



QBE INSURANCE GROUP

Results announcement 2007

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26 February 2008

All amounts in Australian dollars unless otherwise stated.

Highlights

year ended 31 December 2007

- Record net profit after tax, up 30% to \$1,925 million (2006: \$1,483 million)
- Insurance profit up 27% to \$2,262 million (2006: \$1,788 million) or 22.2% of net earned premium (2006: 21.9%) after the adverse impact of lower US and UK discount rates on claims reserves
- Return on equity at 26.1% of average shareholders' funds, unchanged from 2006
- Diluted earnings per share* up 25% to 217.3 cents (2006: 173.5 cents)
- Full year dividend payout up 38% to \$1,069 million; dividends per share for 2007 up 28% to 122 cents
- Stronger Australian dollar adversely impacted profit after tax by \$72 million
- Cash flow from operations increased to \$2,374 million after higher tax payments following increased profits in recent years (2006: \$2,039 million)

* *assumes all hybrid securities are dilutive*

Highlights

year ended 31 December 2007

- Gross written premium up 20% to \$12,406 million and gross earned premium up 23% to \$12,361 million, due mainly to 2007 acquisitions supported by high retention of business
- Overall average premium rates were down 3% for the year
- Gross written premium growth lower than original target of 30%, adversely affected by:
 - appreciation of A\$ 6%
 - reduced inward reinsurance to improve risk profile 2%
 - increased competition 2%
 - 10%
- Gross written premium for 2007 was adversely affected by 6% or \$707 million based on 2006 average exchange rates

Currency split	%	GWP \$m	Negative fx rate movement
Australian \$	22	2,729	-
US\$	46	5,707	(9.8%)
Sterling	19	2,357	(2.0%)
Other	<u>13</u>	<u>1,613</u>	<u>(1.6%)</u>
	<u>100</u>	<u>12,406</u>	<u>(6.0%)</u>

Highlights

year ended 31 December 2007

- Reinsurance costs decreased from 17.8% to 16.0% of gross written premium primarily due to lower reinsurance costs in new acquisitions and increased participation of Equator Re in external protections
- Reinsurance costs were above our target of 15% due to our cautious approach to mitigating exposure to large individual risk claims and catastrophes – maximum event retention down to 3.5% of net earned premium (2006: 4.0%)
- Net earned premium up 25% to \$10,210 million
- Combined operating ratio (COR) 85.9% compared with 85.3% last year
- All insurance divisions achieved strong underwriting profits with CORs ranging from 75.7% to 93.6%
- Substantial majority of products and businesses in 45 countries achieved underwriting profits

Highlights

year ended 31 December 2007

- Gross claims ratio reduced from 54.9% to 53.8% reflecting lower large individual risk claims and continued low claims frequency on most portfolios
- Net claims ratio reduced from 55.8% to 54.3%
- 21 natural catastrophe claims with net cost to QBE above \$2.5 million for each catastrophe, compared with 5 natural catastrophe claims last year
- Large individual risk claims greater than \$2.5 million were slightly lower than last year
- Attritional claims ratio (i.e. individual claims less than \$2.5 million) unchanged despite lower premium rates in the past three years

Analysis of claims incurred

restated to include the US acquisitions for all years

	2007	2006	2005
	%	%	%
Net claims ratio ⁽¹⁾	54.4	57.7	60.5
Analysis of claims ratio:			
- attritional	47.7	47.4	48.5
- large and catastrophe ⁽²⁾	6.6	8.9	10.1
- risk margin upgrade	0.1	1.4	1.9
	54.4	57.7	60.5

- 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 the 2005, 2006 and 2007 years
- 2) Large individual risk and catastrophe claims defined as claims with a net cost to QBE in excess of \$2.5 million

Highlights

year ended 31 December 2007

- Probability of adequacy of outstanding claims of 94.0%, including US acquisitions (2006: 94.6%)
- Probability of adequacy was adversely affected by:
 - \$181 million or 1.2% due to lower US\$ and sterling interest rates;
 - \$77 million or 0.5% due to the stronger A\$; and
 - \$30 million or 0.3% additional margins for the new US acquisitions
- Additional risk margins of \$206 million were taken up to maintain the probability of adequacy at 94.0%. We believe this is appropriate given the current economic climate.
- Coefficient of variation unchanged from end of 2006, even with US acquisitions

Risk margins in outstanding claims

year ended 31 December 2007

	First half		Second half		Full year 2007	
	\$m	%	\$m	%	\$m	%
Opening 1Jan 2007	1,389	94.6	1,832	95.8	1,389	94.6
Discount effect	40	0.4	(221)	(1.6)	(181)	(1.2)
Acquisitions*	254	(0.3)	-	-	254	(0.3)
Foreign exchange	(43)	(0.3)	(34)	(0.2)	(77)	(0.5)
Increase in margins	192	1.4	14	-	206	1.4
Closing 31 Dec 2007	1,832	95.8	1,591	94.0	1,591	94.0

* Risk margins from acquisitions negatively impacted probability of adequacy by 0.3% on consolidation

Highlights

year ended 31 December 2007

- Commission ratio increased from 17.0% to 18.5% largely due to the change in distribution mix following the US acquisitions and slightly higher incentive commissions for our agents
- The combined commission and expense ratio of 31.6% was 2.1% higher than our target of 29.5%. The difference was mainly due to:

	% of NEP
- additional expenses as referred to below	0.6
- differences in accounting for policyholder rebates, claims settlement costs and incentive commissions for US acquisitions	0.8
- higher commission on PFG quota share assumed from Hannover Re	0.3
- general increase in incentive commissions	<u>0.2</u>
	<u>2.1</u>

- Expense ratio increased from 12.5% to 13.1% of net earned premium as a result of the following major items:

	\$m	% of NEP
- further investment in new IT systems to create efficiencies and improve service to intermediaries	37	0.4
- increased fire service levies in Australia	21	0.2
- impact of stronger A\$ and weaker US\$ against sterling	25	0.2
- higher fee income less other costs	<u>(25)</u>	<u>(0.2)</u>
	<u>58</u>	<u>0.6</u>

Highlights

year ended 31 December 2007

- Gross investment income up 42% to \$1,398 million (2006: \$985 million)
- Gross investment yield before borrowing costs and expenses was 6.3% compared with 5.2% last year
- Fixed interest and cash gross yields outperformed external benchmarks and increased to 5.9% compared with 4.7% last year
- Equity yields were 9.8%, down from 12.5% last year - first half equity gains were locked in through derivatives taken out late April 2007. Hedges remain in place.
- Net investment income (after borrowing costs and investment expenses) increased 38% to \$1,132 million (2006: \$822 million) with a net yield of 5.8%, up from 5.0% last year
- Amortisation of intangibles increased from \$10 million to \$21 million due to the US acquisitions
- Income tax expense reduced from 26% of profit before tax to 24% due to higher profits in jurisdictions with lower tax rates

