



24 October 2012

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

Dear Sir/Madam,

Citi Australian Investment Conference Presentation – 24 October 2012

Please find attached a copy of QBE's presentation to be delivered today.

Yours faithfully

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

Duncan Ramsay
Company Secretary

Encl.

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Citi Australian Investment Conference

QBE Insurance Group

Neil Drabsch • Group CFO

Jenny Boddington • CEO, QBE LMI

24 October 2012

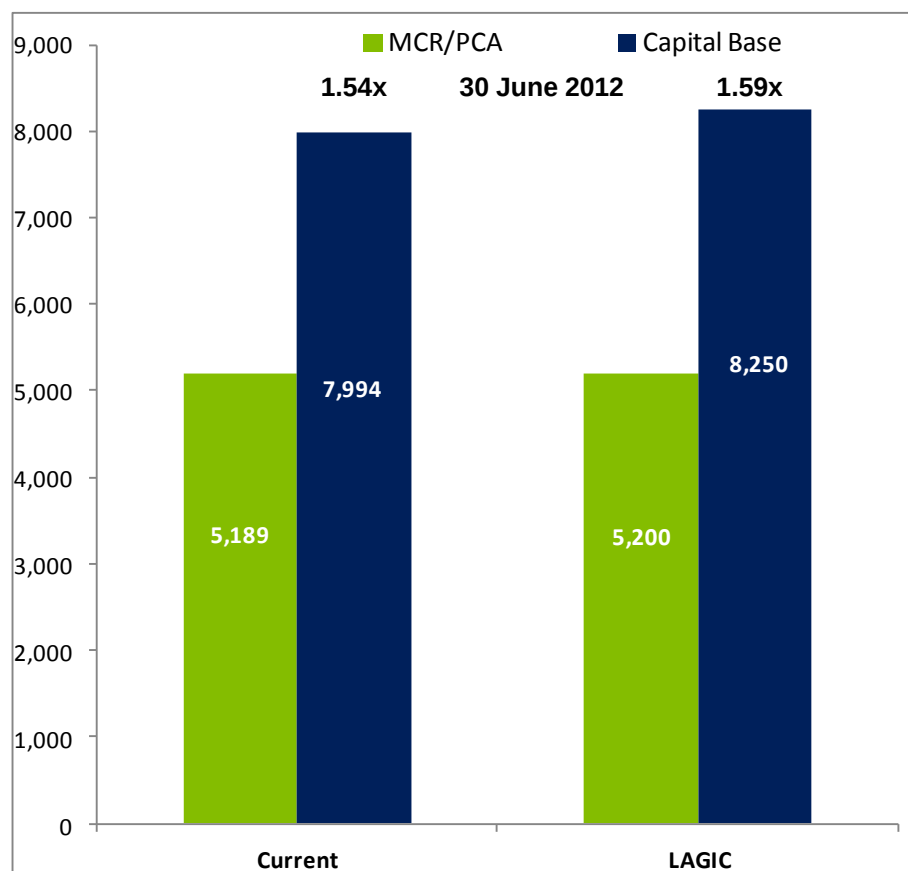
All amounts in US\$ unless otherwise stated



FY12 financial performance targets

- On track to meet FY12 financial target of insurance profit margin better than 12.0%
- Premium growth – low single digit
- Overall premium rate increases of over 5% being achieved, significantly higher in Australia and North America
- Large individual risk and catastrophe claims within 10.5% of NEP allowance, including 2.0% for US crop (drought) claims
- Lower average risk free rates used to discount outstanding claims likely to add 1.5% to net incurred claims ratio for FY12
- Investment yields ahead of guidance:
 - › improving credit spreads and equity returns
 - › FY12 gross investment yield on policyholders' funds expected to be around 3.5% subject to balance date valuations

Regulatory capital – estimated LAGIC impact



- Following consultation with APRA, in principle understanding of impact of LAGIC proposals on regulatory capital
- US \$1.5Bn tier 2 securities issued in 2011 will continue to receive 100% capital treatment to 2015 - amortisation to 2021 call date thereafter
- Regulatory capital coverage at 30 June 2012:
 - › 1.54 x MCR
 - › estimated 1.59 x PCA (LAGIC)
 - › estimated CET1 (multiple of PCA) 125% versus minimum requirement of 60%
- Capital well in excess of regulatory requirements and targeted to support ratings agency capital models for equivalent “A+” financial strength ratings for main insurance subsidiaries

US specialist classes update - crop

- Including anticipated net claims from US drought conditions, reaffirm FY12 crop guidance in the range of 99% to 102% COR underpinned by:
 - › US Federal Government multi-peril crop scheme reinsurance;
 - › QBE specific external stop loss reinsurance attaching at a loss ratio of 93% to 95%; and
 - › a combined commission and expense ratio of 6% to 7%
- US crop insurance fundamentals remain attractive:
 - › industry 10 year average COR of 92%;
 - › QBE 10 year average COR of 88%
- FY12 GWP and NEP expected to be \$1.6Bn and \$1.2Bn respectively
- Drought impact expected to positively impact FY13 crop GWP:
 - › materially higher soft commodity prices (crop and soy prices are currently up by >20%); and
 - › likely upward revision to pricing

US specialist classes update - LPI

- QBE FIRST on track to achieve FY12 GWP of around \$1.7Bn comprising \$1.1Bn lender placed (LPI); \$0.2Bn real estate owned (REO); and \$0.4Bn auto CPI, renters insurance and voluntary home and motor
- Expect overall mid-to-high single digit (portfolio wide) rate reduction following pricing pressure after a sustained period of reduced catastrophe (wind) claims:
 - › rate filing process nearing completion – 40+ states settled with minimal overall movement
 - › completion of Florida (35% to 40% of GWP) and California (12% of GWP) filings imminent
- Further counter cyclical decline in LPI GWP expected, however, a cyclical recovery in voluntary home GWP is likely via QBE FIRST's bancassurance and homebuilders channels
- The net impact of pricing and cyclical change is expected to be around \$120M lower GWP for LPI in 2013
- Overall, the GWP for North America in 2013 is expected to exceed \$7Bn, up from estimated \$6.6Bn in 2012

QBE Lenders' Mortgage Insurance (QBE LMI)

Jenny Boddington • CEO, QBE LMI



Agenda

1. Snapshot of QBE LMI
2. Background on the Australian market
3. Current highlights on QBE LMI
4. Appendix - background information on QBE LMI

