



12 November 2012

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

Dear Sir/Madam

Market update on Superstorm Sandy and 2012 forecast results

Please find attached an announcement for release to the market.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'D Ramsay', written over a light blue circular stamp.

Duncan Ramsay
Company Secretary

Encl.

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MARKET RELEASE

12th November 2012

Market update on Superstorm Sandy and 2012 forecast results

Superstorm Sandy

Superstorm Sandy made landfall on 29th October near Atlantic City, New Jersey, running into the largest population on the US East Coast covering an area where an estimated 50 million people live or work.

All storms are unique and Superstorm Sandy is proving to be especially so with multiple challenges in evaluating the loss – indeed a major catastrophe modelling agency (RMS) will not be releasing its full modelling of the storm until later this week. QBE agrees with market commentary that suggests the insured loss could be in excess of \$20bn. QBE advises its preliminary estimate of retained losses from Superstorm Sandy will be in the range of \$350m to \$450m.

This estimate takes into account our net retentions in our US property and casualty business, our reinsurance business and our marine and energy portfolio, all of which are protected by our substantial worldwide reinsurance arrangements.

Allowances for large individual risk and catastrophe claims are likely to be exceeded

QBE's previous insurance profit forecast included an allowance for large individual risk and catastrophe claims of 10.5% of net earned premium for the full year. It is now expected that large individual risk and catastrophe claims will cost up to 12.0% of net earned premium.

Included within the revised large risk and catastrophe claim allowance is 2.3% of net earned premium relating to drought losses in the US crop business in excess of an assumed 67% attritional net loss ratio. This is consistent with previous guidance for a combined operating ratio of around 102% for the crop business.

Another factor contributing to our full year forecast for large individual risk and catastrophe claims is an increased level of large individual risk claims during the current half. Including provisions for specific IBNR these are now forecast to be around \$600 million for the full year, approximately \$100 million above previous expectations.

Our revised estimate also includes a prudent allowance for further large individual risk and catastrophe losses of \$107m and \$250m respectively for the November-December period.

The components of the revised large individual risk and catastrophe estimate are set out in the Attachment.



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12th November 2012

Increased claims provisions for North America

Following the re-organisation of our North American division, a dedicated run-off claims management team was established to oversee a portfolio representing over 6,000 claims and over \$1.1 billion of claims reserves that are in remediation or run-off. This process is now consistent with run-off portfolio management structures in our Australian and European divisions. The North American run-off portfolio consists mainly of program business. Following a claim by claim review we have decided to increase the claims provisions of the run-off portfolio by \$180m.

Prior year claims development

The prior year undiscounted central estimate claims development of \$117m advised at the half year will increase by the \$180m discussed above for North America. We also consider it prudent to provide some allowance for other possible adverse developments and as such we anticipate prior year claims development will be around \$380m or 2.4% of our full year projected net earned premium.

Risk margins

We have taken the decision to hold a further \$125m in order to maintain an appropriate level of risk margins to cater for uncertainty in the discounted central estimate for outstanding claims provisions.

Revised insurance margin and profit forecast for 2012

In August 2012 QBE projected an insurance profit margin for 2012 of better than 12%.

QBE advises that it has now revised its projected insurance profit margin to around 8% for 2012 following the items referred to above and in particular the impact of Superstorm Sandy and a claims review of discontinued and restructured businesses in North America.

QBE now expects to report a net profit after tax before amortisation in excess of \$1,000m for the year to 31 December 2012, an increase of around 30% compared with 2011.

Mr John Neal, QBE Group Chief Executive Officer's comments

"Superstorm Sandy will prove to have been one of the most devastating storms in recent US history and the recorded loss of life is incredibly distressing. We support the analysis that suggests the insured losses from this storm could exceed \$20 billion. A combination of comprehensive reinsurance arrangements and catastrophe claims allowances ensures that our businesses are well protected against these types of events."

"We anticipate that market pricing will strengthen further post the substantial claims of Superstorm Sandy."

"In addition we consider it important to segregate the US run-off business and to recognise at the earliest opportunity any further expected losses, thereby allowing the North American Operations to move forward on a firm footing."

"It is frustrating to be reporting disappointing news at a time when the vast majority of our ongoing businesses are performing in line with, or better than, expectations. QBE has a unique franchise in the global insurance and reinsurance markets and we remain positive that we can achieve the level of return our shareholders expect."



MARKET RELEASE

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QBE to issue subordinated convertible debt securities

Following board approval QBE proposes to issue and has received commitments to subscribe for \$500 million of subordinated convertible debt securities subject to final agreement on terms. Capital treatment of the securities is subject to regulatory and rating agency approval. Proceeds from the issue will be used to repay short term borrowings and to increase the capital of our US subsidiaries affected by the upgrade to claims provisions.

A market briefing will be provided by teleconference today by John Neal, Group Chief Executive Officer and Neil Drabsch, Group Chief Financial Officer. Details of the teleconference are as below. Due to time constraints, the teleconference will be limited to discussion with analysts and investors on matters covered in this announcement.

Details of the briefing are as follows:

TIMING:

11.30 – 11.50pm CEO briefing
11.50 – 12.20pm Analyst and investor Q&A

An audio recording of the teleconference and Q&A will be available on our website later today.

DIAL IN DETAILS:

- To participate in the teleconference, you will need a touchtone phone
- 10 minutes prior to the briefing, please dial your call-in number and follow the prompts
- Enter **participant passcode 197924#** and the operator will direct you to the briefing
- If you are disconnected for any reason during the teleconference, redial your call-in number
- Analysts and investors wanting to ask a question, please press *0 at any time during the call and the operator will place you in a queue

Participant passcode	197924#		
Australia Toll / International Access	+61 2 8212 8333	Australia Toll Free	1800 153 721
Hong Kong	800 933 733	China	800 876 8625
New Zealand	0800 442 709	Japan	0034 800 400746
Singapore	800 616 2259	United States	1866 307 0659
United Kingdom	0808 238 9067		



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All amounts are in US dollars unless otherwise stated.

IMPORTANT DISCLAIMER

Any forward-looking statements assume no overall reduction in premium rates; no significant fall in equity markets and interest rates; no large adverse movements in credit spreads; no major difference to 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 proposed regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this market release.

For further information, please contact:

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QBE Insurance Group Limited 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 50 countries.



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Attachment : Large individual risk and catastrophe claims reconciliation

	1H12 (\$m)	Oct YTD (\$m)	Nov-Dec (\$m)	FY12(e) (\$m)
NEP	7,359			15,570
Superstorm Sandy		400		400
Crop	5	263	92	355
Large individual risk claims (incl specific IBNR)	161	338	107	445
Total cat claims (incl specific IBNR)	161	240	250	490
Total large individual risk & cat claims	327	1,241	449	1,690
General IBNR	265			175
Total large individual risk & cat claims (incl IBNR)	592			1,865
Percentage of NEP	8.0%			12.0%