Q2 2015 Earnings Call

Company Participants

- John D. Neal
- Patrick Charles Regan
- Tony Jackson

Other Participants

- Daniel P. Toohey
- James Coghill
- Jan van der Schalk
- Kieren Chidgey
- Nigel Pittaway
- Ross N. Curran
- Siddharth Parameswaran
- Toby R. Langley

MANAGEMENT DISCUSSION SECTION

Tony Jackson {BIO 1729093 <GO>}

Good morning, ladies and gentlemen. My name is Tony Jackson. I'm the Head of Investor Relations at QBE. I'd like to welcome you all to QBE's 2015 Interim Result Briefing. And also I'd like to welcome you to QBE's head offices. This is the first time in the history of the company that we've hosted a result briefing in our offices. So I think you should look forward to this thing going forward hereafter.

Before I hand over to the group's Chief Executive Officer, Mr. John Neal, if I could ask you all firstly please to turn off your mobile phones. And the formal side of the presentation today will run for approximately 30 minutes and that will leave similar amount of time afterwards for Q&A.

So without any further delay, I'd like to hand over to Mr. John Neal. Thank you. John?

John D. Neal {BIO 20988613 <GO>}

Thank you, Tony, and good morning, everyone. And welcome to QBE's presentation of its 2015 half year results.

Our group CFO, Pat Regan, and I are delighted to be presenting a solid scorecard for the half year in terms of financial performance, quality of balance sheet and execution of strategy. But perhaps as much more importantly, we are pleased to be able to confirm our targets for the full year to be in a position to increase dividend payments for our shareholders and be positive in the strategic intent of our business to be able to grow profitably and improve further still.

The first half of 2015 has presented an interesting macro backdrop with heightened changes in the markets generally, particularly with regard to foreign exchange and interest rates as they affect QBE, notable for catastrophe activity on our home market in Australia and the beginnings of consolidation in the property and casualty insurance industry globally as many worry about both inability to grow and to continue to take cost out of their business.

The results on this slide are presented on an adjusted basis for 2015 to exclude those businesses either disposed off or held for sale and then compare it to the stat result for the first half of 2014. Pat Regan will provide a reconciliation between adjusted and reported profit in a moment.

I won't dwell on all of the details on this slide. But the first half of 2015 has presented a pleasing set of numbers. Gross written premium is 1% up at $8,557 million or in fact 2% up on a constant currency basis. A combination of foreign exchange and the adjustment we made to our crop bookings actually roughly offset each other. Net earned premium is down 12% to $6,084 million and that's largely as a result of increased quota share reinsurance that we purchased notably for that U.S. crop portfolio and the introduction of the aggregate reinsurance treaties, all of which have an impact on net earned premium that contribute strongly to improved profitability.

The improvement in the combined operating ratio to 93.4% arises from a reduction of claims ratio to 58.6% which is in fact down by 4.5%. Our attritional claims ratio is stable and our new aggregate reinsurance treaties have reduced the cost of large individual risk and catastrophe claims by some 2.6% through the half. And importantly, for the second half in succession, we are seeing positive prior year claims development of $79 million.

In the short term, it's inevitable that a combination of remediation, increased reinsurance purchase and foreign exchange have the impact of reducing our net earned premium and correspondingly therefore increasing our acquisition cost ratios.

I would add that our operational transformation program has delivered expense savings of over $240 million to date which will rise to approximately $290 million by the end of this year and it's supplemented by some further initiatives that we have in play in 2015. Now I'll talk a little bit more about those in a moment.

Net profit after tax is up 16% to $455 million, insurance profit up 15% to $610 million and cash profit after tax is up 13% to $471 million. So if we look at performance, we're actually on track to produce our best full year combined operating ratio for five years.

Market conditions are increasingly challenging, particularly in the London market as evidenced by an average 1.6% reduction on rates through the half. However, we remain first and foremost an underwriting business and the quality of that underwriting has shown through, notably evidenced by that stable attritional claims ratio.

Pat will discuss the divisional results in more detail but it's pleasing to see outstanding performance coming out of both our European and our Australian divisions. Our revised but still defensive investment strategy is enhancing yield in the half. We successfully executed against a number of strategic initiatives and our key rating agencies have confirmed our A rating, and our outlook is now stable. In fact, all of our businesses are meeting plan at the half year and we are pleased with the progress we're making respectively to improve the quality of our businesses in North America and in Latin America.

We've executed successfully on the self-help elements of our capital plan by completing the sale of our agency businesses in both Australia and the U.S., the sale of our Argentine Workers' Comp business and the sale of our mortgage and lender services business in North America.

The reinsurance arrangements is working out really as expected with our aggregate protection softening the cost of catastrophe claims in Australia in the half and the quota share reinsurance protections we put in place at QBE LMI and the crop business in North America, a stabilizing performance in both of these important businesses. Our claims reserves are strong. And for the second consecutive period, we are showing positive prior year claims development.

We are turning our thoughts to profitable growth and I'm pleased to report some growth through the half. There is intrinsic value in being global and accordingly in being relevant in both the established markets in the world as well as the emerging economies in the world. We now have a solid base of which to build the respected QBE franchise across a broad base of trading partners and customers.

And the appointment of Colin Fagen as Group Chief Strategy Officer and, very importantly, the establishment of a senior team to support Colin in his new role, reflects our strategic plans to grow as well as build on the cost savings and efficiency measures that we've successfully implemented in the past three years.

The enhanced quality of our balance sheet and the improved cash profit, which is up 30% on a constant currency basis, has allowed us to increase our interim dividend by 33% to AUD 0.20.

I would now like to hand over to Pat to take us through the half year results in a little more detail.

Patrick Charles Regan {BIO 15131018 <GO>}

Thank you, John, and good morning, everybody. Nice to see you all again.

I'm going to take you through some of the financial details of the results today, as well as an update on our balance sheet metrics. First of all, let me say because of all the activity we've been undertaking at the group there are a few gains or losses in the results today. So the first thing I'm going to do is take you through from the reported result to the adjusted result. And virtually all of the analysis we're going to show you today excludes those gains or losses and looks at the adjusted result, which is obviously, the basis we put together our target of 94% to 95% combined ratio for the year.