Snapshot of LMI and QBE LMI

- In Australia, LMI is a single premium insurance with revenue earned over a long period (9 years)
- LMI protects the lender against losses due to borrower default on their mortgage and covers the full loan amount
- LMI used for full documentation loans >80% loan to value ratio (LVR), for low doc loans 60%-80% LVR and for RMBS securitisation
- QBE LMI has been in the Australian market for over 45 years, with 645,000 loans currently insured and an average loan size of <\$300,000
- Significant proportion of business is under long term exclusive arrangements with lenders
- QBE LMI was purchased by QBE in 2008

Financial performance/position 30 June 2012

➤ P&L highlights

A\$ millions / %	Year ended 31-Dec-11	6 Months ended 30-Jun-12
Gross Written Premium	270.5	166.5
Net Profit after Tax	129.0	87.8
Net Loss Ratio	14.7	26.1
Net Combined Operating Ratio	45.2	55.0

➤ Summarised balance sheet

A\$ millions	As at 31-Dec-11	As at 30-Jun-12
Cash and investments	1,633	1,800
Other assets	219	201
Total assets	1,852	2,001
Outstanding claims provision	185	183
Unearned premium reserve	566	616
Other liabilities	82	95
Total liabilities	833	894
Net assets	1,019	1,107

Background information on the Australian market

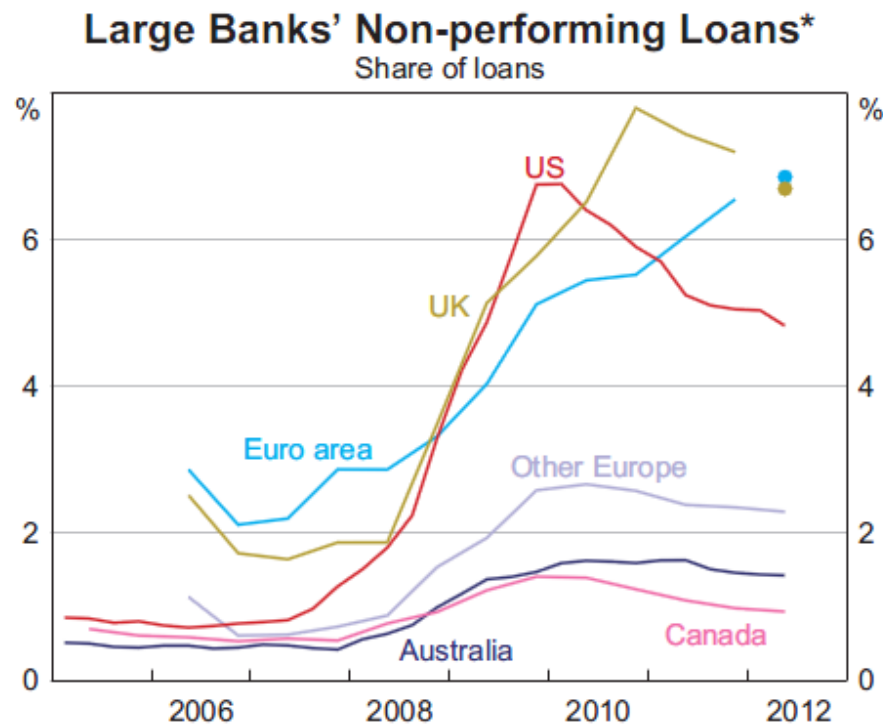
Australian housing loans – key differentiators from other markets

- Mortgage origination concentrated in 4 major banks (circa 80% of system)
- Conservative lending practices:
 - › mature marketplace with strong underwriting and credit culture not chasing revenue up the risk curve
 - › minimal sub-prime and high risk products
- Strong prudential and regulatory oversight from APRA/RBA
- Full recourse loans – bankruptcy and no credit for 7 years a significant deterrent
- No tax benefits on interest for residential loans
- Predominantly variable rate loans
- Strong housing fundamentals underpin price levels
 - › demand outstrips supply
 - › housing shortage gap widening by lag in development and record population gains leading to resilient house prices

Impact of GFC on Australian mortgages

- Many lenders withdrew from lending in the above 90% LVR space due to a shortage of funding
- Lenders also withdrew from the low documentation market
- Most lenders have returned to the above 90% LVR market (starting in early 2011)
- Low documentation loans remain at low volumes due to more stringent underwriting rules

Australian loans outperform most peers



•Definitions of 'non-performing' differ across jurisdictions, and in some cases exclude loans that are 90+ days past due but are not impaired; includes 18 large US banks, 52 large institutions from across the euro area, 13 large other European banks, four UK banks, the six largest Canadian banks and the four largest Australian banks; latest available ratios have been used for some euro area and UK institutions where June 2012 data are unavailable.

Source : APRA, RBA, SNL Financial, banks' annual and interim reports

Source – RBA Financial Stability Review Sept 2012

Housing – short term outlook (BIS Shrapnel)

Residential property market demand shows signs of recovery in 2012/13

- Strong growth in First Home Buyer demand with modest growth from up-graders and investors
- High levels of net overseas migration (especially students and migrants on working visas) driving underlying demand for new housing
- Prices have stabilised with modest growth in most cities over past six months
- Markets in Sydney, Perth, Brisbane and Darwin all face a significant undersupply of housing and expected to see price growth of between 3%-6% over 2012/13
- Melbourne, Adelaide, Hobart, and Canberra to face weak market conditions, as each market has an oversupply
- Affordability at its best since around 2003/04, however consumer confidence remains weak.
- Housing interest rates to remain attractive

Housing – long term outlook (BIS Shrapnel)

- Economic growth to remain solid underwritten by mining, but non-mining sectors to strengthen over 2013/14
- Housing interest rates to remain supportive until 2014, with risk of high rates curtailing the upturn in 2015
- Underlying demand for new dwellings will remain well above dwelling completions over the next two years in NSW, Queensland, W.A. and N.T. and this will put upward pressure on house prices in these states
- Strong employment and income growth to help drive house price growth – critical ingredient is rising consumer confidence
- Oversupplied markets will lead to Melbourne, Adelaide, Hobart and Canberra experiencing minimal price growth out to 2015
- Long term residential property price growth is expected to be relatively subdued compared to last 30 years

Current highlights on QBE LMI

Risk management within QBE LMI

- **Underwriting risk mitigants**

- › use of local knowledge (e.g. Brisbane underwriters look at Queensland deals)
- › we do not insure loans at the top end of the market
- › we avoid concentration in high rise developments and regional areas

- **Improvements since the last downturn**

- › underwriting criteria and practices have been tightened
- › changes to organisational structure and capabilities
- › implementation of a new underwriting platform
- › numerous refinements to credit policies, delegated authorities and quality assurance
- › more effective fraud detection tools
- › more extensive use of external credit and valuation data
- › accreditation of valuers
- › accreditation of customers

