S1 2012 Earnings Call

Company Participants

- John Neal, CEO
- Neil Drabsch, CFO

Other Participants

- Andrew Adams, Analyst
- Andrew Kearnan, Analyst
- Brett Le Mesurier, Analyst
- Daniel Toohey, Analyst
- James Coghill, Analyst
- Kieren Chidgey, Analyst
- Nigel Pittaway, Analyst
- Ross Curran, Analyst
- Ryan Fisher, Analyst
- Siddharth Parameswaran, Analyst
- Toby Langley, Analyst

Presentation

Neil Drabsch {BIO 2093435 <GO>}

Good morning, ladies and gentlemen. I'd like to welcome you to QBE's full year results announcement presentation for the year end 31 December 2012.

My name is Neil Drabsch. I'm the Chief Financial Officer. Just a few housekeeping matters, if I may. This is a webcast. So I would kindly ask that you turn your mobiles off. There will be question time, both from the floor and online and to the extent you put your hand up when you are asking a question and if you wouldn't mind waiting for the microphone.

I'd like now to introduce our Chief Executive Officer, Mr. John Neal. Thanks John.

John Neal {BIO 15681439 <GO>}

Thank you, Neil. Good morning, everyone. I think, without further ado, I will just take you straight into the presentation and look at 2012 in review.

The 2012 results that we've announced today is in line with the guidance that we provided to the market on the 12 November. So we're reporting cash profit up 32% to $1.042 billion

[ph]. We're seeing an insurance profit margin precisely on 8%, net profit after tax up 8%, to $761 million. We'll explain as we go through the slides, the impact on the net profit after tax, due to the accelerated amortization and impairment and intangibles charges, which is $194 million up after tax than was the case in 2011.

The underlying insurance business is in good shape. We'll have a look at 2012's underlying margin of 11.8% in a moment. The attritional claims ratio is improving. I think it's important to stress that our US crop business does distort the attritional claim ratio and when you take crop out, the first half 2012 and second half 2012 attritional claims ratios are flat.

Our large individual risk and catastrophe claims allowances have come in just slightly under the planned allowance for the year at 10.4% and that's despite the increased cost of crop claims from the US drought and Superstorm Sandy and an uptake we saw in 2012 of large individual risk claims.

We've undertaken a very extensive review of our entire claims portfolio, with particular emphasis on the US that we've discussed previously and confident that we've done that job as thoroughly and as completely as you could ask. When Neil talks in a moment, he will point you to some of the numbers in the balance sheet which will show the changes that have taken place. So in fact, our central claims estimate is up $1.3 billion in the year, IBNR $800 million at the full year and risk margin $133 million.

Our capital position is improved through the year. Net tangible assets are up almost $1 billion and looking at APRA's old MCR multiples, we stand at 1.7 times at year end, as compared to 1.5 times 12 months ago. The new PCA multiples stands at 1.6 times.

We're declaring a final dividend today of AUD0.10 per share fully franked and that's AUD0.50 per share for the full year. I'll talk in a bit more detail on the outlook for 2013 at the end.

But direct insurance conditions are still good. We are still forecasting rate increases going through the book of approximately 5% through 2013, which is following on from the trend that we saw in 2012. I'll talk again, as we go through the slides, on some of the global initiatives we have in place and in particular around the operational transformation program, that I have spoken about previously, that we're now confident to say will save us at least $250 million in run rate expense savings by 2015.

Later in the presentation, I'll cover off the senior management changes that we've talked about in the market release today.

So just looking at the financial results in summary, we're looking at a top line growth rate in premium that is broadly flat, up marginally. That is despite acquisitions adding $620 million to the top line. So that illustrates that we are very focused in terms of getting our risk selection right and getting our underwriting right, as we look to stabilize the insurance margins we can report to the market.

Combined operating ratio is at 97.1%. A very, very good investment return coming in at just over $1.2 billion and there you can see the amortization and impairment charges, $407 million pre-tax and $281 million after tax.

So let's just pick up on some of the highlights through there. So growth up 1%, as I said. There are four major acquisitions in 2012. La Buenos Aires in Argentina and Hang Seng in Hong Kong, were two businesses we acquired off HSBC. We bought a small insurer in Puerto Rico Optima and we acquired the renewal rights to some UK corporate business from Brit Insurance also in 2012. So those four have added $620 million.

To counter that, with the work that we've been undertaking in the US, through a combination of remediation plans, lower crop prices and falling volumes on our lender-placed book, we've actually seen income in the US drop by nearly $1 billion.

If we look at the underwriting result, that 97.1% COR actually suffered a drag on the insurance margin of nearly 4%, as we've looked hard at our prior accident year claims provisions and increased those by $464 million. The main activities there, again, as we discussed in November, are around the US business and particularly the US program business. So we are actually carrying $316 million as an increase on prior accident year.

There is some pushover onto Equator Re, through the quota shares they have with the US business and also through some deterioration in the 2011 catastrophes that we spoke about at the half year and non-US casualty business coming out of Europe.

So the insurance profit, as I mentioned on the previous slide, is up 16%, at nearly $1.3 billion. Insurance margin at 8% is really bolstered by a stronger than expected investment return contribution of 5%.

So if we look to the next slide, really that's telling a story on the underlying margin and I think the easiest way to concentrate on this slide is to go from the reported margin of 8% to the underlying margin of 11.8%, is really to look at it in two boxes. So those first three green boxes on the left-hand side of the slide are really the impact of the prior year, the risk margin strengthening that we've taken and also the discount rate impact. Those three together add up to almost $650 million.

Then on the right-hand side of the slide you've got a tick up on expenses at 0.6% above the 30.5% underlying and that's really arisen for three reasons. One is the integration costs around Balboa, as we've looked to consolidate our lender-placed business and also the integration costs supporting Hang Seng in Hong Kong.

We've also been carrying out some pre-work ahead of the operational transformation program on the IT platforms in Europe and in the US and we've seen increased government levies, both here and Australia and in Europe.

So looking again at the highlights coming through, investment income up 57%, realized and unrealized gains of $504 million. Good news also on operational cash flow. That's up

29% in the year to a very commendable $2.7 billion and with that reduced income coming through on crop and lender-placed insurance, both of which are very short tail classes of business, we are now seeing our premium held increase up from 1.2 full years to 1.35 years, on average.