Our reported profit after tax was $488 million, up 24% or 42% on a constant currency basis; obviously, the U.S. dollar has strengthened significantly over that period. And included in that result are four major one-time items. The results of the Argentine Workers' Comp business. As we announced at year-end, this business was held for sale and therefore excluded from the adjusted result for the year, and you'll see by the way that the combined ratio of that business was 135% for the six months. So it's obviously now subsequently completed. And second, thirdly and fourthly, the gains and losses on sale of the Aussie agencies, the U.S. agency and the first part of the mortgage and lender service business, together with associated taxes.

All the following slides, I'm going to talk to the adjusted column. Our combined ratio improved from 96.5% a year ago to 93.4%. From my perspective, when you look at the results by divisions, one of the most important facts is, they were all on plan or better than plan. Starting with North America, the combined ratio increased slightly to just over 100%, although in line with our plan for the half-year, reflecting a higher cost of cat claims in the first half of 2015, versus a particularly benign first half of 2014.

The first half of 2015 was always going to be one of continued transformation for our North American business. Our North American expense reduction program, which aims at taking $100 million out of the North American cost base, was completed in the first half and we should start to see the benefits to North American expenses in the second half of 2015 and then into 2016.

And you may have noticed that we've also changed the earned and written premiums to do with our crop business in North America; essentially we can now more accurately estimate written premiums at the time of the policy attaching, rather than just when we receive the AK Ridge (10:47) reports in, typically, August. This had the effect of bringing forward into the first half the recognition of written premium of about $766 million and net earned premium of just over $130 million.

Absent that adjustment, North American GWP fell by 5%, primarily in standard commercial lines, reflecting both slightly tougher market conditions and our continued focus to terminate underperforming program business. Conversely, there was strong growth in both standard personal lines and, again, in our specialty line business.

Our standout divisional result was clearly our European business, which achieved both 7% constant currency growth and an eight-point improvement in the combined ratio to 85.8%. And the European combined ratio embedded (11:37) from both significant positive prior-year development, again a continuation of last year's trends, and a three point improvement in the attritional claims ratio, a direct result of the portfolio remediation over the last two years.

And the top line growth is also a direct benefit of a number of the growth initiatives Richard Pryce and the team started last year, including things like increased capacity on energy lines, improved retention initiatives, and particularly strong performance in our European retail business. As you know, the European retail business primarily focuses on midsized corporates in the U.K. and in Europe. And despite tough market competitive conditions, our team managed to both grow the top line by 8% constant currency and improve the retail combined ratio by five points, to 90%.

Our Australian business have another strong combined of just over 90%, especially when you think about those significant weather-related events on the East Coast of Australia in the first half. And the nearly five points of adverse large loss in cat experience versus last year offset the one point improvement in the acquisition cost ratio in Australia, again from lower staff costs, again from increased usage of our global shared service center. Top line was down 1% in Australia on a constant currency basis, as growth in TGP (13:04) and our intermediary business was offset by the industry-driven reduced top line in the lenders mortgage insurance business.

In emerging markets, despite a more difficult rating environment, we continue to grow our top line, with GWP, constant currency and, excluding the worker's comp business, up 14% last year, versus last year. Growth was particularly strong in Indonesia, Malaysia, Argentina, Brazil and Mexico. And we were particularly pleased with the continued growth in Asia, clearly despite a somewhat more difficult economic backdrop, demonstrating our ability to execute on a well thought through growth plan.

The combined ratio from emerging markets improved by nearly three points to 99.5%, or about 20 points if you include worker's comp in last year's comparison, and notwithstanding the significant floods in July and Cyclone Pam in Vanuatu, the claims ratio improved by nearly 3.5 points, primarily due to better prior year claims experience.

And lastly, notwithstanding the fact that cat claims were nearly $150 million higher across the group in first half of 2015 versus first half of 2014, the Equator Re underwriting result improved significantly, really evidencing the benefit of that new group aggregate reinsurance treaty.

If you look at the overall group combined ratio, for me this has improved for five main reasons: firstly, we sold the Argentine Workers' Comp business; secondly, the benefit of that enhanced reinsurance protection. If you look at the gross cost of large risk and cat claims this year versus last year, this year, gross cost is well over 12%, up from 10% last year, and that's largely been neutralized by having the increased recoveries under this new treaty.

We had positive prior year developments of nearly $80 million. And similar to the second half of 2014 that was broadly spread, with positives in Europe, Australia, and Asia-Pac, and only modest negatives in North America and LatAm. And this was even after some negative impact of foreign exchange on the prior year recoveries of our old group aggregate treaty in Equator. Fourthly, our underwriting experience across the group. The rating environment is more challenging in nearly all of our major markets, and averaged a decrease of 1.6% in the first half of this year against an increase of about 0.7% last year.

Notwithstanding the decline in prices and a few mix of business changes, our attritional claims ratio was pretty flat by 47%. And if I show you the normal calc there with the usual unusual items, if you like, you can see that actually the ratios improved very slightly from 47.1% last year to 47% this year. And I think again, a testament for the skill and experience of our underwriting teams, particularly in Europe, where we had a three point improvement in attritional claims ratio despite a three point decline in rates.

Lastly, expense management, which might sound a little odd, given our expense ratio actually has gone up in the period. And really there's three things going on there. Firstly, we've got lower NEP from lower written premiums and FX, and that impacts the expense ratio by about a point. We've also got lower NEP from the increased reinsurance protections and that's impacting our ratios probably by a little more than 0.5 point, and that's partly - but not completely - partly offset by lower underwriting expenses, including the impact of FX, of about $80 million first half 2015 versus first half 2014.

If you look at the updated operational transformation slide, I just tell you what we've done here. The annualized 2015 column there is double the half year's expenses. And then essentially the OTP savings number is our forecast for the full year. You can see there's $289 million, the actual savings at the half year 30 June was $241 million, up from $195 million at yearend. And again we feel confident about our ability to meet our $279 million P&L target for 2015.