Impact of stronger A\$ in 2007

	2007 actual	2007 at 2006 exchange rates*	Negative impact	
	\$m	\$m	%	\$m
Gross written premium	12,406	13,113	(6)	707
Gross earned premium	12,361	13,074	(6)	713
Net earned premium	10,210	10,746	(5)	536
Net investment income	1,132	1,184	(5)	52
Net profit after income tax	1,925	1,997	(4)	72
Total investments and cash	24,606	26,262	(7)	1,656
Gross outstanding claims	18,231	19,452	(7)	1,221
Risk margins in outstanding claims	1,591	1,668	(5)	77

* Income statement items are restated to 31 December 2006 cumulative average rates of exchange and balance sheet items to 31 December 2006 closing rates of exchange

	2007		2006		Movement in 2007	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate %	Average rate %
Euro	1.655	1.639	1.671	1.665	(0.4)	(1.6)
GBP	2.264	2.391	2.480	2.441	(8.7)	(2.0)
USD	1.140	1.194	1.266	1.323	(9.9)	(9.8)

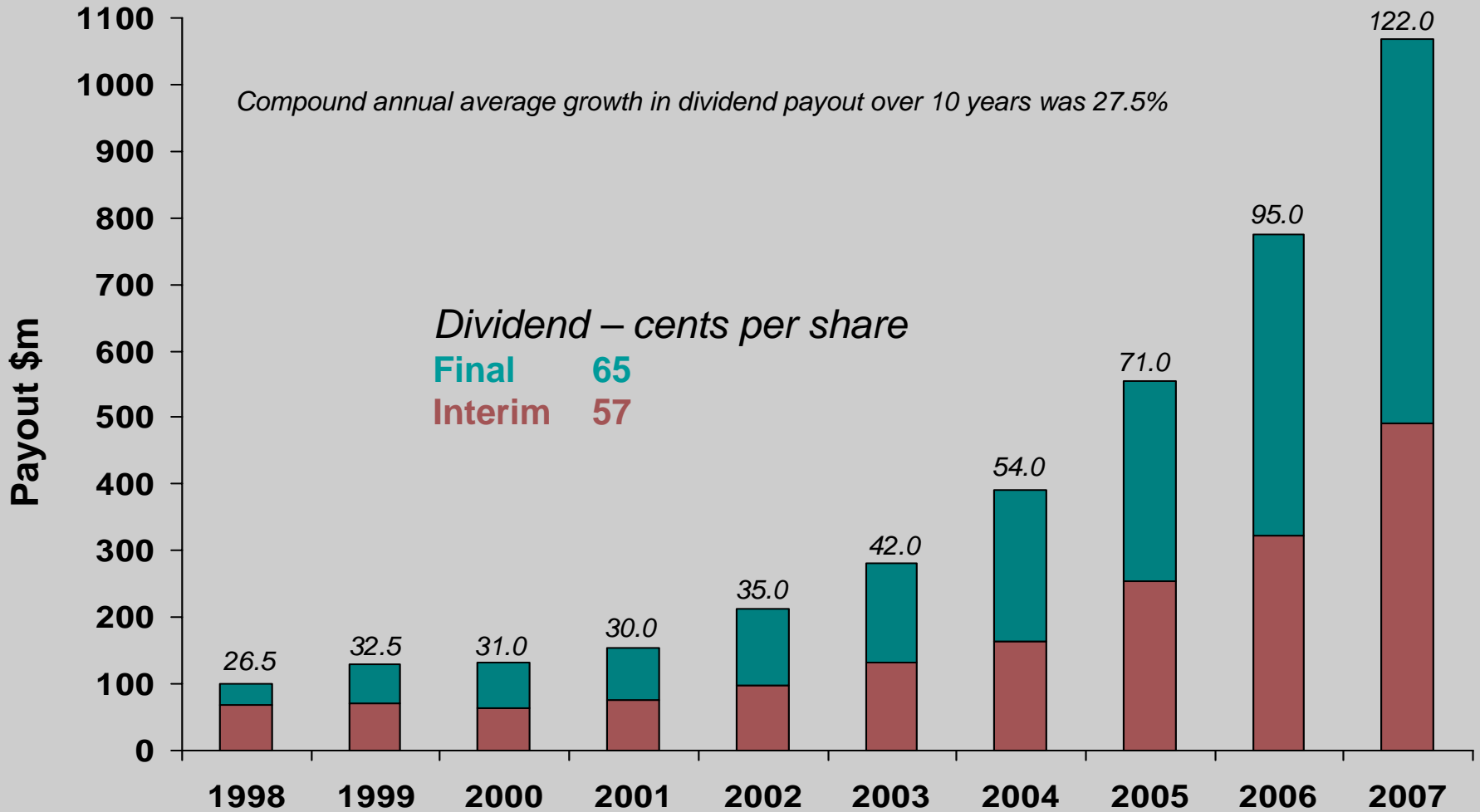
Shareholders' returns

year ended 31 December 2007

- Final dividend of 65 cents per share, 50% franked (2006: 55 cents, 60% franked)
 - Ex dividend date 29 February 2008
 - Record date 6 March 2008
 - Payment date 26 March 2008
- 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 election plan continues, however the dividend reinvestment plan remains suspended
- Shares on issue* increased to 886 million (2006: 819 million) due to conversion of hybrid securities, a share placement and the reinvestment of dividends
- An investment in QBE has outperformed the Australian All Ordinaries Accumulation Index and inflation with a growth rate of 20% in 2007

* as notified to Australian Securities Exchange

Dividend performance



Worldwide operations

year ended 31 December 2007

		HALF YEAR		FULL YEAR	
		Jun 2007	Dec 2007	Dec 2007	Dec 2006
Gross written premium	\$m	6,520	5,886	12,406	10,372
Gross earned premium	\$m	5,751	6,610	12,361	10,069
Net earned premium	\$m	4,749	5,461	10,210	8,158
Claims ratio	%	55.7	53.2	54.3	55.8
Commission ratio	%	18.2	18.7	18.5	17.0
Expense ratio	%	12.3	13.7	13.1	12.5
Combined operating ratio	%	86.2	85.6	85.9	85.3
Underwriting profit	\$m	653	785	1,438	1,200
Investment income - policyholders' funds	\$m	400	424	824	588
Insurance profit	\$m	1,053	1,209	2,262	1,788
Insurance profit	% to NEP	22.2	22.1	22.2	21.9
Investment income - shareholders' funds	\$m	164	144	308	234
Amortisation of intangibles/impairment of goodwill and intangibles	\$m	(5)	(16)	(21)	(10)
Net profit before tax	\$m	1,212	1,337	2,549	2,012
Income tax expense	\$m	(287)	(328)	(615)	(519)
Minority interest	\$m	(4)	(5)	(9)	(10)
Net profit after income tax and minority interest	\$m	921	1,004	1,925	1,483

