	**7,862**
Tier 2		
Subordinated debt and hybrids	805	745
QBE capital base*	**7,922**	**8,607**
Minimum capital requirement*	**4,621**	**3,612**
Capital adequacy multiple	**1.7 times**	**2.4 times**

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

Capital adequacy

- QBE retains $3.3 billion in excess of our calculation of APRA's stringent risk based minimum capital requirement (2007: $5.0 billion)
- Minimum capital requirement in dollar terms increased 28% to $4.6 billion in 2008 (2007: $3.6 billion)
- Risk based capital charges include:
  - 20% on property and 16% on equities
  - average 4% on receivables/recoveries after doubtful debt provisions
  - average 15% on insurance liabilities at 75% POA
  - 100% of maximum event retention before tax
- Reduction in capital adequacy from 2.4 times at 31 December 2007 to 1.7 times due to:
  - weaker Australian dollar increasing value of capital charge on assets and liabilities
  - decrease in tier 1 capital following repurchase of capital securities by $0.7 billion
  - lower discount rates reduced risk margins in excess of 75% POA by $0.4 billion
  - increase in goodwill from 2008 acquisitions
  - higher risk based capital charges introduced by APRA in 2008
- QBE considers capital adequacy now at optimal levels with minimum benchmark at 1.5 times the minimum capital requirement

Australia

		2008	2007
Gross written premium	$m	2,914	2,596
Gross earned premium	$m	2,800	2,518
Net earned premium	$m	2,363	2,141
Claims ratio	%	62.8	55.2
Commission ratio	%	11.8	12.0
Expense ratio	%	16.0	15.7
Combined operating ratio	**%**	**90.6**	**82.9**
Insurance margin	**%**	**20.9**	**25.6**

Australia

- Gross written premium up 12% to $2,914 million due to continued high customer retention and acquisitions including PMI Australia and new agencies and distribution channels
- Achieved average overall premium rate increase on renewal business of 1% (2007: reduction of 3%) – Q4 2008 was 4.5% overall increase
- Excellent COR of 90.6% (2007: 82.9%) despite the impact of a number of severe storms in Victoria, NSW and Queensland and slightly higher attritional claims ratio
- Strong insurance margin of 20.9% (2007: 25.6%) also impacted by lower yields on investment portfolios
- Net claims ratio increased to 62.8% (2007: 55.2%) due mainly to catastrophes, particularly four major storms in Queensland and slightly higher attritional claims ratio
- Property, package, aviation and workers' compensation business continued to produce excellent results. Personal and homeowners portfolios adversely impacted by an increased frequency of weather related claims during the year. Public liability, professional indemnity and CTP classes produced acceptable results in the face of increased frequency and higher average value per claim
- Commission ratio marginally reduced from 12.0% to 11.8% due to acquisition of underwriting agencies
- Expense ratio increased from 15.7% to 16.0% mainly due to new strategic systems initiatives to improve bodily claims management and the electronic business to business interface

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

- 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

Asia Pacific

		2008	2007
Gross written premium	$m	661	583
Gross earned premium	$m	626	570
Net earned premium	$m	451	416
Claims ratio	%	41.2	41.3
Commission ratio	%	20.6	20.0
Expense ratio	%	21.1	21.4
Combined operating ratio	**%**	**82.9**	**82.7**
Insurance margin	**%**	**24.8**	**25.0**

Asia Pacific

- Gross written premium up 13% to $661 million due to continued high customer retention, solid organic growth and weaker Australian dollar
- Overall premium rates on renewal business declined by 2%
- Outstanding underwriting result with COR of 82.9% (2007: 82.7%)
- All 15 countries produced underwriting profit for the second year in a row
- Strong underwriting profits in New Zealand, the Pacific Islands, Hong Kong, Malaysia and Singapore
- Insurance profit margin slightly lower at 24.8% (2007: 25.0%) reflecting lower interest yields on investments
- Claims ratio was 41.2% compared to 41.3% last year due to continued low attritional claims
- Combined commission and expense ratio was 41.7% (2007: 41.4%) due to slightly higher commissions from change in portfolio mix, partly offset by lower expenses following 2007 systems implementation