And worth noting overall staff costs were down by more than $300 million since 2012. Again (17:42) as you can see we continue to invest in emerging markets, invested over $100 million in the combination of new claim systems, new policy admin system, infrastructure improvement and more recently the cost implementing Solvency II in Europe and that includes just over $40 million in this half year.

Obviously, as I said NEP, has fallen over this same period, and yet as yet (18:07) our expense ratio hasn't improved. And while we made some good progress in expenses, we do still think there is more to do, and in 2016, we plan on taking out incremental savings which John will talk in a moment.

Turning to our investment performance. Notwithstanding the significant fall in yields over the period last year to this year, our revised strategy has meant our annualized investment yield has increased 2.9% in total, 2.7% if you exclude the yield from Argentine Workers' Comp. And our growth assets which were basically about 12% of the portfolio on average for the first six months contributed 42% of the return. So in other words, those growth assets gave an annualized equivalent of return of just over 9% for the first half.

As you can see from the chart, and as we talked about before, they are pretty well diversified, were not - fall in any one bucket, not just in equities. And our standout performance for the first six months were our property and our emerging market equities.

Our fixed income book remains very short in duration. It's about 0.8 to the year as we sit here (19:22) today and is very defensively positioned still, with 94% of the portfolio A rated or better, and nearly 60% AA rated or better. And nearly $10 billion is still in short-term money or short-term government bond.

On financial strength, there's not an awful lot of new news here. Notwithstanding negative FX impacts with the strengthening of the U.S. dollar, pretty much all our capital ratios are stable in the period, with $0.5 billion of profit we generated offset by foreign exchange, capital charges from our increased growth assets and obviously, our dividend payment.

It was good to see S&P, A.M. Best, and Fitch all removed our negative outlook in the period and indeed, S&P describes QBE as now having a AA equivalent capital base. The other relevant metric here which we talk about is our – which is more of a full year metric, is our free cash flow or our dividend remittances from the business unit up to the center.

Our cash profits at the half year were $471 million, up 13% or on a constant currency basis, up 30%. And what's obviously important is how we turn those cash profits into that free cash flow. As a reminder, last year, we had $770 million of free cash flow and this year, we again expect to exceed $700 million.

And again, as a reminder, that free cash flow covers our central interest cost which is about $90 million. And the cash cost of our dividend which in 2014 was about 20 million obviously as you can see therefore leaving us a healthy surplus.

Finally, for me some reflections on what our financial priorities both have been and we'll continue to be. First and foremost, it means (21:18) earning stability, reserving stability and hitting our financial targets for the year. Our portfolio remediation (21:25) activities are now largely complete and you can see the benefits of that in our results.

The completion of the sale of the mortgage and lender services business in the second half will further improve the North American business next year and into the future. We believe another half of positive prior year development is a sign of confidence and the stability of our reserving position we now have across the group.

Our reinsurance protections have worked well for us. That said, we don't want to further reduce our NEP and we will be looking to work to optimize our reinsurance spend as we go into 2016.

I've been pleased with the progress of our investment portfolio. That said there remains quite a bit of potential weakness still unlock (22:11) both with and without the benefit of rising interest rates. And while we made some good strides in our financial forecasting, our financial controls, certainly our reserving controls and our management information over the last 12 to 18 months, we believe we can get better still. And we've initiated finance improvement program aimed at creating a truly world class finance function at

QBE over the next few years. And lastly, we continue to tailwind (22:38) our increased profits, strong free cash flow and improve capital into a higher dividend to our shareholders.

Thank you. John?

John D. Neal {BIO 20988613 <GO>}

So thanks, Pat.

Our outlook and targets for 2015 are essentially unchanged. The comments you're seeing on this slide in relation to gross written premium and net earned premium reflect firstly the disposal of the mortgage and lenders services business in the U.S. and secondly, an adjustment for foreign exchange albeit kind of stress (23:17) that we do now expect to be at the lower end of our target range for gross written premium, notwithstanding the growth we are seeing on a constant currency basis.

So importantly our combined operating ratio and insurance profit margin forecasts or targets are unchanged from those communicated with the full year 2014 results and reflect the confidence we have in the predictability and stability of our businesses globally in 2015. So whilst markets clearly remain competitive, we're not going to sacrifice the hard work we put in to get the right level of quality on to our underwriting line. And as Pat has described, the balance sheet measures are actually forecast to improve by yearend, and we were delighted to see the rating agencies acknowledge the improvement in the financial quality and standing of our business.

I should stress that we see reinsurance as a form of proxy for capital and the reinsurance programs that we put in place, notably the aggregate covers, which are very substantial and the quota share reinsurance protections for QBE, LMI and crop are all designed to eliminate claims volatility to the profit and loss account and, therefore, to enhance the predictability of our earnings. Our investment portfolio and balance sheet remains positively leveraged to a rising interest rates.

We have changed our business out of all (24:46) recognition in the fields of operational capability and operational excellence in the last three years, and I'll give you a few numbers here. QBE now operates with 4,000 less employees than was the case three years ago. And by the end of 2015, 20% of our support functions will be run in our global shared service centers in the Philippines.

So we've actually achieved total cost savings. Pat talked about the operational transformation program and reduced headcounts. So total cost savings of $300 million to-date which will rise to $350 million by the end of this year and we have plans in place to take a further $100 million out through 2016.

So that I mean (25:32), we've actually reduced our operating cost base by little over 20% in four years. So we're forecasting an increase in dividend of a little over 25% for the full year 2015, and I'm pleased to confirm that the QBE Board has considered it appropriate to increase our dividend payout ratio to up to 65% of cash profit beginning with the interim dividend in 2016 and indeed all dividends both in 2015 and 2016 will be fully franked.

I wanted to talk to you briefly about the opportunities that we do see for both growth and improved efficiency. So, clearly, we repositioned our businesses to be a market leader in commercial and specialty insurance globally. And with the added advantage of 15% of our income originating from the emerging markets division, where we are uniquely positioned in the emerging economies of the world. And the past two years have seen us invest in digitally enabled technology to support our broader distribution based ambitions. So this investment in technology will allow us to develop flexible and market leading solutions for both SME clients and bancassurance clients.

