Q4 2014 Earnings Call

Company Participants

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

Other Participants

- Brett Le Mesurier
- Daniel P. Toohey
- James Coghill
- Kieren Chidgey
- Nigel Pittaway
- Ross N. Curran
- Toby R. Langley

MANAGEMENT DISCUSSION SECTION

Tony Jackson {BIO 1729093 <GO>}

I'm conscious of the time, so we'll get under way. 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 to QBE's 2014 Final Result Briefing.

Now this morning's briefing is going to run for approximately one hour and the formal presentations are going to last a little more than 30 minutes. So that'll leave plenty of time for Q&A at the back end of the briefing.

Before I hand over to the group's Chief Executive Officer, Mr. John Neal, if I could just firstly ask everybody to please turn off their mobile phones.

And with that, I'll hand over to Mr. John Neal. John, thank you.

John D. Neal {BIO 20988613 <GO>}

Thank you, Tony, and good morning, everyone. It's a real pleasure for Pat Regan and I to be presenting to you this morning.

In 2014, QBE made very significant progress on a number of important areas, including a return to profitability and predictability. The substantial strengthening of the balance sheet and the build out of a quality leadership team, all of which encourage us for the opportunities to build on some very solid foundations in 2015 and beyond. So without further ado, let's move into the detail of this morning's presentation.

As the slide in front of you details, we are reporting a net profit after tax of $742 million, an insurance profit of $1.074 billion, an insurance profit margin of 7.6%, and a net combined operating ratio of 96.1%. All of these key metrics are in line with our August update and indeed market consensus.

The very sharp fall in global risk-free rates adversely impacted our result by $324 million or amazingly a little in excess of $200 million in the second half. That added almost 2.3% to our net combined operating ratio. So really solid underwriting in more challenging market conditions and a very strong second half, which included $131 million of prior-year releases, so prior year surplus is all included in the much improved result that we're presenting to shareholders today.

The rationalization of some of our businesses in Europe, and notably of course in North America has seen both gross written premium and net earned premium full by 9% in 2014 when compared to 2013, or actually 6% when measured on a constant currency basis. And I'd like to add that each of these divisions would now consider that they've reached a solid base of which they can grow.

And finally on this slide, I'm delighted to report a 16% uplift in dividend to $0.37, representing $0.22 in the second half and to confirm that this dividend is fully franked and being paid in line with the board's undertaking to payout up to 50% of cash profits.

So the past 2.5 years has certainly required some hard yards to ensure that we recaptured a preeminent position amongst our global insurance and reinsurance peers. In particular, we've worked very hard to improve the quality of our underwriting. You recall that in a two-year period, this has seen a shared in excess of $2 billion of top line premium. We have sold off some underperforming businesses, and we fundamentally restructured our external reinsurance programs and the way in which our operating divisions interact with our captive reinsurer, Equator Re.

You will see that earlier today, we announced the sale of our workers' compensation business in Argentina. And put quite simply, the demands of writing a very long tail class of business in a super high inflation environment, we consider to be too onerous. And the political and economic uncertainty here determined that it was a right decision to exit this line of business in this particular country. And we consider that the price of at 1.7 times book value represented good value for our shareholders, and hence the decision to sell.

The quality of our balance sheet now stands fair comparison to both local and global insurers. Very importantly, we consider our claims reserves to be stable. We've executed quickly and effectively against the capital plan announced last August, and indeed all of our key capital ratios are at or above the benchmarks we set ourselves.

We have demonstrated an ability to manage and control our cost base, whilst at the same time seeking to improve the quality of services that we provide to our brokers and our clients alike. And equally importantly from my perspective, we've constructed a scalable operating model with a highly effective service capability now on stream for each of our major divisions out of a multi-location Shared Service Center operation in the Philippines.

I'm very proud of the Group Executive that we've assembled, who individually and collectively have the credentials to improve the quality of our business and build on the solid foundations that have been established to-date. In addition, we've taken the opportunity to increase the bench strength of the leadership teams in each of our four divisions.

So let's just take a look in turn at each of those subjects of underwriting excellence, financial strength, operational skills and leadership.

First and foremost, we are an underwriting business. A solid indicator for me of underwriting excellence is the attritional claims ratio which to many, and I think to many in this room, represent a barometer of the control we have over our underwriting. It's really encouraging that in the past two years, we've reduced this important ratio by 2.5% to a very solid 46.6%.

In Australia and New Zealand, Colin Fagen and the team have enjoyed a good period of rate increase notably through 2012 and 2013. But much more importantly, have markedly improved the quality of the underlying portfolios, with an overarching objective to produce consistent combined operating ratios in the low 90%s over the medium term.

The London and international markets that we underwrite out of European operations have been price challenged for a while. Price has been challenging in those markets for almost eight years now. The team in London, under Richard Pryce's leadership, have rationalized our European businesses, which is included the sale of business interest in Central Europe and Eastern Europe; the complete withdrawal from some lines of business that we simply do not consider offer a fair rate of return over the medium term, of which a very good example would be the international airlines and airlines product liability business. And it's allowed this division to continue to produce very solid underwriting results notwithstanding the challenges that the competition has brought to that market.

In North America, as you know, we've been undertaking a complete reset of the construct to this division, which now sees it predominantly positioned in the commercial and specialty space in North America. It's really encouraging to see the division back in profit in 2014, and with improved results forecast not only in 2015, but incrementally through 2016 and 2017.

You will recall our decision to form an emerging markets division, and this was designed build on the success that David Fried and the team have created in Asia, where we have demonstrated an ability to grow organically in these important emerging markets, whilst maintaining a very good level of profitability.

Our early plans in Latin America encourage us that we can both improve the performance of our underwriting here and grow particularly in the commercial line space.

So let's have a look at some of the key financial measures that have been presented in our financial statements today and within the balance sheet. As the market knows, we've been working on a number of fronts designed to low gearing, reduce the carrying value of goodwill and intangibles and improve all of our key capital metrics. So importantly, and as this slide is illustrating, we've reduced goodwill and intangibles over a two-year period by $2.2 billion. We've reduced borrowings by $1.3 billion, and increased our regulatory capital by over $1 billion.

As you can see on the graphs, goodwill and intangibles when measured to equity now sits at a much improved ratio of 34.7%. Debt to equity is now within a fair range in our view at 32.5% and tangible premium solvency stands at 51.5%.