Worldwide operations

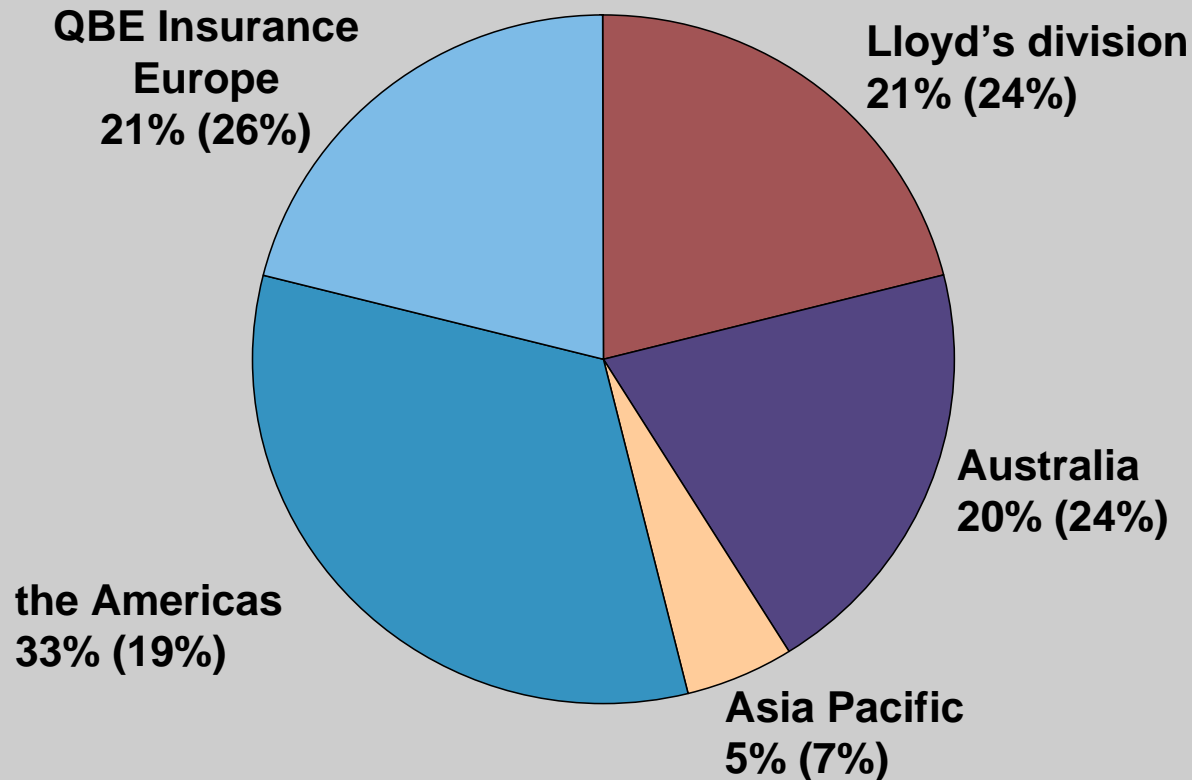
year ended 31 December 2007

	GWP	Growth	COR		Net profit after tax	
	2007	2007	2007	2006	2007	2006
	\$m	%	%	%	\$m	\$m
Australia	2,596	4	82.9	82.9	445	387
Asia Pacific	583	-	82.7	82.7	89	73
QBE Insurance Europe	2,503	(5)	92.1	88.9	341	399
Lloyd's division the Americas	2,634	(3)	75.7	82.1	465	374
Equator Re	3,656	88	93.6	89.7	247	109
Elimination – internal reinsurance	1,990	121	80.5	81.4	338	141
	(1,556)	-	-	-	-	-
Group	12,406	20	85.9	85.3	1,925	1,483
Direct and facultative	11,171	25	86.5	84.9	1,623	1,280
Inward reinsurance	1,235	(16)	81.6	87.9	302	203
Group	12,406	20	85.9	85.3	1,925	1,483

Geographical diversification

gross earned premium - year ended 31 December 2007

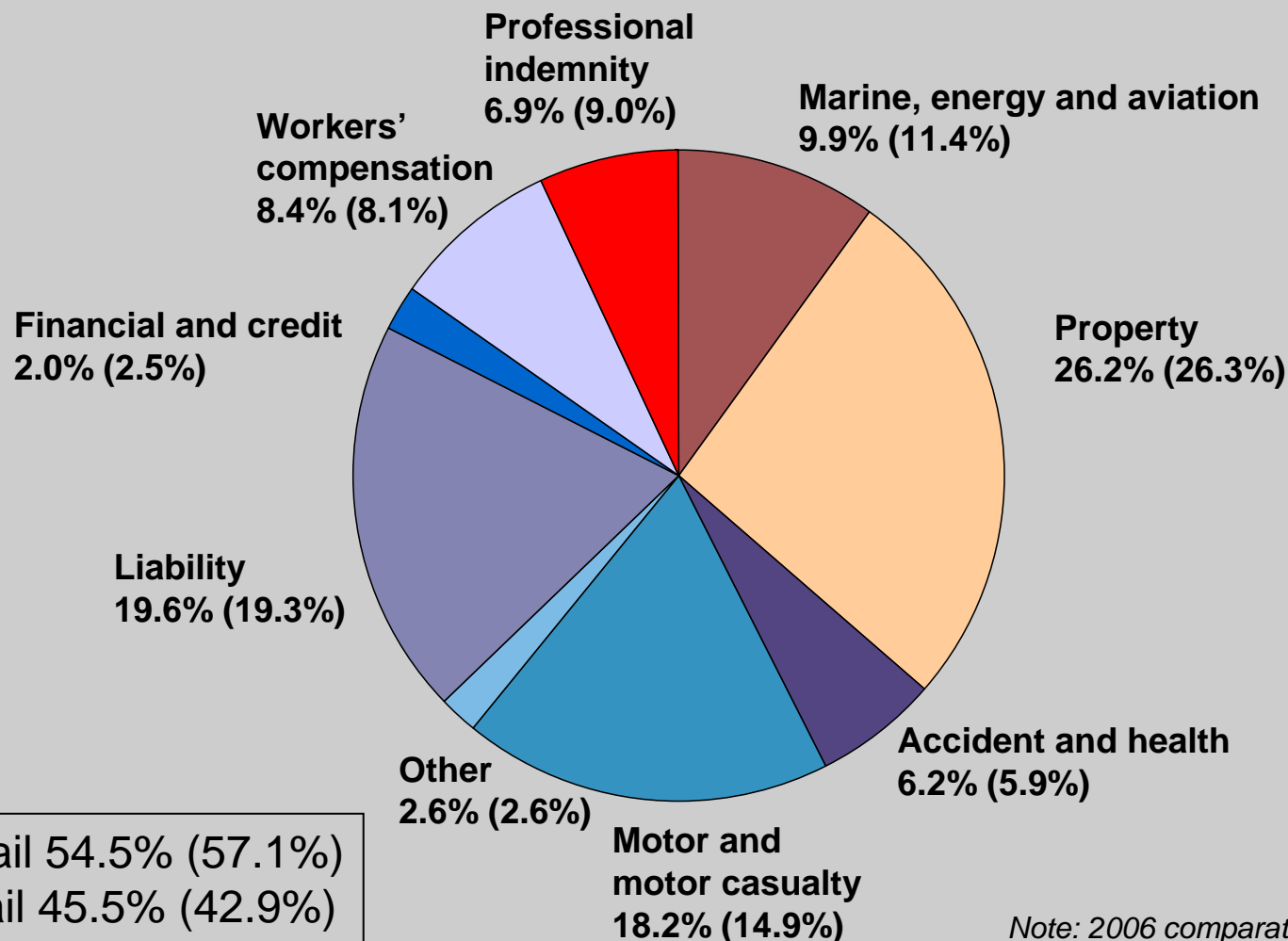
Gross earned premium \$12,361 million (2006: \$10,069 million)