We have the capability to grow in our home market across the gambit of distribution channels in both personal lines and commercial lines. And our global presence gives us a unique franchise to support mid to large corporate businesses who these days and almost always by definition operate on a multinational basis.

So we're investing in proving (27:14) our access to a manipulation of pooled (27:19) data and analytics and simultaneously, as Pat said, we are rebuilding our finance reporting and indeed our claims management systems to improve the timeliness and predictability of information flow as well as ensuring that we can produce a better quality of service to our customers.

At the same time, these initiatives will allow us to scale as our business grows and obviously reduce cost further still. Our focus on cost, I should stress, is part of the rhythm of how we do our business. We will continue to invest in our people, having established our leadership academy two years ago and launched our underwriting academy this year in 2015, and there is more to come.

We intend to provide the market with an update in November on our plans for our business in the home market, here in Australia and New Zealand, our strategic priorities and outlook, as well as an update on our investment strategy.

So thank you, everyone this morning for coming. And obviously Pat and I will be pleased to take any questions.

Q&A

Q - Nigel Pittaway {BIO 3406058 <GO>}

Hi. It's Nigel Pittaway here from Citi. Couple of questions, if I could, please. First of all, just you have started to lengthen the duration of your fixed interest investment portfolio even though interest rates are still sort of pretty low. So can you just sort of give us feel for why you've been prepared to do that with interest rates where they are and how you're thinking of that moving forward?

A - Patrick Charles Regan {BIO 15131018 <GO>}

As we're sitting here right now with I should say, 0.8 of the year, so we're going to have a couple of months - as much as anything it's just tactical trading rather than a strategic move at this point in time. And we're remaining (29:15) of the view until we see the rates go up more systemically, we are not going to significantly move that direction. So don't expect us to go really much above where we are now.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. And maybe secondly, can you just may be outline what you're thinking about acquisitions at the moment and in particular obviously you've got a little bit of free capital from the sale in the U.S. of the forced homeowners (29:40) business and you said that could be deployed in that market. So can you give us a bit more flavor about how you're thinking about that?

A - John D. Neal {BIO 20988613 <GO>}

We were not thinking - we're certainly not thinking of any major acquisition activity. I think with the announcement of Colin Fagen's role looking at strategy, we think there are some really good opportunities for organic growth, having stabilized and set the base of the business. And if there are some bolt-on opportunities that really augment and add to that strategy, then we'll look at those. But wholesale acquisitions at the moment are not on the agenda for QBE, which I think in the context of the prices that we are seeing paid at the moment, is probably a good thing.

Q - Nigel Pittaway {BIO 3406058 <GO>}

And anything particular in the U.S., given that you do have that?

A - John D. Neal {BIO 20988613 <GO>}

Nothing in the U.S.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah, that certainly wasn't intended to hint that we were going to spend it on an acquisition...

A - John D. Neal {BIO 20988613 <GO>}

No.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. Kieren Chidgey, Deutsche Bank. Couple of questions, if I could, just starting on costs. If I'm right, you've moved from a target of around $300 million, I think, at the end of this year to $350 million, added another $100 million in 2016. So we're talking about $150 million of addition cost out, is over 1% of NEP.

But, Pat, I think, sort of by your own admission in a written presentation you put up, you flagged QBE's expense ratio being, I think, 2% to 3% delta relative to global peers. Is there still more you need to do, is this sufficient to get you back on track, given it looks like your expense ratio up at 35% is well out from the rest of the pack?

A - Patrick Charles Regan {BIO 15131018 <GO>}

In a way – the $100 million – so the facts you said are correct. The $350 million includes incremental savings the North American team had been doing. And I think there in particular is a good case in point of where we've had to reduce head count and cost to reflect the lower earned premium. And that's been a little bit true. We probably over exceeded on the cost savings, but we got a slightly lower earned premium.

So two parts of it: one is, we need to do more on the expense line, which we're setting out to do. I think slightly lower term, we still – we've got benefit some of the work that Colin and the team will do that's a little bit more kind of the long-term project.

The other bit is, we need to grow our own premium, which has got two parts. The first half-year in a while that we grew our top line. And also, we've – I don't think we need to do any more on the reinsurance spend side, and arguably we can just do a few dials there as well, to just slightly help the earned premium. So I think, a combination of all of those.

A - John D. Neal {BIO 20988613 <GO>}

And just two things to add quickly. So, having created a degree of efficiency, both on the procurement line and in our ability to make use of shared service centers both onshore and offshore, that's why we are talking about $100 million. So we think there is a further net gain that we can create.

But I think equally, on the slide that Pat was talking to earlier on, you've seen us balance investment and cost. So we think – genuinely believe we can grow our business from here, and that's clearly going to take some investment.

And if you go back to that waterfall that Pat was talking about on expenses, whether it's technology or our emerging markets growth ambitions, we've invested almost $200 million to support those growth initiatives. So, we've got a balance and ability to take cost out sensibly where we can and, at the same time, be prepared to invest, particularly in technology, data and analytics, which we certainly do as well.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. And just related to that. So the $150 million additional was – is there an additional cost you will incur to achieve those savings?

A - John D. Neal {BIO 20988613 <GO>}

There will be, yes. Going forwards in 2016 and 2017, but not to take the $100 million out. So the $100 million we believe we can realize through further procurement activities, the elimination of some one-time cost of restructuring in 2015, and some further efficiencies within the shared service center. But costs beyond that will clearly require some investment.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thank you. Second question, just on your sort of underlying or attritional trends back on slide 10, where you're suggesting the attritional loss ratio has been pretty flat year-on-year, you obviously changed your methodology around how you're treating crop insurance on that slide. And if we were to keep that on a constant treatment, where you assume a 67% attritional loss ratio, which suggests the rest of the world has actually deteriorated about 70 basis point year-on-year, which would seem more consistent with sort of your commentary that pricing globally is softening. Any thoughts as to what a true like-for-like representation is?

A - Patrick Charles Regan {BIO 15131018 <GO>}

We try to do – the problem (34:37) there was bit of a judgment one, as to what you do call attritional. We clearly are seeing softer rates in most of our markets, even in North America, which is still a moderate positive, it's a slightly smaller moderate positive.