A higher amortization and impairment of intangibles costs add up to $407 million pre-tax, when compared to $133 million in 2011, driven mainly as part and parcel of that work we've been carrying out in North America. So as we've looked to reorganize the North American business into a consolidated PNC business, with the two specialty businesses in addition, then it's been quite right as we look at a one QBE business, that we see $92 million of write-down against brand names, agencies and distribution rights.

We've also taken a look at the 10 year distribution arrangement we have with the Bank of America and felt it's more appropriate to accelerate the amortization of those distribution rights towards the front end of the 10 year period and hence you're seeing accelerated costs there of $80 million and we've also got a write-down of $58 million of intangibles and acquisitions for Hang Seng and Optima in Puerto Rico.

Tax rate slightly lower than anticipated, coming in at 17%. That's driven by a combination particularly of lower tax rates in the UK and also the US losses coming through at a higher tax rate. There's a fair bit more detail on the divisions actually on slides 33 to 38 for those of you in the room and equally the same slides that are actually posted on the website. So this is really just a snapshot of the divisional results and I will actually go into a little bit more detail both on Australia and New Zealand and, indeed, on North America in the next couple of slides.

But on the other divisions if you look at Latin America we're looking at gross written premium up by 59% in the year largely fuelled by the acquisition of La Buenos Aires but in fact organic growth is still up 12% year-on-year in Latin America.

Claims ratio in Latin America very good and as expected at 55%. We've got increased acquisition costs of 7% and that's really reflecting the change in business mix for La Buenos Aires and we believe that that will improve and settle as we integrate that business through 2013.

In Europe we're looking at gross written premium up 6%. That's almost exclusively due to the acquisition of the renewal rights business with Brit and the combined operating ratio is 94.6%, very similar to 12 months ago which sees a 3% fall in the claims ratio offset slightly by 2% due to an uptick on expenses as they've completed their IT transformation programs.

So in Asia Pacific we're looking at growth of 24%, good, organic growth coming through at 18% and really with the benefits of the Hang Seng acquisition to follow in 2013. The action that we've taken particularly in flood prone zones in Asia is really showing through in a very good combined ratio of 85.8% and we've got some exciting plans to develop our business in Asia through 2013 and beyond. If you look at Equator Re there is actually a 6% improvement in the insurance profit margin 2012 over 2011 and that margin improvement's been slowed slightly by obviously the impact of Superstorm Sandy going in there and the prior year movements that I referred to earlier on.

So I just wanted to pick out two divisions in a little bit more detail. I think when we look at Australia and New Zealand, if you looked around the world I think the trading conditions here in this market are as good as any and that's reflected in a very commendable combined operation ratio of 90.6% and 9% improvement on 12 months ago and an insurance profit margin is closer to 19%.

However, I don't think those numbers really do justification to the story because it's really not about a turnaround on reduced cat activity. I think I've spoken before and said that it's always been our intention to be clear in defining that we'll only write a risk where we can get the right price for the exposure we're being asked to. So we've cut back in cat exposed areas and typically when you look at the market losses being reported for flood or catastrophe damage in Australia our market loss is 10% or less of the market loss. So when you look at Cyclone Oswald we're talking about loss forecasts of $55 million to $60 million.

So our remediation has pulled us away from cat exposure. And the significant step change we've seen in the combined operating ratio comes on the attritional claims line. So that gives us the confidence the results we're putting forward are sustainable and the confidence that we can work hard to remediate our portfolios.

I think the final point on the slide is equally important. Despite being tough in the marketplace we're still recognized as providing a leading service for the 11th year in succession, Colin Fagen and the team have been awarded the NIBA General Insurer of the Year prize.

North America's obviously been our problem child in 2012 and we're looking at an underwriting result, a disappointing underwriting result, of a combined operating ratio of 106.8%. Three factors, really, at the top of the slide are telling the story. The abnormal crop performance and Superstorm Sandy is really adding 5.2% to the cat loss ratio in North America where we've taken the strong action on the claim central estimate and therefore the impact on prior accident year claims and the risk margin top-ups. They're adding 6.6% and 3.4% to those ratios so that's just over 15% in total.

We've undertaken a thorough review of the prior accident year claims in fact not only in the US but also across all of our divisions in the entire portfolio. The predominant strengthening that you've seen in the results has really come through in the US but that figure of $316 million, $236 million of which relates to the review of the program business that we discussed in November that we've either put into runoff or believe is remediated. I've put a couple of comments on the slides about the specialty businesses which always attract a reasonable amount of attention.

So when we look at crop prices we're forecasting those to be up 10% this year so that will push the gross written premium up to $1.8 billion for crop and we see no reason as to why the crop business should not return to its long term average COR of 88% or better in

2013. Those of you that follow the weather in the US will see that there's snow and rain in Kansas, Missouri and Nebraska. As far as we're concerned, long may that continue. When we look at lender-placed business, we've closed down the discussions on pricing with the main states and the main department of insurances in the main states for 2013.

That will actually result in a reduction this year of 8% in price, in fact 9% on a full year basis. So that's what's been disclosed in the slide and we're at the low ebb of the income expectations for that class of business in 2013 and forecasting $1.2 billion. I'll talk a little bit later on about the way in which we're adjusting the expense base in reinsurance to match that change in income. So I think as far as North America's concerned when we look at the fundamentals and the work that we put in we are seeing rate increases across the P&C classes of between 5% and 6% and we see no reason why we can't achieve a combined operating ratio of 92% or better this year.

I'll hand over to Neil now to talk about capital, funding and investments.

Neil Drabsch {BIO 2093435 <GO>}

Thank you, John. I'll just take you through a few of these slides and obviously afterwards we're happy to take some questions on it. In relation to the balance sheet, just again point out that we're seeing shareholders' equity now up near $1 billion for the year. Obviously that was driven by the $600 million aid dollar capital raisings we had in the first half. But also very strong cash profit and now the lower dividend payout.

I will talk about, in the following slides, the intangibles and investments. But while we're on this slide, I'd also like to point out the insurance liabilities and particularly the outstanding claims provisions. John indicated that a lot of work has been undertaken during the year to take a full assessment of the outstanding claims. And it's in that process we also adopted and took on, for the first time, a global single external actuary. We always had external actuaries in the various divisions. This time we undertook and appointed an external actuary to look at the whole.

In that process and also as part of our overall review, there were some various differences in assumption bases in determining the central estimates. And during that period and our internal actuary we have now taken on and standardized that. The impact of it was to match where there were some mismatches between our divisions and some of that is reflected in the prior year, particularly through our CapDiv. I'm happy to talk about a bit more detail, particularly with the analysts. But it is a factor in relation to the prior year and certainly adds to the strength of the central estimate.

