S1 2011 Earnings Call

Company Participants

- Belinda Hutchinson, Chairman
- Frank O Halloran, CEO
- Gary Brader, Chief Investment Officer
- George Thwaites, Group Chief Risk Officer
- John Neal, CEO of Global Underwriting Operations
- John Rumpler, President
- Neil Drabsch, CFO
- Unidentified Speaker, Unknown

Other Participants

- Andrew Kearnan, Analyst
- James Coghill, Analyst
- Jan van der Schalk, Analyst
- John Heagerty, Analyst
- Kieren Chidgey, Analyst
- Nigel Pittaway, Analyst
- Richard Coles, Analyst
- Unidentified Participant, Analyst

Presentation

Neil Drabsch {BIO 2093435 <GO>}

Good morning, ladies and gentlemen. I'd like to thank you for coming along to QBE's presentation of its financial results for the Year End 31 December 2011. Just a bit of housekeeping before we start; this presentation is a webcast so we have online and during the presentation; and sorry, after the presentation we will be taking any questions, in which case would you kindly raise your hand and wait for the microphone and take the opportunity also to turn your microphones off.

You may have noticed in the release today that QBE is contemplating an equity placement of around; to place $500 million. I'm sure most of you are aware some of the legal restrictions relating to that, the placement is to selected institutional and sophisticated investors and so due to legal restrictions we'll be limited to what we can say at this meeting, the details of those in the presentation.

There will be a call, subsequent call to here which will be for those sophisticated and investors who do have an access code which will be provided to them. That information will be there. So other than that we're happy to take questions after the presentation and without further ado I'd now like to introduce to you our Chairman, Miss Belinda Hutchinson. Thanks Belinda.

Belinda Hutchinson {BIO 14020372 <GO>}

Thank you, Neil and let me add my welcome to everyone who's in the room today for our Full Year Results Presentation and also to those who are on the phone. I know there's a lot out there. Look, before we turn to the financial results I wanted to give you a bit more information on the Australian Securities Exchange important announcement we gave today on Frank's decision to retire in August this year from his role as Group Chief Executive and our appointment of John Neal as his replacement.

What I'd like to do is firstly talk a bit about Frank and his retirement. Then I'll go through our succession planning process and then I'll say a few words about John. As I noted in this morning's release, Frank has been the architect of truly transformational expansion at QBE. When he was appointed Group Chief Executive in 1998, QBE was writing around $2 billion in premium income, while today when you look at this Company we are now rated in the top 20 of the global general insurance and reinsurance companies and we're writing $18 billion in 52 countries.

Frank's retirement, which comes after 14 years as Group Chief Executive and 35 years from the Company, marks the end of a highly successful chapter in QBE's 126 years. Frank's contribution through his leadership, his business acumen and his entrepreneurship has been outstanding throughout this period. The value he has added is demonstrated by the fact that when John joined QBE when he was Chief Financial Officer, the shares were trading at just $0.05 cents. This transformation of QBE has been achieved while consistently recording underwriting results that place QBE among the very best in our industry as Frank will show you with a comparison of competitor results in his upcoming presentation.

It is important to note that the underlying performance of QBE continued to be strong, even in 2011 as the Group result was impacted by the unprecedented natural catastrophes and challenging investment markets due to the European debt problems and global debt market problems. The fact that QBE's attritional plans ratio actually improved 49% in 2011 down from 50% in 2010 highlights that our business is well positioned to significantly improve financial performance as markets normalize.

Now I'd like to give you some background on our succession planning which has been a priority of the Board for some period of time. Indeed when I took over as Chairman in 2010 one of Frank's and my initial conversations was about his intention to retire and succession. This subject has been on the Board's agenda ever since. It was obviously important that Frank timed his retirement to ensure a smooth transition to an incoming Chief Executive who was well grounded in all aspects of the operation and management of our global and complex business.

I am very grateful to Frank for the flexibility he has shown me and the Board to ensure that we achieve this. Over extended periods we reviewed both internal and external candidates. It was during this process that John Neal, who was the then Chief Operating Officer in Europe, was identified as a key internal candidate. This prompted us to take steps to ensure that John had firsthand experience working in QBE's head office, being mentored by Frank and having significant exposure to the Board. He has achieved this over the last 13 months as CEO, global underwriting operations. We have all been very impressed by his strong leadership capabilities and his performance.

For those of you who have not already met him there'll be plenty of opportunity to get to know John in the coming months. You will find he is a very experienced and capable insurance executive with strong underwriting skills. He's demonstrated his capabilities across a wide range of products and geographies. Prior to joining QBE, John was the CEO of Ensign which was a highly successful specialist motor insurer at Lloyds. He then enjoyed eight successful years working in our European business, first of all as Chief Underwriting Officer and then as Chief Operating Officer. There he led a number of major business transformation initiatives.

Looking back over his time at QBE, one of John's defining traits as a Senior Manager is his ability to act as a catalyst for change. As CEO of Global Underwriting Operations John has introduced a series of global forums designed to maximize synergies across our divisional businesses and to drive strong underwriting discipline as well as operational and cost efficiencies. John has demonstrated time and time again an ability to drive operational and financial performance, which will be key to the future of our business.

Before I hand the microphone to Frank I am pleased that Frank's retirement as an executive will not end his long association with our Company. The Board is delighted that Frank has agreed to accept our offer to return to QBE as a non-Executive Director shortly before the 2013 Annual General Meeting. This will allow the Company to continue to benefit from his deep understanding of insurance underwriting and investments and the global insurance industry.

I will now pass over to Frank to give his results presentation and I'll be more than happy to answer questions about the announcement after John and Frank have made their presentations. Thank you very much.

Frank O Halloran

Thank you, Belinda for those kind words. I've always believed that the role of a CEO was to identify successes that the Board could look at and I'm pleased, I'm very pleased that the Board have chosen John as my replacement, effective from the 17 August. John is a quality individual and an outstanding leader. This is supported by the fact that his appointment has the full support of the Board and every member of the executive and I believe Jenni every member of the QBE group.

I look forward to working with John over the next six months as I pass over the baton to him and I can also say that I worked my heart and soul out for QBE for 35 years and I know

John will do the same. I will now move to the presentation and I trust that this presentation will provide the answer to many of the questions that have been asked about the disappointing result for 2011 and also give you confidence about the future.

We'll go through the key messages then move onto the results and the significant items, then I'll hand over to John to talk about divisional results, strategic initiatives and outlook and closing remarks, then we'll come back for questions. So let's look at where we are at today's date. Two-thousand and eleven showed that fundamentally our business is in great shape, particularly with our traditional claims ratio as Belinda mentioned, falling from 50% down to 49.2%

Our underlying COR, combined operating ratio, was less than 90% and our underlying insurance margin close to 15% and I'll go through that in a moment. We are achieving rate increases averaging in excess of 5% and more detail as we go through this presentation. Our large individual risk and catastrophe claims reported to as at last night are less than 1% of the target at full year net end premium, compared with 4.5% this time last year, 4.5% of the 2011 full year net end premium and that is a significant amount of money, the difference between where we were this time last year and today.

