



**QBE INSURANCE GROUP LIMITED
MARKET ANNOUNCEMENT**

QBE ANNOUNCES INCREASE IN 2009 PROFIT AND DIVIDEND

QBE announced today that its 2009 net profit after tax increased by 6% to \$1,970 million. This followed a year of continuing volatility in financial markets and a strengthening Australian dollar. Despite the difficult economic conditions and historically low interest rates, QBE produced an excellent return on equity of 18.4%, compared with 20.9% last year.

In recognition of the solid return on equity and profit increase, the directors have declared a final dividend of 66 cents per share compared with 65 cents last year. The total dividend for 2009 is 128 cents per share, up from 126 cents for the previous year. Total dividend payout for 2009 is up 10% to \$1,306 million. The franking rate will remain at 20% due to the substantial profits generated from overseas operations. Books close on 10 March and final dividend is payable 30 March. The Dividend Reinvestment Plan and Bonus Share Plan will continue but at no discount.

As was the case in 2008, the 2009 pre tax profit includes a number of significant items resulting from the volatility caused by the global financial crisis and the subsequent economic downturn. In particular:

- claims directly attributable to the global financial crisis of \$144 million, compared with \$200 million last year;
- unrealised losses of \$50 million on the revaluation of owner occupied properties, mainly in the US;
- continued low yields on cash and fixed interest investments, adversely impacting investment income by \$300 million;
- foreign exchange gains of \$365 million, compared with gains of \$409 million last year;
- profit of \$70 million on repurchase of QBE debt, compared with a profit of \$303 million last year; and
- net realised and unrealised gains on equities of \$97 million, compared with a net loss of \$554 million last year.

Gross written premium income was up 10% to \$14,455 million and net earned premium was up 10% to \$12,149 million. QBE's combined operating ratio (that is the ratio of claims, commissions and expenses to net earned premium) was an excellent 89.6% in the circumstances, compared with 88.5% last year. The insurance profit margin to net earned premium was a strong 17.0% at the mid point of our original target range. The insurance profit margin was after lower interest yields on investments set aside to meet our obligations to policyholders, significantly lower savings on prior year claims provisions and a 0.6% impact from a prudent upgrade of old latency claims.

Mr Frank O'Halloran, QBE's Group Chief Executive Officer, said "2009 is the fifth year in succession that we have produced a combined operating ratio of less than 90%. The substantial majority of our products and the 47 countries in which we operate continue to exceed our minimum return on equity requirements of 15%. QBE's careful and prudent approach to management of its substantial cash and fixed interest portfolio has assisted in achieving a very satisfactory overall investment performance and no permanent impairment on any one security."

Frank O'Halloran continued "QBE made four acquisitions in 2009 which will assist premium growth in 2010. Premium growth is expected to be 3% in Australian dollars or 18% in US dollars at current exchange rates. Our balance sheet is well positioned for further acquisitions and distribution opportunities to enhance our diverse product range and geographic spread."

"Subject to the usual caveats, including large risk claims and catastrophes not exceeding the substantial allowance in our business plan, we expect underwriting profitability to improve in 2010."

"QBE's cash and fixed interest portfolio remains short in duration which means that a rise in interest rates will be very beneficial for our profit."

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