Queensland performance is within expectations

- **Queensland exposure**

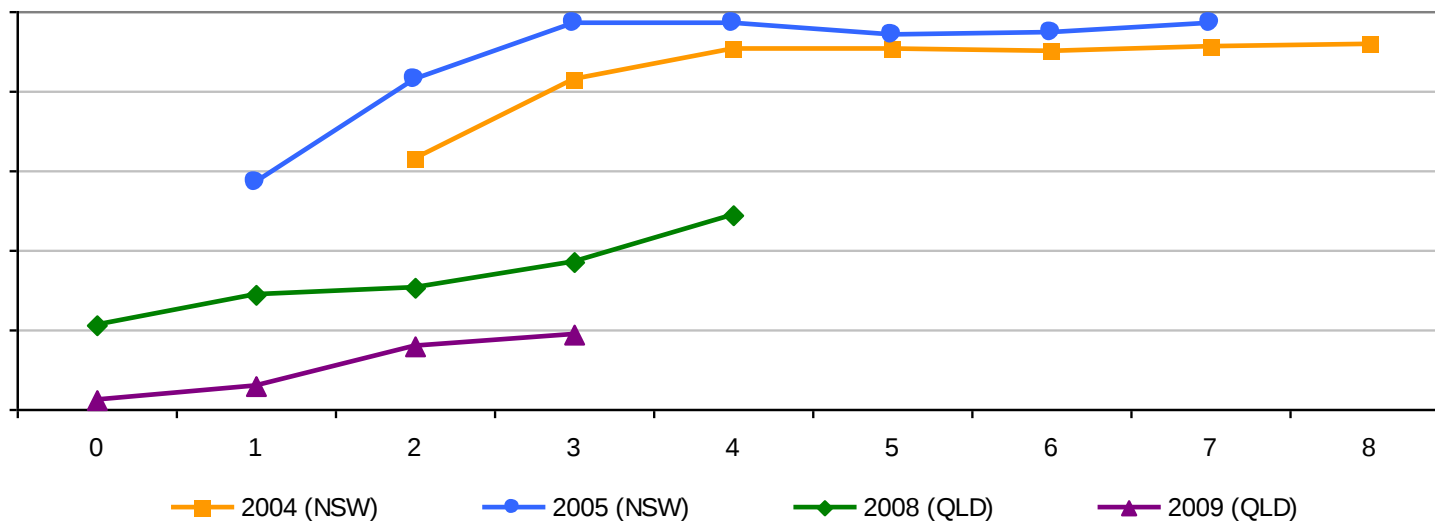
- › represents 25% of LMI book
- › delinquency rate is 0.70% (0.60% for total book)
- › the delinquency trend is not accelerating relative to other states in 2012
- › worst performing areas are Gold Coast, Far North Qld, West Moreton and Sunshine Coast (delinquency rate 1.3% - 0.9%). These represent 22% of new business written in Queensland in 2012.

- **Comparison to previous economic events**

- › Western Sydney was the previous area of concentrated defaults. Losses from the 2004 – 2006 underwriting years are now well seasoned
- › losses emerging from Queensland 2008 and 2009 underwriting years are well below the loss development from Western Sydney

QLD performance compares favourably to previous NSW downturn

Incurred Losses Trend Analysis by Development Year



Please note - Early development years for underwriting years 2004 & 2005 are not included as the data is not available.

Hardship policy is a successful initiative

- Hardship policy
 - › LMI works with lenders to support genuine “hardship” cases, where borrowers are likely to recover from their temporary circumstances
 - › most borrowers applying for hardship are not in arrears
 - › hardship can result in reduced payments or a payment “holiday”, mostly for only three months
 - › very few hardship cases become claims – of over 13,000 hardships granted to date, only 1% have resulted in a claim
- Impact of Queensland floods
 - › QBE LMI granted over 1200 hardships in relation to the 2011 Queensland floods
 - › there have been no claims to date from these hardships

Key messages

- Financial strength
 - › strong, diversified parent
 - › rated AA- by S&P and Fitch, Aa3 by Moodys
 - › meets APRA and S&P prudential capital requirements
 - › no debt
- Investment portfolio
 - › low duration
 - › high quality
 - › no RMBS
- Claims paying resources
 - › claims provisions: A\$0.2Bn
 - › unearned premium reserves: A\$0.6Bn
 - › shareholders funds: A\$1.1Bn
 - › excess of loss reinsurance

Questions & answers

Appendix:

Background info on QBE LMI

- How does LMI work
- Financial performance
- Portfolio profile
- Claims and arrears performance