The risk free rates for discounting claims have increased slightly from where they were at the 31 December and over 50% of the $241 million unrealized credit spread losses have been recovered since 31 December. Very importantly our reinsurance program for 2012 has been renewed with broader coverage for a modest increase in cost and this increase in cost has largely been covered by the premium rate increases on inward reinsurance portfolio which is based in London, Dublin and Belgium and New York. That's one of the reasons why we have an inwards reinsurance business. When cycles turn and reinsurance costs go up, we've got an effective hedge against the rise in those costs.

In terms of the equity rating today we've had a number of discussions with APRA and they may not approve the $500 million of our tier two subordinated convertible borrowings callable in June, which are currently included in the diluted earnings per share calculation. So to avoid uncertainty we've actually gone to the market today to replace that $500 million of tier two subordinated debt. I'll spend a bit more time on capital later on.

We've obviously allowed the retail shareholders to participate but we've said to the market the maximum we will allocate to retail shareholders is $150 million.

The debt to equity ratio after the placement will reduce to around 39% giving us some flexibility going forward and our core Tier One capital is expected to remain well in excess of APRA's new proposed prudential capital requirement.

Now to the 2011 results. The results are in line with what we said on 12 January. Our profit, net profit after tax was down 45% to $704 million due to the record level of catastrophes, the lower risk free rates and the wider credit spreads and I'll go into that in more detail.

Combined operating ratio was the highest it's been for a long time at 96.8% versus 89.7% last year. Record catastrophes added 6.2% to our combined operating ratio and the lower risk free rates at 1.4%.

We outperformed the majority, substantial majority of our peers who have reported to date and I have a slide for you on that. We've had strong growth in 2011 mainly from the acquisitions which contributed $3.4 billion. Our compound growth over the last nine years in net and premium has been just over 20% per annum.

Our attritional claims ratio which I think answers one of the questions of the analysts, was an excellent 49.2% of net earned premium compared with 50.0% in 2010. And most importantly the large; not importantly but important from one of the questions that have been asked, is a large percentage of our catastrophe claims have come from profitable long standing businesses like Australia, New Zealand, Thailand and our reinsurance business in London which was exposed to the Japan earthquakes.

In terms of our reinsurance arrangements, our new global reinsurance arrangement which we announced last year responded well, saving $219 million compared with the 2010 program on an as is basis, that; in other words, we've put our 2010 program through the 2011 results and we would have been worse off by $219 million.

The commission and expense ratio reduced mainly from acquisitions and lower staff incentives. Credit volatility widening credit spreads and the historically low discount rates reduced the insurance profit by $417 million, or 2.7% of net earned premium. And as I mentioned earlier, quite a bit of that has already been recovered to February.

Our capital adequacy is at just over 1.5 times APRA's NTR and is expected to grow as earnings rebound. The lower dividend of $0.25 per share which we announced in early January was very much related to the catastrophes that occurred during the year and obviously the need for us to preserve capital.

The Board have indicated to the market that we're looking at a dividend policy where the dividend payout will be up to 70% of net profit after tax going forward.

The probability of our outstanding claims is at 83.6% and we've had risk margin strengthening in some areas offset by the adverse discount rate impact of non-Australian IRS companies.

In terms of our result, I won't go through that in detail other than to say that you know, you can see the underwriting profit is down 58% in dollar terms, insurance profit down 36% for the reasons that I mentioned.

In terms of the impact of major items on our profit and loss account, unrealized losses on cash and fixed interest securities for $241 million. The unrealized losses from the lower risk free rates for $252 million. That's slightly higher than what we mentioned in January, about $52 million higher, primarily because the lower risk free rates when we tallied them up in January came in at 2.10 versus 2.15 which we anticipated early in January.

The large individual risk in CAT claims came at $1 billion, $275 million in excess of last year. Our savings on prior years are consistent with prior years and as previously mentioned mainly from the first half of the year we had some FX gains of; which helped investment income.

In terms of our scorecard, obviously the big disappointment for us is the COR, combined operating ratio and insurance profit margin. The reinsurance expense ratio was above the 12% we anticipated. Excluding crop it came in at around 11.1%. Crop reinsurance is very much dependent on the results and the bigger the profit that we make in crop the lower the reinsurance bank spend and the lower the profit, the higher the reinsurance expense. But more about that later on.

In terms of; this is a busy slide; in terms of the; our performance against the peers, you can see there the change in underwriting, combined operating ratios from many of our peers and also the change in operating profit. We have not adjusted a number of those combined operating ratios to bring them on the same basis that we do because a number of companies actually include; have corporate expenses outside the combined ratio and some even report their combined ratios to net written premium rather than net and premium.

But you can see from that slide the impact that the large risk and catastrophes have had on many of our peers around the world.

In terms of our underlying insurance margin, you can see there that the reconciliation is very much in line with what I've just said. Operational FX gains, we're not treating them as ongoing, we're treating them as one off. The large risk in catastrophes were 6.3% above our allowance which was in itself 0.9% above the average for the past seven years.

And we've also done some work for the analysts in the market on looking at what that 8.1% is when you take into account acquisitions going back over seven years inflating the claims and making up adjustment. But Tony Jackson will obviously spend some time with that because I want to have a look at how 2012 allowances compare to what's happened in the past.

Unrealized; license on FI securities, these are the widening credit spread costs is 1.1 and the change in the risk free rates, change is 1.6 giving an underlying margin of 14.9.

Very importantly in terms of the large individual risk in catastrophe claims you'll see a list there. I'll just probably spend a bit of time on US, crop, flood and hail claims. Unlike what you would see in Australia where a farmer has a crop destroyed by hail or whatever, the claim is lodged immediately and both of you send a loss adjuster in and the claim is agreed and settled. In the US you have to wait until the actual crop is harvested and the actual crop is sold on market to determine the price.

And that's when you actually determine the cost of the claim and that cost of the claim wasn't really finalized until the first week in January of this year. I'll spend a little bit more time on the $319 million because the comparative figure for last year is zero and I'll go through that as I said in a couple more slides.

Thailand floods obviously came late in the year and as we've said to the market, we were not able to get loss adjusters in because of the level of flood water until the last two weeks of December to quantify the numbers.

In the first half last year we had 13 severe US tornadoes which cost us $159 million versus $243 million. The Christchurch earthquake did deteriorate a little bit in the second half. We had $206 million estimate at the end of the first half and it deteriorated by $16 million. The Japan earthquake deteriorated for the region that you know by about $17 million in the second half.

So all up there was about a $50 million deterioration on the first half catastrophes in the second half which answers a number of the questions that were asked by; have been asked by analysts.

So what happened in the second half, you've got the crop and hail claims, you've got the floods. You've got a few more tornadoes, you've got a Victorian storm on Christmas day, you had Hurricane Irene, you had the Western Australian bushfires, Copenhagen floods and a number of small catastrophes.

