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QBE ANNOUNCES 2012 RESULTS AND SENIOR MANAGEMENT SUCCESSION

"As foreshadowed in November 2012, adverse prior accident year claims development, primarily in the US, marred an otherwise solid 2012 performance for QBE. Today we are announcing expectations of a much improved performance in 2013, a stronger balance sheet, initiatives which will improve performance in the medium term and a number of significant executive management changes." **John Neal, QBE Group Chief Executive Officer**

HIGHLIGHTS

- Results in line with 12 November 2012 market release;
- Net profit after tax up 8% to US$761 million;
- Insurance profit up 16% to US$1,262 million, supported by a strong investment result;
- Disappointing underwriting result, impacted by significant prior accident year claims development, the severe US drought, Superstorm Sandy and lower risk-free rates;
- Strengthening of the provision for outstanding claims central estimate and risk margins, with probability of adequacy increased to 87.5%;
- Attritional claims ratio broadly stable at 49.4%;
- Final dividend for 2012 reduced to 10 Australian cents per share, fully franked;
- Announcement of senior management changes;
- Announcement of a new strategic focus underpinned by an operational transformation program which is set to deliver annual cost savings of at least US$250 million by end 2015; and
- Positive outlook for premium rates and profitability in 2013.

QBE today announced its 2012 full year results, which are in line with the update provided to the market on 12 November 2012.

Cash profit of US$1,042 million was up 32% compared with US$791 million last year, and consistent with November guidance that cash profit would exceed US$1.0 billion. Reported net profit after tax of US$761 million was up 8% compared with last year but below guidance of greater than US$820 million, reflecting a higher level of amortisation and impairment charges than previously envisaged.

Profit benefited from a lower incidence of catastrophe claims compared with 2011, offset by the impact of US$464 million of adverse prior accident year claims development and strengthening of risk margins. Investment returns were comfortably up on the prior year. Key attributes of the 2012 full year results include:

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- gross written premium income up 1% to US$18.4 billion;
- net earned premium income up 3% to US$15.8 billion;
- combined operating ratio of 97.1% compared with 96.8% in 2011;
- insurance profit margin of 8.0% compared with 7.1% in 2011;
- net investment income, including realised and unrealised investment gains, up 57% to US$1,216 million;
- net profit up 8% to US$761 million;
- diluted earnings per share of 61.6 US cents compared with 61.3 US cents in 2011; and
- particularly strong operating cash flow, up 29% to US$2.7 billion.

PREMIUM GROWTH

Gross written premium growth was modest, up 1% to US$18.4 billion, with growth slightly higher in local currencies. Average premium rate increases of over 5% coupled with small bolt-on acquisitions in 2011 and 2012 were more than offset by the impact of lower commodity prices on our US crop portfolio, reduced lender-placed premium volumes reflecting the gradually improving US economy and a conscious decision to cancel unprofitable business and distribution relationships, particularly in the US.

With the exception of the North American Operations, local currency premium growth was solid in each of the divisions:

- North American Operations down 13% to US$6,569 million;
- Latin American Operations up 59% to US$1,223 million;
- European Operations up 6% to £3,194 million;
- Australian and New Zealand Operations up 12% to A$4,815 million; and
- Asia Pacific Operations up 24% to US$578 million.

John Neal said “Although acquisitions are not high on our agenda at the present time, those completed in 2012 contributed US$620 million to gross written premium in 2012, with an expected annualised contribution of around US$930 million.”

UNDERWRITING AND INSURANCE PROFIT

The combined operating ratio, which is the ratio of claims, commissions and expenses to net earned premium, was 97.1% compared with 96.8% in 2011.

The Group’s net claims ratio improved slightly to 66.0% from 68.2% in 2011. Reduced catastrophe incidence relative to the extreme levels experienced in 2011 and a smaller negative impact from lower risk- free rates used to discount claims were largely offset by significant adverse prior accident year claims development and the decision taken to strengthen the Group’s risk margins.