So all of the components of the capital plan that were slated to be delivered in 2014 have been completed. The partial IPO of LMI always represented the icing on the capital cake, so to speak. From a capital perspective, these benefits or the benefits of capital realized for a partial IPO are not needed at all for us to meet our capital targets. And accordingly, we intend to keep a watching brief on the market to determine the optimum time to proceed with any IPO.

So QBE's balance sheet today coupled with improved cash remittances to group leave us in terrific shape and with far greater flexibility than was the case 12 months ago. So the graph on the left-hand side of this slide will be familiar to many. And I wanted to provide you with an update on the cost-related plans and to report that this very important piece of work will be completed as forecast by the end of this year, albeit some of the cash saving benefits are inevitably a little masked but only in a ratio sense by the reduction in our top line.

As the slide illustrates and if you move to the right-hand side of the slide, we've delivered the plan a little under $40 million of what we estimated the cost would be to implement. And we're now forecasting run rate expense savings almost $50 million up at a little shy of $300 million by the end of 2015. And in addition to these expense savings, we're estimating that the claims line will have benefited by $90 million or more in terms of procurement related claims benefits.

Much more important to me is the reality that we've established a rhythm and a framework within QBE to balance cost control with the right level of investment in technology and analytics in the businesses going forward. We really do need to manage cost but equally manage the investment we put into our businesses very, very carefully. There is absolutely more we can and indeed will do both this year and in the future.

Our group-wide Shared Service Center now operates out of three locations in the Philippines and we employ in excess of 2,100 staff there. These centers are designed to support our businesses globally and have been constructed with a view to doubling the scale of the opportunity there. So when Pat Regan presents in a moment, he'll provide some more detail on the reconciliation of the cost activities that are shown on this slide.

I just wanted to talk a little bit about leadership, because our business is nothing without the strength of its leadership and its people. And it's no easy task to build out a leadership team that has the experience and the capability to support the ambition of a global company. And I believe we've built a first-class executive team.

The first appointment I made was in fact in 2011 when I appointed Colin Fagen, he's in the front row today as our CEO in Australia and New Zealand. And I'm delighted with the results that he's achieved for us over the past three years.

With Richard Pryce in our European operations and Dave Duclos in North America, we have two very experienced global non-life insurance and reinsurance leaders, who've taken the necessary action to reestablish ourselves in what are the two most important markets in non-life insurance and reinsurance in the world today. And David Fried's broad-based experience across all of the emerging markets is allowing us to build quality platform to grow in what are some of the world's most important emerging economies.

We were delighted to secure the services of Pat Regan as Group CFO, who's presenting with me today, and our corporate executive in Sydney has been strengthened by the appointment of Jason Brown as Chief Risk Officer, and Mike Emmett as Group Executive Officer for Operations, both of whom are products of our executive program within our leadership academy. And these three, together with Jenni Smith, our Group Executive Officer for People and Communications make up the corporate executive team that are based here in Sydney.

Equally importantly, we have and continue to build in the future. In 2012, and in partnership with Duke University, we built our own leadership academy, and wherein excess of 1,000 leaders have already passed through this academy in its first two years of operation. This year, we're launching our Underwriting Academy and more will follow, as we look to invest and developing our talent.

And so I truly believe that we have returned to earnings predictability and stability. But very importantly, we've laid some solid foundations to build on our business, starting in 2015, and moving forwards from here.

Now, if I may, I will hand over to Pat Regan to take you through the 2014 year in a little more detail. Pat?

Patrick Charles Regan {BIO 15131018 <GO>}

Thank you, John, and good morning, everybody. Pleasure to be here.

I'm going to start first by giving a little bit more color on the results division by division. Starting with our business here in Australia, which obviously had a strong set of results.

Top line was down just a little at down 1% on a constant currency basis, and what we saw during the year whilst overall raising environment was flat for the year, that got progressively more difficult as the year went on.

Having said that, client retention was very strong with a client retention at 83%. Our NEP, on a constant currency basis, was slightly up couple of percent, and that was helped by reassessment of our earnings pattern on the LMI business. And we basically looked at our diminishing client volatility there and thought we had an excessively conservative earnings recognition pattern.

Our combined ratio was excellent at 87%, notwithstanding negative discount rate impact of about 1.6%. And large risk and cat with about 2% higher than last year and that included about $85 million for the Brisbane hailstorms. Notwithstanding that sort of flat overall raising environment, the attritional claims ratio improved again by about 80 basis points, despite rising more things like CTP.

We have 3% of positive prior-year development, spread pretty broadly across the business, particularly in our longer tail classes. And the expense ratio improved by about 80 basis points, primarily due to the delivery of the Quantum initiatives, and you'll remember Australia led the way there and also due to the abolition of Victoria fire service levy.

In North America, 2014 was a year of significant turnaround that it returned to profitability. The leisure team was finalized embedded in. We exited some further loss-making portfolios there. Reserve development was stabilized in North America, and we took a big chunk out of expenses.

Top line was down 11%. Rates were pretty flat, slightly positive in North America. And the top line was down really due to three reasons. We continue to exit a few programs 11 in total, 11 smallish programs and we cleaned up that book of business. Crop premium was down about $180 million, and that was entirely due to the lower commodity prices at the start of the year. And the mortgage and lender services top line was $180 million lower, primarily due to reduced loan count on the Bank of America account. That was partially offset by 25% growth in our specialty lines business. As you remember, that's an area we're looking to grow in North America as we've hired in new teams of people, new teams of underwriters into the specialty lines.

Our combined in North America improved by 11% to 100.8%, and we had positive prior-year developments in the second half of the year. Almost like I should repeat that twice actually, very positive prior-year development in the second half of the year in North America, which is good to see. Large and cat was 1.3% worse due to the crop result, and I'll come back to that in a minute, and our attrition improved slightly again despite the mix of business change less lender-placed more things like specialty lines.

Either despite a pretty significant step forward for North America, the one area we were disappointed in was the crop result, which came in at 108%. That included 3 points of prior year as previously flagged, also included 4 points impact from hail, and the significant reduction in commodity prices, particularly corn and soy took the multi-peril product to just over 100% combined ratio.

Clearly, a poor crop result for the third year in a row is unacceptable. And I'm going to talk a little bit later about some very specific remediation activities we put in place there. Lastly, despite that big reduction in top line, expense ratio improved by 2.5%, as the team there took out $220 million out of the expense base due to lower restructuring costs and lower staff costs.

