

BALANCE SHEET MANAGEMENT



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Key to QBE Group's success is our approach to diversification and risk management. Our philosophy is a simple one. We focus on ensuring that we make business decisions which will reduce the volatility of our results, offering our customers stability.

OUR APPROACH TO INSURANCE RISK

QBE's approach is to diversify insurance risk, both by product and geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business.

A combination of core and specialty products under the control of proven employees skilled in such products allows QBE to lead underwriting in many of the markets in which we operate. Geographic diversification is achieved by operating in 45 countries.

The foundation of our risk management is the obligation and desire to manage our future by maximising profitable opportunities through:

- adequate pricing of risk;
- avoiding unwelcome surprises by reducing uncertainty and volatility, such as by controlling aggregate exposures and maintaining sound reinsurance arrangements;
- optimising risk and more effectively allocating capital and resources by assessing the balance of risk and reward;
- achieving competitive advantage through better understanding of the risk environment in which we operate;
- complying with laws and internal procedures; and
- improving resilience to external events.

We invite you to learn more about QBE and our corporate governance through our website www.qbe.com or by discussing our track record of performance with your broker.

S.P. Burns

Steven Burns
CEO, European Operations,
QBE Insurance Group



BALANCE SHEET	30-Jun-08 AUD\$(m)	31-Dec-07 AUD\$(m)	30-Jun-07 AUD\$(m)
ASSETS			
Investments and cash	23,268	24,606	23,727
Receivables	5,876	4,882	6,425
Recoveries on outstanding claims	4,040	4,360	4,361
Deferred insurance costs	1,849	1,683	2,385
Intangibles	2,662	2,493	2,428
ABC financial assets pledged for funds at Lloyd's	825	900	934
Fixed and other assets	624	689	853
TOTAL ASSETS	39,144	39,613	41,113
LIABILITIES			
Outstanding claims	17,152	18,231	18,426
Unearned premium	6,045	5,698	6,842
Borrowings	3,287	3,458	3,576
ABC securities for funds at Lloyd's	821	897	943
Other creditors and provisions	2,965	2,786	3,540
TOTAL LIABILITIES	30,270	31,070	33,327
NET ASSETS	8,874	8,543	7,786
EQUITY			
Equity attributable to shareholders	8,816	8,479	7,721
Minority interest	58	64	65
TOTAL EQUITY	8,874	8,543	7,786

INVESTMENTS & CASH

	30-Jun-08		31-Dec-07	
	AUD\$(m)	%	AUD\$(m)	%
Cash and cash equivalents	1,197	5.1	988	4
Short term money	13,074	56.2	16,317	66.3
Fixed interest securities and other	7,136	30.7	5,552	22.6
Equities	1,775	7.6	1,656	6.7
Investment properties	86	0.4	93	0.4
TOTAL INVESTMENTS AND CASH ⁽¹⁾	23,268	100.0	24,606	100.0

(1) Excludes ABC financial assets and ABC securities

- Since 31 December 2007 the strong Australian dollar has reduced overseas investments and cash when translated to A\$ by around \$1.4 billion. This was reversed on 30 June 2008 following a fall in the Australian dollar
- Approximately 93% of fixed interest and cash is Moody's Aa3 rated or better and the substantial majority of the balance is Moody's A3 rated or better
- No direct exposure to US sub-prime mortgage, CDO, CLO or similar securities
- Currently our equity exposure is less than 8% of total investments and cash
- Outstanding claims are at a 95.1% probability of adequacy

BORROWINGS*

- Borrowing reduced to \$3,287 million mainly due to effects of foreign exchange movements since the year end (31 December 2007: \$3,458 million)
- Borrowings comprise 21% short term debt, 59% long term/subordinated debt and 20% hybrid securities
- Ratio of borrowings to shareholders' funds reduced to 37.3% in line with our target of around 40% (31 December 2007: 40.8%)
- Substantial majority of borrowings and interest rates locked in for a number of years
- Annualised weighted average cost of borrowings was 6.7%, unchanged from 31 December 2007
- Group policy of matching assets and liabilities in local currency and using borrowings and hedges to protect shareholders' funds in overseas subsidiaries was maintained

*excluding ABC securities for funds at Lloyd's

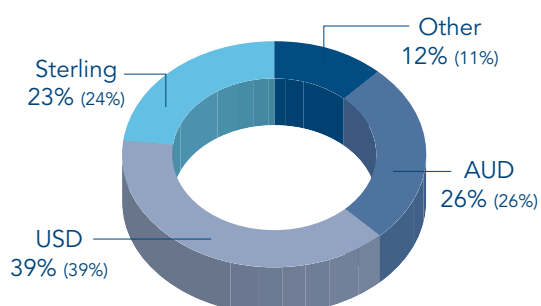
QBE PERFORMANCE

	F/Y 2004 %	F/Y 2005 %	F/Y 2006 %	F/Y 2007 %	F/Y 2008 %	Weighted Average %
Average Combined Operating Ratio	91.2	89.1	85.3	85.9	85.8	87.3
Average Return on Equity	22.3	23.9	26.1	26.1	19.9	23.7

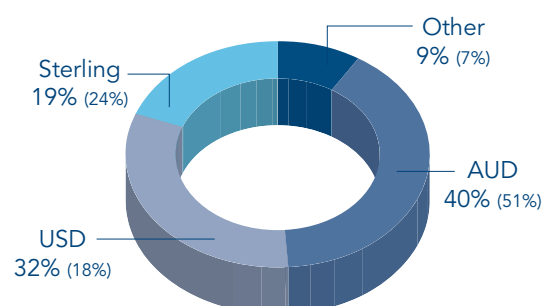
INVESTMENTS CURRENCY MIX

30 June 2008

Total investments and cash 2008: A\$23 billion (2007: A\$25 billion)



Equities 2008: A\$1.8 billion (2007: A\$1.7 billion)





QBE Insurance Group Limited

www.QBE.com

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