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28 February 2012

The Manager
Company Announcements
ASX Limited
Level 6
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Market Release on 2011 results and positive outlook

Please find attached an announcement for release to the market.

Yours faithfully,

D Ramsay

Duncan Ramsay
Company Secretary

Encl.

MARKET RELEASE

28 February 2012

QBE ANNOUNCES 2011 RESULTS AND POSITIVE OUTLOOK

- **Results in line with previous market release;**
- **Solid underwriting profit, given record catastrophes and lower risk free interest rates;**
- **Attritional claims ratio reduced from 50.0% to 49.2%;**
- **Final dividend confirmed at A$0.25 cents per share;**
- **Capital management initiative to replace US$500 million of Tier 2 debt with equity; and**
- **Positive outlook for premium rates and profitability in 2012.**

QBE today announced its 2011 full year results, which are in line with the update provided to the market on 12 January 2012. Reported net profit after tax of US$704 million was down 45% compared with last year, and at the mid-point of the guidance range of a decline of 40% to 50%. Profit was impacted by the record level of catastrophes that affected the worldwide insurance industry in 2011, substantially lower risk free rates for discounting outstanding claims and unrealised losses on investments due to widening credit spreads. The majority of insurers and reinsurers that have reported to date have also announced significant declines in underwriting and net profit as a consequence of the record level of catastrophes and volatile investment markets.

Key measures from the 2011 results are as follows:

- Gross written premium income up 34% to US$18.3 billion;
- Net earned premium income up 35% to US$15.4 billion;
- Combined operating ratio of 96.8% after record catastrophes and lower risk free rates used to discount outstanding claims, adding 6.2% and 1.4% respectively, when compared with 2010;
- Insurance profit margin of 7.1% compared with 15.0% in 2010;

- Net investment income, including foreign exchange gains and unrealised losses from widening credit spreads, up 18% to US$776 million;
- Net profit down 45% to US$704 million;
- Diluted earnings per share of US61.3 cents compared with US119.6 cents in 2010; and
- Strong operating cash flow up 57% to US$2.14 billion.

PREMIUM GROWTH

The 34% growth in gross written premium came from acquisitions in 2010 and 2011, continued high customer retention, overall premium rate increases of 3.6% on renewal business and the weaker US dollar, particularly against the Australian dollar. There was solid growth in local currencies in each of the divisions:

- North America operations up 63% to US$7,529 million;
- European operations up 12% to £3,009 million;
- Australian operations up 6% to A$4,311 million;
- Latin America up 37% to US$768 million; and
- Asia Pacific up 13% to US$680 million.

Mr Frank O'Halloran, QBE's Group Chief Executive Officer said "We are pleased that the acquisitions completed in 2010 and 2011 have exceeded our expectations in terms of profitability. They also contributed US$3.4 billion of the strong growth in gross premium income in 2011."

UNDERWRITING AND INSURANCE PROFIT

The combined operating ratio, which is the ratio of claims, commissions and expenses to net earned premium, was 96.8% compared with 89.7% in 2010 and was higher due to the record level of catastrophes and the lower risk free rates for discounting claims. The underlying underwriting profitability remains sound, with the attritional claims ratio lower at 49.2% compared with 50.0% last year, and the combined commission and expense ratio down from 29.8% to 28.6%, mainly due to the change in mix of business and substantially reduced incentive payments to management and staff due to the lower profit.

Insurance profit, which includes investment income on policyholders' funds, was US$1,085 million, down 36% from US$1,703 million in 2010. The underlying insurance profit margin was 14.9%. However, the record catastrophes and the unrealised losses from volatile investment markets reduced the reported insurance profit margin to 7.1% compared with 15.0% last year.

Mr O'Halloran said "The record catastrophes for the industry, particularly in Asia, Australia and New Zealand, and the extremely low risk free interest rates for discounting claims adversely impacted our solid underlying underwriting profitability by 7.6% of net earned premium. A large proportion of the catastrophes were in profitable businesses that we have owned for many years."

Mr O'Halloran added "The quality of our underlying business is demonstrated by the lower attritional claims ratio and the fact that 45 of the 52 countries in which we operate still produced underwriting profits in a year of record catastrophes. The seven that produced underwriting losses represent 1.9% of Group net earned premium income. They include New Zealand and Thailand."

Mr O'Halloran continued "QBE's extensive new reinsurance programme purchased for 2011 benefited pre tax profit by US$219 million when compared with using the 2010 programme. While we maintained significant reinsurance cover for catastrophes on an event basis, unfortunately there was only limited and very expensive reinsurance capacity available for the frequency of catastrophes that was experienced in 2011."