Note: 2006 comparatives in parentheses

Worldwide portfolio mix

gross earned premium - year ended 31 December 2007



Note: 2006 comparatives in parentheses

Balance sheet

	31 Dec 2007 \$m	31 Dec 2006 \$m
ASSETS		
Investments and cash	24,606	19,972
Receivables	4,876	3,934
Recoveries on outstanding claims	4,360	3,624
Deferred insurance costs	1,683	1,409
Intangibles	2,493	1,475
ABC financial assets pledged for funds at Lloyd's	900	995
Fixed and other assets	695	348
TOTAL ASSETS	39,613	31,757
LIABILITIES		
Outstanding claims	18,231	15,269
Unearned premium	5,698	4,642
Borrowings	3,458	2,364
ABC securities for funds at Lloyd's	867	946
Other creditors and provisions	2,816	2,187
TOTAL LIABILITIES	31,070	25,408
NET ASSETS	8,543	6,349
EQUITY		
Equity attributable to shareholders	8,479	6,283
Minority interest	64	66
TOTAL EQUITY	8,543	6,349
Key ratios;		
Probability of adequacy of outstanding claims	94.0%	94.6%
Borrowings to shareholders' equity	40.8%	37.6%
Capital adequacy multiple (APRA criteria)	2.4 times	2.4 times

Net invested funds

	31 Dec 2007		31 Dec 2006	
	\$m	%	\$m	%
Cash	988	4.0	1,019	5.1
Short term money	16,317	66.3	10,040	50.3
Fixed interest securities and other	5,552	22.6	7,134	35.7
Equities	1,656	6.7	1,741	8.7
Investment properties	93	0.4	38	0.2
Total investments and cash	24,606	100.0	19,972	100.0
Borrowings	(3,458)		(2,364)	
Net invested funds	21,148		17,608	

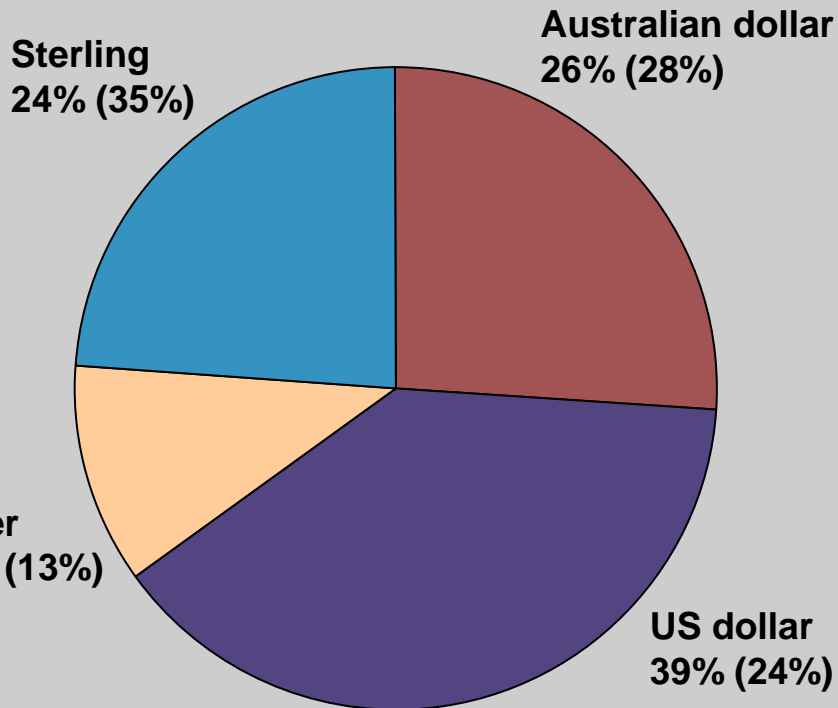
Balance sheet

- Investments and cash increased by 23% to \$24.6 billion due to strong operational cash flow and acquisitions in 2007
- 96% 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 fixed interest portfolios. Fixed interest duration was an average of 0.3 years at the end of 2007 and has increased to around 0.7 years since year end (December 2006: 0.4 years)
- No direct investment exposure to US or other sub-prime mortgage assets, collateralised debt, collateralised loans or similar structured products; small indirect exposure via deposits and equity in major highly rated banks

