



# QBE

## MARKET RELEASE

19 August 2010

### **STRONG INSURANCE RESULT OFFSET BY WEAK INVESTMENT MARKETS**

QBE today announced its half year results in line with its update to the market on 26 July 2010.

The half year results reflect strong growth in premium income, continued excellent insurance profitability and substantially lower investment yields. In summary:

- Gross written premium was up 20% to US\$6,861 million (2009: US\$5,704 million), with solid growth in local currency for each of the divisions:
  - the Americas was up 13% to US\$2,342 million;
  - European operations was up 6% to £1,574 million;
  - Australia was up 26% to A\$2,046 million; and
  - Asia Pacific was up 15% to US\$295 million.
- Combined operating ratio, i.e. the ratio of claims, commissions and expenses to net earned premium, of 89.7% (2009: 89.3%);
- Insurance profit was up 8% to US\$822 million (2009: US\$764 million);
- Insurance profit margin to net earned premium of 15.7% (2009: 17.5%);
- Cash flow was up 15% to US\$647 million (2009: US\$564 million); and
- Net profit after tax down 39% to US\$440 million (2009: US\$720 million).

Growth in gross written premium came from acquisitions in 2008 and 2009, high customer retention, new distribution channels and overall average premium rate increases of 3%.

The insurance profit growth was very pleasing given the increased level of catastrophes compared to last year. The insurance profit margin of 15.7% was impacted by lower interest yields (0.5%), the reduced risk free interest rates for discounting of outstanding claims (1.3%) and the acceleration of IT expenditure on transformational projects in the UK and US (0.5%).

The reduction in net profit after tax was entirely due to lower interest yields on our quality cash and fixed interest portfolio and the substantial fall in equity markets over recent months and no one off gains as in 2009. The first half 2009 net profit after tax benefited from one-off gains on foreign exchange and the repurchase of debt of US\$174 million and US\$46 million respectively.

Around 99% of QBE's investments are liquid and cash and fixed interest investments are highly rated. There has been no permanent impairment of any of QBE's fixed interest investments. Equities are 6.5% of total investments and cash. We consider our conservative investment strategy is appropriate given the current uncertain economic climate.

In view of the strong technical results and cash flow, the directors have maintained the interim dividend at A\$0.62 per share, franked at 15%. The ex dividend date is 24 August 2010, the record date is 30 August 2010 and the date of dividend payment is 22 September 2010. The Dividend Reinvestment Plans are reinstated at a 2.5% discount.

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QBE has a track record of successful acquisitions. Since 2005, over 90% of QBE's growth was from acquisitions. Gross written premium has increased by 87%, with a similar rise in insurance profit of 86% in the same five year period.

QBE's growth strategy continues with acquisitions and other profit enhancing initiatives announced this year, estimated to improve annual gross written premium and net profit after tax by US\$2,350 million and US\$400 million respectively by 2013. QBE has a considerable pipeline of overseas acquisitions that are currently being investigated subject to QBE's strict criteria.

QBE's balance sheet remains strong with capital adequacy at 1.6 times the minimum capital requirement of the Australian Prudential Regulation Authority. QBE's low debt to equity ratio provides flexibility for funding growth of around US\$1.2 billion in gross written premium.

Frank O'Halloran, QBE's Chief Executive Officer, said "We are very pleased with the growth and insurance profitability of our businesses around the world and our continued outperformance against the majority of our peers. Unfortunately, the increase in insurance profit was more than offset by the significantly lower investment returns from volatile fixed interest and equity markets."

He added "QBE's strategy to build product diversification and geographic spread by acquisition continues to be successful. We have announced four acquisitions this year to date and we have a strong pipeline of overseas opportunities that are being investigated. We are positive about our outlook, particularly when interest rates in the US, UK and Europe return to more normal levels."

He continued "We are pleased to confirm our previous guidance of an insurance margin of 16%-18% for the 2010 year. This guidance is subject to the usual caveats relating to claims, interest rates and foreign exchange."

- Ends -

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QBE Insurance Group Limited is listed on the Australian Securities Exchange and is recognised as one of the top 25 global insurance and reinsurance companies as measured by net earned premium with operations in 49 countries.