Large individual risk claims at the half way mark were around $250 million so we got a couple of extra-large individual risk claims in the second half. But certainly well within our budget that 4.0 was.

In terms of our reinsurance expense, as I mentioned we had a net benefit from using the 2011 program versus 2010. The reinsurance expense was 11.1 excluding crop. Our maximum event retention under the new program has come down to around 3.8% compared to 4.0%.

Very importantly, there is limited and very expensive aggregate cover available in the marketplace. But again I'd point out it's very limited for a frequency of catastrophes. You cannot go out there and buy hundreds of millions of aggregate cover.

And to give you an example, for 2012 aggregate cover, it's cost us close to 50% of the cover in premium to buy $200 million excess of $1 billion of catastrophes with a deductible; that's five; a deductible of $5 million for catastrophe. And we just didn't get offered any more than that. So it's not available.

Our (inaudible) which is another question that's been asked by the market, provides protection to the divisions. This is other than the proportion of reinsurance with the divisions. It provides protection to divisions below the $200 million retention on the Group CAT cover and below $50 million for the Group worldwide risk cover.

And what (inaudible) then does is go into the market and then just purchase $200 million cover effectively for a frequency and severity of catastrophes. So to protect its own balance sheet. Now on top of that we actually buy cover which is $165 million of cover for accumulation of risk claims.

That's accumulation of risk claims up to $50 million. Last year, 2011, we were well short of the cover provided to the market. So the actual cover ran loss free and we certainly hope that continues, because it means I can; or John can stand up here and continue to give good news on risk claims.

Then with reinsurance marine and energy, that's a Lloyd's syndicate 1036, QBLMI and crop are not part of the world wide CAT in risk covers. There's a couple of slides in the attached; in the appendices which you can walk through and if you've got any detailed questions you can talk to Tony Jackson, because Tony's; spent two or three weeks going through our reinsurance programs in detail.

In terms of our claims ratio, which I think is the most important one of all, you'll see there that the attritional claims ratio has been fairly stable. That attritional claims ratio includes crop attritional claims for 2011 at 65% of net earned premium versus 60% last year. And the claims ratio for crop in 2010 was 60% which meant that there was no catastrophes. 2010 was an unbelievable year for bus; for crop in the US.

In terms of large individual risk in catastrophe claims you can see the numbers there. In the first half of 2011 the large individual risk claims benefited from the $170 million of group aggregate cover we had and the second half did not get any benefit from group aggregate covers.

The claim settlement costs are fairly consistent. The next line is very important, the discount. You'll see that in the second half of 2011 we saw the massive fall in risk free rates. Which not only meant we had to reverse the first; part of the first half discount in the second half to give us a 1.7% impact on an actual year basis for 2011; I think this is where we didn't have the information in early January. We do have it now and I think this is the main difference between what analysts are saying and what the actual result is.

You can see there that the discount for the current accident year on a full year basis has fallen from 3.6% to 1.7%. Over half of that is due to the fact that we're discounting 2011 results at 2.1%; 2.10% versus 3.2% so over 1% of that fall is due to that. The balance of the fall is due to the fact that because of the catastrophe claims and the purchase of gold bar and the increase in the crop business we actually have a shorter tail relative to 2011; shorter tail in terms of the payment of our claims.

The savings on central estimates are very much the same. Then the next line which is the impact of the movement in risk free rates on prior year claims and risk margins you'll see that in the second half we took a big hit of 4.5% on our claims ratio as we had to readjust our 30 June discounting of priority of claims from 3.2% average discount rate to 2.10% average discount rate.

So you can see there the impact of the movement in risk free rates and unfortunately as we report on the Australian accounting standards that movement in discount rate would always continue to confuse investors which; and it certainly confuses investors overseas but we are where we are with our accounting standards.

So moving on quickly I won't go through that slide other than to say obviously our commission expense ratio is down on last year partly due to the acquisitions we made but also partly due to the fact that incentives for staff have been significantly reduced as a result of the lower profit.

In terms of the reconciliation with the reported insurance profit you can actually see there the impact of the movement in discount rates on prior years where you had $195 million in 2010, $140 million the previous year and $507 million in 2011.

Investment income again the credit spreads were volatile. We had unrealized losses at year end of $240 million half of which have been reversed at today's date. And I should warn you on this is that we're only at the 28 February we've got another 10 months to go. And we all know that investment markets continue to be volatile and we also know that a catastrophe could occur any day of the week. So let's touch wood and hope that what we've seen in the first two months continues for the rest of the year.

I won't go through that in detail other than the fact that our underlying gross yield on cash and fixed interest securities was down from 2.5% to 2.3% largely driven by the credit spread movement.

In terms of our investment portfolio and the appendices give a lot more information on investment portfolio. One of the things that Tony did when he first come on board was to say we need to give more information on investment portfolio which we will and we will incorporate the detail they've got in the appendices in our annual report going forward.

So there's a breakdown. I don't intend to go through that in detail but obviously I'm happy to answer any questions. I think the important thing is we've got no permanent impairments on any one of our cash and fixed interest securities or government paper. We only have a modest exposure to equities and we're very short on the yield curve as everyone knows.

In terms of the capital adequacy we're just over 1.5% at the end of December and you might ask the question why we dropped from 1.68% at the end of June. In the first dot point you'll note there that 0.11% of the impact is due to the lower risk free rates and the movement in credit spreads. Obviously quite a bit of that has reversed since the end of December 2011.

The second thing is FX. The AUD dollar was down I think nil to $1.02 versus $1.07 at the end of the year; sorry $1.02 at the end of the year versus $1.07 at June and then we're back to $1.07 today. So a part of the FX impact has been reversed or it's actually all been reversed. And the other one is the small impact of having a dividend which is paying slightly higher than the profits in the second half. Hopefully that gives you a bit of a reconciliation but we can provide more detail later on.

In terms of acquisitions we've converted three acquisitions in 2011. They all exceeded profit expectations. They listed there the Renaissance Re acquisition which was mainly crop. Balboa in the US which is lenders placed homeowners business and CUNA Mutual which was an acquisition in Australia. We also obtained licenses in Chile and Norway.

And in February 2010 we completed the acquisition of Optima Insurance in Puerto Rico which is a class quality business. And we have several bolt-on acquisitions and I emphasis bolt-on acquisitions. Growth initiative was under consideration which estimates were working on about $750 million of potential opportunities. We certainly expect these to be funded from internal sources and the profits that we're generating in the first half.

I'll pass on to John now and I'll come back to answer your questions. So over to you John.

John Neal {BIO 15681439 <GO>}

If I may I'll add to the chairman's comments and Frank's comments at the end. But let's have a look at the divisional results. First off starting with North America which is our largest and post the acquisitions indeed our most profitable division in 2011. You're looking at a combined ratio of 90.6% in a division that comprises 42% of our gross written premium.