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The attritional claims ratio increased slightly to 49.4% from 49.2% in 2011 with the underlying claims ratio at around 49.0%. Notwithstanding the favourable pricing environment in Australia and North America, the attritional claims ratio increased slightly overall due to unusual claims experience in European and North American Operations.

The combined commission and expense ratio increased to 31.1% from 28.6% in 2011 reflecting business mix changes and integration costs associated with acquisitions coupled with increased costs for IT systems, business change initiatives and government levies. The lower net earned premium in our North American Operations also contributed to the increased ratio.

Insurance profit, which includes investment income on policyholders' funds, was US$1,262 million, up 16% from US$1,085 million due to significantly improved investment returns, giving rise to an insurance profit margin of 8.0% compared with 7.1% last year.

John Neal commented "It is disappointing that the benefit of significantly reduced catastrophe claims and a lower discount rate impact is not reflected in a materially improved 2012 underwriting result due largely to adverse prior accident year claims development. The strengthening of prior accident year provisions coupled with increased risk margins give us confidence in the appropriateness of our year end claims provision. I believe we move forward into 2013 on a firm footing."

NET PROFIT AFTER TAX

Net profit after tax was US$761 million, up 8% compared with US$704 million last year. Profit before income tax was impacted by the following significant items when compared with 2011:

	2012 US$M	2011 US$M
Realised and unrealised gain (loss) on investments	504	(181)
Cost of large individual risk and catastrophe claims	(1,643)	(2,355)
Amortisation of identifiable intangibles and impairment of goodwill	(407)	(133)
Prior accident year central estimate claims development	(464)	64
Foreign exchange (loss) gain	(12)	188

The higher charge for amortisation /impairment of intangibles and goodwill was the result of a write downs of brands, distribution channels and licenses on US restructured businesses; a change in the amortisation profile of our US LPI business; and a more cautious view on future cash flows for recent acquisitions.

INVESTMENTS AND INVESTMENT INCOME

Assisted by a particularly strong cash flow of US$2.7 billion, our in-house managed investment portfolio grew to US$31.5 billion from US$28.0 billion last year.

Whilst global interest rates fell to all time lows, QBE's investment returns were well ahead of expectations benefiting from narrowing credit spreads and strong equity returns, particularly during the second half of 2012.

The overall net yield was 4.1% compared with 2.9% in 2011, resulting in net investment income of US$1,216 million, up 57% from US$776 million last year.

We maintain a very cautious approach to investment markets - around 99% of our US$31.5 billion portfolio is liquid and held in highly rated cash and fixed interest securities. Consistent with our conservative investment philosophy, we have had no permanent impairment of any of our securities.

CAPITAL MANAGEMENT

During the year, we were active in ensuring our capital levels remained within our benchmark range and targets for all stakeholders. Major capital transactions and other initiatives included:

- A$600 million (or US$635 million) of share capital raised in March and April 2012;
- US$500 million of subordinated convertible debt securities issued in December 2012; and
- the resale in December 2012 of US$150 million of perpetual capital securities previously issued by QBE and repurchased in 2008.

Reflecting the actions taken and initiatives to maintain capital, QBE's capital position is sound and we are confident that capital levels will continue to grow and provide flexibility for our future needs.

As at 31 December 2012, QBE's regulatory capital base was 1.7x (2011 1.5x) APRA's minimum capital requirement (MCR) compared with a benchmark of >1.5x and indicating a surplus of US$3.7 billion. The PCA multiple under the new LAGIC criteria is estimated to be 1.6x.

QBE's debt to equity ratio was 43.4% (2011 45.8%) compared with our internal benchmark of <45%. We intend to reduce gearing during 2013.

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2012 FINAL DIVIDEND AND DIVIDEND POLICY

QBE's dividend policy is designed to reward shareholders relative to profit but at the same time maintain capital for future growth of the business. The final dividend for 2012 will be 10 Australian cents per share compared with 25 Australian cents per share in 2011. This follows the 2012 interim dividend of 40 Australian cents per share.