European operations

		QBE Insurance Europe		Lloyd's Division		Total European operations	
		2008	**2007**	**2008**	**2007**	**2008**	**2007**
Gross written premium	$m	2,525	2,503	2,486	2,634	5,011	5,137
Gross earned premium	$m	2,374	2,537	2,379	2,621	4,753	5,158
Net earned premium	$m	1,881	2,026	1,371	1,627	3,252	3,653
Claims ratio	%	62.1	60.6	43.3	40.9	54.2	51.8
Commission ratio	%	14.4	16.1	19.4	19.6	16.5	17.7
Expense ratio	%	17.3	15.4	11.5	15.2	14.9	15.3
Combined operating ratio	**%**	**93.8**	**92.1**	**74.2**	**75.7**	**85.6**	**84.8**
Insurance margin	**%**	**15.4**	**18.0**	**38.8**	**36.0**	**25.3**	**26.0**

European operations

- Gross written premium reduced by 3% to $5,011 million due to stronger Australian dollar against sterling
- Gross written premium in sterling was up 7% to £2.3 billion, mainly due to the stronger US dollar against sterling and the high proportion of US dollar business
- Due to soft market conditions, average premium rates on renewal business decreased by 3%
- Net earned premium reduced 11% to $3,252 million primarily due to increased proportional reinsurance with Equator Re
- QBE Insurance Europe's COR was 93.8% compared with 92.1% last year reflecting an increase in large property claims and financial and credit related policies impacted by the global downturn
- The Lloyd's division COR was outstanding at 74.2% compared with 75.7% last year reflecting a lower level of attritional losses and profitable earn out of prior underwriting years
- Continued strong overall underwriting results for Europe with insurance profit margin of 25.3% (2007: 26.0%) despite another year of lower overall average premium rates and lower interest rates

European operations

- QBE is the largest manager of capacity and second largest provider of capital at Lloyd's
- QBE provides 100% of capital to all managed syndicates with the exception of syndicate 386 where participation is 69%
- No further increase in QBE's participation in syndicate 386 foreseen at this time
- December 2008 and January 2009 renewals saw increases in overall average premium rates of close to 4%; this foreshadows hardening of the market as 2009 progresses
- Combined commission and expense ratio was 31.4% (2007: 33.0%) reflecting overriding and profit commission on increased business to Equator Re, greater business sourced via our own distribution channels and higher profit commission from external names on Syndicate 386
- Business now run along product lines rather than by legal entity, enabling more effective use of distribution and management of portfolios

the Americas

		2008	2007
Gross written premium	$m	4,462	3,656
Gross earned premium	$m	4,590	3,976
Net earned premium	$m	3,108	2,574
Claims ratio	%	60.2	59.4
Commission ratio	%	19.0	22.8
Expense ratio	%	14.4	11.4
Combined operating ratio	**%**	**93.6**	**93.6**
Insurance margin	**%**	**11.5**	**12.8**

the Americas

- Gross written premium up 22% to $4,462 million due to acquisitions in 2007 and the North Pointe acquisition made in 2008, partly offset by cancellation of existing business due to competition and new business less than budget due to inadequate pricing
- Overall average premium rates down less than 1% including impact of Florida's mandated reductions in premium rates on condominiums
- Gross written premium growth in US dollars was 22%
- COR unchanged from 2007 at 93.6% and slightly above our target – record frequency of weather related catastrophes; 3% greater than planned
- Lower than expected insurance profit margin also due to reduced interest yields on investments
- Integration of 2007 acquisitions progressed in 2008 with realised synergies around $100 million after tax
- Significant acquisitions in 2008 – North Pointe Insurance Group and four specialist underwriting agencies, including ZC Sterling. The four underwriting agencies contributed $36 million pre-tax profit in 2008 and expected to contribute around $400 million for 2009
- Overall average premium rates expected to increase by close to 3% in 2009, but with tight economic conditions prevailing

Equator Re - captive reinsurer

		2008	2007
Gross written premium	$m	2,231	1,990
Gross earned premium	$m	1,978	1,631
Net earned premium	$m	1,913	1,426
Claims ratio	%	56.6	54.6
Commission ratio	%	21.4	22.0
Expense ratio	%	5.8	3.9
Combined operating ratio	**%**	**83.8**	**80.5**
Insurance margin	**%**	**20.8**	**23.1**