In Europe, top line was down 14%, primarily due to the previously flagged portfolio cleansing activities that Richard and the team have been doing there. So extreme variation account, extreme bluff stock and a number of businesses in Eastern Europe.

We have also obviously had more competitive market conditions, particularly in the reinsurance business and the international markets business. Our rates overall were down 1.3%, a bit more in reinsurance, a little bit less than that in the retail business. We do think we're through with that portfolio restructuring phase in Europe now though, and we expect premiums to be flattish as we go forward.

The combined ratio was 93.8% flat against last year, which was pretty remarkable given that Europe bore the brunt of that discount rate impact. But the negative impact are over $200 million on the Europe result was 6% on the combined. Large and cat was about 2.5 points worsen last year and you will remember that included the UK floods at the start of the year. But offsetting those, we had nearly $160 million of positive prior-year development in Europe, and I think the evidence is that the confidence we feel in those European reserves.

And we also had excellent underwriting results across the board, particularly in the reinsurance business and the international markets business, which posted mid-80%s combined ratios. We're obviously also helped a little bit by the reinsurance of the Italian and Spanish med-mal portfolio which is about 0.5 points on the coal, and the expense ratio was broadly flat again due to the delivery of the Quantum activities.

2014 was clearly a more challenging year for our newly formed emerging markets division, and it was a little bit of a gamut two halves. Asia continued its underlying growth at about 21%. Hong Kong, Indonesia, Malaysia and the Philippines all grew more than 20%. And Asia-Pacific overall had again the low 90%s, 93% combined ratio.

LatAm, of course, was much more difficult. With a combined ratio of over 120%, almost all of which was caused by Argentina, almost all of which was caused by the workers' comp business in Argentina. David Fried and the team there are putting in a new team for the emerging markets division. We've just hired a new CFO for emerging markets, Victor Jimenez. We've hired a new Chief Actuary for Latin America, very experienced Chief Actuary. And that team are putting in place a rectification plan for Latin America, central to which is the announcement of the sale of the Argentinean workers' comp business, and I'll give you a few more details on that in a moment.

Lastly then, you've got the results for Equator. You'll remember all the results now are on what we call the management basis. So for Equator that just includes the excess of loss contracts right to the divisions and a few proportional covers. And Equator fulfills an important role for us in optimizing our group risk retention and actually we have a slightly higher risk appetite at the group level than any of the individual divisions would have on their own.

What that means is the result of Equator should like a mini reinsurance company. And as you can see, they pretty much due for 2014, combined just less than 80% and that's got about 10 points of negative discount rate impact in the 80%, very good cat result and a few large risk losses.

Our usual insurance margin analysis slide, we've tried to simplify this a little bit. I think, these kind of slides shouldn't have too many adjusting items on it, and we'll continue to do that as we go forward. The starting point, the 7.4% is adjusted, so we've adjusted out the benefit of the med-mal contract in that starting point.

Risk-free rates incredibly at weighted average discount rates fell by over 70 basis points during the year, had a $300 million impact over the full year, and over $200 million in the second half, hard to believe, and that came through at a 2.2% negative impact on our combined ratio.

The crop results I talked to a moment ago, the cost of our transformation program that was on John's slide earlier, it's hard to put a figure of zero on the adjustment slide, but we thought it was worth doing. Over the full year, we had actually $1 million of positive prior-year development. And that meant we had just over $130 million of positive prior-year development in the second half, but positive prior-year development in Australia, in Europe, in Asia and in North America and just a little bit of negative development in Latin America.

LMI earnings patterns I talked to you earlier. And then risk margins, we ended the year just under 89% probability of adequacy. You remember at the half year, we were just over 89% and obviously with a much reduced, I think, reserve uncertainty.

In my half-year CFO report, which I'm sure you all read, I outlined three areas of focus for me. One was driving financial performance. One was financial strength and flexibility, and the third was the investment strategy. And I just wanted to talk for a couple of minutes on each of those.

On improving financial performance as well as the 2014 results, few areas we've done that will make a difference on the 2015 go-forward results. The first of all is a new reinsurance treaty. So our existing cat programs still in place, large risk program still in place. There is a slide in the appendices to show that. What we're announcing today is a brand new aggregate treaty for large risk and cat. So large risk and cat is defined as greater than $2.5 million. And the treaty kicks in at a cost excluding crop and LMI of $1.1 billion. And then has, as it says, just at $960 million, just under $1 billion of cover. So we covered basically for between $1.1 billion and just under $2.1 billion of large and cat.

Well, you go under your renounces, what does that tell you? Well, it's pretty unlikely we're either going to be less than $1.1 billion. And nine years out of 10, we should be pretty unlikely to be more than $2.1 billion. So what that does is, it essentially lock us in on our large and cat loads, which helps obviously reduce earnings volatility. It also gives us some capital savings as you'll remember things like both the rating agencies and the regulators have been slightly upping cat loads in calculation. So it helps us on that as well.

Second area is crop, we wanted to put in some very specific changes to the crop business and there are a series of those, I'll talk you through. We put a new leader in place, the guy who was the number two; he is now running the business on a day-to-day basis. We've a much greater use of data analytics in that business. So this is the farm-by-farm selection of what we take and reinsure versus what goes into the central federal pool. Hail which hedges by 4 points in 2014, we have 90% quota shared of our book, so largely off risk on that now, similarly for named peril.

And we're currently putting in place a series of derivative contracts, which should be put options, that protect us for folds in the corn and soy price of between 10% and 20%. That's where most of the impact comes on the crop result. Below 25% you get protection from your stop loss, between 10% and 25% we get protected, less than 10% there is less impact on your combined ratio.

That doesn't completely remove the volatility of commodity prices on our result, but does significantly diminish. So broadly if your current year performance for crop was $105 million and $114 million, with these measures in place it would have been about mid-$90 millions as a kind of guide for you. It does mean we have lower earned premiums, so because we put those about a little over $300-ish millions of earned premiums. So if you're doing your maths on earned premiums, one of the calculations here we've got about $300 million less, a bit over $300 million less of earned premium in crop.

