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12 January 2012

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

Dear Sir/Madam

Market Update on 2011 Preliminary Results and 2012 Outlook

Please find attached an announcement for release to the market.

Yours faithfully

D Ramsay

Duncan Ramsay
Company Secretary

Encl.

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MARKET RELEASE

12 January 2012

MARKET UPDATE ON 2011 PRELIMINARY RESULTS AND 2012 OUTLOOK

QBE advises that its minimum insurance profit margin estimate for 2011 has been reduced to reflect its share of the record level of catastrophe claims experienced by the insurance industry and unrealised losses from the impact of difficult investment markets. We have only recently been able to assess the impact on our results of a number of the catastrophes. These events will mean that our profit after tax will be down by 40% to 50% compared with last year.

Nevertheless, QBE also advises that the outlook for 2012 is positive as a result of strong premium rate increases being achieved in most markets, its comprehensive global reinsurance arrangements and management action on catastrophe exposures in some countries. Rate increases are being achieved in Australia, New Zealand, US and parts of Asia, Latin America and Europe.

QBE's projected insurance profit margin for 2011 advised in August 2011 was a minimum 11% based on an expected US$15.0 billion of net earned premium. This is now expected to be between 7.0% and 7.5%, reflecting the following factors:

- net earned premium is anticipated to be up 35% compared with last year, to around US$15.3 billion;
- the record level of catastrophes means that our estimated large individual risk and catastrophe claims allowance for 2011, as announced to the market in August, of 13% of net earned premium is now likely to be around 15% and US$1,210 million higher than experienced in 2010. Of this amount, in excess of US$500 million relates to the catastrophes towards year end;
- unrealised losses on the Group's fixed interest investment portfolio as a consequence of rising credit spreads are around US$160 million and are included in 2011 insurance profit as required by Australian Accounting Standards; and
- unrealised losses from the substantial fall in risk free rates that are used for discounting outstanding claims provisions are estimated to be around US$200 million and are included in 2011 underwriting profit as required by Australian Accounting Standards.

The previous minimum projected insurance profit margin of 11% was based on an allowance of 13% of net earned premium for large individual risk and catastrophe claims, average risk free rates for discounting claims of 2.6% and a gross investment yield on policyholders' funds of 2.7%. The estimated insurance profit margin for the year of 7.0% to 7.5% is based on 15%, 2.15% and 2.1% respectively.

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Subject to the completion of the year end accounts, it is expected that the final 2011 dividend will be reduced, due to the record level of catastrophes, from 66 cents a share last year to 25 cents a share. This would bring the total dividends paid out of 2011 earnings to 87 cents compared to 128 cents from 2010 earnings. The dividend reinvestment plans remain unchanged and the final dividend will not be underwritten.

Regulatory capital adequacy at year end is expected to exceed our minimum target of 1.5 times APRA's minimum capital requirements.

The Group's reinsurance expense for 2011 is estimated to be approximately 13% of gross earned premium, or around 1% higher than previously anticipated, mainly due to the higher crop cessions to the US government Risk Management Agency.

The financial estimates above are subject to completion of the 31 December year end accounts, including actuarial review and audit. Our 2011 annual report is due to be published on 28 February 2012.

Mr Frank O'Halloran, QBE's Group Chief Executive Officer said, "While catastrophes in the second half of 2011 have attracted fewer headlines than those earlier in the year, the frequency of events continued at an unprecedented level. In the United States, this included Hurricane Irene and further tornadoes, wildfires, hail, flood, wind and snow storms. In other parts of the world, catastrophe claims included bush fires in Western Australia, storms in Melbourne, floods and riots in Europe and the extreme floods in Thailand. Our US crop insurance business produced a below average underwriting profit due to the severe hail and flood claims."

He added, "We thought that our initial allowance at the beginning of the year for large individual risk and catastrophe claims of 9% of net earned premium was conservative given the past seven years averaged 8.1%. However, events during 2011 have proven otherwise. We have made a number of changes to lessen the impact of a continuation of this heightened level of catastrophes going forward. These include substantially increased premium rates for property classes of business, higher deductibles, the purchase of more reinsurance for a frequency of catastrophes and reducing exposures in some areas."

He continued, "The record level of catastrophe claims in 2011 together with the difficult investment markets have impacted most insurers and reinsurers. Only Australian insurers are required to discount claims using risk free rates and take the mark to market movement of the investment portfolio through the profit and loss account. Despite this, our combined operating ratio, is still expected to be around 96.5%, which we consider is a strong underwriting result given market conditions."

Mr O'Halloran concluded, "We are targeting a combined operating ratio of 89% with an underlying insurance profit margin around 15% for 2012 on the back of the premium rate increases, our comprehensive reinsurance protections, other changes to our business and current interest yields. The targets include an allowance of 10% of net earned premium for large individual risk and catastrophe claims, net of reinsurance recoveries. Our yield for 2012 on our substantial cash and fixed interest portfolio is expected to be around 3.0%."

QBE advises that it has finalised the placement of all its 2012 catastrophe and individual risk excess of loss reinsurance arrangements for an expected overall increase in cost of around 5%. The total cost of reinsurance protections, of which 60% is proportional and US

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crop reinsurance, is expected to be below 12.5% of gross earned premium in 2012. The 2012 cost includes US$400 million of aggregate covers for a frequency of large individual risk claims and catastrophes, US$200 million of reinsurance protection for the Group's captive, reducing the Group's retention for a US windstorm by US$50 million and additional catastrophe covers for increased exposures in Australia and the US.

QBE recently signed a contract for the acquisition of the Optima Insurance Group in Puerto Rico, which generates around US$100 million of premium and increases our gross written premium in Latin American business to close to US$900 million in 2012. The acquisition is subject to regulatory approvals.

A market briefing will be provided by teleconference today by Frank O'Halloran, Chief Executive Officer, QBE Insurance Group Limited and Neil Drabsch, 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:

1.00 –1.20pm	CEO/CFO briefing
1.20 – 1.45pm	Analyst and investor Q&A

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 605454#** 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

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QBE Insurance Group Limited is listed on the Australian Securities Exchange, is recognised as one of the top 15 global insurance and reinsurance companies as measured by net earned premium and has operations in 52 countries.