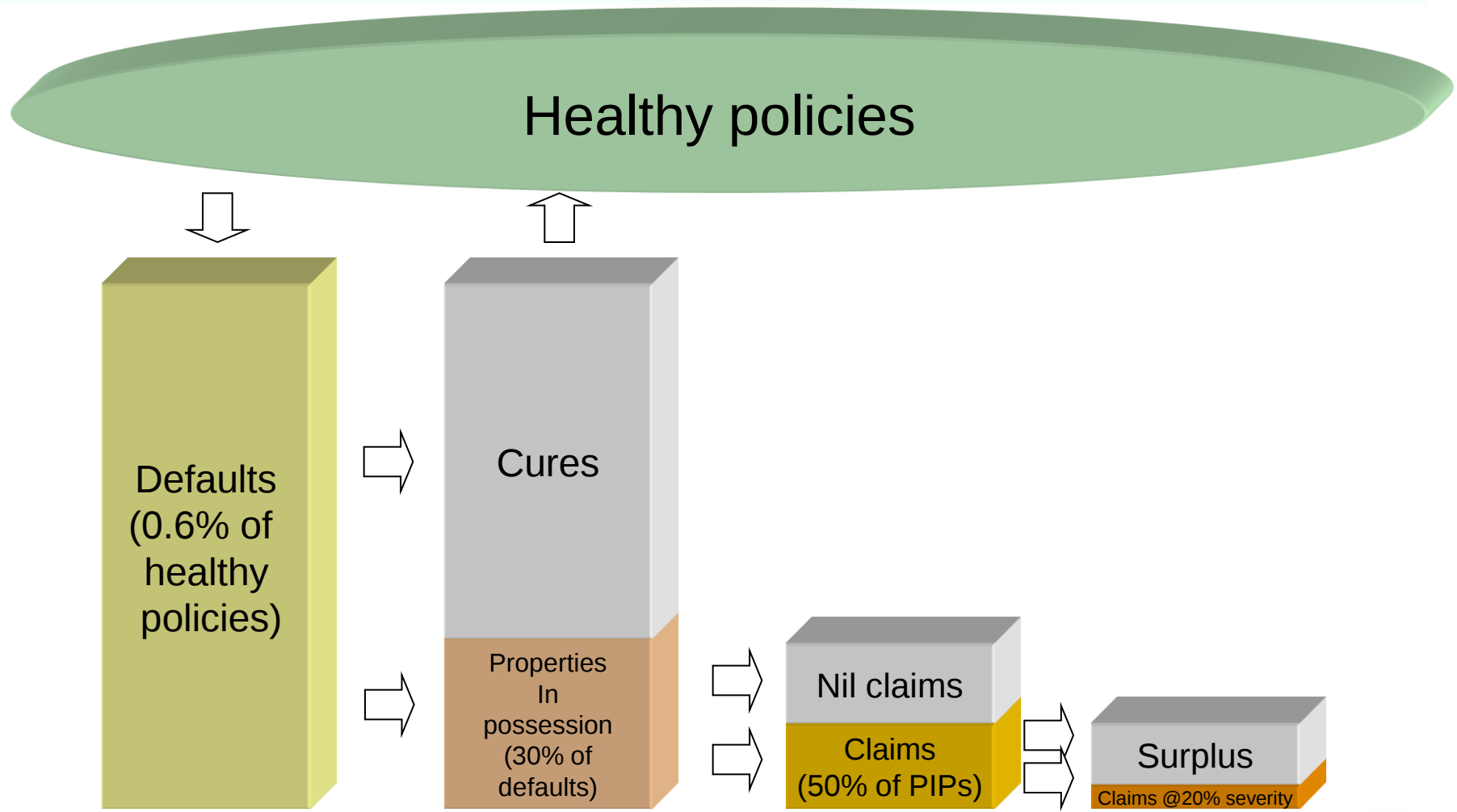
How does LMI work ? Liability management

- Dynamic provisioning based on defaults
- Key sensitivities
 - › interest rates
 - › unemployment
 - › house price movement
- Risk margins – modelled separately using co-variance analysis
- Provisioning: defaults X claim rate X severity
- Most defaults cure, resulting in release of provision. The provision is then reinstated for new defaults

How does LMI work ? Scoring and portfolio management tools

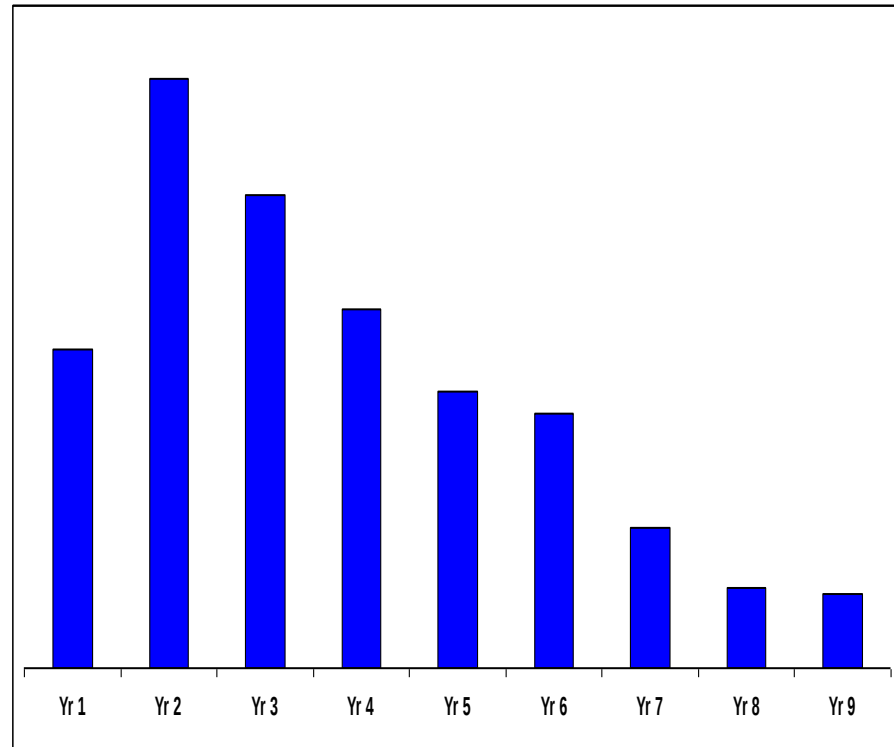
- Scoring tools based on historical and projected data
 - › riskband – based on relative mix of borrower default
 - › appscore – based on market risk variables and loan risk variables
- Stress testing
 - › quarterly review of portfolio to analyse trends
 - › regular stress testing of more severe economic scenarios