The results are underpinned by the specialty lines that we write. So our lender placed, crop and reinsurance businesses have performed particularly well. Our property and casualty and MGA businesses have been impacted almost inevitably by the frequency of tornadoes in the US. There were 7000 tornadoes in the US last year which is twice the norm.

So we're not hesitating to look at those books of business and we need to improve. Rates are already up 5% on the P&C lines. By the end of this quarter they'll be up by 7%. In terms of the integration the plans are well in place to integrate our two lender placed businesses and the IT and change and transformation programs are on track also.

So turning to Latin America including recent acquisitions we now trade in seven countries in this emerging market. We're leaders in our fields in Argentina and workers' comp insurance. We're the lead insurer in Ecuador in property and casualty business and the lead insurer for personal accident for motor in Colombia. I would add that each and every one of those countries is producing a profit for us. We've seen very solid growth through acquisitions and our underwriting discipline is extremely strong throughout the region.

We have a market leading franchise in London worth 75% of our European business is sourced and underwritten. And in addition we trade in 20 countries throughout continental Europe. The London market for sure was not immune to the catastrophe activities that Frank's referred to earlier on.

I would just add that the Christchurch earthquake in New Zealand, the Japanese tsunami and earthquake and the floods in Thailand are phenomenal losses. Yet despite that that division is still producing a combined of 95.5%.

Their leadership is very strong in terms of taking the market forward for price. The attritional loss ratio is really excellent. Our client retention and this means clients that in some instances go back 10, 20 and even 30 years is very high and running in the mid-80s.

The acquisition of the specialist reinsurer in Belgium Secura has exceeded our expectations and performed particularly well. Their own transformation program is set to complete in the first half of this year. So they really are very well positioned to capitalize on a rising market.

Turning here to Australia it's been an exceptional three year period of catastrophe activities culminating in 2011 with floods, cyclones and storms. I think 12 months ago the industry took a pretty hard ride in terms of the way in which we all dealt with the flood claims. We actually handled 30,600 additional claims, total cost of $582 million, 70% of which have already been paid and settled and the rest are in hand. I think to turn in a combined ratio of less than 100% against that backdrop is a superb performance.

We're leading the market in terms of rate increase. We've certainly not hesitated to change terms and conditions particularly to increase deductibles. So when we talk about rate increases up by 7% that does not include the impact in terms of change of terms and conditions. So the real rate increase is much higher and we're working hard in terms of ensuring we select the right risk and only the risk where we can properly assess the exposure. Finally we're expecting further rate increases this year. It's about the results it's definitely not about the top line.

In Asia Pacific obviously here we saw the losses in New Zealand and in Thailand. Asia Pacific has been a strong performer for us over the years. In 2008, 2009 and 2010 we've turned in combined operating ratios of 88%, 88% and 87% respectively. So over time the division has run particularly well for us.

Under the circumstances we've seen good returns from our businesses in Hong Kong, Singapore, Malaysia and in the Pacific Islands. In fact all countries other than Thailand and New Zealand as you would expect are in profit. We've taken a long hard look at our property exposures and particularly at flood exposures and we're appropriate we're either re-underwriting or restricting or eliminating cover.

The Equator Re as Frank referred to earlier on Equator is our wholly owned captive reinsurer. Their sole purpose is to provide excess of loss reinsurance and proportional reinsurance for QBE businesses. So it's really not surprising that Equator should be turning in a combined ratio in excess of 100%.

But can I express this is the first loss that Equator has produced in seven years and please note the final dot point on the slide where we're talking about that resulting including $109 million of increase in undiscounted risk margins and $82 million adverse impact through lower risk-free rates news to discount claims. So Equator will benefit and is benefiting positively from both rising prices and rising terms as we turn into 2012.

A quick update on our operational transformation programs. The program in Europe is set to conclude in the first half of this year. That investment in pound sterling is GBP100 million. It is set to deliver a 40% return on that investment over five years which is absolutely in line with forecast.

The Americas changed program continues and again that's on schedule to complete in 2014. When we updated the market in the half year last year we were talking about P&L benefits and savings as $20 million in 2012. We're already ready to upgrade that figure to $50 million now for 2012 and we're still looking at targeting a 1% COR or $200 million saving by 2014.

I'd add to that as well there a number of new business initiatives that are running including an ability to provide multi-territory and multi-national insurance for clients and brokers. Frank's already taken you through our reinsurance programs which are innovative and market leading in terms of structure. As recorded on this slide our claims and expense leakage savings are quickly delivering benefits.

Let's have a look at the performance targets that we've set for 2012. To be clear our target remains to better a combined operating ratio of 90% and to exceed an insurance profit margin of 13%. In terms of that claims ratio we're actually modelling very close to 2011 in terms of expectation for large risk and catastrophe losses and that equates to an allowance of 10% to 11%. And we're expecting the attritional loss ratio to be less than 50%.

We are seeing significant rate increases and as referred to earlier we are changing terms and conditions. Our conservative investment strategy, short duration and fixed interest play continues and hence the forecast of around 3% here. Our growth is essentially (inaudible) on those acquisition opportunities that Frank was talking about earlier on. So the concentration after two years of significant growth is to ensure that the performance matrix can be met or bettered.

So just to re-cap, the market is changing. We are moving into a hardening market. We believe the underlying fundamentals of the business are very solid. We've been working extremely hard through 2011, not only to look at those areas of the business that we felt needed attention. But also to put us in a position to maximize the value of a rising market.

We're already talking about rate increases of 5%. That is very significant bottom line to bottom line. We expect that figure to increase. Importantly, we're not hesitating to look at those areas where we do not think we can properly assess as a price for the exposure we're being asked to take. If we can't assess that exposure, we will let the business go.

As Frank said earlier on, we're looking at bolt-on acquisitions that meet our expectations post two years of solid growth. But the concentration is on the existing business. The re-insurance arrangements have held us in good stead. We put those re-insurance programs in place 12 months ago. To only see a modest increase in cost is a testament to the value of those programs as we turned into 2012.

As referred to earlier on, the attritional loss ratio is already running inside 50% and we would expect that to continue at that level. It's inevitable that our commission and expense and therefore our acquisition costs will go up as results improve, particularly with incentive costs.

Our plans are set in the current environment so we're not anticipating higher interest yields to help us. We've made our plans clearly in the environment we see ourselves trading. Around the capital point we see our capital as being sound and likely to grow throughout the year.

Just in closing, we do believe our culture is different. We have a significant focus on understanding the business and financial metrics of what makes our account tick. We do empower our underwriters to challenge and change and lead the market and we do believe our leadership team is excellent.

Can I just say in closing, I think we have a very experienced and stable executive team here in Sydney and we have very strong executives running our business throughout the globe. We share Frank's passion for QBE and we're determined to work hard with him over the next six months to deliver the performance metrics you expect from us. Thank you.

Frank O Halloran

So we'll open it for questions now. We'll try and share the questions between all the people here.