Equator Re

- Equator Re is QBE's wholly owned captive reinsurer and provides excess of loss and proportional reinsurance protection below Group retentions to the various operating subsidiaries
- The captive assists in the management of the Group's maximum event retention and capital and also participates on a number of the Group's reinsurance protections placed with external reinsurers
- Exposures written by Equator Re are within the Group's maximum event retention
- Gross written premium up 12% to $2,231 million and net earned premium up 34% to $1,913 million, mainly due to additional proportional programmes from Group companies
- Insurance profit margin was 20.8% compared with 23.1% last year and COR of 83.8% compared with 80.5% last year, with the increase in COR primarily impacted by Equator Re's share of the Group's increased large risk and catastrophe claims
- Combined commission and expense ratio of 27.2% (2007: 25.9%) was higher due to new proportional reinsurance business and overriding and profit commissions paid to Group companies
- Shareholders' funds over $1 billion and S&P insurer financial strength rating of A+
- Capital adequacy multiple of 1.6 times the APRA minimum requirement for Australian licensed insurers

Investment income

	2008		2007	
	$m	Yield%	$m	Yield%
Total equity income (1)	(490)	(30.2)	166	9.8
Total fixed interest and cash income (2)	1,256	5.1	1,211	5.9
Total property income	7	6.8	5	7.6
Other income	(7)		14	
Realised gains on sale of controlled entities	-		2	
Gross investment income	**766**	**2.9**	**1,398**	**6.3**
Exchange gains	409		15	
Borrowing costs (3)	63		(218)	
Other expenses	(38)		(54)	
Net cost of ABCs	(23)		(9)	
Net investment income	**1,177**	**5.1**	**1,132**	**5.8**
Policyholders' funds	908	5.3	824	5.8
Shareholders' funds	269	4.6	308	5.7
	1,177	**5.1**	**1,132**	**5.8**

(1) Includes realised and unrealised losses on equities of $554 million (2007: gains of $100 million)
(2) Includes realised and unrealised gains on fixed interest securities of $218 million (2007: $254 million)
(3) Includes gain of $303 million on repurchase of QBE perpetual debt

Investment income

- QBE's absolute return and low risk strategy has worked well for shareholders in a year of record financial downturn
- Focus on investing in quality cash and fixed interest securities has meant we have had not a single case of impairment
- Short duration fixed interest strategy provided benefits from wider credit spreads on reinvestment and flexibility to assist in avoiding exposures to companies facing potential downgrades
- Net investment income increased from $1,132 million last year to $1,177 million and includes foreign exchange gains of $409 million and profit on repurchase of QBE perpetual debt of $303 million
- Listed equity holdings at year end of 5.3% of total investments and cash (2007: 6.6%)
- 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)

Comparison with cash yield

versus actual yields

	Average AAA cash yields for year	Actual gross yields achieved by QBE*
	%	%
2003	3.1	4.6
2004	3.4	4.8
2005	4.2	5.2
2006	4.9	5.2
2007	5.4	6.3
2008	**3.9**	**2.9**

Investment mix 31 December 2008	Portfolio mix by currency	Current AAA cash rate
	%	%
Australian dollar	36	4.25
US dollar	36	0.25
Sterling	17	2.00
Other	11	2.27
Weighted average yield		**1.9**

* includes yields on cash, fixed interest and equities

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 of over 20%, 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 reinsurance expense ratio of less than 13% of gross written premium
- Combined commission and expense ratio of around 29%
- Expected gross investment yield of around 3% - a 1% movement is equivalent to around $300 million before tax
- Targeted tax expense rate of around 24%
- Three year aggregate reinsurance cover commencing 1 January 2008 provides protection for large individual risk and catastrophe claims of around $200 million in excess of 8.5% of 2009 net earned premium
- Maintain a probability of adequacy of outstanding claims well in excess of APRA’s 75% benchmark using risk free government bond rates
- Continue low risk and absolute return investment strategy

2009 outlook

- With around 76% of QBE business in overseas currencies, an average 5% appreciation or depreciation of the Australian dollar against all currencies impacts gross written premium by around $496 million and net profit after tax by around $77 million
- Continue our successful strategy of product and geographic diversification and securing distribution channels by acquisitions that add shareholder value
- Capitalise on opportunities arising from market dislocation
- Maintain Group capital adequacy well above our minimum threshold of 1.5 times
- A focus to manage our capital at optimum levels to retain rating agency and regulatory benchmarks and maximise return on shareholders' funds
- Build on our successful OPENUPQBE development programmes
- 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