Risk margins, as Sean said, were up. And the probability of adequacy at 87.5% and that compares with 86.3% at the end of December 2011. Goodwill and intangibles did have a higher amortization rate than we would normally see. The normal rate is around $170 million to $175 million. And that's based on the amortization of the identifiable components, those which have a limited useful life. The increases were direct related, as set out in the slide, particularly around the US where we had changed brand names, et cetera. I think those full details are there.

Going forward, to give an indication, particularly for those looking to model, we would expect amortization for 2013 on the identifiable components to again be around about $170 million, $175 million before tax, or about $120 million after tax.

In relation to the capital levels, over the year we've obviously had a lot of comment about QBE's capital levels. And with the capital raising and also the retained profits, we're now seeing quite a strengthened position. At the same time, I've included details of where we see the regulatory capital at this stage. The Australian regulator APRA does set out a risk-based criteria. And using their basis we have a 1.7 multiple.

That criteria will change from 1 January. And at this stage it is an estimate. And we say it on the basis that APRA have yet to finally view it. But there's enough information around and we're comfortable around it. It should be around about 1.6 times, so significant headroom. We're talking about a regulatory surplus capital getting close to $3.7 billion, with net tangible assets overall at 22%.

In relation to our overall capitalization, which of course includes borrowings, I'll just have a look at those borrowings. But of our $4.9 billion of borrowings, just around 53% of it is subordinated or deferred perpetual capital. On the slide that follows with the borrowings, just set a bit more detail out in respect of that, we've given an indication that by the end of this year the borrowings which were increased right near the end of December in our discussions with APRA and the transition arrangements under the new LAGIC reforms, we had some securities that those might remember in 2008 we purchased, back when the market was in disarray, at quite a high discount, a number of capital securities, those at tier one.

We still had $150 million of those at December. But in discussions with our regulator, we were actually able to increase that. So we sold another $150 million back into the market, increasing that amount to $300 million. That did slightly increase our debt equity to around 43%. But we'll see that come down naturally as we move through 2013. And we're comfortable that a ratio of around 40% by the year end should be achievable. The weighted average interest rate is just slightly over 6%.

In investments, I think it's fair to say that there's been a great result by the team on investments. Another year of volatility. Very strong cash flow, operating cash flow, at $2.7 billion, has pushed the total invested funds now up to $31.5 billion. And the investment yield on that was net 4.1%. So it was a great result. We're expecting, you might recall during the year around about 3%. Some of that was driven by spreads coming in. But we in the team look very, very carefully at exposure in relation to spread. And given the volatility from time to time, we were able to take advantage of that spread volatility and that resulted in very strong realized and unrealized returns at the year end.

You might notice from the pie chart in the investment that the government bonds are up from around 14% to 25%. And naturally at times when credit is cheap, we'll actually move the bonds. But in the month of December and as it's been the case, credit isn't cheap so we'll weight back into government bonds as we see fit to keep that balanced. But overall it was a great result. And for the year ahead, we're saying that we are looking at a 2.25%

yield. That's what we'd call our mean average yield. We can do better than that. But it will rely not so much on our fixed interest and books. But we do have equities where we can expose up to 3%. You may have noticed also during last year we took the opportunity in equities, the way we manage them. And they also form part of our overall policyholders' pool.

With that, I'll pass back to John. Thanks very much.

John Neal {BIO 15681439 <GO>}

Thank you, Neil. If we just have a quick look at our reinsurance programs for 2013. In placing the programs for 2013, the credit risk profile and the quality of the reinsurers has been enhanced. But I think the most important point under the business as usual comment is that we've not changed our retentions, either on the risk or the catastrophe program. So we have retained the same risk appetite for 2013 as for 2012.

What we have done is improved the aggregate catastrophe protections that we buy. And we've done that at no change in cost. So where we buy a Group aggregate catastrophe cover, that now attaches at $800 million as opposed to $1 billion. And provides twice the cover, $400 million versus $200 million. And we've simplified the protections around Equator Re to be more conventional aggregate protection.

I mentioned earlier on when we were talking about our lender place business, previously known as QBE First, now Financial Partner Services, is that we're able to flex the business model as income either grows or falls. So we've always placed a separate catastrophe treaty for that business. And that's allowed us to reduce the amount of cover that we buy to reflect the fall in income. And those savings will obviously flex with the margins to protect the margin on that business, at least partially.

So if we look at that in the round, we've actually saved $50 million in terms of our reinsurance purchases for 2013. We've improved the cover and we've just drawn a parallel at the bottom of the slide. I think it's well reported that the catastrophe activity in 2011 was extreme. So if we applied that activity against our 2013 programs when compared to 2012, that would have given us an additional $55 million in recoveries. But far, far more importantly would have left us with $271 million of further cover, or our 2012 programs would have been close or at exhaustion.

There's more detail, I think, as the slide says on 39 and 40, if you want to go through the reinsurance program there. So global reinsurance treaties is the first of a set of global initiative that QBE has been following. And that's really based around a value creation strategy that we're talking about for the first time in our annual report this year.

As I close off, I'll talk about the confidence that we actually have in both the insurance margin, the underlying margin for 2013, where we're suggesting a combined operating ratio of 92%. But equally we are very concentrated on ensuring that we do define what businesses are core for us and ensuring we leverage maximum value out of that. But very importantly, we look at our global scale and reach and whether that's the way in which we develop or derive business or the way in which we manage the business, ensuring that we maximize the benefits here. So we do have a number of Group-wide programs that are designed to improve our margin and our combined operating ratio to push it closer to 90% over time.

So if we look at the operational excellence initiatives we have running that I've spoken about previously and indicated savings that we would communicate to the market, we're now able to say that the annual run rate benefits of these programs will deliver at least $250 million by FY15. In saying that, these are expense numbers and we've deliberately not included the procurement benefits that will come from the supply chain on the claims line. So there are benefits coming from there as well. And they are in addition to the numbers that we're quoting here.

What we're really looking to do is to simplify and standardize the way in which we do business. In many instances, we do things five different ways, sometimes more than five different ways. And it's not just about cost for us. If we can standardize the way in which we do business, then we create a scalable platform for future growth. So the platform that we're creating is about setting the business up for success for the future as well as the cost benefits that will come through.