NET PROFIT AFTER TAX

The net profit after tax was US$704 million, down 45% when compared with last year. Profit before income tax was affected by the following significant items when compared with 2010:

	2011 US$'m	2010 US$'m
Large individual risk and catastrophe claims	2,355	1,080
Lower risk free discount rate on outstanding claims	252	25
Wider credit spreads	241	24

Most insurers and reinsurers that have announced to date have reported a significant reduction in profit due to the 2011 catastrophes and volatile investment markets.

FINAL DIVIDEND

As previously advised, the directors have declared a final dividend of A$0.25 cents per share franked at 25%. Shares will begin trading ex dividend on 5 March 2012, the record date is 9 March 2012 and the date of the dividend payment is 30 March 2012. The Dividend Reinvestment and Bonus Share Plans remain in place and are at a 2.5% discount. The volume weighted average share price for dividend reinvestment will be advised nearer the payment date.

INVESTMENTS

To comply with regulatory requirements in various countries and the need to match currency liabilities with assets of the same currency, QBE is required to maintain 59% of its investments in US, UK and European cash and fixed interest securities, where interest rates are currently low by historical standards. Around 98% of QBE's total investments of US$28 billion are liquid and held in highly rated cash and fixed interest securities. There has been no permanent impairment of any of QBE's fixed interest investments. Equities at year end were around 1% of total investments and cash. We consider that a prudent investment strategy is appropriate given the current uncertain economic climate, particularly in Europe.

The continuing low investment yields available in 2011, widening credit spreads at year end and unrealised losses from market value adjustments at year end resulted in a reduction in the gross investment yield on cash and fixed interest securities, before foreign exchange gains, from 2.5% to 2.3% on our substantial investment portfolio.

CAPITAL MANAGEMENT

QBE's balance sheet remains strong at 31 December 2011 being over 1.5 times (2010 1.6 times) the minimum capital requirement of the Australian Prudential Regulation Authority (APRA) or US$2.5 billion above the minimum requirement. QBE's debt to equity ratio was 45.8% at year end and, excluding long term subordinated or convertible debt, it was 15%. We are targeting for the debt to equity ratio to be less than 40% by the end of 2012.

Our initial discussions with APRA following proposed regulatory changes indicate that US$500 million of our current Tier 2 convertible debt, which can be called in June 2012, may not be treated as regulatory capital under their new proposals. This debt can be converted to equity under certain circumstances and is therefore included in our diluted earnings per share calculation. To avoid uncertainty, the directors have decided to immediately make a placement of shares to institutional investors and offer a share purchase plan for retail investors to repay the US$500 million of Tier 2 debt. Subject to market conditions, the directors may accept up to a maximum of A$150 million from retail investors under the share purchase plan, with any excess being for general corporate purposes.

2012 OUTLOOK

The record level of catastrophe claims and the higher cost of reinsurance protection has seen most insurers increase premium rates for property classes of business. This is particularly so in Australia, New Zealand, the US, some parts of Asia and international property business written in London.

QBE expects overall average premium rate increases to be in excess of 5% in 2012. In addition to premium rate increases, QBE has increased deductibles, reduced exposures in a number of catastrophe exposed areas and purchased additional reinsurance protection. These initiatives should mean low single digit top-line growth in 2012. They are targeted to reduce the potential impact on profit of a continued frequency of catastrophes similar to that experienced in 2011 and also reduce attritional claims ratios.

The outlook for 2012 is positive. Our internal targets for the underlying combined operating ratio and insurance profit margin have not changed from that previously announced. However, due to uncertainty about risk free interest rates used for discounting claims and credit spreads, our financial targets are for a combined operating ratio of less than 90% and an insurance profit margin of 13% or better. These targets are subject to large individual risk and catastrophe claims not exceeding the 10% to 11% allowance in our business plans as well as risk free interest rates and credit spreads remaining unchanged from the end of 2011.

Commenting on the outlook, Frank O’Halloran said “In our industry, it often takes a tough year like 2011 to change the direction of the premium rate cycle. We are seeing evidence that this is now happening and we have gone one step further by also increasing

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deductibles and reducing exposures in certain areas, particularly for flood. These initiatives will positively impact our attritional and large individual risk and catastrophe ratios."

He continued "QBE's extensive reinsurance arrangements provide significant protection for large catastrophes. Unfortunately, there is limited capacity in the market for an accumulation of claims from a frequency of catastrophes and it is very expensive. QBE has purchased US$565 million of cover for a frequency of large individual risk and catastrophe claims in 2012."

"We have had a positive start to 2012 with catastrophe claims substantially lower than this time last year, credit spreads reducing, a slight rise in risk free rates and premium rate increases higher than anticipated, particularly in the US and Australia."

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QBE Insurance Group Limited ("QBE") is listed on the Australian Securities Exchange, is recognised as one of the top 20 global insurance and reinsurance companies as measured by net earned premium and has operations in 52 countries.

QBE

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materially from these statements. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements only speak as of the date of this market release and QBE assumes no obligation to update such information.