Transition from default to claim



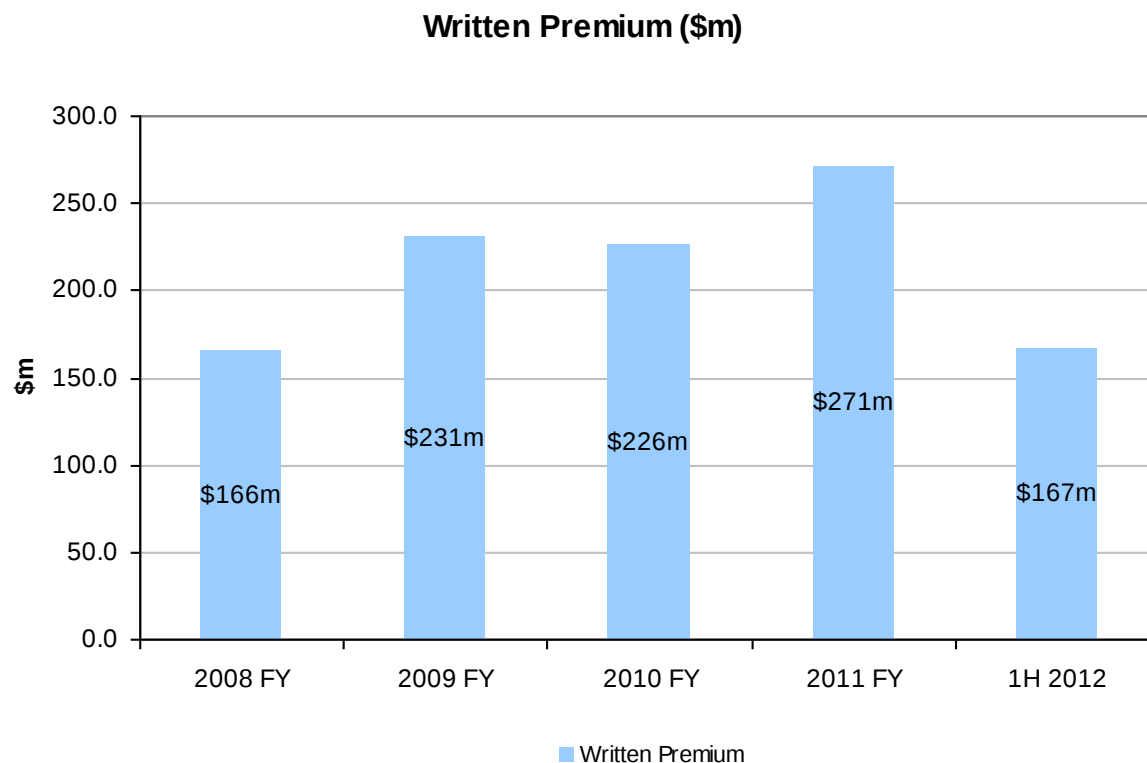
Earning of premiums

- Single premium earned over a period of risk emergence
- Premium covers:
 - › cost of capital
 - › claims
 - › operating expenses
 - › acquisition expenses



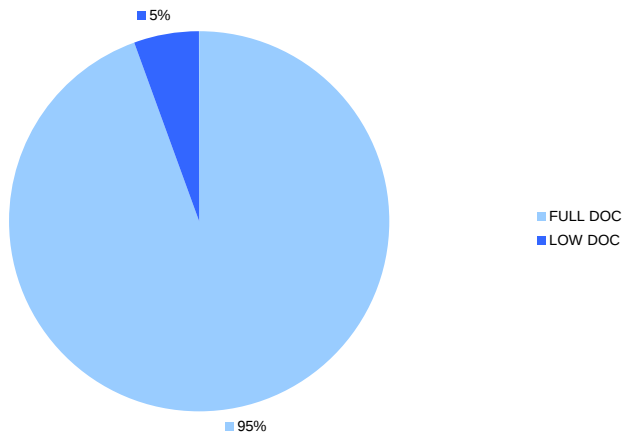
The earning pattern mirrors the probability of default