The lender-placed business is less definitive actions more a signaling. We continue to have a pretty significant run rate loss in the lender-placed business for the same reasons we've discussed before. Lower revenues means, a lower proportion of revenue to the fixed cost base. We are pretty determined to do something about that though, and we are investigating a series of very broad range of options to significantly mitigate that. So this is just kind of the placeholder for now, just so we're going to come back to it later in the year, to try and say what we've done about that.

Lastly, and perhaps my favorite today is, we've announced the sale of our Argentinean workers' comp business. You'll see in the announcement, it was announced that we signed that at 7 o'clock this morning and that is literally true. We did sign it at 7 o'clock this morning. And we've sold it for 1.7 times IFRS book value to a local Argentinean insurer. They've already got to workers' comp business, they can add this too. And I think suffice to say, even if you park the prior-year reserve development, which obviously was very significant in 2014, it's a very long tail business, it's heightened inflation, hyperinflation in Argentina. There's a lot of legislation changes. That's as a very difficult line of business for someone like an international insurer like us to price and reach our adequate return levels. So we're happy to announce the sale of that.

Just on expenses, what I thought might be useful here was to reconcile the numbers John showed you to the actual numbers in our P&L. So on the left-hand side, there you've got the – if you back to the 2012 accounts, you'll see expenses of $2,357 million. On the right-hand side, in this year's accounts, you'll see expenses of $2,274 million. And just going through cost of the transformation program $105 million, this is the same number from John's slide. We got inflation of $50 million. It's a pretty modest estimate of inflation. I mean, if you do the maths over two years that's only just more than 1% a year.

We have invested something in systems over that period of time. Notably here in Australia, we're implementing the guideline system here in Australia. And we think that's the right thing for us to do. And we have invested particularly in our Asia-Pacific profitable growth strategy as well.

The last of those green blocks relates against that mortgage and lender services business. And one of the factors in the reduction of profitability that we've seen is we have less non-underwriting fee income for the things like tracking services.

Got a bit of FX, the abolition of that Victorian fire service levy, and the last two blocks of the savings we've made, the quantum savings of $195 million, again that's the same figure from John's slide and then $60 million of other savings we've made along the way.

Second area then was financial strength and flexibility. When we announced the capital plan, it clearly would have been easier from an execution perspective to announce one big item to do to raise all the capital we needed to raise, and I'm therefore relieved that we've announced and (30:51) executed all of the items that we put in the capital plan. Obviously, a capital raising which was – well, I've subscribed, we bought back the convertible securities, which are the last of the convertibles, issued the new capital qualifying sub debt, paid off some senior debt. We're actually down, you'll see the numbers when you got a moment, we're down $1 billion of senior debt this year. Sub debt is down a tiny bit, but we're down $1 billion of non-capital qualifying senior debt this year.

And then, more recently, we've successfully completed the sale of the Aussie – U.S. agencies for a good price and most recently, successfully completed the sale of the Aussie agencies for a good price as well.

All of that had a pretty decent impact on the balance sheet. John showed you some of this earlier, so debt down $1 billion, equity up. So debt to equity down from 44% to 32.5%, that's before we get the money in from the agencies, so naturally, that's going to go down a little bit more, when we get the money in, particularly if we use some of that to pay down debt.

Debt to intangible equity now less than 50%. At its peak, two years or three years ago, that was over 100%. Goodwill down a chunk, as John said. My personal favorite that might be the cash remittances. I alluded to this a bit at the half-year that we were going to focus more on dividends from the businesses up to the group center, and we are up 44% to $770 million on that.

You'll remember the way our group debt is structured, half of it sits in Europe, half of it here at head office. So our interest bill that we have to cover is about half of the group interest, sort of (32:33) about $150 million. So in other words, you left - that $770 million covers a $150 million of external interest, the remaining $600 million or so is available for external dividends. If you took our current dividend we announced today, the cash cost of that is under $400 million.

Lastly then for me is on investment performance. There were three areas we flagged that we will look at. Increasing the growth assets. Indeed, we did that from 2% of the start of 2014. We ended the year at 9%, and they performed pretty well. Our core fixed income performed well, particularly the financials. Our developed market equities performed well, as do property. And overall that increased growth assets helped us offset the falling yields, obviously we were subject to during the year. Post year-end, we have taken advantage of some market dips in January to increase that up to, as it said in this slide, kind of 14%.

Second area was duration. We have done absolutely nothing with that in the time since the half-year, for obvious reasons for falling yields and unusually, I think I'm going to have to remain patient on that. But obviously, we'll keep that under close watch as well.

The last area, we slightly broadening out the type of credit we hold, really to avoid undue concentrations. You can see we hold a little more A, a little less AA and that's partly to do with holding a little bit of less bank paper, a little more non-bank financials and non-financials as well. With that, I'll now hand back to John.

John D. Neal {BIO 20988613 <GO>}

Thanks, Pat. Just two slides, just to finish with for me, and I want to spend a little bit of time talking to you about our outlook for 2015 and the targets that we've set ourselves for the year. You'll see that we've put four targets out, two of which sit around the premium line and two sit around performance.

I think the premium line needs a little bit of discussion and we put some constant currency numbers on the slide equally for comparison purposes. So just to draw out that line, much of the change in the net earned premium line is the translation of FX. In 2014, we were operating with an Aussie dollar at $0.90 against the U.S. dollar. These plans are presented at $0.77, so you got a 15% fall in the Aussie dollar alone. So that just impacts in terms of translation at top line. It does not impact any of the ratios or the metrics that sit beneath, because obviously, we are underwriting in the appropriate currency locally. And there, I'd say, we're also holding the assets to match the liabilities in the correct currency.

I think another factor in talking about premium is referencing back to some of the points that Pat's talked to you about. So for example, that restructuring of the crop portfolio takes almost $400 million out of net earned premium as we looked to take less premium but lock in the results, and the restructuring we've undertaken of our reinsurance programs particularly around that aggregate structure see us spending about $100 million more on external reinsurance with the protections that we buy.

So that's a very strong view that I would have. I think it would be naïve to assume that the benign environment we've seen globally in 2013 and 2014 can continue indefinitely. And with attractive pricing in the reinsurance market, I think, you should lock in now the best protections that are in the market and available to us, which is exactly what we've done. So when you read those premium forecasts, please bear those items in mind, and hence the numbers that you're seeing on the slide in front of you.

