



17 August 2012

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

Dear Sir/Madam

**Market Release for the half year ended 30 June 2012**

Further to the announcement today of our results for the half year ended 30 June 2012, please find attached a market release in relation to those results.

Yours faithfully

A handwritten signature in dark ink that reads 'D Ramsay'.

Duncan Ramsay  
**Company Secretary**

Encl.

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## MARKET RELEASE

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### **QBE ANNOUNCES 2012 INTERIM RESULTS AND INCREASE IN PROFITS**

QBE today announced net profit after tax for the six months ended 30 June 2012, was up 13%, compared with the same period last year and an insurance profit margin in line with guidance. The reported net profit after tax of US\$760m reflects the reduced cost of large individual risk and catastrophe claims, a fall in the attritional claims ratio and a strong investment performance.

Group Chief Executive Officer, John Neal said: "We are pleased to report a 13% increase in net profit after tax. Underwriting conditions in 2012 are improving, supported by average premium rate increases of over 5% across our global businesses. Our underlying underwriting performance remains sound, and we have seen a more normal level of claims experience in the first half of 2012 following an unprecedented frequency of catastrophe claims in 2010 and 2011.

Our focus in 2012 remains on delivering industry leading returns, supported by a strong balance sheet and a long term strategy that can capitalise on QBE's global franchise and economies of scale."

#### Key metrics:

- Net profit after tax up 13% to US\$760m (2011: US\$673m)
- Insurance profit up 26% to US\$958m, with an insurance profit margin of 13.0% (2011: 11.2%) and a combined operating ratio (COR) of 92.9% (2011: 95.7%)
- Premium rates increased on average by more than 5% (globally) in the year to date
- Attritional claims ratio improved to 48.5% from 49.3% in 2011
- The cost of large individual risk and catastrophe claims for the current accident year was US\$592m, significantly lower than last year (2011: US\$1,080m). This figure includes substantial general provisions for incurred but not reported claims (IBNR) of US\$265m, an increase of US\$197m on 2011
- Growth in gross written premium in line with target and up 3% to US\$9,223m



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- Investment income ahead of target, with a gross yield on policyholders' funds of 4.7%, before foreign exchange movements (2011: 3.6%)
- Return on average shareholders' funds of 13.9% (2011: 12.5%)
- Dividend 40 Australian cents per share and payout of A\$473m or 64% of NPAT
- Positive outlook for underlying insurance margin and profitability for the full year in 2012

The Board declared an interim dividend of 40 Australian cents per share (2011: 62 cents per share) and a dividend payout ratio of 64% of net profit after tax in line with our stated dividend policy earlier this year. The dividend will be 15% franked and will be paid on 24 September 2012. The Group's Bonus Share and Dividend Reinvestment Plans will continue to operate but at a reduced discount of 1.5% applied to the shares issued under the plans.

Key components of the result include:

- Gross written premium up 3% to US\$9,223m;
- Net earned premium up 9% to US\$7,359m;
- COR of 92.9% after a 2.5% benefit of lower large individual risk and catastrophe claims, offset by increases in the following areas: 1.6% for prior year claims development, 1.9% for increased commissions and expenses and 1.4% impact of lower risk free discount rates
- Net investment income before foreign exchange movements up 35%, to US\$686m compared with US\$507m for the same period last year;
- Strong operating cash flow of US\$842m; and
- Amortisation of intangibles up US\$68m to US\$128m, including a US\$50m accelerated amortisation charge reflecting changes to our North American business, particularly in the promotion of a single QBE brand.

## UNDERWRITING AND INSURANCE PROFIT

The COR, which is the ratio of claims, commissions and expenses to net earned premium, was 92.9% compared to 95.7% in the first half of 2011. The half year saw a reduced cost of large individual risk and catastrophe claims of 8.0% of net earned premium (2011: 15.7%) as well as a continued improvement in our attritional claims ratio which has reduced to 48.5% of net earned premium compared with 49.3% in 2011. The combined commission and expense ratio was 31.4% of net earned premium compared with 29.8% for the same

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period last year. This increase was due to a change in mix of business from the recent acquisitions, integration costs of Balboa in the US and costs associated with systems and business change initiatives. The combined commission and expense ratio is expected to improve in the second half due to the seasonality of the earning of premium, particularly for our US crop business.

Insurance profit, which includes investment income on policyholders' funds, was US\$958m, an increase of 26% on the same period for 2011. The insurance profit margin of 13.0% was in line with our guidance.

Our COR is higher than our target of 90% due to increases in 2011 catastrophe claims, the increased commissions and expenses at the half year and lower risk free rates used to discount outstanding claims liabilities. Our risk margins have been maintained to produce a probability of adequacy of outstanding claims of 86.0%.

## NET PROFIT AFTER TAX

Net profit after tax was US\$760m, an increase of 13% when compared with the same period last year and net profit before tax and amortisation was US\$1,042m, up 25%.

## INVESTMENTS

Cash and fixed interest securities comprise 98% of our portfolio which is managed within conservative risk parameters to meet our revised 3.1% target yield for 2012. We maintain short interest rate duration, where the largest element of our fixed income portfolio comprises quality corporate floating rate securities that provide a attractive return above cash yields.

Net investment income for the half year, before foreign exchange movements, is well ahead of our expectations, up 35% to US\$686m when compared to US\$507m for the same period last year. The net yield, excluding foreign exchange movements, was 4.8% compared with 3.7% for 2011 and reflects actions to reposition our fixed interest portfolios and focus on lower risk assets to further reduce market volatility.

## CAPITAL ADEQUACY

Our forecast capital adequacy levels for regulatory and rating agencies continue to strengthen, with the APRA minimum capital requirement ("MCR") multiple of 1.54 x the



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MCR. At this stage, we cannot accurately quantify the impact of APRA's new capital standards for life and general insurance (LAGIC) to apply from the 1 January 2013; we do not expect any material change to our overall capital requirements.

## OUTLOOK

On the outlook for 2012, John Neal said: "We are achieving overall average premium rate increases of more than 5% and our claims experience has improved following actions we have undertaken to withdraw our capacity where we do not believe there is an adequate reward for the risk we have been asked to accept.

We remain positive in our outlook for 2012. Our underwriting performance is improving quickly following the actions we have taken post the 2011 catastrophe claims.

Our full year 2012 insurance profit margin is targeted to be better than 12%. This includes a substantial 10.5% of net earned premium allowance for large individual risk and catastrophe claims, and non-recurring items in the first half. The target is subject to investment returns performing in line with expectations and the other usual caveats.

QBE has a highly diversified business model, both by insurance product and by geography. We believe that this will allow us to meet or exceed our high hurdle rate for return on capital and provide industry leading products and services for our customers and intermediaries. We remain confident of QBE's ability to out-perform our peers and to provide fulfilling careers for our people."

For further information, please contact:

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