It's a global program. So it impacts each of the three major trading divisions we have in Australia, North America. And Europe. And on the slide we've also detailed the functions that are in scope. I should stress as well that the program is being expensed with little monetary value being carried through the balance sheet. So the numbers you're looking at are P&L numbers with little carry forward through the balance sheet. So you can see the investment going through 2013, 2014, into 2015, $330 million. And you can see the P&L benefits coming through quickly. And whilst we're saying run rate savings of $250 million for FY15, we're pretty close to that number during 2014.

So if we look at the outlook through 2013, we are in a marketplace where rates are firming. The key benefit for us there is it does allow us to take the action that we want and feel we need to on those areas of the business that are under focus. So particularly where we're seeing rate increases of 5% to 6% in North America. That gives us the confidence that we can drive the COR of 92% I spoke about. And the level of returns we expect on that P&C business.

We're only talking about modest growth expectations in 2013. We're not planning any material acquisitions in the year. So the real focus is on the core business. We continue to carry a 10.5% allowance of net earned premium for large individual risk and catastrophe claims. We're confident that the allowance is appropriate. And indeed the reinsurance protections that I was speaking about a few minutes ago further strengthen and validate those allowances.

As I'll look at in a minute when we look at the detail of the margin core, we do expect the attritional claims ratio to fall, both as a result of the impact of the rate benefits we got in 2012 coming through this year and further rates coming through in 2013. The expense and commission ratio sits at 31.5%. That is an underlying level of 30.5% but includes a 1%

allowance for the costs of the operational transformation program. So as I was saying earlier on, we are expensing that and taking that cost straight through the P&L.

So the insurance profit margin that we're calling out for 2013 is 11%. That's actually an underlying margin of 12%, 1% higher when you take out the investment for the transformational costs. So it's an insurance profit margin absolute of 11%, against a combined operation ratio of 92% and insumes an investment yield on policy-holder's funds of 2.25%.

So we just pick up on the slide that we were looking at earlier on. It really takes us from the actual reported margin in 2012 of 8% through to that underlying margin of 11.8%. I won't repeat the reasons that one goes to the other. But you how we've actually called a margin guidance of 11% for 2013.

So we've got 1% assumed as an investment for the operational change programs that we've got going through on the expense line. You've also got the reduction in underlying performance on the investment book there, calling out at 2.25% taking 0.9% off. We've taken a call of 1.1% for improvement in the attritional claims ratio through the benefit of rate increases and remediation activity. For that reason we're calling out a margin guidance of 11% and again can I say that 11% includes a 10.5% allowance for large individual risk and catastrophe claims.

So just in closing, we've also explained today some senior management changes that we've communicated to the marketplace. I think Neil Drabsch has been very clear when he's spoken previously, that his intention was to support the business and support me through two full closes and that is his intention. So Neil is with us until February 2014 and we have an orderly internal succession with Steven Burns who many of you know as the CEO of European Operations, relocating to Sydney to take on the CFO responsibilities.

In addition there will be now there will now be Richard Pryce who succeeds Steven Burns. We recruited him six months ago as Deputy CEO to come in the business so I think that was fairly well forecast to the marketplace. We've also announced in February this year David Fried joining us from Allianz to lead our Asia business.

We have also made a change in the US and we're grateful to John Rumpler for the four years he's afforded us as we've looked to integrate and grow the business there. But we think the time is right to appoint a US leader to take us through the next stage of development in North America. And we're delighted to secure Dave Duclos who was previously the CEO of Insurance Operations at Excel.

Our transformation programs are now underway. I think we will talk to you in a lot more detail as we go through the year how those break down and apply through the divisions. I think we have an intention specifically to talk about that, probably around July of this year.

We do believe the fundamentals that underpin 2013 are in very good shape. As Neil mentioned we took a very complete review of essential estimate of our claims over the past 12 months and you can see the actions we've taken to strengthen the claims provisions here.

So we are confident in putting forward a combined operating ratio of 92% and an insurance profit margin of 11% to you today. In addition, perhaps for the first time for four or five years, the macroeconomic conditions in the marketplace are starting to move in our favor as you look out two to three years on interest rates, discount rates. And the benefits for multi-currency businesses such as our own.

We have a focus on ensuring that our capital position can improve year on year and we spoke earlier on, of the increase in net tangible assets through the balance sheet in 2012. It's very important that we retain the flexibility in our capital base and that's a priority for us to do so. So we do see 2013 as a stable year, a year of transition, for the year that positions us very well for consistent returns in the future, returns that we believe can pull our combined operating ratio in the nearer medium term back to towards 90% and allow us to grow profitably. Thank you.

Questions And Answers

Q - Nigel Pittaway {BIO 3406058 <GO>}

Hi John and Neil, it's Nigel Pittaway here from Citi. Couple of questions please if I can? First of all, in terms of your margin guidance for next year, it doesn't seem to allow for any increase in the probability of adequacy or top of the risk margins. So first of all, is that correct? Secondly, does that presume that therefore you're happy with where it currently is at 87.5%?

A - John Neal {BIO 15681439 <GO>}

I think with the probability of adequacy, yes I am happy. I think I've been on the record before as saying that it needed to be in excess of 85%. I'm certainly happier, 87.5%. I'm happy with the work that we've done through 2012 in looking at our entire claims portfolio.

When Neil referred to the independent actuarial review, that looked at 97% of the carrying was as an entire business. So if you eliminate very, very short tail business such as the crop, we have undertaken as complete an exercise as we could on essential estimates. So I'm happy with the carrying position.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thanks. Then obviously on the lenders placed, you are -- you made mention of the fact you're obviously targeting much lower premium there, now it is overall down to $1.2 billion, whereas previously you were guiding to around about $1.6 billion. So can you explain that movement? Also maybe I think there is also a slight reduction in the overall US over and above that, because you were going for more than $7 billion. And you're now down to $6.5 billion. So can you please just give us a bit more color on that?

A - John Neal {BIO 15681439 <GO>}

Yes I can do. So you're absolutely right. The major movement in the US forecast is through the lender placed business. That's actually been driven as the Bank of America has looked to sell on parts of its loan portfolio which it did most recently to Nationstar so 20% of its portfolio was sold in the early parts of this year. And that's driven that income estimate down. So I think in -- for year '13, we do see that as a low-ebb of income for lender-placed. We've got quite a number of initiatives underway and are in discussions with a number of the major banks in the US. And we're hopeful that that business can grow again, albeit I don't think it will come through to 2013.