I think most of you would have done the maths better than me in terms of the underlying insurance margin and drawn 9.8% underlying to 94% combined operating ratio. Our assessment is that there are some things that are within our control that we're very confident will be better in 2015 and 2014. Two good examples there would be underlying improvement in the North American business, and equally the benefits we think we get from the stronger reinsurance programs we put together. But equally, we recognize in reverse that global pricing is a little more challenging in 2015 than it was in 2014, when calling pricing flat globally. And clearly, we need to keep a close line on FX.

So with that in mind, we've considered a combined operating ratio in the range of 94% to 95% to be appropriate. And then, when you take into account our investment yield, that's how you translate that through to an insurance profit margin of between 8.5% and 10%.

So just a closing slide, and just to reinforce that, in 2015, we will absolutely concentrate on our core discipline of underwriting claims management. It's really important that we keep a close eye on that attritional claims ratio, particularly at the point in the cycle where pricing is a little challenged. We're very confident in the plans that we've got in place in North America and Latin America. We've seen the movement through 2014 improvement in North America and therefore, we have good line of sight as to how we can deliver on the plan for 2015 and we're confident in the plans we put in place similarly for Latin America.

Now, I've spoken quite a lot in the past couple of years about the need to remediate and transform QBE's worldwide business. I would now consider this work is largely done, complete, and behind us. Our focus from here on in is on building our business and in particular, in building shareholder value. As I mentioned earlier in the presentation, we demonstrated an ability to exercise control on cost. Much more importantly, we created a scalable model that, when growth permits, will allow us to do so at a frictional rather than a full cost charge.

We do have some plans in play this year to further improve our operating model and I'll give you a much further update in that respect when we report our half year results. So, we've constructed our targets, and our profit and loss account in 2015 in a way that, we believe, can absorb some knocks as evidenced by the way in which we put our second-half of 2014 together, where we're able to take the impact of the adverse discount rate cost through the P&L.

Very importantly and as both Pat and I have said, we believe our reserves are stable. We think our reinsurance structures are robust and as complete as any you will find in the market today. And the new aggregate cover that we've constructed is designed to produce a very full protection against large risk and catastrophe claims in the vast majority of circumstances that we can imagine.

We've achieved all of our key capital benchmark targets and these will clearly improve further through 2015. So a combination of result, stability, a much stronger capital position, some very healthy cash flows and remittances that Pat's just talked about through the group head office give us real confidence in our ability to strongly grow our dividend through 2015 and indeed incrementally thereafter. And can I emphasize as it said in the slides that all dividend payments that will be made in 2015 can and will be fully franked.

And so, in presenting these results today, I'm pleased to do so for 2014 in line both with our forecasts and indeed market expectations, but much, much more importantly, to be looking forward to 2015, confident that we now have a business that's in very good shape, a business that has global penetration and relevance, and I think that differentiation is important, and a business that's capable of still improving its performance further in 2015, notwithstanding a marketplace where interest rates are and clearly will remain low and where the insurance pricing cycle is flat.

So with that, I'll hand over, if I may, to questions.

Q&A

Q - James Coghill {BIO 14006200 <GO>}

James Coghill, UBS. Couple of questions, and they're both focused on insurance margin. I'm just trying to understand the circumstances that could lead to an outcome at the bottom end of the range at 8.5%. So, I'll ask them separately. The first one is on yields. So the investment yield running 2.9% in tech reserves. Could you just run through your thinking on that into financial 2015? You haven't backed out anything in your underlying margin for that 2.9%, although you did at the first-half. It does look very high, given my understanding of the run rate. And I appreciate there's a mass allocation shift there, but perhaps you can just take us through your thinking of that metric into 2015?

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

Yeah. Thank you, James. So we – you will see the net yield for 2014 was – gross yield was 2.8%, net yield was 2.6%. In a $800 million of investment income, that was actually after a couple of items. There was a small cost to buy back our senior debt, which is netted in there as well, and a small amount of real estate as well. So I think, broadly, we've got a running yield on the fixed income book of a bit north of 2%. Obviously, we've got a lower yield, a little bit of a headwind on that. We probably would target something like 500 basis points above risk free on the growth assets, it's a ballpark.

So I think you can do the maths on that and end up with a similar gross yield into 2015 that we had in 2014 and that's broadly what we're aiming to do. We're broadening out slightly our fixed income book, not chasing down the credit curve massively, just slightly broadening out as much as anything to avoid concentration. So I mean, if you buy very high quality corporate paper here in Australia, you end up owning four institutions lately.

So I think, there're things like that we're trying to do that can offset the headwinds of lower running yields by slightly higher (43:03) options.

Q - James Coghill {BIO 14006200 <GO>}

The midpoint of guidance implies 2.9%, so that – if my understanding of that number is correct? Exactly, the midpoint of guidance you'll be doing 2.9% on...

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

You're not precisely on the midpoint of our numbers, but you're not too far off.

Q - James Coghill {BIO 14006200 <GO>}

Okay. And the second one is, how all these reinsurance changes impact the allowance for large and cat losses? So – and you've called out $1.1 billion as the limit on large and cat losses.

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

Yeah.

Q - James Coghill {BIO 14006200 <GO>}

Of course, crop always complicated.

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

Yeah.

Q - James Coghill {BIO 14006200 <GO>}

And we've got a much lower net earned. So, the dollar value of crop (43:41) numbers to work out exactly what that is. But just on the non-crop portion, that's implying around 9% as an allowance relative to what would have been 10% on your old metric, the 10.5% total was only 10% for non-crop. So hopefully, you understand what I'm saying. It looks like there is a benefit in that non-crop allowance as we go into 2015. Have you factored that into guidance? Am I thinking about that in the right way?

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

I mean, the math is easy, isn't it? It's $1.1 billion divided by our own premium. So your maths isn't wrong. You've got to add in a bit for crop, but as you say, you can go and figure that – figure what you think that is. There's a little bit furthermore, but that will be relatively small. So yes, you are on your – the right line with the maths, and yes, we factored that into our guidance.

Q - James Coghill {BIO 14006200 <GO>}

Okay.

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

Hi, gents. It's Ross Curran from CBA. Just a couple of questions on the Australian LMI book. I guess, it's bittersweet that your dire predictions in the FSI submission that you put in are seem to coming true. Can you just talk us through the contribution of the LMI to the business this year and of the impact the Westpac decision will have on the outlook for FY 2014, and whether the – sorry, FY 2015, and whether the Australian GWP allows for the loss of the Westpac contract?