Questions And Answers

Q - Kieren Chidgey {BIO 7268946 <GO>}

Couple of questions if I could, starting with capital. Just wondering if you could outline the total amount of capital you're raising including the STP [ph] and your expectations around the DRP and talk about the timing of the discussions with APRA in terms of how that view has changed over the last month or six months in terms of what can count as regulatory capital. Also, just whether or not you're comfortable that the LAGIC impacts won't actually significantly increase the minimum capital required across the business.

A - Frank O Halloran

I think first and foremost we've had a number of discussions over a long period of time about LAGIC and what they intend to do relative to Basel 3 as I know APRA are leading the charge as far as regulators are concerned.

We were concerned that they may not allow the $500 million of sub-debt that was being rolled in June. And we felt that it was appropriate to take the uncertainty out of the market today.

Regarding LAGIC, we're in discussion with APRA on a number of items, not the least of which is the balance in sub-debt. I can probably say to you today that we would have mentioned it today if we felt concerned about the rest of LAGIC. But there are discussions going on; as every other insurer is having with APRA.

I again point out that the fall in the capital adequacy in the second half very much related to those movements in credit spreads and risk free rates which have recovered since year end. Obviously if you look at the sort of numbers I gave you to the end of February, you'll also easily come to the conclusion that those added significantly to our capital adequacy in the last two months.

Do you want to add anything Neil?

A - Neil Drabsch {BIO 2093435 <GO>}

Thanks Frank.

I think the discussions with APRA are clearly ongoing and we'll hear more from APRA in the latter part of this half year. It's important that the fundraising that we're talking about; the details are in the presentation and clearly for legal reasons we're restricted to what we can say here at the moment.

But if you do have a look, it's designed to preserve our minimum capital; our QBE capital base. But there's another advantage in that those particular securities do not count for most of the ratings agencies in the model. Therefore converting debt to equity does have a significant benefit. Again, it's just to make sure that as we go through this period of growth given that the Company does operate on an A plus rating, whereas effectively regulatory rating is probably more like the triple B. It's important to preserve that. So these actions will make sure that QBE is very strong going through this next growth phase.

A - Frank O Halloran

I probably should add that. The words that we included in our press release today and on this presentation have been approved by APRA. So we went to the trouble of making sure that they were happy with the statements we were making to the market place.

Q - James Coghill {BIO 14006200 <GO>}

Could you provide some indication of what level of common equity APRA is going to be comfortable with? So your CT1 ratio looks to be around one times at the end of December, obviously well above the minimum regulatory requirement that APRA indicated. Can you just provide some indication of what level of comfort APRA's looking for there?

A - Frank O Halloran

I think George Thwaites is closer to APRA than I am in this regard, James. It's a moving fast as you know.

A - George Thwaites {BIO 15011861 <GO>}

There's no specific requirements been agreed with APRA on that.

Q - James Coghill {BIO 14006200 <GO>}

Just following on that, the timing of the capital raising I find a little bit strange. Given that APRA said they're happy to grandfather and allow a slow transition in 12, you'll obviously have; if you reach your targets; you're going to have quite significant capital generation because your (inaudible) ratio's been moved down. So you'll have quite a lot of internal capital generation over a period where you've indicated you're not growing all that much either organically or by acquisition. So if all your numbers do actually get delivered this year. And we've already been through the transition of management, would it not be so much better to be raising capital later in the year and not on a day like today?

A - Frank O Halloran

I think the issue we face James; it's a very good question and obviously people have got that in the back of their mind. But the issue we face today was that tomorrow Belinda and John and I and others are going to be talking to investors. The question will inevitably come up. We felt that with my announcement today that it would be wrong for us to stand in front of our investors and tell a lie. So we just felt that get it off the plate. There is uncertainty. Get rid of the uncertainty and get it over and done with.

It's easy to argue one way or the other. But we can't stand in front of investors over the next two or three weeks and not be honest with them about APRA's potential approach to this $500 million.

Q - John Heagerty {BIO 7044314 <GO>}

Two questions if I could. Firstly on the acquisitions made in 2011, you mentioned that they are exceeding profit expectations. Can you just clarify for us if that's during 2012 or whether that's actually for 2011? Because considering that you have crop in there and they're misplaced; I thought they would have been impacted by tornadoes and the like.

A - Frank O Halloran

The crop actually did exceed our expectations in 2011 and certainly very much in 2012. The crop logistic and the operating ratio slightly, or above the normal level; but it was still in the low 90s. In the case of the lender's place they were very; only had a very small impact from tornadoes and hurricane Irene. So they exceeded expectation as John Neal mentioned to actually give us a stunning performance.

One of the great things about (inaudible), it does give us a diversification reinsurance book.

Q - John Heagerty {BIO 7044314 <GO>}

Just on that, what would you normally expect from crop then for a combined ratio?

A - Frank O Halloran

Well the combined; I haven't got the; Tony, you're probably closer than I am now because you've done a lot of work on it. But I think the average combined operating ratio; remember you don't get any investment income. In actual fact, you pay out cash before you get it back in the door. The average combined operating ratio usually runs at about 85% to 87%.

Q - John Heagerty {BIO 7044314 <GO>}

Thanks. Just as a follow up question, on the dividend payout ratio policy you mentioned up to 70%. It's quite important for the income focused investors to know it's not 0% to 70%. It's more sort of 50% 60% definitive. Could you clarify please?

A - Belinda Hutchinson {BIO 14020372 <GO>}

We put up to 70%. But it would probably be in the range of 60% to 70%. That's what we'd expect.

Q - John Heagerty {BIO 7044314 <GO>}

Thanks very much.

A - Frank O Halloran

We had a long discussion about that one. I didn't think anyone would interpret it as 0%.

Q - Andrew Kearnan {BIO 1702520 <GO>}

Entirely uncharacteristic for me to be sentimental. But I've been covering the Company for 16 years and there's no doubt that you and your team have added enormous value through the years. So congratulations on that.

A - Frank O Halloran

Thank you.

Q - Andrew Kearnan {BIO 1702520 <GO>}

As a comment, I'd love to hear from you as to the one challenge that you think that the new executive team, or at least John, in his new role has? What's the one thing which you could really ask him to change or to adopt or to drive the Company forward from? Similarly from John as to how he sees the one thing that he might think about changing. I've got a question which follows please.

A - Frank O Halloran

I think from my own personal point of view, the one challenge I've got is to make sure that our analysts have all got us as a buy by the time I depart. It's so clear to me that we're probably behind the game when it comes to disclosure to the market on certain aspects of our business. We look at what overseas companies disclose to the market and it's a fraction of what we disclose. I understand that we have to disclose a substantial amount of information and be careful about our competitive advantage in some areas. But we have to disclose this information. Primarily we've got two competitors that do give a lot of information. So one of my objectives is to try and get all the analysts with a buy by the 17 August. The second one is that through Tony; and Tony's been a tremendous acquisition for us; and Francine McMullen in recent weeks on the communications side.