The final dividend will be franked at 100%. Shares will begin trading ex-dividend on 4 March 2013, the record date is 8 March 2013 and the dividend will be paid on 28 March 2013. The dividend reinvestment plans continue at a discount rate of 1.5%.

The Board has reconsidered the Group's dividend policy and for 2013, has adopted a policy of a payout ratio of up to 50% of the cash profit.

SENIOR MANAGEMENT CHANGES

Steven Burns to succeed Neil Drabsch as Group Chief Financial Officer

After 21 years with QBE and 18 years as Group Chief Financial Officer, Neil Drabsch has announced his intention to retire in February 2014.

Steven Burns, currently Chief Executive Officer of QBE European Operations, will relocate to Sydney and succeed Neil as Group Chief Financial Officer. Steven joined QBE through its acquisition of Limit in 2000 and was appointed Chief Executive Officer, European Operations in 2004. Steven is a qualified chartered accountant and has a strong finance background having previously been the finance and managing director of Limit and its antecedent companies for 14 years.

John Neal commented, "Neil's contribution to QBE's growth and development over the past 21 years is nothing short of extraordinary. Indeed, the Group's stellar track record of profitable growth over a long period was regularly attributed to the close knit partnership between Neil and my predecessor Frank O'Halloran. I would like to personally thank Neil for the assistance he has provided to me since my appointment as Group Chief Executive Officer and for his enormous contribution to QBE over many years. I look forward to working with him until his retirement in 2014."

He added "I am delighted to have someone of Steven's calibre and business acumen to fill the critical Group CFO role. I worked closely with Steven during my time in European Operations and very much look forward to working with him again in Sydney as he assumes his new role."

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Richard Pryce to succeed Steven Burns as Chief Executive Officer, European Operations

Richard Pryce, currently Deputy Chief Executive Officer of QBE European Operations, joined European Operations in 2012 having worked in the London insurance markets for over 30 years. Prior to joining QBE, Richard was President of ACE UK where he was responsible for its London market specialty business, including Lloyd's operations and the company's property and casualty insurance business in the UK and Ireland.

Richard will assume the role of Chief Executive Officer, European Operations in November 2013.

John Neal commented, "Richard's appointment in 2012 was critical to our succession plans, both in terms of our European Operations but also to facilitate Steven's move to Group head office. I am confident that Richard can maintain and build on the outstanding track record achieved by European Operations under Steven's watch."

David Duclos to succeed John Rumpler as Chief Executive Officer, North American Operations

Effective 1 April, the President and Chief Executive Officer of QBE North American Operations, John Rumpler, will leave QBE to pursue other interests. John was appointed Chief Executive Officer in 2009 and has been instrumental in the successful consolidation of QBE's rapidly expanded North American Operations during a period of extreme economic and industry financial turmoil.

John Neal said, "I would like to thank John for his contribution to the consolidation and management of North American Operations through a very challenging period, including multiple acquisitions and the economic difficulties post the global financial crisis. I wish him every success in his future endeavours."

Effective 2 April 2013, David Duclos will succeed John Rumpler as Chief Executive Officer of QBE North American Operations. David has a long background in insurance, notably with Cigna and in recent years as Chief Operating Officer and then Chief Executive of Insurance Operations at XL Group. Since completing full time employment with the XL Group in 2011, he has acted in a consulting capacity to the CEO and executive team at XL Group, and as a director of RLI Corp, the NYSX listed specialty property and casualty and surety insurer.

John Neal commented, "I am delighted to announce David's appointment as Chief Executive Officer of QBE's largest and arguably most demanding division, North American Operations. I cannot overplay the depth and breadth of local US insurance industry experience and pedigree that David brings to the role. I look forward to working closely with David in maximising the returns from our extensive and diverse North American portfolio."