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

If I deal with both questions really, the LMI business in terms of its added value for the Australian result, it adds a little bit over 2 points of good news through the combined ratio in a typical year. So that's the benefit that we would expect that business to provide going forward. I think, we've always been consistent and said, there is actually a business we like, we understand it, we like it, and the rationale for contemplating an IPO was really predicated around capital. And I was saying there's a finite amount of capital that we would allocate to any product line, including LMI.

It's interesting to see some of the moves around Westpac's decision. I think we were the first into the market with quota share reinsurance, in fact, with the carrier that Westpac were talking to. So we've been dealing with that carrier for two years. We've reinsured out around about 23% of that business in 2014. So we've got an open mind really, there's a number of different options that we can explore for the LMI business. Of which, the IPO is one and still remains attractive.

So I think from our perspective, we'll just take our time. There is no hurry, there is no absolute need to do anything with that business. So we'll just watch how the market settles down and decide what construct works best for that business going forward.

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

And so the GWP guidance for Australia, does that include the loss of the contract?

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

It does, it's quite small for us.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Hi, it's Nigel Pittaway here from Citi. Just picking up first of all on James's question on the margin. If we take the underlying this year at 9.8%, we get a favorable swing of 1.5% on large losses if you only hit your $1.1 billion. There's another 0.7% to come from the OTP, so already that gets me to 12%. So, I take it you've allowed for a few knocks, and there's an LMI and the crop variance as well, but it sounds like you are adding – you are allowing for a quite a large number of knocks. And is there something else I'm missing, am I missing anything?

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

If you're asking is there anything we're aware of that you are not aware of, no there is nothing that we haven't talked about in the concept of the results. We've try to pull out these kind of underlying items in 2014. I don't think there is anything we haven't talked about, we talked about the LMI earnings pattern. We talked about corn, crop, and larger risk. (47:52) There is nothing that's out there – we still got things like lender-placed, which is a drag on the results that we said. Certainly, there is nothing we know in that context that you don't know.

Q - Nigel Pittaway {BIO 3406058 <GO>}

All right. So, there is nothing to take it down to 10% against that analysis that's all accounted for the, sort of, issues you've mentioned?

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

It's a bit more competitive rating environment now, isn't? I mean, in all of our markets – Australia is a clearly a more competitive market than it was 12 months ago, North America, (48:25) Europe is still competitive, not be similarly competitive to 12 months ago.

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

There is only two factors for you to consider. One is, you got to have an allowance for crop. And that's being difficult for us in the past couple of years, but we think we've created certainty around the allowances, so you need to factor that into consideration. And the last is the point that Pat's made is probably when we were constructing our plans for 2015, the area I thought was hardest to call was market conditions, where did I (48:55) think the market would end up at the end of 2015.

And I'm – I'd say encouraged. I actually can't be encouraged while pricing is flat. But I think we've got things pretty well through the first quarter. But, I think, inevitably in some market sectors, pricing is going to fall off. So I think by the time we are having a conversation of the half-year, we'll be talking about prices by year end and Australia being up 5%, rather than being flat. So I think it's appropriate to say, well, if we think market conditions have a trajectory going against this, we should take some consideration of that when we we're putting our margin forecast out for you. So the two factors that you've not got on the math would be one crop, and two, maybe a little bit of caution on market conditions.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thanks. Okay, secondly, just on the risk losses that form part of the large loss cost. You've made the comment, I think, the risk-loss frequency has continued to increase, yet, if I look at what you've actually put through in the second-half, there is only a $130 million of specified events, and you've added to your bulk IBNR by $305 million. So can you – and that's not dissimilar to what you did in the first-half. So can you sort of just comment as to why you need so much in terms of bulk IBNR?

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

Yes, it's a good question, and it'd be certainly a thought process around the aggregate cover that we put in place. I was struggled with large risk losses, when you're cutting in excess of $2.5 million versus, say, cutting in excess of $10 million, if you cut excess of ratio $10 million, the ratio is little over 1%. There is a lot in a band of 2.5% to 10%, which can create a bit of volatility in the way in which either you reserve or call out the risk losses.

Some of the long tail classes that we write particularly out of Europe, where we deploy our biggest capacity, have always led us to be, I think, sensible in a way in which we set aside the reserves for those types of losses. And I guess, the good news, which is reinforced today is that time and again we tend to see those positions come back, which I would rather continue to see on a long tail class.

So we would consider from a reserving point of you, it's appropriate to be sensible, if you like, if not little prudent in the reserves you set aside. We write a lot of commercial and specialty insurances as a living, (51:25) that almost by definition has a lower frequency of loss, but occasionally, it's going to give you some spikes on large losses. So the ultimate protection to that is to do what we've done and buy a very complete, almost $1 billion aggregate protection to create some high level certainty around that category loss.

Q - Nigel Pittaway {BIO 3406058 <GO>}

And maybe just finally, I think both today and at the half-year, you said you thought that the U.S. could grow. I think at the half year, you said it was at a trough. I think I'm right in saying you are forecasting premium to be down a bit again next year and obviously that's one business, that's not impacted by FX, can you just sort of explain where you think you are on that business, please?

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

I mean broadly it's a little bit, so we're through the restructuring phase. So programs we should be through the kind of exiting of most of the program business, so you wouldn't expect that to go down too much. We've got a little bit of top-line still from the – the whole market for lender-placed continues to shrink not just the QBE element, obviously, it's a little bit of that. And then other areas we are looking to grow, we are looking to grow in middle market, we're particularly looking to grow in specialty. So you still got a tiny bit of a headwind from things like lender-placed, but the other areas of the portfolio that the teams are much more focused on are, kind of, moderate but some level of growth.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thank you.

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

Thanks. Daniel Toohey from Morgan Stanley. I've just got two questions, firstly, on the top-line. John, you are calling for sort of flat right environment in 2015. You just talked about potentially Australia being off 5% in the full-year, and in light of discussions around the margin and having room for movement, I mean, is a flat top-line outlook in 2015 bullish?

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

No, I don't think so. The parameter for me was looking at the one-more renewals. We're recording our reinsurance business up about 1% on average this year, 65% of our business, (53:29) and that performed slightly better than expectations. Pricing otherwise in Europe was flat. Pricing in U.S. was actually up a bit, to be honest with you, up about 2% still on the commercial lines and pricing in Australia flat.