I think the overall change, if you take lender placed out, on the income for the US is about $200 million. That's really as a result of that review of the US P&C businesses. So we've just pulled back slightly on the midmarket business and slightly on the program business. So that's where the net change has come through.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Previously you'd said those two businesses were ready for growth and you thought you'd remediated them sufficiently so that they could grow from here. After you've done the $200 million will they grow there from or --

A - John Neal {BIO 15681439 <GO>}

I think they can grow. I think the US market's an interesting one. I think many people see it as challenging. I think there are opportunities for us to grow. I think in appointing an experienced US veteran of the P&C market we believe we can grow that business. The priority in 2013 is to deliver that combined operating ratio in the US of 92% or better. I think when we're satisfied that that is happening and that the remediation activities in play are working, then we'll allow that business to grow.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thank you.

Q - James Coghill {BIO 14006200 <GO>}

James Coghill with UBS.

A - John Neal {BIO 15681439 <GO>}

Lost you, James, sorry. It's my eyesight.

Q - James Coghill {BIO 14006200 <GO>}

A couple of questions, just extending that one about the US business. I mean, you mentioned that you would like to only be exposed to businesses that you think can add value over the long run. Can we interpret from what you've responded there that the new CEO's mandate is to go in and just run what you've got? He's not reviewing that portfolio again for appropriateness, for the long run?

A - John Neal {BIO 15681439 <GO>}

I think in early discussions with David Duclos going in there, he would share the same view as me. When I look at the US market I think some of the best insurers in the world trade there. We both share the same view that our US P&C business can be larger. He's on the same page as me, that we need to be satisfied the remediation activities are working.

We've got rate increases coming through that are helping us so let's just be clear, particularly as we go through the first half of the year, that we're seeing the transformation we expect to see in the bottom line. And then we'll look and decide whether it's appropriate to grow those businesses. But short-term in 2013 we just don't see the growth.

Q - James Coghill {BIO 14006200 <GO>}

Just perhaps a question on Australia and New Zealand, looking at your guidance measure there. That's pretty much flat on 2012. I'd be interested to understand in a bit more detail your comments earlier, about being cautious, growing in this market and 40% of your portfolio is actually in personal lines, another 20% in property. So those comments appear to be in quite strong contrast to what the other domestics are saying.

A - John Neal {BIO 15681439 <GO>}

I think the view that we're taking across all our businesses. And Australia's no exception, is we're looking for stability in terms of a combined operating ratio. I think you've seen, even this year, with Cyclone Oswald -- though I think that could be a claim that $600 million or $700 million and total flood losses of $1 billion, but the catastrophe exposures still exist here. We think in some sectors of the book the levels of rate are still not strong enough so we'll wait until they are strong enough before we're prepared to increase above the six or seven % we're forecasting for the moment.

So we're happy that we've got a business that can run at a combined ratio of 90% or around there through the market cycle. If pricing moves and moves again, then we'll be prepared to grow but not until.

Q - James Coghill {BIO 14006200 <GO>}

Perhaps I can just sneak in one third and final question there on the capital position, for Neil. Could you just explain to us why the actual risk measure moved up on a PCA basis from the last time you presented LAGIC numbers, I think it's moved up from 5.2% to 5.6%. So that's been that main driver of your ratios being squeezed. Perhaps in that response, just comment s on what you think an appropriate coverage target for CT1 should be for a business like QBE?

A - Neil Drabsch {BIO 2093435 <GO>}

Right. Thanks James. You may recall we, like other companies, were still struggling to fully understand the implications of these changes under the LAGIC regime. So I think when I did the update for the market in October it was a good guess. We're obviously getting now closer to understand it and we've worked with APRA. And a few of the moving parts and particularly a Company of QBE's complexity, where our insurance concentration risk charge, which now takes into account not just the maximum of retention. But the sideways elements. And particularly frequency, need a lot more work.

There are things with QBE such as currency which we've now sorted out with APRA. Then overall you've got a more complex formula driven factor which gives us a diversity credit. So those three items but two particularly, being the moving parts -- I've used the word (inaudible) but this time we're pretty comfortable with that.

What we have said in our own internal -- our own risk management, criteria that we're comfortable with that at around about 1.55 times and we would expect that to grow from that base. Is that too much or not enough? We're quite comfortable with it and one of the tests in that is the CETI range, the common equity tier 1. We're running at 113% at the moment of our tier 1. I think that's more than adequate for a Company of this size and the risk profile, understanding that the minimum is 60%.

What's the right amount, I think we'll find companies like us in this market, based on this criteria, will settle down to a ratio. But I think anything between 100% and 110% CETI range is probably right for us.

Q - Daniel Toohey {BIO 16751863 <GO>}

Daniel Toohey from Morgan Stanley. Just a couple of questions, one on capital and the second one on underlying margin outlook. Just in light of some of the changes that conglomerate standards still yet to come, the S&P revisions to their capital framework. Also, we've had some further top ups to reserves and impairment charges. How comfortable do you think S&P will be with their positioning and the likes of A [ph] invest given your negative outlook?

A - John Neal {BIO 15681439 <GO>}

Shall I start with that? I think you're right to raise the question that when we look at capital, we're looking at regulator's view of capital versus we're looking at S&P's view of capital and we're looking at A [ph] invest view of capital. We keep an eye on each of the expectations and we're in constant dialogue with all parties.

With S&P, in terms of their change in standards, we don't know absolutely what the implications of those changes will be and we don't know when they'll be released. The reason we don't know is because they've not said. S&P in particular tend to look out 24 months when we're making an assessment to rating. So when they put us on negative outlook, they said that they wanted to see how we were progressing at the half year, at 30 June. So there's no suggestion that they would look at what we're communicating today in any other light than an understanding of what we said on 12 November.

We'll be in active dialogue with S&P through the half year. We're confident that the measures we've got in place will satisfy S&P and those are the conversations that we'll be having with that.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. Thanks. On the underlying margin you point out that X [ph] the additional one percentage on the expense you'd be at 12% for 2013. Just looking more broadly beyond, would we be right in thinking that the underlyings could be around 13% X the rate and remediation that's ongoing FY13?