We've already seen through Tony that there are some things we can do in helping the analysts understand QBE's business much better than they have to date. So they're my two main objectives. But obviously John knows that I'll still be in the office at six in the morning and working till eight or nine until I deliver that last result on the 17 August. We do have fundamentally a very, very solid business as hopefully we demonstrated today.

A - John Neal {BIO 15681439 <GO>}

Can I just add to that, it might be a different pair of shoes. But it's the same QBE suit. So it's more about evolution rather than revolution. It's recognizing that the expectations of various stakeholders are changing in front of us. Our shareholders naturally expect the business to grow and improve its profitability. I think in terms of the results and the explanations we've given you for our targets in 2012, you can see we're setting out to do that.

Our clients are getting far, far more sophisticated in terms of their buying needs as are the expectations of their brokers. New markets are more competitive, our employees expect different things from us so I think it's more about recognizing the challenges that we face in 2012 looking forwards than looking back. So it really isn't about fundamental change, it is about evolution.

Q - Andrew Kearnan {BIO 1702520 <GO>}

Thank you for your responses. Just quickly just one more question for Neil, on the capital side again. Like others I'm still trying to get my head around it and I read the conversion clauses on the sub debt [ph] which you're talking about and my understanding is that QBE has the right at 30 June '12 to convert to cash and shareholders have the right to convert to equity. So is QBE planning to convert to cash and or do you think that shareholders will convert to equity and therefore what are the real implications here of this capital raising?

A - Frank O Halloran

Andrew, the approach that we've shared in the market place is; it's in the releases designed to repay this, that'd be cash. It is cash, it's not conversion. We will be repaying; one of the reasons why we want to do; answering James' question; is one of the reasons why we want to do it now is to take away the conversion aspect of the; of that $500 million but we've clearly made a statement from the Board today that the $500 million we're raising is going to be used to repay that $500 million sub debt.

Q - Andrew Kearnan {BIO 1702520 <GO>}

So then on that basis the overall capital ratios don't change albeit the composition obviously improves.

A - Unidentified Speaker

Yes. As at; effective as at 31 December 2011 if you wanted to redo the numbers.

Q - Andrew Kearnan {BIO 1702520 <GO>}

So then how does the gearing; sorry, I'll step back on that question.

A - Unidentified Speaker

Frank, we've got a Ryan (inaudible) on the line. Perhaps if you'd like to speak to him.

A - Frank O Halloran

Yes. Hi, Ryan. Sorry about this noise here.

Q - Unidentified Participant

Just say a quick one or a couple of quick questions on the premiums. Two things, first of all could you please just clarify if any of the 750 of initiatives (inaudible) are included in that low single digit growth? I don't think they are but I couldn't be sure. Also in terms of the comment that that's come back because of dropping some (inaudible) exposed business could you perhaps just talk about which jurisdictions and particular class of business that involves?

A - Frank O Halloran

Okay, over to you, John.

A - John Neal {BIO 15681439 <GO>}

I think, beginning with the second question first, I think if you look at some of the exposures that we looked at here in Australia, particularly in Queensland, north New South Wales, we didn't feel that the rates that were being offered were adequate to meet the exposures that have been presented to us so we took a decision to reduce our exposures there.

I think you've seen that both in the storm activity that we've seen in north New South Wales and Queensland. We're looking at very, very nominal claims cost there and, indeed, actually on the Christmas Day hailstorm. Much, much lesser losses than you're seeing elsewhere in the marketplace. Equally, in Thailand we took the decision immediately post the floods to withdraw flood cover until we found ourselves in a position to be able to assess and protect those exposures. We've taken a strong decision where we simply cannot measure exposure to either withdraw or restrict cover.

A - Frank O Halloran

Yes and in addition to that there's some parts of the US where we've actually cut back our exposure, particular in the Midwest which is effectively called Tornado Alley. The last three years of tornado activity have just said to us we've just got to pull back here because it doesn't look like coming back to the norm soon. So a lot of action going on. So I think one of the things, Ryan; what Tony will be doing, he'll be talking about how the waterfall for a premium income goes from where we are in 2011 to the end of 2012.

Q - Unidentified Participant

Great. Thanks. And Frank, does it include those; any of that bolt-on or initiative growth?

A - Frank O Halloran

It includes about two thirds of it, Neil. Probably a little bit less than that.

Q - Unidentified Participant

Great and finally just one other question on the claim side of things. Thank you, I can really see some of the improvements, in disclosure, for example, on the Crop footnote slide 14, that does help a lot. Can I perhaps ask; be greedy and ask what Balboa or (inaudible) might have been in an attritional sense because I gathered that was conversely very low.

A - Frank O Halloran

Yes. The actual; excluding Balboa and Crop the attritional claims ratio fell by 0.2% in 2011. So it fell--

Q - Unidentified Participant

Thank you.

A - Frank O Halloran

Yes.

Q - Unidentified Participant

Frank, this is (inaudible) from JP Morgan. A couple of questions if I can. Just the first just relates to just your diluted share count. With the convertible securities if they; when they do; when they are repaid is there; are any of them actually included in the diluted share count?

A - Frank O Halloran

Yes, (inaudible) they are. They're in the; so under the accounting standards those securities and the aligned securities are diluted at 31 December so if repaid that dilution will benefit from (inaudible) that'll be offset by the; what may come from the placement.

Q - Unidentified Participant

Okay. Can I just ask a question also relating to the large claims that are basically relating to losses on slide 12, just the large individual risk claims? The $622 million, has that percentage; has that figure as a percentage of NEP [ph] been stable the last few years, particularly bearing in mind that you've increased your use of (inaudible)?

A - Frank O Halloran

Yes. It's been very stable except for 2008 and 9 when we had the Global Financial Crisis which came through and impacted our trade credit book in particular and we had an asset protection book in London which we no longer have. But it's interesting just on the trade credit book; and there's been a couple of words written about that; is we have significantly changed our exposure; exposures in that book since the Global Financial Crisis and moved ourselves away from some of the areas that we feel could be impacted by a further downturn in various economies. So if you go back you'll see that our large risk and (inaudible) ratios are; sorry, our large risk claims ratio excluding the GFC were in reasonable shape and of the reasons why is that we've obviously got more (inaudible) premium, because we're not buying down as low as we were before.

Q - Unidentified Participant

Okay. Thank you.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Frank, it's Nigel Pittaway here from Citi, first of all, just a question, if we can be clear about your insurance profit margin guide. It seems as if you're saying your internal target is still for an underlying margin of 15% [ph]. But your actual guidance is for an insurance margin greater than 13% [ph]. Is that correct, first of all?

A - Frank O Halloran

Correct.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Secondly, just on the differences between the two then. The one seems to be the large loss allowance going out from 10% [ph] to 11% [ph] and then the other one seems to be time period held. Is that correct and is that something you're flagging on the time period held or?