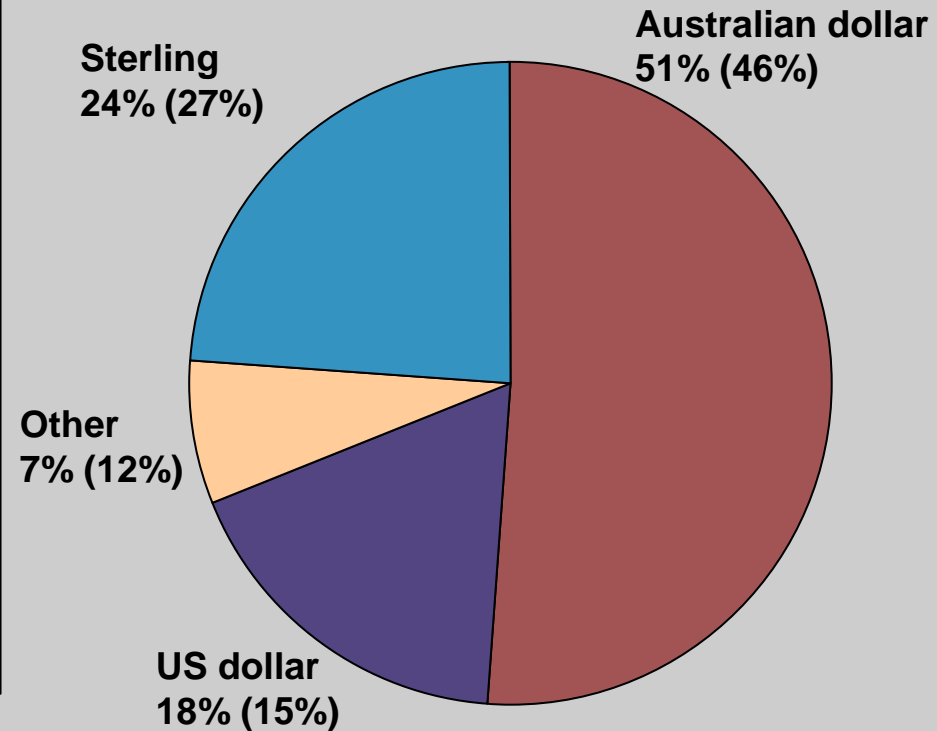
Currency mix

at 31 December 2007

Market value of total investments and cash
2007 \$24,606 million (2006: \$19,972 million)



Market value of equities
2007 \$1,656 million (2006: \$1,741 million)



Note: 2006 comparatives in parentheses

Balance sheet

- Premium and reinsurance receivables over 90 days have decreased compared with last year with conservative provisions held for doubtful debts. Continued low bad debt experience.
- Reinsurance recoveries on outstanding claims increased to \$4.4 billion from \$3.6 billion – \$1.2 billion increase due to US acquisitions.
- Reinsurance recoveries includes claims incurred but not reported of \$2.2 billion (2006: \$1.4 billion)
- Standard & Poor's credit rating of reinsurance counterparties

S&P rating	2007 \$m	2006 \$m
AAA	146	231
AA	2,527	1,835
A	1,378	1,288
BBB	55	76
Speculative grade*	89	64
Non rated*	165	130
	4,360	3,624

* Includes 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 \$255 million (2006: \$296 million)
- The lower provision is mainly due to settlement of 2005 and prior claims, commutations, generally improved ratings of reinsurers and the appreciation of the Australian dollar
- Intangibles increased \$1,018 million to \$2,493 million due mainly to the US acquisitions
- Borrowings* to shareholders' equity 40.8% (2006: 37.6%)
- Borrowings* increased by \$1,094 million to \$3,458 million to assist funding US acquisitions
- Weighted average cost of borrowings* at 31 December was 6.7% (2006: 5.8%) – majority of interest rates are fixed
- Debt* is 9% short term, 71% long term subordinated debt and 20% hybrid securities

* excludes ABC securities for funds at Lloyd's

Borrowings

	Maturity date	31 Dec 2007 \$m	31 Dec 2006 \$m
Short term bank loans			
A\$200m	26/07/08	200	-
A\$100m	14/09/08	100	-
Senior debt			
£175m	02/08/20	395	433
US \$21m	02/08/20	24	-
US \$82m	01/07/23	89	-
Subordinated debt			
A\$170m	02/08/20	169	169
€115m	02/08/20	191	190
US\$250m	01/07/23	281	312
Perpetual debt			
£300m	18/07/16*	673	736
US \$550m	01/06/17*	622	-
Hybrid convertible securities			
SCS US\$ 375m	21/09/24	122	447
LYONS I and II	15/04/22	-	77
LYONS IV £258m	16/05/27	592	-
TOTAL BORROWINGS		3,458	2,364
Weighted average interest rate		6.7%	5.8%

* Interest rate step-up date

Outstanding claims provision

- QBE's record of claims development demonstrates our prudent management of claims

		2007	2006	2005	2004	2003	2002
Prior year release – net undiscounted	\$m	931	528	618	140	44	12
Total net outstanding claims (discounted)	\$m	13,871	11,645	10,870	9,462	7,595	7,994
Risk margin over central estimate	\$m	1,591	1,389	1,243	1,058	750	656
Risk margin as percentage of central estimate	%	13.0	13.5	12.9	12.6	11.0	8.9
Probability of adequacy of net outstanding claims	%	94.0	94.6	94.1	94.0	91.0	86.0

Claims development

utilisation of prior year release

	\$m
2006 and prior year claims release – net undiscounted	931
Utilised as follows;	
2007 accident year	
- undiscounted risk margin increase ⁽¹⁾	703
- US acquisitions - change in discount rate	68
- risk margin upgrade	30
- net increase in provision for claims settlement costs	49
	850
2006 accident year and prior	
Balance mostly comprising release of IBNR for large individual risk claims and catastrophes	81
	931

1) Risk margins are 16% of current accident year central estimate (13% of total)

Total insurance liabilities

	2007 \$m	2006 \$m	2005 \$m	2004 \$m
Outstanding claims	13,871	11,645	10,870	9,462
Unearned premium net of deferred insurance costs	4,015	3,233	2,841	2,590
	17,886	14,878	13,711	12,052
Central estimate	15,433	12,656	11,695	10,373
Risk margin* - outstanding claims	1,591	1,389	1,243	1,058
- unearned premium	862	833	773	621
	17,886	14,878	13,711	12,052
* Risk margin in excess of 75% probability of adequacy using APRA's risk weighted capital adequacy model for Australian licensed insurers	1,577	1,486	1,411	1,020

Capital adequacy

	31 Dec 2007	31 Dec 2006
	\$m	\$m
Tier 1		
Share capital (as notified to ASX)	4,781	3,514
Reserves and retained earnings	3,691	2,780
Perpetual securities (net of borrowing costs)	1,294	736
Excess risk margin	1,577	1,486
Tax on excess risk margin	(473)	(446)
Proposed dividend	(515)	-
Deductions - intangibles	(2,493)	(1,475)
	7,862	6,595
Tier 2		
Subordinated debt	623	644
Hybrid securities	122	77
	745	721
QBE capital base	8,607	7,316
Minimum capital requirement	3,612	3,013
Capital adequacy multiple*	2.4 times	2.4 times

* using APRA's risk weighted capital adequacy model for Australian licensed insurers. The capital requirements for non operating holding companies have not yet been defined

Australia

year ended 31 December 2007

		2007	2006
Gross written premium	\$m	2,596	2,491
Gross earned premium	\$m	2,518	2,428
Net earned premium	\$m	2,141	2,051
Claims ratio	%	55.2	55.9
Commission ratio	%	12.0	11.8
Expense ratio	%	15.7	15.2
Combined operating ratio	%	82.9	82.9
Insurance margin	%	25.6	24.7