So far I think the call that we've got on average around the world for flat pricing for the full-year is spot on. So I'm happy with that. I think as well we're used to operating in markets where price is challenged – price in Europe has not moved now for almost seven-and-a-half years on average, and pricing in Asia is pretty flat. So I think, with a much heightened focus on picking the right underwriting portfolios, looking at the size of the market, determining whether we can grow in lines that we know we have proven expertise, I think gives us confidence that even in a flat market, we can, at least, maintain top-line.

And sat here today, I've thought the important thing for us to do is to demonstrate that we can hit a margin goal and repeat to hit on a margin goal. We've got a whole host of activities under the covers. Pat talked about specialty lines in North America, where we are putting in place the building blocks either with people, or technology, or in the way in which we engage with the market that we think create growth opportunities. But today is probably not the right day to talk about those. We thought today was the day to talk about really demonstrating some predictability and stability around our performance.

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

Okay. And just to follow up on the PoA, traditionally we thought about that as being a target of exceeding 90%, something working towards. And you've allowed it, you've taken it down 1.3%, outlined a new target of 87.5% to 92.5%. And I guess that 1.3% benefit actually helped offset some of the discount rate headwinds. So can you talk through the rationale for the shift in the PoA?

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

Yes. Well, first of all, thank you for reading my CFO report and where that ranges included, but it's pretty much what you just said really. We've got a range of 87.5% to 92.5%, we said we'll be in a tight band around 90%, and that's how we have defined a tight band. It stand a nudge from the half-year, we've 89.4% the half-year, we're 88.7% at the full-year. If you do the math at 8.9% of reserves to 8.7% of reserves, I think in the second half, that's $30-million-ish. You might correct me slightly on my maths, say, it's about $30 million. So it's kind of in the roundings, and we've got – I think it's fair to say pretty significantly reduced reserve volatility.

So we haven't monkeyed around with the COEs (56:22) at all there, as they were before. You could make an argument for tweaking those down given the increased – sorry – yeah, the increased reserve certainty. So what we're trying to do is, we just keep that certainty. You can always see exactly what's going on our usual insurance margin analysis slide we've laid out, exactly what the PoA shift makes down to our margins.

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

Okay. Thanks.

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

Thanks. Brett Le Mesurier from BBY. Couple of questions, you said there was no prior year adverse claims development, but when I look in the accounts, I see, there is about $160 million on an undiscounted basis both in the claims triangle and the Note 7b. Can you reconcile those two comments?

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

It's a good question. The $160 million actually is post-Duclos, but includes Argentina. So as you could imagine, the Argentina book is complex, it's gone, because it's upper long tail, very high interest rate. So it has a large amount of undiscounted – the incomes down to a smaller amount of discounted. So when you factor in the Note 7 and the claims development triangle, you do get back to a positive prior development of $1 million. And Tony Jackson is a man to exactly point out those two numbers kind of linked together for you. But it is more peculiar, because the reserve development (57:55) in Argentina, which is super long tail and high interest rates.

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

So you're saying that the development was still about Argentina?

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

Yes, essentially, yes.

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

So there is still adverse development in total bank?

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

No, no the adverse – those numbers all included with Argentina, about $1 million of positive prior year development including Argentina and over – clearly over $100 million of positive prior year development, excluding Argentina.

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

So why does the claims triangle show something else? It's not clear to me?

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

It includes Argentina. So it includes on an undiscounted basis, it shows negative development. Once you include discount, it doesn't.

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

Okay. There is a note to 7 - titled 7C, which says the prior year - prior exiting year discount movement is netted of against prior year undiscounted central estimate movement for long tail classes, refers to amount of $523 million. You said the discount benefit, the cost of the reduction in the interest rate was $324 million, how does that relate to the footnote that you've got here?

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

The $300 million of - is the movement in discount rates during the year ex-Argentina, that's on our slide. So that is our weighted average going from just over 2.1% down to 1.45% (59:23) something like that. For our major basket, the currency is the Aussie dollar - Aussie, euro, sterling, and U.S. dollars. So that's what that number is, that was obviously $100 million (59:36) or so at the half-year.

In addition to that, obviously if you've increased reserves in a very long tail book of business, you've increased the gross amount, and then you've increased the discounting amount as well, and that's sort of a separate item.

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

So you've actually - so what that footnote tells me, you've actually reduced the reserves on long tail classes by a recently substantial amount?

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

No.

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

(01:00:01).

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

Just in Argentina.

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

So you have identified $324 million as the impact of discount rate. What was the positive benefit of reducing the inflation rate?

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

No, we didn't reduce the inflation rate anywhere.

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

That's what it says in the footnote.

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

In Argentina, you explicitly link, because both for China, but you explicitly link interest rates and discount rates.

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

Yeah. You also referred to Australian dust diseases.

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

And Australian dust diseases will be the only other item in Australia.

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

So is the footnote wrong?

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

It's just two items, Brett.

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

Okay. The reinsurance of the medical malpractice showed $362 million claims benefit and the premium was $362 million?

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

Yes. So you got a reduction of NEP by $360 million of reduction claims by $360 million.

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

So the $362 million reduction in premium was set for the consequence of the claims recovery?

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

I said the consequence of the premium amount.

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

Look, my question is really what came first, the premium or the claim?

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

I'm not sure I understand the question, Brett. It was part of the negotiation obviously, if we had what we - another long tail book of business, quiet and volatile as your claims, reassuring that why at a premium equal to the claims and that was a good deal for us, as we described at the half year.

A - Tony Jackson {BIO 1729093 <GO>}

I mean look at in a different way, it's a reinsurance contract, hence the accounting entries that you've just referred to. Any reinsurer looking at that has the availability of all of the information that was at our disposal including external actuarial analysis around those reserves. So the assessment of the reserves was our assessment, and you recall that we put some further provisions away against that 12 months ago. What was pleasing was that we were able to negotiate an effective commutation of those at the value at which we were reserving them. So we think that's a good deal. I mean obviously the reinsurer feels that the long tail nature of those reserves means it's a good deal for them as well.

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

Thank you.