Premium level and mix tracks mortgage originations

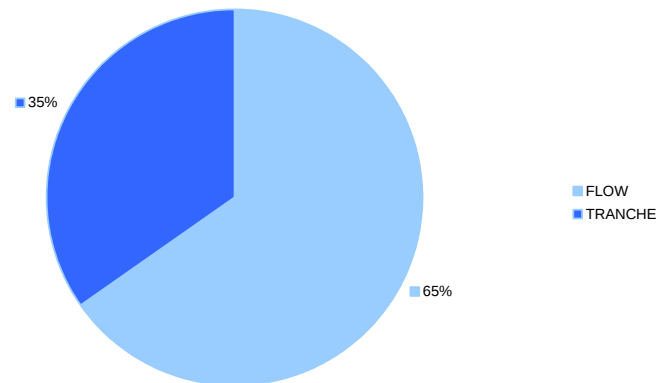


Portfolio profile – Risk in Force of \$152b

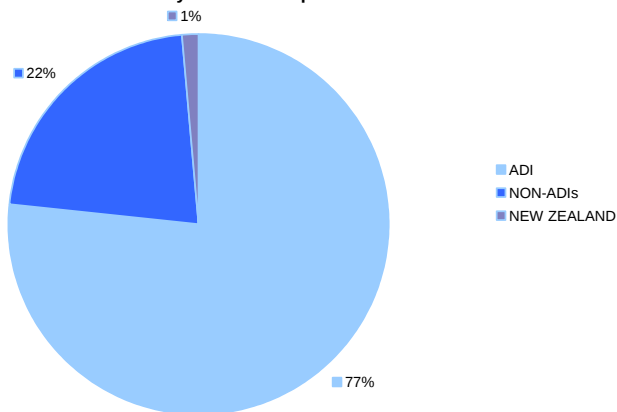
RIF % by Product at 30-Jun-12



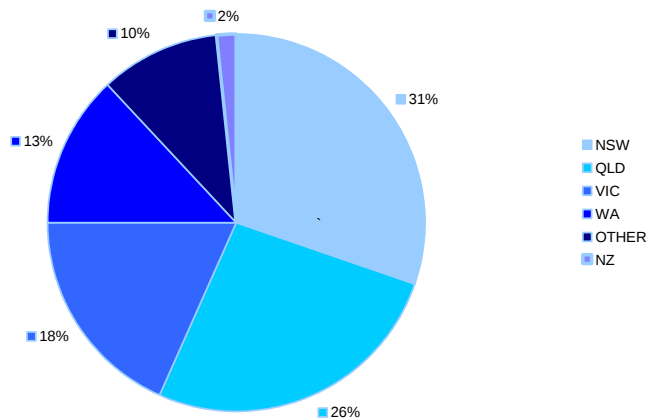
RIF % by Delivery Channel at 30-Jun-12



RIF % by Lender Group at 30-Jun-12

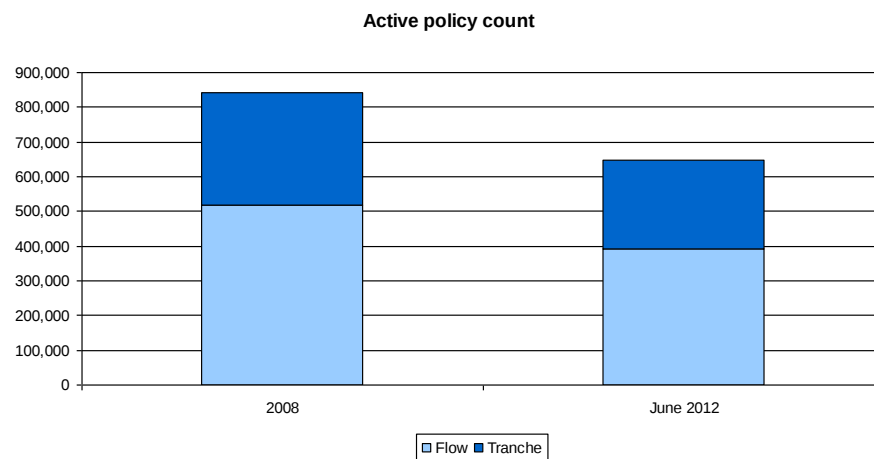
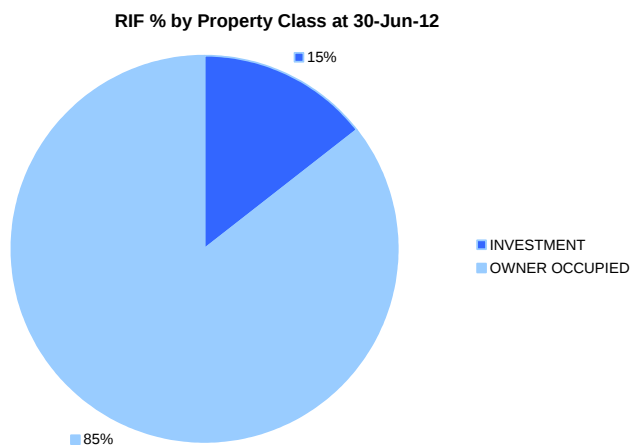
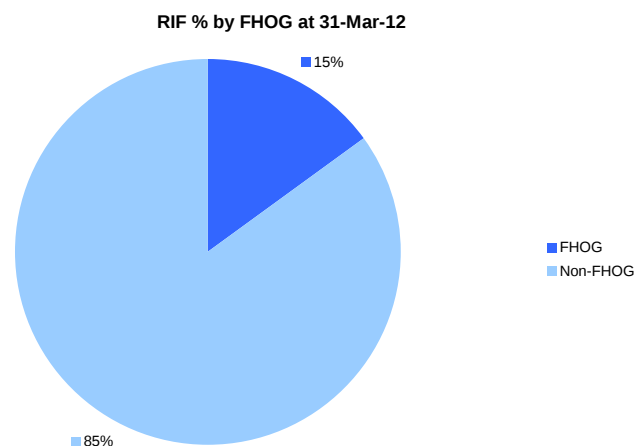
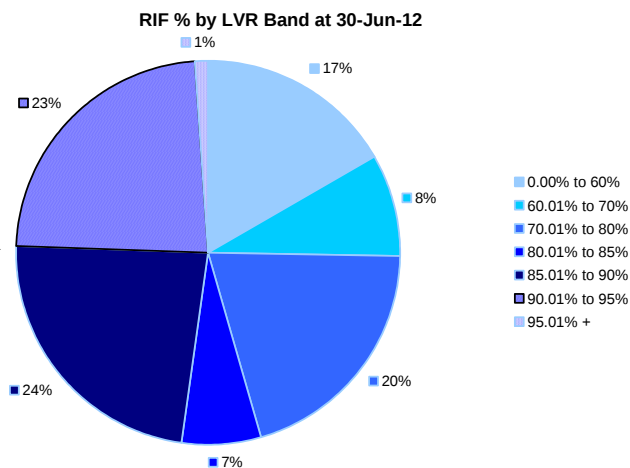


RIF % by State at 30-Jun-12

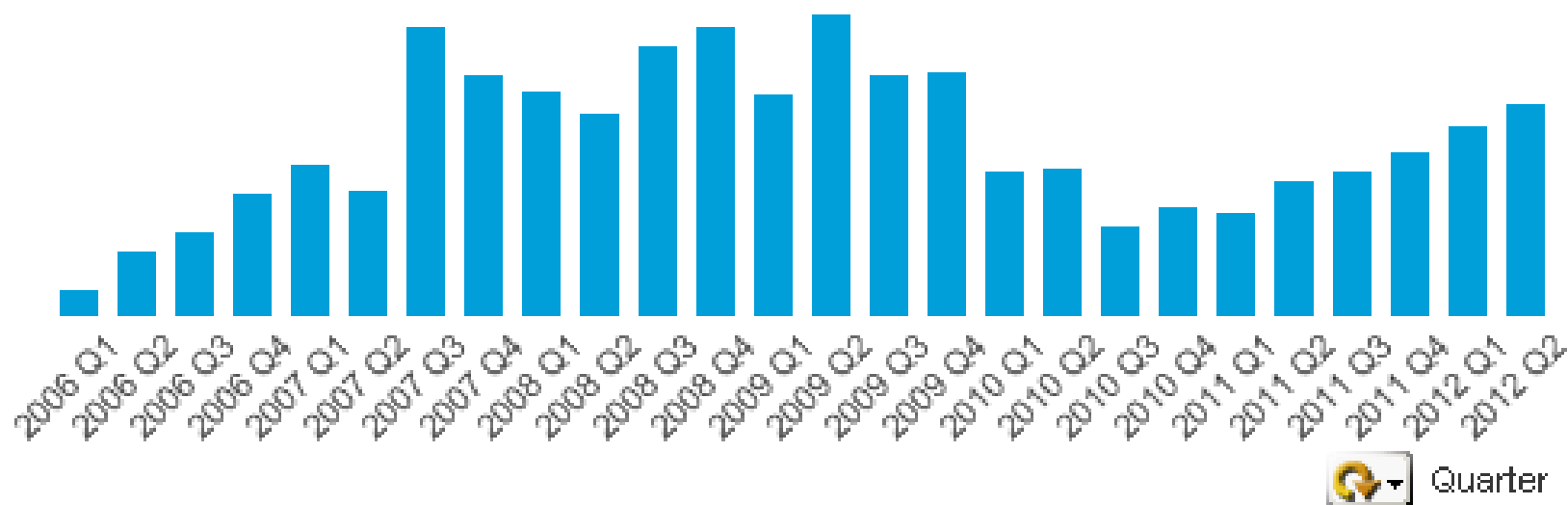


Portfolio profile (contd.)