A - Frank O Halloran

Well certain time period held is 1.2 years and; unless we get an acquisition which is going to push up the period held. I think we stuck to about 1.2 for a while. But also remember that the 1.2 was impacted by some of the catastrophe clients that we have not; that we anticipate paying over the next 12 months or so. But I would now continue to use 1.2. Neil.

A - Neil Drabsch {BIO 2093435 <GO>}

Yes that's the right rate at the moment, Nigel

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thanks. So even for you to actually do that 1.2 sort of suggests; yes, it's quite bit hard in 2013 if you just use your COR yield and your time period (inaudible).

A - Frank O Halloran

Well you notice we've used 60.5% for the; sorry, less than; 60.5% for the claims ratio. So if you use whatever you want to use for the large risk, in cache [ph] 10 or 11, we're running at a 49% traditional rate claims ratio. Premium rates are going up and we're taking actions in a number of areas on some portfolios that haven't met our expectations in terms of profitability.

You can see where the driver is, the driver is to even move the traditional claims ratio down further. So I hope; I would have hoped that in the 60.5% claims ratio that it; the analysts have got a fair bit of room to move.

Q - Nigel Pittaway {BIO 3406058 <GO>}

The second question. Just on the transitional benefits, which you've obviously upgraded, I think before you were saying that those would have cost you $25 million this year. Is that actually what they did cost you, because obviously the swing is the important.

A - Neil Drabsch {BIO 2093435 <GO>}

No. We were actually saying previously the net P&L benefit was going to be $20 million. So we were forecasting a benefit in 2012 of $20 million and we're upgrading that from $20Â million to $50 million.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Yes. But there was a cost this year.

A - Neil Drabsch {BIO 2093435 <GO>}

There is a cost. So the numbers that we were showing previously was a cost of $80 million and a benefit of $100Â million. That's how you got your $20 million. So what we've done is driven the benefits slightly harder. So the benefits increased. But the cost hasn't.

Q - Nigel Pittaway {BIO 3406058 <GO>}

I'm trying to talk about the costs in 2011.

A - Neil Drabsch {BIO 2093435 <GO>}

The costs in 2011 you're right. There was a cost of $20Â million.

Q - Nigel Pittaway {BIO 3406058 <GO>}

So that actually came through?

A - Neil Drabsch {BIO 2093435 <GO>}

That came through. Correct, I'm sorry.

Q - Nigel Pittaway {BIO 3406058 <GO>}

When I asked the question of the first half about why all the FX gains was schemed to the first half, rather than the second half or at least that's been the history, you said it depended on the opportunity when the Aussie dipped below parity. It seemed to dip below parity quite a bit in this half, yet your FX gains were again well down on first half.

So why is it the case that all the FX gains always seem to be schemed to the first half?

A - Frank O Halloran

Nigel, I'd love for you to be a fly on the wall and Neil and I had long, long discussions about this. The interesting thing we had which fell rapidly and what we were concerned if the European Debt Crisis continued to go the way it was heading, that you'd see more and more buying in the US Dollar and A Dollar going down further. So we just felt with the money in the bank, we're better off not taking any more risk in terms of the operational foreign exchange gains.

So we hold the line. But we had long discussions about whether we should try and lock in some more. But I think at the end of the day, the market's not giving us an enormous amount of credit for the FX gains anyway and I think in that situation it's better to be safe than sorry and we do that. But we will continue to monitor that, the A Dollar and if we see an opportunity to convert our overseas profits back into A Dollars; because remember we present our annual report in US Dollars. But we still look at our business in A Dollars and if we do see an opportunity we will take it in this six months or the next six months.

Q - Nigel Pittaway {BIO 3406058 <GO>}

One final question if I may, it's a sensitive issue I know. But there have been further developments on this Lender-Placed issue over the last few days. I think in January you said that nothing had changed from when you first brought Balboa, etcetera.

Are you able to comment on the extent of warranties you got in terms of that business acquisition and whether or not you're protected from some of this?

A - Frank O Halloran

Yes. You're talking about the case in Florida, are you? Well that's a client of Sterling. It's got nothing to do with Balboa. But I can and I urge you to have a good look at the judgment, because what you've got there and I've got to be careful what I say, because of attorneys. But what you've got there is a plaintiff and a consumer advocate taking advantage of sections of the judgment and using it to force us to the table to sit down and settle the claim.

The actual judgment has restricted it to one state, John?

FINAL

Bloomberg Transcript

A - John Rumpler {BIO 16386697 <GO>}

Yes.

A - Frank O Halloran

So the judgment, it doesn't; (inaudible) hardly doesn't mention that the original action was against 52 states. The judge actually restricted it to one state and that's the state of Florida. Then the judge has restricted it even further. So this huge action has now been cut back to here and even then, in terms of dollars it's; I won't go into detail. But we regard it as not significant for us.

But you are going to get, as I said earlier, you are going to get class actions going on all the time in the US and unfortunately, it's a part of the world where the plaintiffs love to push their barrow in the media. But please read the judgment and I think; and have a talk to Tony, who has got the full details, if you need more information.

A - Neil Drabsch {BIO 2093435 <GO>}

Frank, we've got Richard Coles on the line from RBS.

A - Frank O Halloran

Hi Richard.

Q - Richard Coles {BIO 16129434 <GO>}

Good day guys. I just wanted to get your views sort of on the rebound in the MCR post December. Sorry, I've got a bit of an echo here. But where it would roughly be now, given the movement in spreads and discount rate.

A - Frank O Halloran

I wouldn't want to calculate it. But I did say that our large risk in caps are less than 1% and it's well less than 1%. Last year at; this time last year it was 4.5%. So 3.5% of close to $16 billion is a reasonable amount of money. I've set the $241 million more, 50% has been recouped. The risk free rates have gone from 2.10% to 2.25%. So that's another $40 million. So add them all up and I think you'll see it's sizeable.

But I wouldn't want to go into the calculation, because there is other things happening around the world too, not the least of which is some banks are being; had their ratings adjusted. So you'd have to do a full calculation. But I have no doubt in my mind that our capital adequacy has improved since 1 January.

Q - Richard Coles {BIO 16129434 <GO>}

No worries and just one more question. Just on the running yield. It does look like a bit of a stretch still to get to the 3%. It's the only thing in guidance to us that looks like a bit of a stretch. Can you maybe just give some comfort on the yield you are achieving and what your expectations are at the moment?

A - Frank O Halloran

Yes, Gary Brady; here is. Sorry Gary. You're so good looking I didn't see you. Have you got a microphone for Gary please?

A - Gary Brader {BIO 3068483 <GO>}

I think it's fair to say there aren't overly aggressive assumptions behind the 3% target for investment returns. We're looking at a world where rates obviously can't go a lot lower, cash rates, in two-thirds of our portfolio and we're assuming very modest further downside in Australia. We're assuming reasonably steady credit spreads and clearly year to date has been alluded to. It's a much more favorable start than we would have hoped or planned for. So it's; we don't consider it a stretch. We think it's a very credible number.