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David Fried to join QBE as Chief Executive Officer, Asia Pacific Operations

As announced on 9 January 2013, David Fried will join QBE as Chief Executive Officer, Asia Pacific. Prior to joining QBE, David Fried was Regional Chief Executive Officer of Allianz Asia Pacific where he was responsible for a life and non-life business spanning 14 countries. Prior to that, David spent 27 years with HSBC Holdings PLC. He will join QBE on 8 April, and one of his key roles will be to implement QBE's Asia growth strategy.

John Neal commented, "David brings to QBE an outstanding record of achievement and an intimate understanding of the insurance sector across Asia. In addition to his deep knowledge of Asia, David has had extensive experience in a number of globally-focused strategic roles that will make him a valuable addition to the Group Executive."

NEW STRATEGIC FOCUS

After many years of acquisition-led growth, QBE is entering a new stage of development, evolving from a regionally-focused multinational business to a fully integrated global insurer.

QBE's vision - to be *the* most successful global insurer and reinsurer in the eyes of our customers, our people, our shareholders and the community – is supported by a strategy for value creation which builds on QBE's unique position as a business highly diversified by class of business and by geography. Key elements of the strategy include:

- A focus on our core businesses
- Collaboration across our worldwide businesses to achieve economies of scale
- A strong, flexible and efficient financial model
- Expansion into new products or markets or territories where we can build leadership positions

We are implementing a new program to achieve economies of scope and scale through the creation of dedicated centres of excellence, to manage functions and processes which are currently replicated across the Group and to improve productivity. This initiative is expected to generate annual run-rate expense savings of at least US$250 million per annum by the end of 2015.

John Neal commented "QBE has been a hugely successful organisation over the last 15 years but, as the world changes, we need to evolve to continue to meet or exceed the expectations of our key stakeholders. Our excellence in risk selection, pricing and distribution will remain core. We will supplement that by using our unique global footprint and expertise to rationalise the way we carry our operational processes. We expect this to produce cost savings which, based on 2012 premium levels, would reduce the expense ratio by around 1.6%.

He added "Achieving the planned transformation requires significant investment and will set us in good stead for future success. I will provide more detail of our new strategic direction, the progress of the operational transformation program and our targeted cost savings as we progress through 2013."

2013 OUTLOOK

Recently heightened catastrophe experiences coupled with prevailing low interest yields have materially reduced industry return on equity. Reflecting these pressures, we expect an ongoing orderly firming of premium rates in 2013, increasing by 5% on average (and thereby exceeding the incremental cost of claims inflation), most notably in Australia, New Zealand and North America.

Growth in gross earned and net earned premium is projected at rates slightly below that of premium rate increases, reflecting an expected economic and pricing related decline in our US lender-placed insurance portfolio and the full year impact of past remediation initiatives, albeit moderated by the incremental impact of 2012 acquisitions.

Absent any further material shifts in divisional premium mix, our attritional claims ratio is expected to improve on the back of pricing and remediation initiatives. Our large individual risk and catastrophe claims allowance is unchanged at 10.5% of net earned premium, which we believe to be an even more cautious stance given structural improvements to our reinsurance program.

We are forecasting a stable combined commission and expense ratio at around 31.5% which is inclusive of an allowance of up to 1%, before savings, for the cost of our operational transformation program. Our expense ratio will reduce as we invest in rationalisation programs which will deliver cost efficiencies in excess of US$250 million per annum by 2015. Taking all underwriting profit levers into account, we are targeting a 92% combined operating ratio which we believe will place us in the top quartile of our global insurance peers.

Investment yields will be lower again in 2013 and, in this regard, we are budgeting for an underlying yield of 2.25% which equates to an insurance profit margin contribution of 3.0%.

Together these financial targets indicate that we can achieve an underlying insurance profit margin of 11%. Over the medium term, a targeted improvement in our attritional claims ratio and emerging operational transformation savings are expected to drive the combined operating ratio down to 90% or better.

- ENDS -

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