2009 projected premium income

	Gross written 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

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**

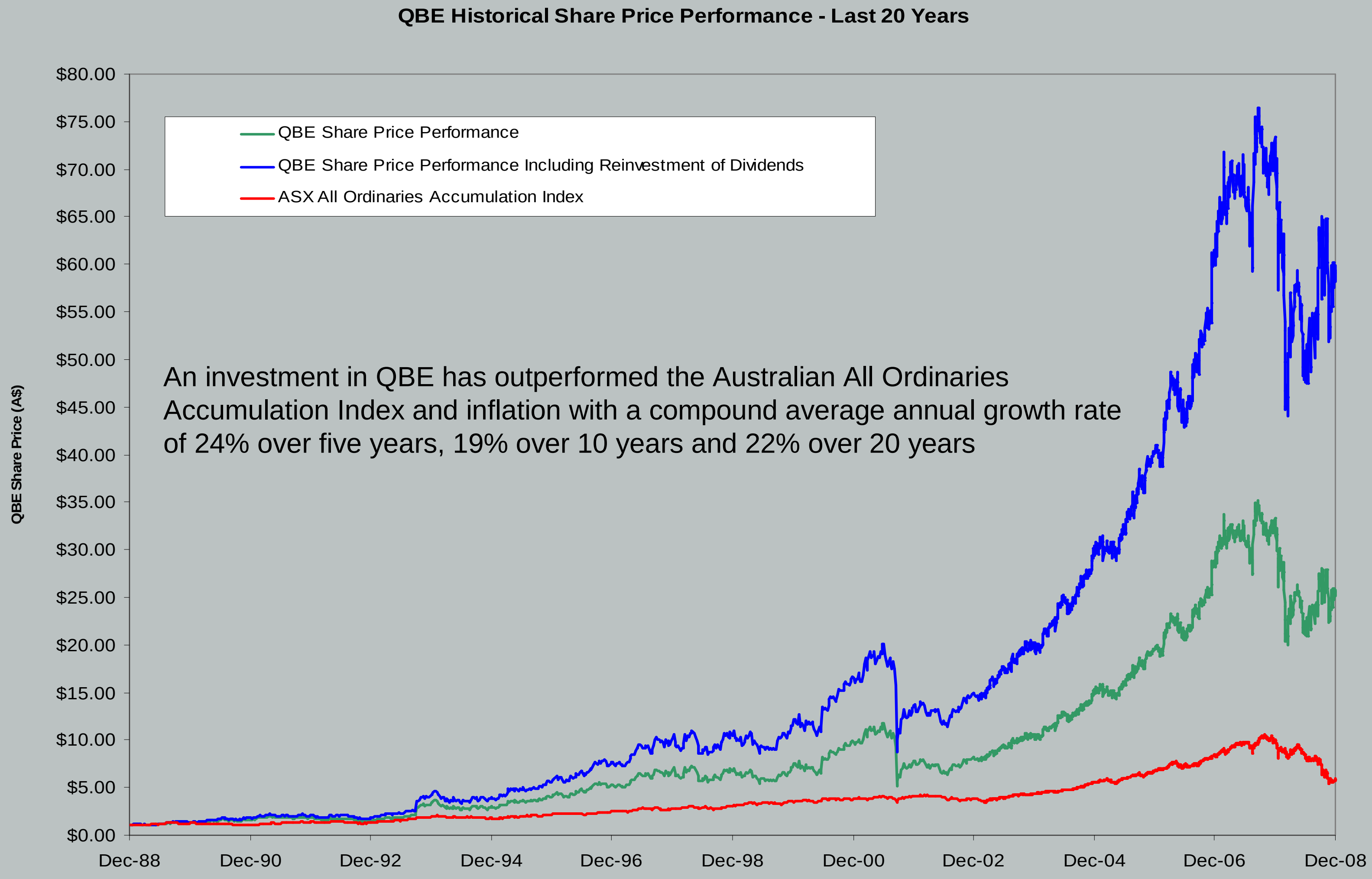
2009 Group Expectations:

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%
- Growth in net earned premium of more than 20%
- Growth in underwriting profits of around 30%

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

Historical share price performance



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