Having said that, we've also got some mix of business changes. Here in Australia, we're writing a bit more CTP type business that would slightly obviously push up our attritional. So I think overall, broadly flat is probably fair for the attritionals, but that clearly is reflecting some harder rate pressure, softer markets, if you like – in almost all places (35:16).

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Thanks. Daniel Toohey from Morgan Stanley. Just first up, just thinking about your margin guidance, should we be looking at, on an underlying basis, or is that a reported number and I guess, if on an underlying, what should we think about in terms of reserve releases going forward?

A - Patrick Charles Regan {BIO 15131018 <GO>}

The margin guidance we put out for the start of the year said we would exclude the results of Argentine Workers' Comp, and we shouldn't take – we were assuming we didn't take a benefit or a hit from discount rates. At the half-year, we had a benefit of about $45 million which is about 0.7 benefit.

Just as an aside actually, I didn't, at the year-end flout (36:06), we would naturally expect our first half to be a slightly higher combine ratio than our second half, for a few reasons – not hugely, but – maybe the first half is a point higher than the second half. As it turned out, we naturally had some positive prior year development. We think – I don't know, I don't want to tempt fate, we think we're in a good position on reserves. We feel very comfortable with our reserves. We would expect a very modest amount of prior year development as we go forward.

A - John D. Neal {BIO 20988613 <GO>}

Yes, positive prior year development.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

And just on that, when you do unpack the various components, I think we had $140 million release from Europe, $45 million from Australia, so if you roll through on a net basis, $79 million release overall, but it implies adverse development in the U.S., can you just provide a little bit of color on what's driven that?

A - Patrick Charles Regan {BIO 15131018 <GO>}

We did have so – modest I think I'd call it adverse development in North America. And it was – and actually the biggest elements of that were late reported claims – sorry, late reported crop claims which is just kind of annoying as much – if anything it was – obviously, crop claims from 2014 flowing through into 2015 and a little bit of late reported cat claims, as well some of the agency reporting comes through quite slowly. So it was much less to do with the old programs run-off book. We'll probably have a few millions but nothing like a significant number in there. So overall it was modest and it was actually more those type of issues than it was anything kind of intrinsic coming from the old run-off books.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Okay. Thanks. And just finally, on the Australian LMI business, is there any comment you can provide in terms of your, I guess, strategic review and positioning of that within the portfolio?

A - John D. Neal {BIO 20988613 <GO>}

Yes, sure. I think what we said that we would do with our full year results was just hunt down what strategic options we thought could exist for that business. And we're still going through that process at the moment. So that's looking at whether a sale – a partial sale or reinsurance structures will work better for that business. And all of those options remain under review. Our expectation is that we'll bring that to a close during the third quarter.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Our aim we said was to deploy less capital, and we are deploying less actually, actually by slightly kind of different route. Obviously, we're writing less business and that business now is kind of pretty well known for industry (38:43). So right now, we're deploying less capital into it.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Thank you.

A - John D. Neal {BIO 20988613 <GO>}

Just to be clear there's two objectives. One is capital efficiency and the other is obviously to ensure that we can adequately protect ourselves, our P&C businesses against any perceived volatility in that line of business. And with any one of those options, we'll make sure that both of those objectives are achieved.

Q - James Coghill {BIO 14006200 <GO>}

James Coghill, UBS.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Hi, James.

Q - James Coghill {BIO 14006200 <GO>}

Two questions. First one, just to follow up to your previous commentary, what is the main reason behind a one point difference in first and second half combined ratios?

A - Patrick Charles Regan {BIO 15131018 <GO>}

It's a few things. We've got a little bit of cats – obviously the typically North America would have slightly higher second half than first half but Australia has got a higher first half and then crop would be the biggest.

Q - James Coghill {BIO 14006200 <GO>}

Okay. The second question is really about the aggregate. I was hoping if you could just explain in a bit more detail how you guys treat recoveries in the first half. I presume what we seeing in this half is the way we should think about it in the future that you will recognize a recovery up to your allowance for the first half. So I'm just interested to understand whether there are any restrictions on recoveries on a regional basis because most of those recoveries I presume have come through Australia but my understanding is the aggregate works on annual basis on a global build-up?

A - John D. Neal {BIO 20988613 <GO>}

If I kick off from that (40:18) Actually what drives the recovery more than cat activity is large individual risk loses. So it's giving you a pretty ultimate protection on that category of loss. So we obviously have assumptions that we run through our economic capital model at the beginning of the year, both on allowances for cat losses and large individual risk losses. So we look at that at the half year to see how the large individual risk losses have actually performed in the half and then take a judgment in terms of the predictability around recovery for that category of loss.

For cat, it's a bit easier. You're looking at actual losses, first is the allowances you would have created, did they occur, didn't they occur. And you're right in the first half with particularly US$175 million have claimed in Australia then that's given us slightly higher recovery than we might have anticipated at the beginning of the year. But the point I'd make on that aggregate recoveries, even with the recoveries that we've taken for the half year and assumes (41:21) for the full year we're not even half way through the aggregate. So there's a lot of debt in that cover which is really the important point for us is that we brought a very substantial protection against that category a lot.

Q - Toby R. Langley {BIO 15924432 <GO>}

Hi. It's Toby Langley from Bank of America Merrill Lynch. Couple of questions on capital. In the release you discussed injecting some sub-debt into the capital structure and where you headlined capital level hasn't progressed that much, your core equity tier 1 which seems to be a bit toughie, so if you can give us a sense as to what sort of balance you would anticipate between?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Hi, Toby. It's more a reflection of – we still got even after the capital plans where we reduced our senior debt by close to $1 billion, we still have $1 billion of senior debt which somewhat – which is quite expensive.

So going forward, well, ideally, what you do is like just walk out (42:24) that senior debt that's going to be effective (42:27) either we pay it completely or swap it into capital qualifying debt so it was (42:32) as much as anything.

Q - Toby R. Langley {BIO 15924432 <GO>}

And that will give you flexibility on your core equity tier 1 then?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Not really no. So it will be more what counts for our rating agency capital and particularly our regulatory capital.

Q - Toby R. Langley {BIO 15924432 <GO>}

Okay. And then you haven't disclosed your free cash flow numbers, and you did at the (42:50) full year, was that just a timing issue and then...

