QBE Insurance Group Limited ABN 28 008 485 014
Level 27, 8 Chifley Square, SYDNEY NSW 2000 Australia
GPO Box 82, Sydney NSW 2001
telephone + 612 9375 4444 • facsimile + 612 9231 6104

www.qbe.com

QBE

25 February 2019

The Manager
Market Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Market Release – QBE announces 2018 results

Please find attached an announcement for release to the market.

Yours faithfully,

Carolyn Scobie
Company Secretary

Encl.

MARKET RELEASE

25 February 2019

QBE ANNOUNCES 2018 FULL YEAR RESULTS[1]

QBE today announced a 2018 cash profit after tax of $715M – a significant improvement on the cash loss of $262M recorded in 2017. Net profit after tax was $390M (including a $567M profit from continuing operations) compared with a loss of $1,249M in the prior year.

QBE Group CEO, Pat Regan, said the Group's improved 2018 financial performance reflected significantly improved attritional claims experience across all divisions coupled with a reduced level of catastrophe claims. This was partly offset by a lower net investment yield which was adversely impacted by market volatility in the final quarter.

"The actions we have taken to simplify the Group, implement a rigorous performance management framework and upgrade core capabilities in pricing, risk selection and claims management delivered meaningful improvement in the underlying quality of our business and our financial performance in 2018," Mr Regan said.

The Group reported a FY18 combined operating ratio of 95.7%[2,3,4], in line with the target range of 95.0%-97.0%[2,4] and a meaningful improvement from 103.9%[2,4,5,6] in 2017. The uplift in underwriting profitability was underpinned by an improvement in the attritional claims ratio to 50.2%[2,3,7] from 53.1%[2,5,6,7] in the prior year, coupled with a significant reduction in the cost of catastrophe claims after an extreme 2017.

Group-wide premium rate increases averaged 5.0%[2,8] compared with 1.8%[2,8] in 2017, with improved pricing conditions in all divisions.

The balance sheet also recovered strongly after the extreme catastrophe experience of 2017. The Group's indicative APRA PCA multiple was 1.78x at 31 December 2018, up from 1.64x at 31 December 2017 and towards the upper end of the Group's 1.6x – 1.8x target PCA range. The Group's excess above S&P 'AA' minimum capital levels also increased.

The 2018 final dividend increased to AUD28¢ps (2017 AUD4¢ps), reflecting confidence in the balance sheet and improved earnings resilience.

"This final dividend brings the full year 2018 dividend to AUD50¢ps (FY17 AUD26¢ps) and, when combined with the A$333M of shares repurchased through the buyback, brings total shareholder returns in 2018 to just over A$1 billion.

I am pleased with the progress made against our objectives in 2018. Significant portfolio rationalisation and simplification, successful placement of the restructured 2019 reinsurance program, divisional consolidation and initiation of a three-year operational efficiency program position us well to deliver further value for our shareholders in 2019," Mr Regan said.

1 All figures in US$ unless otherwise stated
2 Continuing operations basis
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities
4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims
5 Excludes one-off impact on the Group's underwriting result due to the Ogden decision in the UK
6 Excludes transactions to reinsure US liabilities
7 Excludes Crop and LMI
8 Excludes premium rate changes relating to CTP

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The Group's net profit after tax of $390M was significantly impacted by the results of discontinued operations, including a non-cash foreign currency translation reclassification of $217M as well as other one-off non-cash impacts, as shown in the table below.

Reconciliation of cash profit after tax

	2018	2017
	$M	$M
Profit (loss) after tax from continuing operations including NCI	**555**	**(1,216)**
Loss attributable to non-controlling interests (NCI)	12	4
Profit (loss) after tax from continuing operations	**567**	**(1,212)**
Discontinued operations		
Operating loss from discontinued operations after tax	(57)	(32)
Gain (loss) on sale of discontinued operations after tax	97	(5)
Reclassification of foreign currency translation reserve	(217)	–
Loss after tax from discontinued operations	**(177)**	**(37)**
Net profit (loss) after tax	**390**	**(1,249)**
Amortisation and impairment of intangibles after tax	108	757
Reclassification of foreign currency translation reserve	217	–
Write down of deferred tax asset	–	230
Net cash profit (loss) after tax	**715**	**(262)**

Key 2018 full year result highlights include:

- Cash profit after tax up significantly to $715M (FY17 $262M loss)
- Cash profit ROE of 8.0%[1] (FY17 1.4%[1] cash loss)
- Average Group-wide premium rate increase of 5.0%[2,3] (FY17 1.8%[2,3])
- Gross written premium up 3%[4] to $13,657M[2] (FY17 $13,328M[2])
- Adjusted combined operating ratio improved to 95.7%[2,5,6] (FY17 103.9%[2,5,7,8])
- Attritional claims ratio (excluding Crop and LMI) improved to 50.2%[2,6] (FY17 53.1%[2,7,8]) driven by significant improvement across all divisions
- Adjusted commission and expense ratio broadly stable at 31.6%[2,6] (FY17 31.8%[2,7,8])
- Net investment yield down appreciably to 2.2%[2] (FY17 3.1%[2]) reflecting significant market volatility during the final quarter of 2018
- Financing and other costs of $305M[2] ($302M[2]) impacted by foreign exchange and other one-off costs of around $30M in total
- Amortisation and impairment of intangibles of $138M[2] before tax (FY17 $769M[2]) was impacted by the write-down of capitalised software ($29M) and goodwill and identifiable intangibles on disposal of North American personal lines business ($25M)
- Debt to equity ratio reduced to 38.0% (FY17 40.8%)
- Indicative APRA PCA multiple strengthened to 1.78x (FY17 1.64x)
- Probability of adequacy of outstanding claims stable at 90.1% (FY17 90.0%)
- Final dividend of AUD28¢ps, franked at 60% (FY17 AUD4¢ps, franked at 30%); FY18 dividends of AUD50¢ps (FY17 AUD26¢ps)
- Including share buyback, total shareholder payout doubled to A$1,002M (FY17 A$495M)

1 Cash profit ROE from continuing operations excluding gains (losses) on disposals
2 Continuing operations basis
3 Excludes premium rate changes relating to CTP
4 Constant currency basis
5 Excludes the impact of changes in risk-free rates used to discount net outstanding claims
6 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities
7 Excludes transactions to reinsure US liabilities
8 Excludes one-off impact on the Group's underwriting result due to the Ogden decision in the UK

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OUTLOOK FOR 2019

The Group's targets for 2019 are as follows:

Combined operating ratio	94.5% - 96.5%[1]
Net investment return	3.0% - 3.5%[1]

Further details are included in a presentation lodged with the ASX.

QBE is also today announcing a tender offer for its outstanding senior notes in a separate ASX Release.

1 Assumes risk-free rates as at 31 December 2018.

\- ENDS -

For further information, please contact:

Investor Relations
Group Head of Investor Relations
Tony Jackson
Tel: +61 (2) 9375 4364
investor.relations@qbe.com

Media Enquiries
Ben Pratt
Group Head of External Communications
Tel: +61 (2) 9375 4534
Email: ben.pratt@qbe.com

QBE Insurance Group Limited
ABN 28 008 485 014
8 Chifley Square
SYDNEY NSW 2000
Australia
www.qbe.com