Australia

year ended 31 December 2007

- Gross written premium up 4% to \$2,596 million despite overall average premium rate reductions of around 3% offset by strong customer retention and new business
- Continued excellent underwriting results with a COR of 82.9%, unchanged from last year, and an outstanding insurance profit margin of 25.6% (2006: 24.7%)
- Strong result despite a frequency of large claims and six natural catastrophes, overall premium rate reductions during the year and maintaining risk margins
- Net claims ratio of 55.2% (2006: 55.9%) due to continued low attritional claims offsetting increased frequency of large claims and catastrophes
- Substantial majority of portfolios produced results ahead of plan, in particular workers' compensation, liability, aviation and trade credit portfolios
- Commission ratio marginally increased from 11.8% to 12.0% due to increased broker sourced business
- Expense ratio increased from 15.2% to 15.7% mainly due to increased fire service levies and initiatives to improve efficiencies, customer service and intermediary interfaces – fire service levies represents 5.2% of net earned premium compared with 4.4% in 2006

Asia Pacific

year ended 31 December 2007

		2007	2006
Gross written premium	\$m	583	583
Gross earned premium	\$m	570	570
Net earned premium	\$m	416	446
Claims ratio	%	41.3	42.6
Commission ratio	%	20.0	20.4
Expense ratio	%	21.4	19.7
Combined operating ratio	%	82.7	82.7
Insurance margin	%	25.0	23.3

Asia Pacific

year ended 31 December 2007

- Gross written premium maintained at \$583 million despite overall average premium rate reductions of around 6%, stronger Australian dollar and increased competition
- Outstanding underwriting result with COR of 82.7% unchanged from 2006
- Strong underwriting profits in New Zealand, the Pacific Islands, Hong Kong and Singapore
- Insurance profit margin of 25.0% (2006: 23.3%)
- Claims ratio was 41.3% compared to 42.6% last year due to lower level of large property claims and continued low attritional claims, partly offset by increase in catastrophe claims
- Expense ratio up from 19.7% to 21.4% due to the cost of new systems and the effect of lower net earned premium following increased reinsurance to the captive, Equator Re
- Entered into a joint venture arrangement with Prism Cement, a majority owned subsidiary of the Rajan Raheja Group, to establish a new general insurance business in India
- Finalising commercial product strategy for China to leverage QBE's representative office in Guangdong

European operations

year ended 31 December 2007

		QBE Insurance Europe *		Lloyd's division		Total European operations	
		2007	2006	2007	2006	2007	2006
Gross written premium	\$m	2,503	2,646	2,634	2,711	5,137	5,357
Gross earned premium	\$m	2,537	2,720	2,621	2,475	5,158	5,195
Net earned premium	\$m	2,026	2,326	1,627	1,644	3,653	3,970
Claims ratio	%	60.6	61.0	40.9	49.4	51.8	56.2
Commission ratio	%	16.1	14.8	19.6	20.7	17.7	17.3
Expense ratio	%	15.4	13.1	15.2	12.0	15.3	12.6
Combined operating ratio	%	92.1	88.9	75.7	82.1	84.8	86.1
Insurance margin	%	18.0	19.4	36.0	26.3	26.0	22.3

* Central and Eastern Europe operations transferred back to QBE Insurance Europe from 1 January 2007

European operations

year ended 31 December 2007

- Gross written premium reduced by 4% to \$5,137 million due to overall average premium rate reductions of 4.5% and significant adverse foreign currency impact due to 34% of business written in US dollars. The lower premium was offset to some extent by high customer retention and new business initiatives
- Gross written premium in sterling was £2,148 million, up 1% impacted by the high proportion of US dollar business; using consistent rates of exchange, premium growth was up 4%
- Net earned premium reduced 8% to \$3,653 million primarily due to increased proportional reinsurance with Equator Re
- QBE Insurance Europe's COR was 92.1% compared with 88.9% last year reflecting the UK floods in June and July, an increase in large individual risk claims and overall premium rate reductions
- The Lloyd's division COR was outstanding at 75.7% compared with 82.1% last year reflecting a lower level of large catastrophes in 2007 and profitable earn out of the 2005 and 2006 underwriting years

European operations

year ended 31 December 2007

- QBE is the largest manager and second largest provider of capacity 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 following unsuccessful offer to external names during the year
- 1 January 2008 renewals – saw further reduction in overall average premium rates of 4%, although marked variation by class of business
- Expense ratio higher due our acceleration of development of new IT systems, lower net earned premium as a result of higher proportional reinsurance to Equator Re and stronger sterling against US dollar
- Additional expenditure also incurred to hire technical staff to implement our strategy to develop organic growth in core products outside the London market

the Americas

year ended 31 December 2007

		2007	2006
Gross written premium	\$m	3,656	1,941
Gross earned premium	\$m	3,976	1,876
Net earned premium	\$m	2,574	1,153
Claims ratio	%	59.4	55.9
Commission ratio	%	22.8	25.6
Expense ratio	%	11.4	8.2
Combined operating ratio	%	93.6	89.7
Insurance margin	%	12.8	13.9

US acquisitions

The combined operating ratio for Winterthur US was 93.7% compared with a full year post acquisition target of 93.0% and for Praetorian 86.1% compared with a target of 87.0%

the Americas

year ended 31 December 2007

- Gross written premium up 88% to \$3,656 million due to acquisitions in 2007 partly offset by the need to cancel existing business due to competition and less than adequate pricing
- Overall average premium rates down less than 1% including impact of Florida's mandated reductions in premium rates on condominiums
- Growth adversely impacted by 9.8% appreciation of the Australian dollar; gross written premium growth in US dollars was up 109%
- General insurance represents 89% of total GWP compared with 77% last year, reflecting strategy of building general insurance business
- COR increased to 93.6% (2006: 89.7%) due primarily to higher COR of QBE Regional Insurance business and after increased risk margins in outstanding claims
- Premium rates at 1 January 2008 renewal are largely unchanged
- 79% of total reinsurance cost of \$1,402 million is proportional reinsurance
- Continued focus on selected regional and specialist portfolios in US has reduced our exposure to major catastrophes
- Integration of US acquisitions ahead of plan and expected to be completed in 2008 with synergies expected to be around \$100 million after tax, up from \$50 million previously announced
- The combined commission and expense ratio increased from 33.8% in 2006 to 34.2%. The increase in commission is primarily due to the change in distribution offset by overriding commissions on business ceded to Equator Re and higher expenses following the recent acquisitions.

