

**LONDON SMEs PREDICT SLOW ECONOMIC RECOVERY
BUT EXPECT SOLID PROFITS****BUSINESSES' CONCERNED OVER RISE IN INFLATION AND
INTEREST RATES**

London, 21 July 2010

Key points

- 3 out of 4 London SMEs (77%) expect a 1-2 year wait for the UK to make a full economic recovery
- 70% forecast maintained or increased sales turnover in the second half of 2010
- Majority says that an increase in interest rates and inflation would be problematic for their business
- Over half feel that spending should be cut on local government and overseas aid to reduce national deficit

The fourth survey of small and medium-sized enterprises (SMEs) from QBE, the specialist business insurer, shows that the majority (77%) of SMEs in London believe that we can expect at least a one year wait before we see a full economic recovery. This is a small rise on the 70% that predicted this when asked six months ago, which indicates that recovery is slightly slower than had been expected.

The survey findings also illustrated that the current economic climate continues to challenge SMEs in London, with over half (56%) saying that they would experience difficulties if current conditions were to persist. However, this has improved since six months ago, when 66% said that they thought they would face difficulty if there was no positive economic change.

Similarly, London's SME base recorded some benefits of the downturn, with 49% saying that they had a greater awareness of individual customer's needs and a further third saying they were now a more competitive business, a more efficient business and a leaner business as a result of the recession.

Solid turnover expected

The survey also indicated that a healthy 70% of SMEs in London expect to either maintain or increase sales turnover in the second half of 2010 – a figure that is in line with the number of London SMEs that held this view this year before but slightly lower than the national average of 77% of SMEs with this forecast for the next six months.

Business growth stalled by lack of commercial credit

Although the majority of London SMEs anticipate solid profits in the second half of the year, 54% said that they believed it would be difficult to access commercial credit. This concern is perhaps reflected by the admission of 87% of SMEs in the region that they would not hire more staff in 2010, which would indicate that they do not feel they are in a position to invest in organic business growth.

Cuts should be made to spending on local government and overseas aid

When asked which areas should receive spending cuts to reduce the national deficit, the most popular choices were overseas aid, welfare and local government – an indication that the cuts to the public sector announced in the recent Budget will be popularly received. The two that were least favoured were health and education, with only 10% and 8% of the region's SMEs supporting spend reductions in these areas.

Over half, 57%, said that they felt an increase in interest rates would be problematic for their business, and 59% of those asked said that they would experience problems in their business with a rise in inflation.

The inflation-only increase to so-called "sin taxes", such as those imposed on alcohol and tobacco, may be met less keenly by SMEs in London. When asked which areas they would like to see increases to reduce the national deficit, the most chosen area was on alcohol and tobacco duty. 87% said they did not want to see increases on petrol and



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diesel fuel duty and, although this was answered in the Budget, there may be some disappointment that no firm plans on a fuel stabiliser programme were announced.

Pat Wood, General Manager, Midlands & South, QBE European Operations: “Small to medium sized enterprises make up a large part of the UK’s businesses and, in order to work towards a full national economic recovery, it is vital that we pull together to lend our support to SMEs and encourage them towards positive growth.

“At QBE, we take the time to understand the needs of our clients and their businesses and, through these relationships, we can provide a full service solution that both protects them and helps them to plan for the future.”

-ENDS-

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Notes to editors

About the QBE Business Sentiment Survey

Data were collected by The Survey Shop in June 2010. A total of 406 interviews were conducted by telephone using quota sampling. Respondents were qualified as owners, managers and decision-makers, and the data are representative of SMEs in UK and Ireland.



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About QBE

QBE Insurance Group is Standard & Poor's 'A+' rated and is one of the world's leading international insurers and reinsurers, headquartered in Sydney, Australia. We operate out of 48 countries across the globe, with a presence in all key insurance markets, and are lead underwriters within our chosen markets, setting rates and conditions. For the year ended 31 December 2009, the company underwrote gross written premium totalling £7,241.86 million and held shareholders' funds of £5,670.07 million.

QBE's European Operations, which accounts for 35% of QBE Group turnover, is a leading specialist in London market and European commercial lines business. It provides a wide range of insurance cover, including property, motor, liability and professional

QBE is proud to be the Official Business Insurance Partner of England Rugby and Premiership Rugby. Our partnerships with two elite properties in the sport will allow QBE's brand to continue to develop and business to grow.