Average LVR of 75% - this is based on date of last credit approval

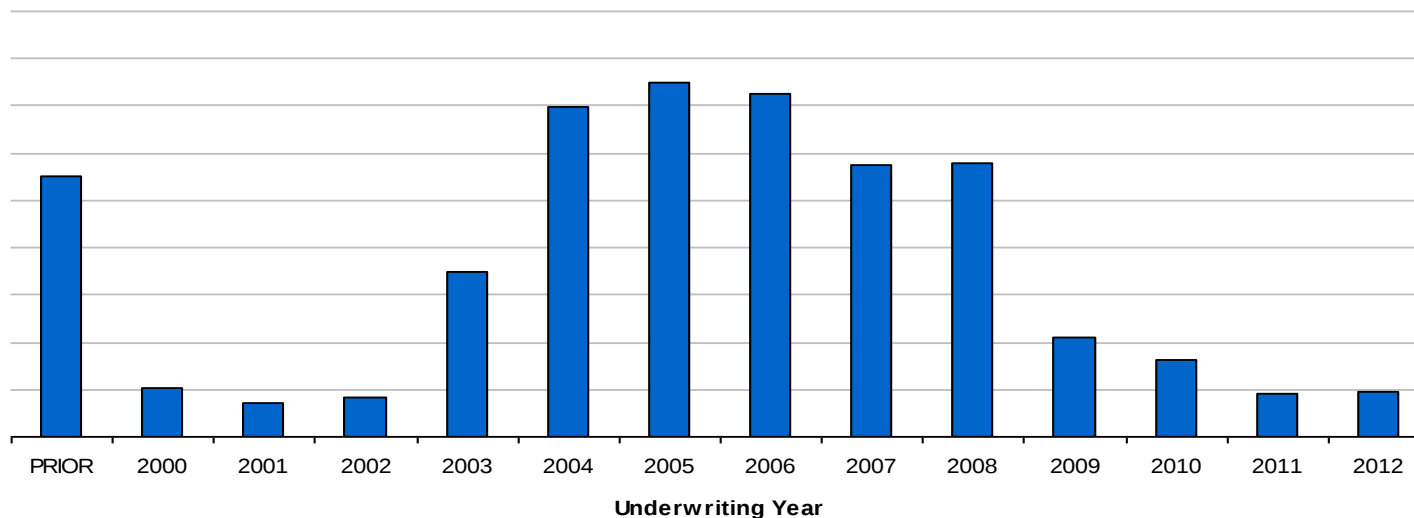


Recent trends in Claims Paid



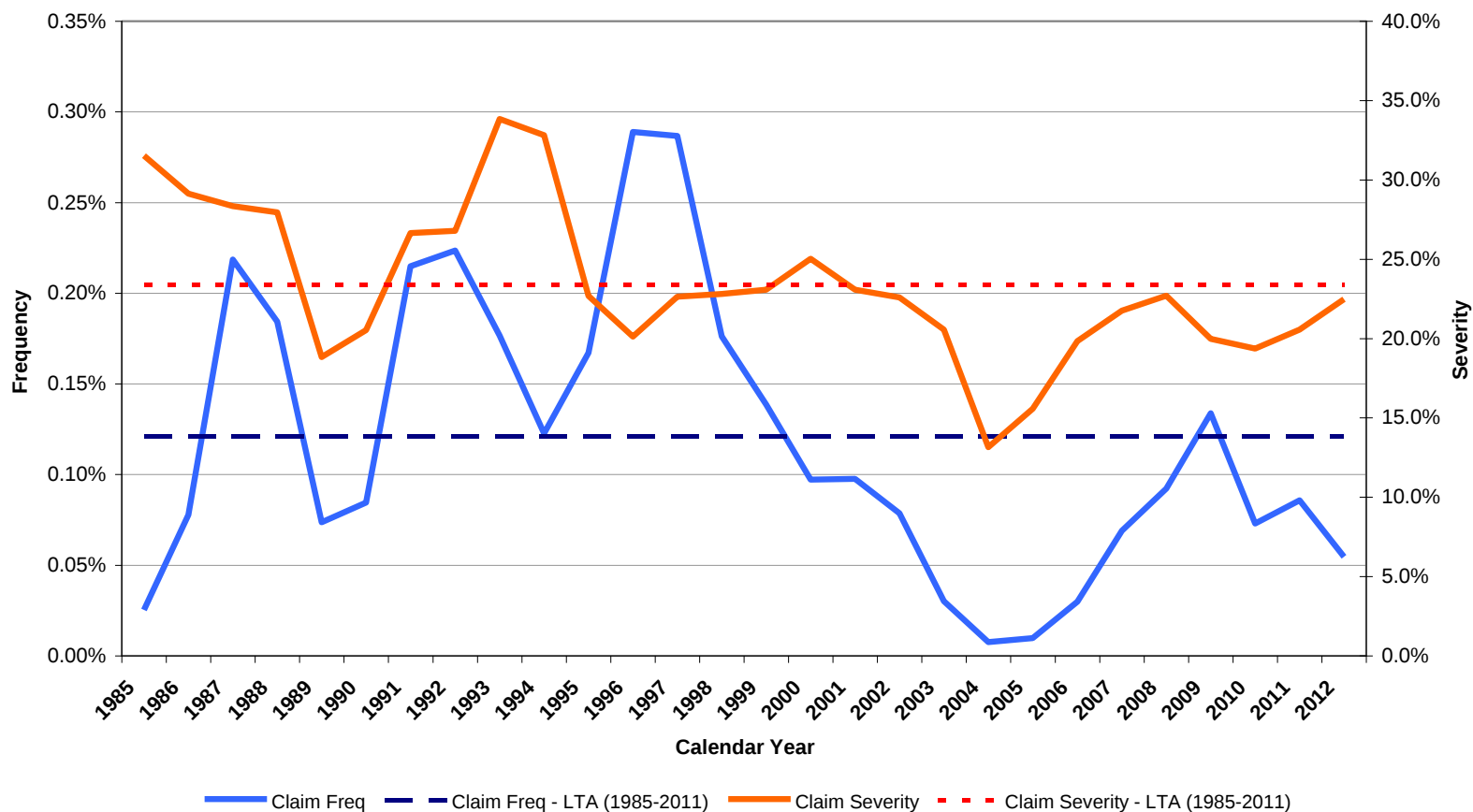
Profitability follows the economic cycle