A - Patrick Charles Regan {BIO 15131018 <GO>}

It's a timing issue, yes. We're slightly ahead of this time last year for most of our dividends. So I would say we've got a bit more than $700 million – about 40% comes in the first half and about 60% – in fact, just over 60% comes in the second half. So it's very much a game of the second half versus the first half. But as to say we were $770 million last year, we expect to be over $700 million and we'd like to get up to similar level to last year.

Q - Toby R. Langley {BIO 15924432 <GO>}

And lastly on the Australian commercial environment, you flagged a flattening in the June renewal period. Could you just provide us with a bit more sense as to what you actually saw then (43:30), you do flag that rates were down but...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah.

Q - Toby R. Langley {BIO 15924432 <GO>}

...but are you calling a bottom now with that commentary?

A - John D. Neal {BIO 20988613 <GO>}

I think it's probably early to call a bottom. You might recall, we said at the full year results we expect the rates (43:43) to be up 5%. We were calling rates off more significantly than we've seen. So rates in Australia were actually up an average by a little over 2%.

So I think the five cats you saw in the first half or seven if you count the last quarter of last year certainly takes some of the edge of some of the rate increases we saw coming through. But I think it's too early to call whether we're at the bottom in the market but we didn't see the level of rate reduction – we perhaps anticipate it.

Q - Toby R. Langley {BIO 15924432 <GO>}

Thank you.

Q - Jan van der Schalk {BIO 4168372 <GO>}

Hi. Good morning. I'm Jan van der Schalk from CLSA. I've got a couple of questions. When I look at the Asia growth and I look at the combined ratio, what is a good number that you're aiming for in Asia growth from a combined ratio perspective because if you got dropping markets and you're growing in dropping markets, it's probably not going to do a whole lot for your margin?

A - John D. Neal {BIO 20988613 <GO>}

Yeah. It's a good question. So if you look it at our focus in the Asian markets its really Hong Kong, Singapore, Indonesia and Malaysia, are the areas where we're looking to develop. So through the first half we grew by about 13% in Asia. We think we can realistically achieve about that level of growth with combined operating ratio in the low 90s%, so around about 92%, 93%.

And I think I might have said before, our advantage is that we're not going through the pain of establishing ourselves in these markets and setting up joint venture relationships. We've been there a long time. And I think we felt that we hadn't grown into who we should be in the markets, recognizing the capability we have from an underwriting point of view and the brand.

So what we're still doing, and I think we probably got two years left of doing that, is growing into who we can be in those four key markets. So we think the growth is sustainable. And we think that type of low 90s% combined ratio is the – I'd just add that it's got a very, very close watch in terms of the quality of the underwriting, for all the obvious reasons – you need to ensure your peer reviews are robust at a point where you're growing above market average.

Q - Jan van der Schalk {BIO 4168372 <GO>}

All right. That's good. You alluded to earlier about the consolidation that's going on in a global sense. I guess I have a view that consolidation is a prelude to confession time for a lot of your competition. Can you give us a sense of where you think global premiums, global rates are going over the next year or two?

A - John D. Neal {BIO 20988613 <GO>}

It's a good question, isn't it? I think you've seen some commentary come out of London with people talking about international pricing being a repeat of where it was in 1999. I think that's a fair assessment. I was underwriting in London in those days so I remember it well. And you've got a bit of déjà vu, so in international market there is no doubt in my mind there's too much capital. There is a real fear I think with some markets that are losing business and you see that pressure in terms of price they're prepared to commit to renewal. So I think it's going to take an event to be honest with you to change pricing internationally.

It inevitably means that a number of things - I think unless you lead business, unless you're globally relevant then I think you're going to struggle. And I'm not saying we feel complacent. We don't feel complacent at all. But if you look at the reset in our business, if you look at the relevance of the franchise QBE has globally, both with its clients and its brokers, we feel okay. We feel that we can weather some pretty challenging conditions if they run through 2015 and 2016.

But in reverse it's creating some inevitability around the consolidation. And my earlier reference to not being focus on M&A is that you are seeing it in the pricing. The prices that are being pushed out there for some of the acquisitions we've seen this year are incredible in terms of what people prefer to pay. And I think it is about fair of price pressure and losing market share.

Q - Ross N. Curran {BIO 15090587 <GO>}

Hi, gents. It's Ross Curran from CBA. Can we assume given the way you've reallocated the crop premiums the first and second half, you've done a bit of review of that product and policies and the assumption, when you bought that business you changed the long-term assumptions on losses couple years after you bought it. Can we get a reminder of what those long-term - I think it was - 91% was the long-term ratio expecting there? And then do you feel you've got scale in that business - I understand there's a couple of crop businesses (48:58) at the moment, do you think you're at scale at the moment?

A - John D. Neal {BIO 20988613 <GO>}

Yes. So I'll deal with the last bit first. We're not interested in acquiring in the crop space. I don't think we need to, to be honest with you. We're the third largest crop insurer in the U.S. And we can achieve some organic growth, which we're actually happy to do. I might let - Pat is our new resident crop expert - explain what's happened with the booking and premiums and our expectations for performance.

A - Patrick Charles Regan {BIO 15131018 <GO>}

I do think that external (49:32) which are the technology we use to interface with the farmers and the agencies is at least as good as anybody (49:38). Long term, we expect 92% is about where we expect the long-term trend for crop combined ratio to be - I'd only (49:46) hesitate because obviously we haven't posted 92% for the last three years.

As you all remember we've done a few things coming into this year, with quota shared highly exposure (49:56) peril. So we've made a small business. It's one of the impacts on our net earned premium doing that but it should reduce volatility.

We've done a much greater analytics - we should have done a few things. One of it it's enabled us to enhance the earning patterns but also look at the actual risk - underlying risk selection. And obviously, we put these put options in place as well to protect against price volatility. As we sit here now, the prices are within 10% of where they were in the February period. And at the moment the harvest expectations are good but (50:33) as you know.

Q - Ross N. Curran {BIO 15090587 <GO>}

How should we think about the Californian drought?