Q - Richard Coles {BIO 16129434 <GO>}

Okay. Thanks very much for that guys.

A - Frank O Halloran

I think one of the things that the investment team have done is that we've taken a substantial proportion of the (inaudible) that came through from Australian banks and that's obviously going to help a little bit. We took that in various currency, didn't we?

A - Gary Brader {BIO 3068483 <GO>}

Yes we did. We took it in all the four major currencies.

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

Good morning, -- Schalk, CLSA.

I've got two questions. I really like the idea of the inwards reinsurance book being a hedge to offsetting reinsurance cost increases and I guess I need to know from a hedging perspective, how much loss have you paid on that portfolio? Because if it is larger than the actual money you're getting in, it's not really a hedge.

A - Frank O Halloran

Our reinsurance book over the last seven years including 2005 has averaged a combined ratio of 81.1%.

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

Thank you. And I've got a second question.

A - Frank O Halloran

We'll get years like 2011 and 2005 where it goes through the combined ratio of 100%. But the reality is are we investing in businesses for one year or are we investing in them for the long term and we have a fantastic team of people in that area who have delivered and outperformed the markets consistently over time.

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

Well as a slight follow up to that then, I guess, the inwards re-portfolio is going to correlated to the losses you're going to; the price increases you're going to pay on the reinsurance program. Is that the case?

A - Frank O Halloran

Well as John mentioned. And I think I mentioned it earlier, that the price increases we've got overall are very modest indeed. In actual fact well covered by; more than well covered by the price increases we're getting in the door and my message to the market was that even excluding price increase, increases we're getting on our primary book of business, we're actually getting price increases on our inwards reinsurance book, which is actually covering the cost, largely covering the cost of our external reinsurance.

It's been a deliberate strategy for QBE for years is when prices go up or down you've got this hedge. In this case we've got the hedge of our; our book of business in London, New York, Dublin and Belgium.

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

Yes. I guess I was trying to get a sense of prices go up because losses occur. So what losses have you incurred for those prices to go up?

A - Frank O Halloran

Oh, obviously in London we've; John mentioned the impact of Thailand, which I think Lloyds announced; $2.2 billion worth of losses from Thailand alone. Then you had the Japan earthquake and the Tsunami and then you had the New Zealand earthquake and the London markets reeling because of the upgrades to that New Zealand earthquake and we haven't had to upgrade our earthquake; our New Zealand earthquake claims.

So the market's reeling. So John.

A - John Rumpler {BIO 16386697 <GO>}

Can I just add to that? We've actually disclosed the splits in the report accounts. So our inwards reinsurance business is run with a combined ratio of 109.8%, which again, if you compare it to the market peers, I think is; holds them in good shape.

The reinsurance clients on the inwards are an incredible loyal, consistent set of clients and you'll have read to today (inaudible) who suffered the biggest loss in Japan that they actually have lost (inaudible) in the program of the structure. So there are additional premiums coming through on treaties that were already negotiated.

So I think the increases for us substantially exceed the loss that we sustained in 2011 and as Frank said, we were updating the Board recently and over time our inwards reinsurance business has exceeded the performance of our insurance business. So it has performed very well for us.

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

Thank you. I have a second question, which is on the probability of adequacy of outstanding claims. Now I'm going off the top of my head here. But in 2004 the number was 94% and I think last year it was 89%. So are the reserve deteriorating or is this a purposeful strategy to run more risk and there is a second question to that is at what level will you let these numbers drop to?

A - Frank O Halloran

I think there are two elements to the equation. One is the undiscounted claims reserves and the undiscounted risk margins and I think it's fair enough to say that at 2004 our undiscounted risk margins, undiscounted which is really the reserves we set aside to pay the claims, ignoring the discount rate.

So undiscounted risk margins at that point in time were higher than they are today. But the undiscounted risk margins themselves haven't changed. In actual fact they were increased by Blair, I think; Blair Nicholls, our Chief Actuarial Officer; by about $150Â million in 2011.

So; and then you translate that into our note to the account, which has got the claims development tables and you'll see there that QBE is consistently has central estimates over and above what we paid out and what the reserves currently are, with exception of one or two years and one of those years is 2008 where we've had a large liability claim particularly reported to us in going back to the Victorian bushfires. But I won't go into that, obviously.

So our reserving has been consistent on an undiscounted basis. What's actually happened is that the risk free rates for discounting claims, in particular, in relation to non-AIFRS companies, that's mainly Europe and the US, have significantly reduced and in 2004 when they were increasing, we actually absorbed the increase in the risk free rates through the probability of adequacy and as they've fallen, we've absorbed them through the probability of the adequacy.

So you are going to get movement in the probability of adequacy not on the undiscounted basis, claims basis. But driven by movements in risk free rates and if risk free rates went up to 3% this year, you'll probably see us go back up to 89% [ph] again. So that's the anomaly you see, when you've got discount rates moving all over the place.

But have a good look at our claims development table and it will answer a lot of the questions that have been asked 1 million others on QBE executive. We have a track record going back 15 years where we continually save claims. They save on our central estimates of claims. Thank you.

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

Thanks.

A - Neil Drabsch {BIO 2093435 <GO>}

We've probably only got time for one more question, given that we have limitations on the call.

Q - Unidentified Participant

I just have a question for you on Asia Pacific. Are you looking at anything in terms of growth going into 2012 and particularly India and China, through acquisitions and if so, is there anything in the pipeline?

A - Frank O Halloran

In the case of India Pacific; in the case of India, we are; we have got a small operating profit for 2011. But until that market turns, you will see us not growing our business significantly in India. We're certainly not looking at making any acquisitions in India. The pricing in that market is horrible and until that changes we will just continue to write specialist lines where we know we can get a reasonable return.

In the case of China, we've previously announced we've been looking at licensing and we're continuing to go through that. We've had a representative office in Quang Chau now for about 25 years or so and we've been talking to the authorities about the way forward there.

But certainly nothing in those two places on our plate at the moment. My biggest concern in China is; and I've said this before; is that the glory of standing up and saying we've got a license in China is far outweighed by the fact that looking at our competitors, that we've made a loss and we continue to make a loss. I'm not saying we have. But the market. Foreign insurers in China have consistently made losses in their business in there.

So we're not in the business of saying aren't we fantastic, we've got a license in China. If we do go into China we want to make sure we've got a business plan that we can report to the shareholders and say haven't we done well, rather than losing money.

But John might have different ideas.

A - John Rumpler {BIO 16386697 <GO>}

No, definitely not.

A - Frank O Halloran

Did that answer your question? Two difficult markets.

A - Neil Drabsch {BIO 2093435 <GO>}

Frank, we'll probably have to call it there and bring an end to the online call.

A - Frank O Halloran

My apologies about this, because we've been told we've got to get out of there by 12:00pm because someone else is coming in. So move quickly.

Thank you, everybody and I look forward to seeing you on 17 -- August for a few moments. Thank you.