A - John Neal {BIO 15681439 <GO>}

I think it's -- guidance is always challenging I think for an insurance business. I think what we've tried to do today is call out the margin that we think is a fair and balanced assessment of what we can achieve in 2013. It could well be that the remediation, the rate activities, have greater benefit on the attritional claims ratio than we're forecasting. But we'll just have to wait and see. But equally it could well be that cat activity is more extreme than we thought. So we've tried to take a fair call down the line so at this point in the cycle we do think an underlying call of a guidance of 12%, combined operating ratio of 92% is fair. But you're right, there could be some areas where that might be better but equally, particularly around catastrophe activity, there are some areas where it could be worse.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. Thanks.

Q - Ross Curran {BIO 17605313 <GO>}

Hi, it's Ross Curran from CBA. I just noticed in the rem report that the Sydney management team has had the ROE hurdles lowered from 14% to 12%. Is that a comment on the long-term sustainable ROE that the Board views?

A - John Neal {BIO 15681439 <GO>}

I think the Board's having a look actually through 2013 in detail at the remuneration structures that apply across all of the divisions. I think the Board's view is that it's important to recognize our performance for the business and so around our targets of 92% combined operating ratio the Board's considered it appropriate that approximately 50% of the at risk rewards should be paid at that level.

Q - Ross Curran {BIO 17605313 <GO>}

Then secondly, on the segmental disclosure I notice the US business actually gave negative tangible equity now. There's $3.2 billion of intangibles and $3.1 billion in assets. I'm just wondering if you had discussions with the US regulators on the cap position and the US position -- North America, sorry?

A - Neil Drabsch {BIO 2093435 <GO>}

Ross, I'll answer that. In the segment report, that's an allocation of borrowings across the Group, those borrowings sitting in other places but it's our allocation particularly for management and how we monitor that business. So it's not a regulatory. Effectively, we don't have any direct debt in the US at all. It's all via our other subsidiaries.

Q - Andrew Kearnan {BIO 1702520 <GO>}

With the premium rate increases that the Group's been talking about for the last few years around 5%, probably for the last three years, I'm surprised that we haven't seen an improvement in the attritional loss ratio coming through on the back of that. Can you talk about the mechanics of that and then what gives you confidence that rates can add a point to your underlying margins in 2013?

A - John Neal {BIO 15681439 <GO>}

I think I'd look at in three different ways and in three different areas of our business. I think where you're seeing sustained rate increases move into a third year, which you have here in Australia, I think you're seeing the benefits come through quite pointedly in the attritional claims ratio. You know, my experience, it takes 12 to 18 months to see the real benefit come through. That's now happening and that's really why I wanted to call out the performance in Australia and New Zealand earlier on in the presentation.

I think in the US we're now moving into the beginning of a third year of sustained rate increases. I am confident that that will show an attritional claims ratio. I think it's masked in 2012 because of the strong action we've taken on the prior year which obviously has an impact on that attritional claims ratio.

I think in Europe, if you look at rate increases, we're not seeing the same levels of rate increase that you see either here in Australia or in North America. So we're looking at rates that are around about 2%. So the activity there is really around ensuring that they are constantly remediating that business to hold on to that combined operational ratio between 92% and 94%. So the one weak spot at the moment in terms of an ability to get rate into the attritional claims ratio would be Europe, which is our most challenging market.

Q - Andrew Kearnan {BIO 1702520 <GO>}

Thank you for the response. With respect, return hurdles, lower interest rates obviously make a higher return hurdle more difficult. Can you share some insights into how the Group's thinking about that and assuming that the return target remains 15% or better, what operational targets you need to hit to achieve that? I use the reference the numbers, the guidance which you've given which the Group quoted to deliver in 11% ROE in 2013. Thank you.

A - John Neal {BIO 15681439 <GO>}

Do you want to take that Neil?

A - Neil Drabsch {BIO 2093435 <GO>}

Sure. Thanks Andrew. I mean, the lower interest rate environment that we're operating in, as over the last four or five years, has a significant impact on the investment income but also the underlying construction and the discount rate on outstanding claims.

The way that we run the divisions is that capital is allocated on a risk basis to those divisions. And if you look at it in simplistic terms, if we're looking at say $11.5 billion at a

Group level, which includes intangibles and other funding, effectively, the divisions on a risk basis get allocated around about $9.5 billion [ph] and that moves relevant to the risk. So the return on that risk capital is what is measured and that basic target of 15% still holds for the majority of those portfolios, if not higher in many cases.

So there's no relaxation of minimum targets. And given the risk business that we're in, I think anybody could see that a return of at least 15% in some of those areas, is the absolute minimum, given the risk exposure that we're taking. So structurally it is a sum of many parts.

The divisions operate on an allocated capital but when you take that to the Group and we're carrying intangibles as well. And in a lower interest rate environment. Clearly the reported net shareholders' return is going to be a lower sum and hence the Board have recognized that, for example in terms of remuneration. The balance sheet and the business as a whole, of course, is highly sensitive to interest rate movements. And a question again, are we at or near a bottom. But as that moves up, a quite significant impact on top line and return on equity.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Brett Le Mesurier from BBY. I've been looking at your claims development triangle towards the end of your annual report. And in the four years before, four accent years before 2007, there was $1.6 billion release, or improvement in your outstanding claims central estimates. In the four years since 2007, it's a little over $800 million adverse development, of which $400 million [ph] odd was what you were talking about today. Can you comment on why the Company went from being so conservatively reserved to so aggressively reserved over the last four years?

A - Neil Drabsch {BIO 2093435 <GO>}

I'll talk to that first, Brett. Clearly, the period 2003, '04, '05 and '06 we saw some quite exceptional pricing in the globe and the average releases from memory, out of the central estimate, were generating anything up to 2%, 2.5% benefit to the bottom line and that's what the CDT [ph] indicates.

Pricing in this market. And globally, started to soften at the end of 2007. Obviously the GFC on its own was an impact there, particularly in classes with credit and other related. So in '08, '09, '10, and part of '11 you had a diminishing pricing and therefore central estimate releases were significantly reduced down to, what I would call normal levels over a cycle, probably somewhere around 0.5%. The year itself here, of course, we've had the prior year development and that's the major impact on the 2012 year.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

But you would know that when you set the reserves, wouldn't you? You knew that the prices were less. So that shouldn't be an impact on your reserving, should it? Because you would be looking at what you think was the most likely outcome, given the premiums are --

A - Neil Drabsch {BIO 2093435 <GO>}

Yes. I mean, the central estimate is meant to be that. It's an estimate at the central point where we think it's 50% right or wrong and all the other moving elements in it. So there's nothing wrong with the reserving. The impact on this year result of prior year is for a number of other factors, not necessarily reserving with some of those portfolios requiring prior year adjustments.