Equator Re - captive reinsurer

year ended 31 December 2007

		2007	2006
Gross written premium	\$m	1,990	901
Gross earned premium	\$m	1,631	678
Net earned premium	\$m	1,426	538
Claims ratio	%	54.6	63.6
Commission ratio	%	22.0	13.0
Expense ratio	%	3.9	4.8
Combined operating ratio	%	80.5	81.4
Insurance margin	%	23.1	24.9

Equator Re

year ended 31 December 2007

- 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 maximum event retention and Group 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 through purchases of additional reinsurance protection
- Gross written premium up 121% to \$1,990 million and net earned premium up 165% to \$1,426 million, mainly due to additional proportional programmes from Group companies and 50% quota share from Praetorian Financial Group
- Commissions higher due to new proportional reinsurance business
- Underwriting profit was \$278 million compared with \$100 million last year with COR of 80.5% compared with 81.4% last year
- Substantial risk margins in outstanding claims have been maintained
- Shareholders' funds of approximately \$1 billion and a S&P insurer financial strength rating of A+

Investment income

year ended 31 December 2007

	2007		2006	
	\$m	Yield%	\$m	Yield%
Total equity income ⁽¹⁾	166	9.8	151	12.5
Total fixed interest and cash income ⁽²⁾	1,211	5.9	822	4.7
Total property income	5	7.6	7	19.6
Other income	14		6	
Realised gains/(losses) on sale of controlled entities	2		(1)	
Gross investment income	1,398	6.3	985	5.2
Exchange gains	15		18	
Borrowing costs	(218)		(128)	
Other expenses	(54)		(32)	
Net cost of ABCs	(9)		(21)	
Net investment income	1,132		822	5.0
Policyholders' funds	824	5.8	588	4.8
Shareholders' funds	308	5.7	234	5.4
	1,132	5.8	822	5.0

(1) Includes realised and unrealised gains on equities of \$100 million (2006: \$104 million)

(2) Includes realised and unrealised gains on fixed interest securities of \$254 million (2006: \$103 million)

Investment income

year ended 31 December 2007

- Fixed interest returns well ahead of budget and overall external benchmarks
- Short duration fixed interest strategy successful in maximising yields during the recent period of rising interest rates
- Net investment income includes \$39 million (2006: \$27 million) representing the interest rate differential on forward foreign exchange contracts protecting the Group's exposure to our investment in foreign subsidiaries
- Listed equity holdings at 6.6% of total investments and cash (2006: 8.6%)
- Substantial portion of equity gains locked in during April 2007 through use of derivatives, which have been rolled until March 2008
- Strong cash flow and acquisitions have resulted in a 23% increase in invested funds to \$24.7 billion (2006: \$20.0 billion); \$1.7 billion negative impact from the translation of invested funds to the stronger \$A

Comparison with cash yield versus actual yields

	Average AAA cash yields	Actual gross yields achieved by QBE*
	%	%
2002	3.4	2.5
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

Investment mix 31 December 2007	Portfolio mix by currency	Current AAA cash rate
	%	%
Australian dollar	25.9	7.0
US dollar	39.2	3.0
Sterling	23.7	5.3
Other	11.2	4.7
Weighted average yield		4.8

* includes yields on cash, fixed interest and equities

2008 outlook

Subject to no material movement in budgeted exchange rates; large individual risk and catastrophe claims not exceeding the allowance in our business plans; no major fall in equity markets or interest rates; and regulatory approvals for acquisitions, we expect:

- gross written premium to increase by around 7.5% and net earned premium growth of around 10%, excluding new acquisitions
- 2008 premium rates expected to reduce by an overall average of 4%
 - organic growth expected to be slightly ahead of lapsed business with continued high customer retention
 - Australian premium rates likely to reduce by 3%
- acquisition pipeline to increase - prices reducing but market to remain competitive
- an insurance margin of 19.0% to 20.0% of net earned premium which includes an 8.5% allowance for large individual risk and catastrophe claims
- the attritional claims ratio to be around 48%

2008 outlook

- Equator Re's participation on external reinsurance programmes with exposures within Group net retentions to increase
- the overall risk profile of our business including the maximum event retention ratio to reduce
- a combined commission and expense ratio of 31.5% or less
- income tax expense to continue to benefit from income in lower tax paying jurisdictions – target 24% of pre-tax profit
- the probability of adequacy of outstanding claims, after US acquisitions, to be maintained towards the upper end of our internal range of 85% to 94%
- the new aggregate reinsurance protection to limit large individual risk and catastrophe claims above \$2.5 million between 8.5% and 10.3% of net earned premium

2008 outlook

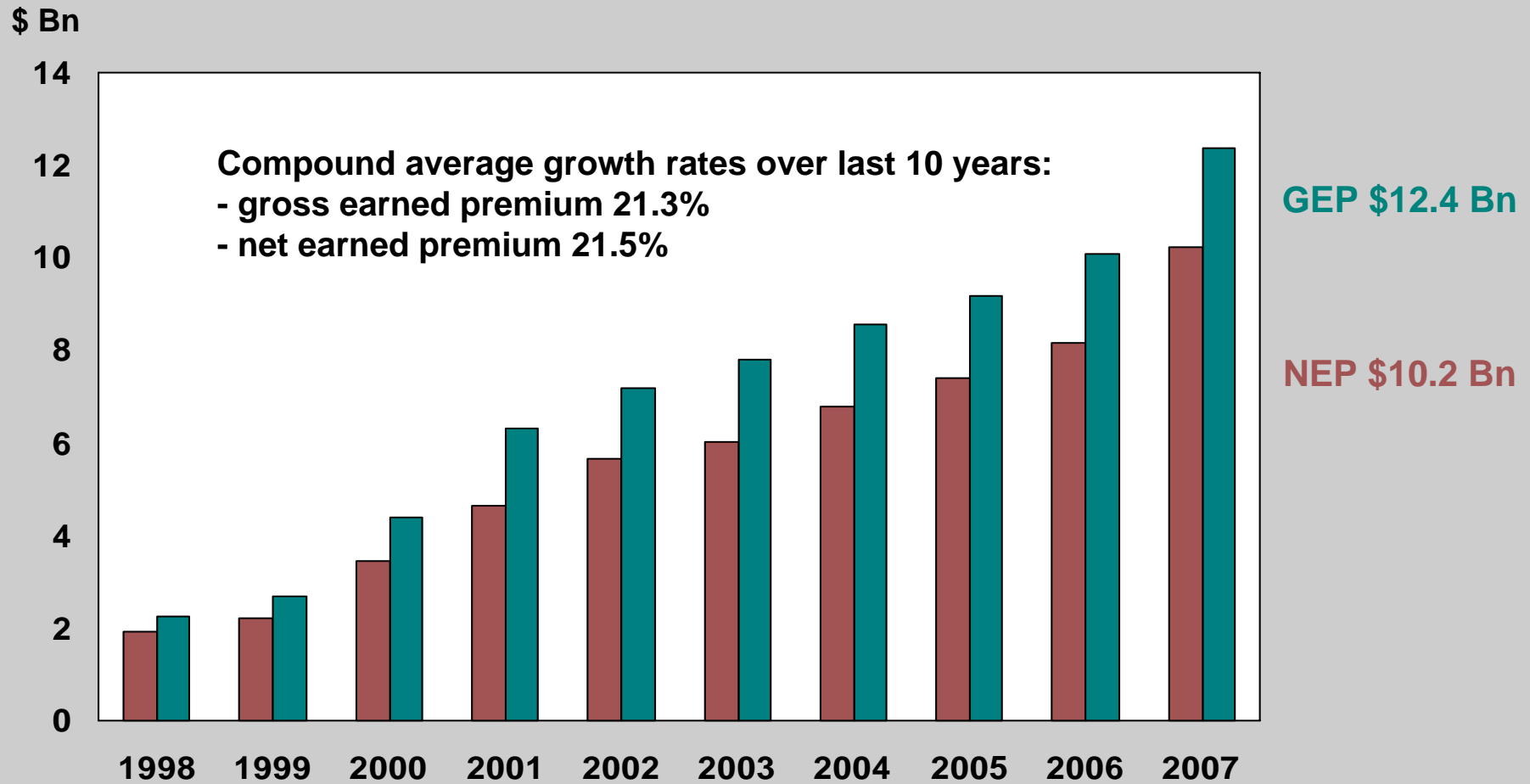
- invested funds to increase to around \$27 billion from acquisitions and strong cash flow
- gross investment yields to be around 5.5% including 5% capital gain on equities and allowance for interest rate differentials on forward currency hedges
- to continue our low risk strategy for investments and absolute return criteria
- Group capital adequacy to be well above our Group threshold of 1.75 times the APRA minimum capital requirement at around 2.3 times at end 2008
- key financial ratios to be managed to ensure we meet our rating agency and regulatory benchmarks, typically within AA rating levels
- to continue:
 - our high customer retention
 - to seek opportunities for growth and acquisitions based on our successful criteria
 - to invest in IT and other initiatives to improve efficiencies and distribution
 - to attract, develop and retain our people