Incurred Loss Ratios (including reserves) at June 2012

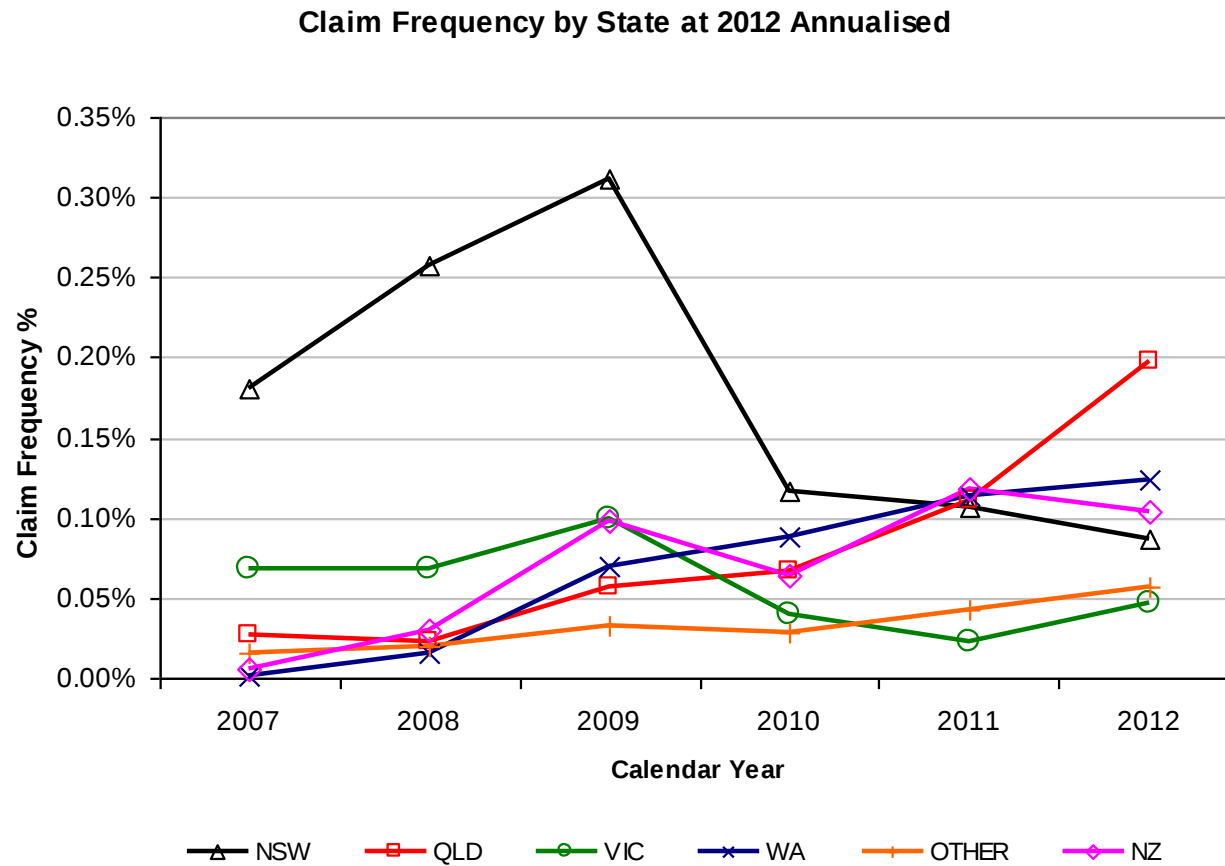


Claim frequency and severity

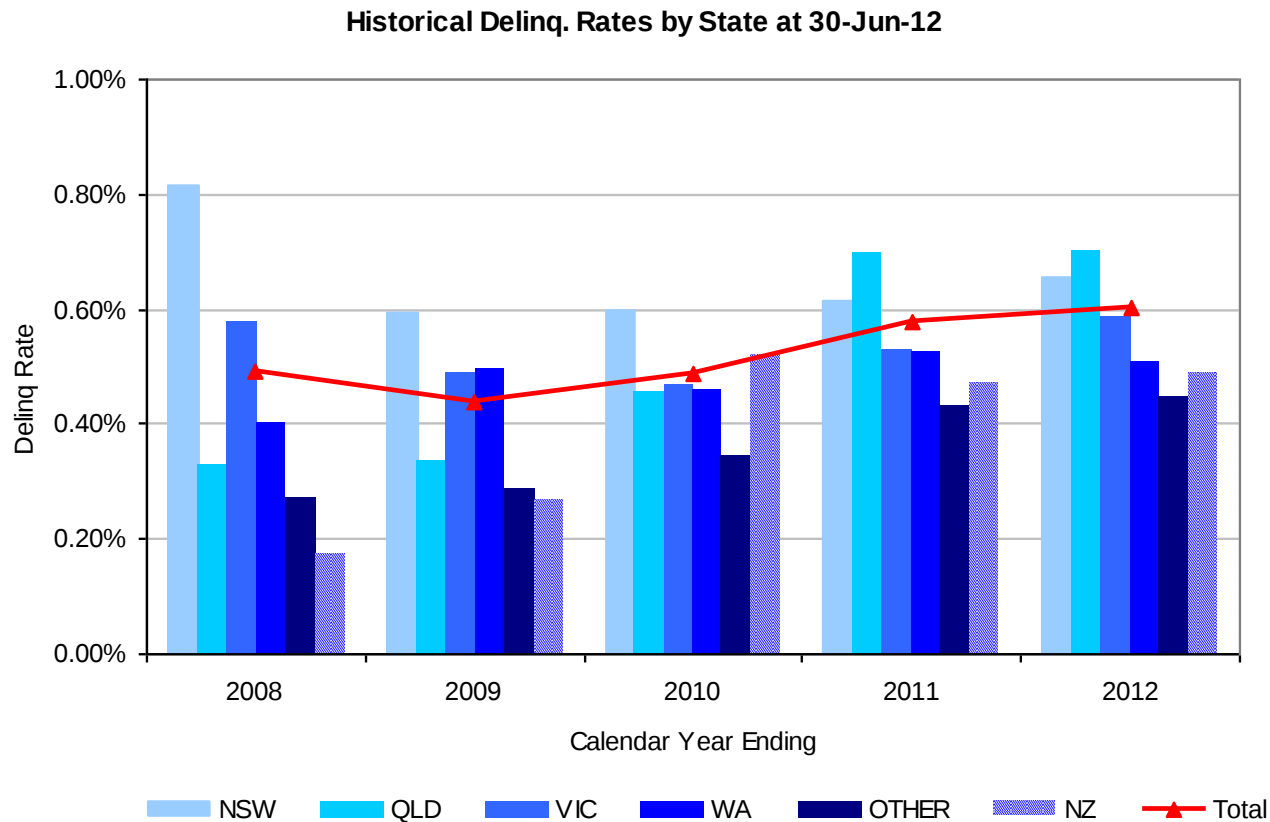
QBE LMI Claim Frequency and Severity by Calendar Year as at 30-Jun-2012



Claim frequency varies by state according to economic conditions



Arrears performance: historical delinquency rates by state



Delinquency rate – number of arrears > 60 days / current policy count

Important disclaimer

This presentation should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange ("ASX"), including QBE's half year results lodged with the ASX on 17 August, 2012, QBE's Investor and Analyst Day North American Operations presentation lodged with the ASX on 12 October, 2012, and QBE's Investor and Analyst Day European Operations presentation lodged with the ASX on 15 October, 2012. Copies of those lodgements are available from either the ASX website www.asx.com.au or QBE's website www.qbe.com.

Prior to making a decision in relation to QBE's securities, products or services, investors, potential investors and customers must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances.

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Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no overall reduction in premium rates; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts; recoveries from our strong reinsurance panel; and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this presentation.

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QBE Insurance Group