A - John Neal {BIO 15681439 <GO>}

I think, all I would add to that comment is, if you look at in two sort of five year cycles, you look at 2002, 2007 and you look at a book that's got significant long tail liability, I don't think anybody predicted just how good those years actually were. So I think the benefits that we saw coming out of those years later were far above what anybody expected and you'd consider to be normal for an insurance business. I think what we've done this year is looked hard at the carrying reserves we particularly got through the tough part of the cycle.

So I think 2008, 2009, 2010 were tough accident years before we saw rates moving up. I think what you've seen us reflect on that marketplace, reflect on the carrying reserves for the business and take I think pretty strong action in terms of the carrying central estimate and what we're taking forwards into 2013. So from my perspective, as I was saying earlier on, I think we've done as complete a job as we can and I am satisfied that we're carrying an appropriate central estimate and an appropriate set of risk margins through into this year.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Can I ask one more question, on a different topic? Can you tell us the proportion of the European profit that came from Syndicate 386?

A - John Neal {BIO 15681439 <GO>}

For -- have you got that information?

A - Neil Drabsch {BIO 2093435 <GO>}

No.

A - John Neal {BIO 15681439 <GO>}

I don't think I have. I mean, I'm happy to come back to you on that.

Q - Toby Langley {BIO 15924432 <GO>}

Confirmation, if I can. The margin guidance that you've given, that excludes the supply chain benefit that you mentioned in your speech, John, is that right?

A - John Neal {BIO 15681439 <GO>}

It does, yes. I'm very much of the view that you can improve your supply chain and you can improve the cost base in the claims line. But I think it's very difficult to isolate that and call it out. So I would tend to point you to the attritional claims ratio. So where I've called out a 1.1% improvement in the attritional claims ratio for 2013, it's on that line that you'd expect to see that coming through in future.

Q - Toby Langley {BIO 15924432 <GO>}

To follow that up, you put it under your two times cash cover ratio formula on your dividends. Does that -- is that a long term target and is it more to do with rebuilding the balance sheet or is it about fuelling future growth? How should investors be thinking about that balance there?

A - John Neal {BIO 15681439 <GO>}

I think it's been challenging to determine what's the appropriate level of dividend for a business such as ours and I think if you stood right back and said if you setting up a global insurance, a reinsurance business today, what level of dividend would you look to pay, I think what we've done is said long term we think 50% of cash profits is bang on what people would expect and support in terms of a [ph] creating the right yield for the business. And b [ph] allowing the business to grow its capital base to fund these growth expansions and potentially future acquisitions.

Q - Toby Langley {BIO 15924432 <GO>}

Thank you.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Kieren Chidgey, Deutsche Bank. Two questions, if I could. The first one is following up on the earlier question about the underlying margin outlook. The premium rates you were guiding to during last year were 5% real. And it seems -- I'm not sure from the commentary today whether or not we've ended up with 5% nominal. So perhaps you could clarify that and also the FY13 outlook, the 5% is at nominal terms as well. Then the 1.1% margin uplift you expect from rate improvements flowing through, what the net drag you're seeing there through specialty portfolios, as opposed to the positive coming through from those real premium rate increases?

A - John Neal {BIO 15681439 <GO>}

Yes, I'm always conscious I seem to confuse people more than clarify when I talk about rate increases. In our planning cycle we pre-superimpose underlying claims inflation as we move the plan through and then apply the rate increase on the adjusted number. So the rate increase applies after we've adjusted the claims ratio, for what we think the impact of underlying claims inflation of between 3% and 4% will be.

I think if I look at the rate increases coming through on the book, I would be hopeful that through 2013 we would see a better improvement than I'm calling out. I think I'm just being cautious and saying I think it's sensible just to take a prudent view, particularly as we're remediating the US business and not call too early. So 1% felt fair at this point in time.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. And the 1% margin improvement, the 1.1% on slide 21, that's obviously the impact of two factors. How big is the drag coming through specialty in your eyes? I mean the rest of the traditional business, is that basically saying that you're getting at least a 2% improvement there.

A - John Neal {BIO 15681439 <GO>}

Yes. I think it is suggesting that we're getting that improvement. So when we've looked at say, take that North American business, when I look at the underlying improvement in North America, excluding the business we put into run-off and the business we discontinue, then that is already performing at the levels of combined operating ratio, slightly better, than when calling out for North America. So I'm looking at a business that's already performing at those levels, post the rate increases that are in place. So I'm just expecting some further improvement. I'm saying relatively nominal, 1.1% to 2013.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. Second question, just around gearing and long term growth which you talked about earlier. But Neil, just perhaps a point of clarification around the gearing target which seems like it's still sitting at 45% despite flagging you want to come down to 40% this year. Where shall we think the business should be headed long term for gearing?

A - Neil Drabsch {BIO 2093435 <GO>}

Yes. It's a good question, Kieren. I think 35% to 40% is the right sort of rate. It depends on the mix. And what we're experiencing at the moment, as the banks are as well, is that the available products to us, be it Tier 1 and Tier 2, are diminishing. As we progress, the book as we now see it, if you take it forward I think two or three years you'll see it at around those, mid-30s will probably be the right rate, given that there will be a fall away of some of the hybrid type securities -- which may also answer some of the questions I think in relation to dividend.

In companies such as us, be it stable or with a slight growth, it's important to maintain that flexibility. The Board's trying to deal with these things necessarily have to take the tougher decisions, that in growing a global business such as that it's important that we retain sufficient profits to allow that buffer. Then the new dynamic that we now operate, that is going to be an important part in the capital preservation.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. Just given that multi-year de-gearing, you said you don't expect much growth in '13. But presumably that is the outlook in '14 and potentially '15 as well.

A - John Neal {BIO 15681439 <GO>}

I think we can grow the business. I think if we see a strong pricing cycle and we see price sustained through '14 and '15, I don't see why we can't grow the business, either organically or by acquisition. So when you look out two years, yes, we can definitely grow.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thank you.

A - Neil Drabsch {BIO 2093435 <GO>}

We do have a call online from Ryan Fisher from Goldman Sachs. Happy to take that call.

Q - Ryan Fisher {BIO 3487027 <GO>}

Thanks, Neil, just a few questions. Just curious about the rationale for putting equities in technical reserves. And how far that might go? Also just in relation to the other point there, when you mentioned you might move more into equities and infrastructure, might some of that go into technical reserves as well?