2008 projected premium income

	Gross written A\$bn	Original currency
Australia	2.8	A\$2.8
Asia Pacific	0.7	A\$0.7
QBE Insurance Europe	2.6	£1.1
QBE Underwriting – Lloyd’s division	2.4	£1.1
the Americas	4.8	US\$4.3
Equator Re	2.1	A\$2.1
Equator Re elimination	(2.1)	A(\$2.1)
Total Group	13.3*	

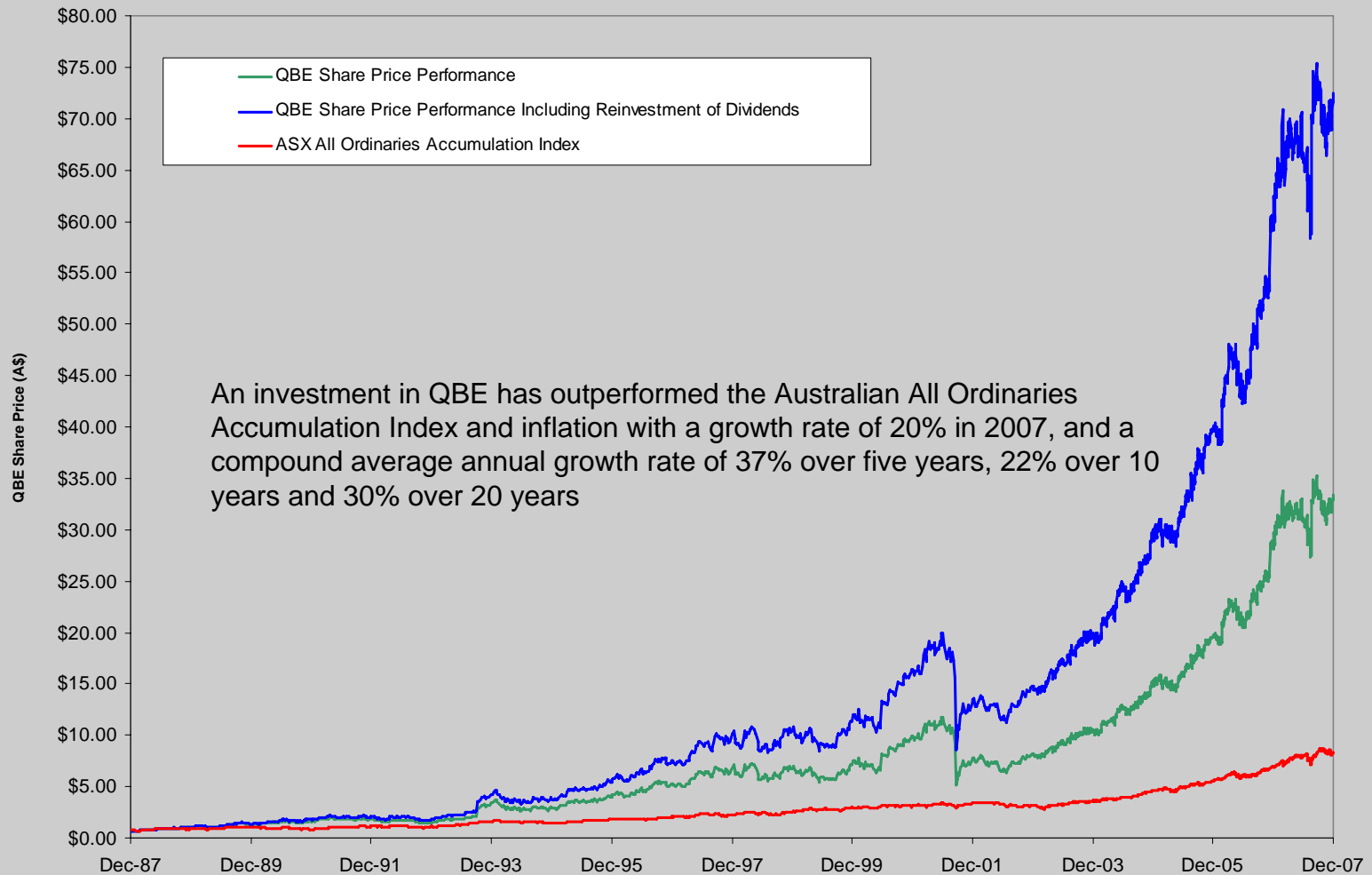
* assumes A\$ to US\$0.90 and A\$ to £0.44

History of premium income - a growth story



Historical share price performance

QBE Historical Share Price Performance - Last 20 Years





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