A - Patrick Charles Regan {BIO 15131018 <GO>}

We don't have a lot of exposure in California, and the exposure we have in California is drought resistance. So turning to expense (50:48) that's where we - but we insure on things (50:49) like raisins, almonds, (50:53), things that actually aren't resistant.

A - John D. Neal {BIO 20988613 <GO>}

It's really driven by corn and soy, the wealth of that product set is corn and soy. So whether you look at drought or that we have wet conditions in Texas or drought in California it's been around for a while. So the crops are sun orientated rather than rain orientated.

A - Patrick Charles Regan {BIO 15131018 <GO>}

We are Midwest is where it really is for us, that's where we make or break.

Q - Ross N. Curran {BIO 15090587 <GO>}

And then secondly on the Aussie LMI business, we're seeing quite big plastic (51:27) clients in mining effected towns around Australia, perhaps, could you give us a feel for what you think is your risk there in terms of exposure to regional house prices?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Well, two stories of LMI for us at the moment, that we have got a lot of top line to say - to the extent that it's actually going to mask in (51:49) growth in the rest of the Australian business. The counter to that is both - that we probably have there for a lower risk profile in some of the new business and our existing book of business continues to perform extremely well. So, if anything, our loss ratios are trending better than our long-term expectations on the mine (52:10) and actually, no real kind of regional exposures to kind of concern ourselves about too much on that.

I think we've got a couple of questions on the telephone. Ryan (52:25) first of all, please?

Q - Tony Jackson {BIO 1729093 <GO>}

Just a few points of clarification. And maybe just picking up on crop. Was the 85% loss ratio in the first half just an aberration due to the lower premiums, or just given that, Pat, I think you said you expect the full year still be under 100%?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah. I wouldn't pay too much attention to that in the first half. It's just an assumption that's booked at this stage. It's all to be determined in the second half outcomes, both price and harvest, and both of those look reasonable at the moment.

Q - Tony Jackson {BIO 1729093 <GO>}

Great. Thank you. Another clarification. Just on slide 17, Pat, I think you're saying that you expect your run rate savings to be $350 million by the end of this year and just confirming that from the other chart, I think you are saying that $289 million of that will have actually accrued in the year, is that the interpretation?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes. So there is two things in there. You've got the original OTP program, we try to stay very strict in what we've included in OTP, so back in the day when did you present (53:30) OTP originally?

A - John D. Neal {BIO 20988613 <GO>}

2012.

A - Patrick Charles Regan {BIO 15131018 <GO>}

2012, thank you. The projects that were included in there were the same projects we're counting into the $271 million target and our expectation to be about $280 million. Anything that's in addition to that we've counted in addition. The most notable element is the expense save program the North American team put in place, where we expect the run rate savings of that to be probably about $100 million by the time we get to the end of year.

So they are the two big chunks of that, so therefore we expect the aggregate run rate savings to be over $350 million at the end of the year, and the in P&L from OTP alone should be, what, $280 million plus.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay. So a little bit more than that including North America, but still...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes.

Q - Tony Jackson {BIO 1729093 <GO>}

...a little bit extra in F2016 and then the new program. Is that...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah. The North America savings really hit the P&L beneficially in 2016.

A - John D. Neal {BIO 20988613 <GO>}

Yeah.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay. And just a couple of final questions. On the revenue guidance, can I just confirm, where you've mentioned the adjustment for M&LS, just confirming that the – is that – it looks like you've just taken out the fourth quarter after sale, whereas Argentina is out for the whole year, is that correct?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah. So we said all along, Argentina is out in all measures. What we've done in M&LS is, we just excluded it post completion, from the revenue guidance. So it's about $100 million on the revenue guidance.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay. Yes, that all reconciles. And finally, I know this isn't an easy one by any means, but could you give us a feel, just for where the run rate investment yields are at the moment, with and without the growth component, similar to what you did at the end of 2014?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes. So, as I mentioned, our yield on growth assets is about 9% in the first half and the yield on fixed income was 2.1%, but that included both the run rate income plus some realized gains as well. If you just look to the running yield from that, it's probably about 1.6%, 1.7%, Gary (55:36)?

A - Tony Jackson {BIO 1729093 <GO>}

I would say it's close to 2%...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Close to 2%. We try and keep the growth assets element of that reasonably defensively positioned. So we are not – whilst we have good months and bad months, obviously, July was better than June for pretty obvious reasons, we try and keep it so we don't have huge swings in the valuations and return from the growth assets.

So what we are trying to do is to get kind of base return of, let's call it, 2% even at current yield, current interest rate environment, from our fixed income, and enhance that into the very high 2%s from the growth assets. Even at growth asset levels as they currently are, we don't really plan on extending really beyond 15% in a foreseeable future.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay, that helps. Then that's all for me. Thanks, guys.

A - Patrick Charles Regan {BIO 15131018 <GO>}

We have one more question on the phone.

Operator

Yes. Your next question comes from Siddharth Parameswaran with JPMorgan.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Hi, gentlemen. Just a couple of questions if I can, just around the margins. I'd just like to be clear whether the 8.5% to 10% insurance profit margin guidance, does that include the reserve releases and the discount rate adjustments, and also the impact of the sale of the M&LS?

A - Patrick Charles Regan {BIO 15131018 <GO>}

So the 8.5% to 10% – just go back on that – doesn't include any benefits or hit from discount rates. So you should therefore exclude from our results any discount rate benefit. As I mentioned, we had a 0.7% benefit in the first half, doesn't include Argentine Workers' Comp.

Mortgage and lender services, we've got a – as we announced at the time of the sale, we'll have, over the full year, $120 million hit all told, including goodwill, from exiting that business. About half of that is booked in the first half and about half of that is booked in the second half, and none of that obviously was included in our guidance, because we didn't know – at the time of the guidance, obviously, we were going to be successful in doing that.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

And then how much will the hit be in the second half to the margin?

A - Patrick Charles Regan {BIO 15131018 <GO>}

So it's split pretty much 50%-50%. So it's $55 million in the first half, it will be $65 million in the second half.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Okay, great. Okay. If I can just ask a question, just about the trajectory of the margin from here. You've got, obviously, your increased confidence around expense savings; offsetting that, you've got rates effectively - you flagged 1.6% rate reductions in the period. Just in terms of your outlook for margins from here, I was just keen to get your thoughts on how you see those two, and any other factors offsetting?