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

You're welcome.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. Kieren Chidgey, Deutsche Bank. Couple of questions, just starting on sort of the expense ratios and the outlook there. You've obviously got a significantly lower NEP base as we move into 2015. I think some of the numbers you called out are the $400 million reduction in crop, $100 million external reinsurance costs, and of course, you've sold the Argentinean workers' comp business, which is a drag of a bit over $200 million. So you're dropping in excess of $700 million of NEP, but you've only got an additional $80 million out of benefits coming through your cost program next year.

So it looks like your expense ratio is going to step up yet again next year, and put you at a level, which would be above your peer group globally. John, can you just talk to sort of whether or not, you're going to be happy with that expense ratio, where it's going to sit next year, what those plans on a go-forward basis to further improve that operating efficiency of the business?

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

Yeah. I mean, it's a fair question. I think the plus, as I sort of painting through the commentary on what we've done with cost is, is the infrastructure we've created to reduce costs on a go-forward basis.

I think some of you were at or so Dave Duclos' presentations in North America in October, where he gave you a bit of line of sight over some of the activities that he's got in play in 2015, which actually have further benefits in 2016. So I don't want to commit to numbers today, but rest assured that we're working on cost literally as we speak. I think we can take more cost out of the business, if we need to. Equally our sense is, FX sight that we baseline the premium line and that we ought to be able to talking about a bit of growth, particularly as we move into 2016 and 2017, in which case you'll see some frictional benefit in that cost ratio. So short answer is, can we take more money out, yes. I think I'd rather wait and present that to you in better details through the half year.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. Just to be clear, the guidance you've given for the margin, should I just not include that benefit of additional cost down?

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

No.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. The lender-placed book I think at the half-year you indicated was losing in the order of $80 million a year. Is that sort of where it ended up for the full-year?

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

At slightly better than that in 2014 but there's a broad run rate going into 2015 that's pretty much where it's at, yes. It's moderately better than the ballpark of that number.

Q - Kieren Chidgey {BIO 7268946 <GO>}

And reading between the lines, you seem a little bit more optimistic on your ability to perhaps exit before the 10-year agreement expires. Can you give any color as to sort of some of the options on the table?

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

I don't know whether I'd use the word optimistic. It's hard, I think. So at one end of the spectrum it goes back to your cost question. Do we think we can take more cost out of that business? The short answer is, yes, we can. Does that represent a complete solution? No, it doesn't. So we're looking at a complete range of options across that business at the moment to see if we can. Effect A (1:05:52) means of either getting volume to come through there or some form of partnership that will help with the business in the medium-term.

But I think we've demonstrated through 2014 that we can fix some pretty tough components of the business. I would say that the fix there is at the hard end of the scale. So we'll work through it this year. We're determined to come up with the solution. We can certainly make the business better. Whether we can get a complete solution, we'll just have to wait and see.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. And just final question on the dividends. You said you're happy now with the level of gearing on the balance sheet. The reserves are performing well. We've seen your reinsurance protections put in place, which reduce the risk as well. We saw that payout ratio revised down to 50% a couple of years, got to address all those factors, which now seem like they have been addressed. Is there scope to see that payout ratio now shift up?

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

Well, we'll have to wait and see, I think. We've got a clear intention and the board have got a clear intention, as I intimated earlier on to grow dividend payment strongly. We can certainly do that through performance. If you look at the forecasts that we're putting out today, there is no value in the business carrying surplus capital, just for the sake of it. So it's an item that the board will keep under review throughout 2015. So we'll keep reporting on it, but clear message today is, there's an intent to grow dividend.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. And your intentions to grow the business, i.e., you're signaling a fairly flat constant currency GWP, but inorganic activities are back on the agenda.

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

I think possibly, I think that we'll be looking out a little bit further than the next six months, focused certainly through the half year is to demonstrate continued ability to deliver on performance, and in this has improved performance. We're talking about taking the combined ratio down by couple of points. So that's our overarching focus.

We've got a number of organic initiatives on the go, so we'll update a little bit more on how those are progressing. And we'll see how we travel. I think our key priority is to demonstrate to investors that have been very patient with us over the past two years that their trust in us is well placed. And then we can deliver and meet their expectations from a performance perspective first and foremost.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks.

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

Hi. It's Toby Langley from Bank of America Merrill Lynch. On the margin reconciliation conversation, I just wanted to chip in with a suggestion. Are we facing a 50-basis-point headwind from a lot of those brokerage businesses? Is that one of the reconciling items to consider?

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

It is. Yes, it's not quite 50 basis points. So I think we've said, it's circa $50 million of EBITDA, so a little bit less than 50 basis points, but yeah that is one of the items.

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

And then, on the remittance numbers, Pat, at the half year you said that you would consider setting out targets. You've not done that today. Is that something that you're going to hold yourself to going forward? And then if you can provide a bit more color on the shape of those numbers, because obviously it's gone up quite a lot.

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

Yeah. Yes, is the answer to the second, and no is the answer to the first. I think for the moment, we'll keep on reporting what we're doing on that. And try and give you a sense of what the free cash flow is so post those kind of interest costs. The increase was reasonably broad-based, although not as quite as broad-based as we like it. And the all of this standout performance of who you think they are. So Europe gave us a good dividend, obviously they got to pay their interest bill in Europe, where half of our debt sits first. So they kind of net of that gave us a decent increase.

One of the benefits of having Equator as well as aggregate risk retention is, we put the quota shares and they actually got generated good pool of profit that allows us obviously on a statute basis to pay a good dividends. We got quite a higher dividend out of Equator. And then obviously Australia is a well-capitalized business, it's a very profitable business. We've got a good and increased dividend out of Australia as well.

At the moment, because Asia's in a growth phase, we're not big receivers of dividends from Asia. And the place we really need to get back on stream is North America. So that means both in profits and in dividend paying. So we've made some good progress, but we're not perfect yet.

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

So should we think that number is run rate for those businesses that are contributing and as the others come on stream then that could be enhanced or is there a special nature to that figure this year?

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

I mean Australia, to be fair, has paid a very high proportion of our profit. So you might say, look, we've now got huge growth for anybody in the Australian market. So we've got a high proportion of profit, that's probably reasonably sustainable in Australia. We got a little bit more in Equator, but we got nothing out in North America. So can we still grow that? Well, yeah, I mean, if we grow our business profits and we ought to be able to grow our remittance as we go forward.

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

Thank you.

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

Okay. I think that looks like we're about done everyone. So thanks very much for turning up today. I appreciate your questions. Thank you.

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

Thank you.