



**QBE INSURANCE GROUP LIMITED**  
**MARKET ANNOUNCEMENT**  
**QBE ANNOUNCES STRONG 2008 RESULT**

QBE Insurance Group today announced a solid financial result for the year ended 31 December 2008 with a net profit after tax of \$1,859 million, a return on average equity of 20.9% and an excellent underwriting result. The net profit was 3.5% lower than the record profit last year but remarkably strong given the global financial crisis, the increase in the frequency of large individual risk and catastrophe claims for the insurance industry and the significantly lower profits of many of our peers in 2008.

The net profit includes five significant items relating to the global financial crisis:

- net realised and unrealised losses on equities of \$554 million before tax, compared with gains of \$100 million last year;
- foreign exchange gains of \$409 million before tax, mainly from forward currency contracts put in place at the time of the PMI acquisitions;
- a profit of \$303 million before tax from the repurchase of some of our perpetual debt at a discount;
- conservative claims provisions of \$200 million before tax for reported and potential claims from financial and credit related policies exposed to the crisis; and
- lower interest rates which reduced investment income by approximately \$200 million before tax on our \$27 billion cash and fixed interest portfolio.

Gross written premium income was up 6% to \$13,142 million and net earned premium was up 9% to \$11,087 million. QBE's combined operating ratio (i.e. ratio of claims, commission and expenses to net earned premium) was an excellent 88.5% compared with 85.9% last year. The insurance profit margin to net earned premium was also a pleasing 19.7% compared with the record high of 22.2% last year. The reduced insurance profit margin was due to an increase in large individual risk and catastrophe claims during the year and lower interest yields on investments set aside to meet our obligations to policyholders.

In view of the strong result, the Board of QBE has maintained the final dividend at 65 cents per share, making a total dividend for the year of 126 cents (last year 122 cents). The final dividend will be paid on the new shares issued to shareholders in December 2008 and January of this year. The total dividend payout for the year is up 11% to \$1,187 million compared with 2007. The Dividend Reinvestment Plan has been reinstated at a 2.5% discount. The Bonus Share Plan (formerly the Dividend Election Plan) will remain in place and a 2.5% discount will also apply.

Mr Frank O'Halloran, QBE's Group Chief Executive Officer, said "Our result is most satisfactory given the financial crisis and the increased frequency of large individual risk and catastrophe claims. The substantial majority of our products and the 45 countries in which we operate continued to produce underwriting profits."

He added "Our low risk short duration strategy for our \$27 billion cash and fixed interest portfolio has to date ensured we have been able to benefit from the wider credit spreads on reinvestment and avoid impairments on any one security."

Mr O'Halloran continued "QBE made eleven earnings per share accretive acquisitions in 2008 for an initial cost of \$2.7 billion. This has reduced some of our surplus capital, which remains strong at around 1.7 times or \$3.3 billion in excess of our calculation of the Australian Prudential Regulation Authority's stringent risk based minimum capital requirements of \$4.6 billion. The acquisitions and our capital adequacy, together with the continued strong performance of our products and businesses around the world and our positive outlook for premium growth, premium rates and underwriting profitability in 2009, means we are well placed to consider further opportunities."

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26 February 2009