A - John D. Neal {BIO 20988613 <GO>}

I think, Sid, to be fair, it's a bit early. As we sit here, there are some good positive factors that we would think about. I think we've said all along that 2015 was the year really to get North America in shape to face out, (58:47) as we'd like it to in 2016. So we think North America is a better business going forwards. We can do a little bit more on cost, and I've given a hint on our intent there. And we believe we can grow. And you've got to do two things together. We've to grow and take out cost simultaneously. So there are some good features I think as we move from 2015 and 2016.

The incorrigible is really where the market conditions go and that's the hard call for us at the moment. So we could improve the margin all other things being equal, i.e., if market conditions did not deteriorate. But if we continue to see price drop then that will impact the ability to improve the combined ratio. So I think it's a just a little bit too early to make a call on that.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Okay, fair enough. Thank you.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Thanks, Sid. I think we have David (59:42) on the line.

Q - Tony Jackson {BIO 1729093 <GO>}

Yeah. Good morning, gentlemen. A question for you on capital management. I know that you have £300 million sterling you're seeing (59:51) debt maturing in late next month. Just wondering how that's going to be replaced and whether or not you're going to consider short-dated convertibles?

A - Patrick Charles Regan {BIO 15131018 <GO>}

No, I wasn't thinking of short-dated convertibles. I have to be a little bit careful about what I can say about accessing the market. I think, David (1:00:10), overall, we want to continue to gradually reduce our total outstanding debt. And clearly it makes sense as that we do that to pay off senior.

Over time, do we replace portions of that with a little bit of capital qualifying tier 2 might make sense for us. So we probably got enough central cash from all the activities we've done to continue to pay off net-net total debt and obviously as we do that senior debts, the one to do that. Whether we do the entirety of the £300 million is another question. Does that make sense?

Q - Tony Jackson {BIO 1729093 <GO>}

Yes. Thank you.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Do we have any more – one more on the phone, please.

Operator

Yes. Your next question comes from Christian Le Mesurier (1:01:06) with APP Securities.

Q - Tony Jackson {BIO 1729093 <GO>}

Thanks. This is actually the old man, unfortunately. The risk margins you had to your outstanding claims and same treatment (1:01:20) from December through to June 2015, yet when I look in the capital calculations, show that the surplus relating to insurance liabilities, fell by $170 million, $1.2 billion to slightly over $1 billion, can you reconcile those two numbers for me?

A - Patrick Charles Regan {BIO 15131018 <GO>}

The reason we got moving parts is – our PoA has gone up for the half year even though our dollars of reserve – or risk margins have come down. And our dollars of risk margin will also come down on the unearned premium. And the reason is we've got smaller book of business than we used to have and is no more or less complicated than that.

So obviously it's (1:02:03) business over the last couple of years, inevitably both our central estimates and our own premiums come down in size over a period of time. There'll be a bit of FX in there as well. So it will be a combination of the two of those. So you can actually have a higher PoA with a lower dollar of risk margins simply because our central estimate is smaller and our earned premium is smaller.

Q - Tony Jackson {BIO 1729093 <GO>}

So it's substantially a matter (1:02:28) of the premium liabilities?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Sorry, I didn't quite catch the question.

Q - Tony Jackson {BIO 1729093 <GO>}

Has it substantially come out of the premium liabilities rather than the outstanding claims? Is it...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes.

Q - Tony Jackson {BIO 1729093 <GO>}

Is that what you mean? And since the outstanding claims versus license (1:02:40) have barely moved, the business has shrunk, that it will be right to conclude this come out of premium liabilities?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay. The other question I had related to your adjusted interest rate margin. You talked about some of the factors that contributed to the 10%. You had an 0.7% positive from the discount rate, 1.3% prior year development, 0.2% positive from risk margin. Are there any other things that we should take into account here for large claims - you had 9.1%, should we compare that to 8.5% or 9.5% for that first half?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes. The risk margin one, as I say, I personally wouldn't add back because up (1:03:25) it went up not down. The only reason the risk margin dollars were lower because our central estimate was lower.

I think on the - or actually my view on largest cat is where we thought it would be because of the benefit of the aggregate treaty. So we've had historically a seasonally adjusted first half large in cat of 8.5%. I think I'd actually take 9.1% is actually where it should be. So I wouldn't adjust either way personally for that one.

Q - Tony Jackson {BIO 1729093 <GO>}

So if we take the positive contributing factors out of your 10% adjusted margins, we come at 8% that would be a fair representation of an underlying number for the half?

A - Patrick Charles Regan {BIO 15131018 <GO>}

No. I don't think so. The only one I would add back is the discount rate adjustment. Everything else is all part of the trading of the business. We worked hard to get our reserving to be - beyond top (1:04:20) reserving and to be more conservative for reserving.

So we've had a couple of halves of positive prior year development which is good I think. And as I said, with all of the things being equal, you would have expect or we would have expected the first half to be marginally higher than the second half it's turned out even with the discount rate added back slightly better end of our combined ratio target.

The only other item actually I should have mentioned is in our investment return the flows to the insurance margin calculation, there was a negative FX of about $20 million in there which is really due to the fact that we've got sterling and dollar balances in our European business, and obviously, large movements in currency.

So you've also got that; that probably knocks off half a point on your insurance margin as well. So you got a couple of ons and offs in there, but I would - if you were going to take anything back, I would just take the discount rate movement.

Q - Tony Jackson {BIO 1729093 <GO>}

So, the implication of that is, you do expect that prior year positive element to be a regular feature of your result going forward?

A - Patrick Charles Regan {BIO 15131018 <GO>}

We certainly think we're on top of our reserving, yes.

Q - Tony Jackson {BIO 1729093 <GO>}

Okay. Thank you.

Okay. If there's no further questions...

Operator

We are showing no further questions at this time.

A - Tony Jackson {BIO 1729093 <GO>}

...let's close the half. Thank you very much.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Thanks, everyone.