A - Neil Drabsch {BIO 2093435 <GO>}

It's a good question, Ryan. During 2012, in fact at the end of '11, we looked very hard at the way that we were managing portfolios and particularly companies like all of us are necessarily chasing yield but at the same time being very aware of the capital cost, particular equities. Equities, as you may be aware, both from a regulatory point of view and a rating agency, have nearly doubled in that charge. So you ought to be very cautious about the approach.

Therefore, Gary Brader and his team adopted a very active management of equities, to the point where management. And also the Board were quite comfortable effectively in running the pools of investment funds. And it should also include an appropriate proportion of equities. They did a great job last year. Going forward into 2013, similarly active manage equity portfolio. And there may be some additional exposure to bonds with perhaps infrastructure or property characteristics will also form part of that. Certainly those pools, that's policyholders' funds, will receive a share of that.

Q - Ryan Fisher {BIO 3487027 <GO>}

Okay. Thanks, Neil. That leads into my second question, which, I guess this might be linked, how comfortable are you that if we see any increase in economic inflation, that your investment portfolio can cover that without there being a net balance sheet strain?

A - Neil Drabsch {BIO 2093435 <GO>}

Yes. The credit portfolio bonds, which is about 42% of the whole portfolio and just over 50% odd of the fixed interest and cash, is still short in duration, it's still around six months. So if we see, as we expect to see in this current bond market, the back end of the curve start to rise, our portfolio is very well protected against that at that balance sheet level. At a P&L level, while the short end is still probably going down, we're far enough out of maturity and the mix of this books with the spread that we're comfortable around the 2.25% [ph].

To put it into context, if you look at our current fixed interest cash book overall, probably running now at about 2.0% for the year. And I think that's a comfortable rate going forward. In addition to that we believe that we can enhance that with, say, 10% of our portfolio in other types of securities such as the equities we spoke about and some of the infrastructure, other property type securities. Really what we're doing is leveraging off our -- we have a long tail portfolio so therefore our liquidity requirements at the short end are not as strenuous as perhaps some others that are writing a short tail book.

Q - Ryan Fisher {BIO 3487027 <GO>}

Okay. Thank you, Neil.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Siddharth Parameswaran from JPMorgan. A question just on the claims inflation environment that we're seeing at the moment. Could you just comment on what you're seeing and whether you're actually seeing any superimposed inflation in any portfolios around the world. And also whether you're assuming any superimposed inflation, given that a lot of your peers are actually saying that it's quite a benign environment?

A - John Neal {BIO 15681439 <GO>}

Yes, I think the simple answer is we're not seeing any evidence of superimposed claims inflation. And we're certainly not assuming it in the modeling that we're putting forward, both in forecasts we're putting out today and the pricing models we're running. The only issue we saw in 2012 that I called out was a slight uptake in the cost of large individual risk claims. We judge a large individual risk as being in excess of $2.5 million, which is in fact quite small. If you cut that figure higher at $10 million you're only looking at a 1% cost on your claims ratio.

So even in that area we've had a hard look at those claims to say is there a pattern. And there isn't. In fact as we've moved into 2013 through to February we've been particularly quite and even benign on large individual risk claims. So nothing that should give us a concern in either respect this year.

A - Neil Drabsch {BIO 2093435 <GO>}

We've probably got time for one more question. Is there anyone from the floor? We do have Andrew Adams from Credit Suisse on the line. Happy to take your call, Andrew.

Q - Andrew Adams {BIO 20116222 <GO>}

Yes. Hi, guys. Just a question on reinsurance. You highlighted cost savings there but it appears that your reinsurance ratio that you're guiding to in '13 is up a fair bit on the old 12% target. Can you just confirm what reinsurance ratio you're expecting in '13. And can you also comment --

A - John Neal {BIO 15681439 <GO>}

Yes. I mean, the reinsurance ratio for us is complicated, Andrew, by the cessions that we made to the US government, particularly around the crop business. So where we talk about a reinsurance ratio of 13%, 13.5%, we believe that's unchanged, just ticked up because of those increased cessions for crop last year.

A - Neil Drabsch {BIO 2093435 <GO>}

Maybe too, we gave guidance at the beginning of the year at 12.5%. And excluding crop that ran at 12.7%. What we're looking for in 2013 around that 12.5% is probably still the right number. Although we are getting some broader cover and there's a slightly lower cost base, clearly the net earned premium will have an impact on that. Then on top of that you should look at any variables through crop.

Q - Andrew Adams {BIO 20116222 <GO>}

Okay. Great. Can you also outline what reinsurance you've got in place for crop for 2013?

A - John Neal {BIO 15681439 <GO>}

Yes, pretty much unchanged. We're going through, the crop renewals actually come through on 1 April. So we're actually just going through the discussions now to place the crop going forward. If you remember post 2011 we bought a lot more hail cover and we'll continue to do that through this year. The only issue we're looking at for crop is whether we need to buy right the way up, as high as we did last year, because even with the losses in 2012 we went about 40% through the program. So there was still a lot of cover left. So the debate we're running at the moment is whether we need to buy as broad a cover as we did 12 months ago. But we're right in the midst of those negotiations as we speak.

Q - Andrew Adams {BIO 20116222 <GO>}

Great. Thanks.

Q - Daniel Toohey {BIO 16751863 <GO>}

Daniel Toohey from Morgan Stanley, just a follow up question on European pricing and international general liability classes. Any signs or improvement or increasing optimism around that? I note in the reserve top-ups you had $30 million related to European liability classes.

A - John Neal {BIO 15681439 <GO>}

Yes. In terms of pricing outlook, I think, certainly the view we're taking on the European markets is that we might be 18 months away from an uptick in the pricing cycle and I think that's driven by the economic conditions in Europe. So our focus has actually been on defending the book, which is what we've been doing for two or three years now. And just maintaining the quality of the business that we write.

So business is still performing for us, performing well, not as well as it was four or five years ago. But we're confident in our risk selection, we're confident with what we're retaining but I think we're 18 months away from the same pricing cycle you're seeing in Australia applying in Europe.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. Thanks.

A - Neil Drabsch {BIO 2093435 <GO>}

I'd like to just thank everybody for attendance today and for those online. As usual, very happy to take any questions afterwards, either through Tony Jackson, Investor Relations or directly through to John and myself. Thank you, again, that ends the webcast.

A - John Neal {BIO 15681439 <GO>}

Thanks very much.