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16 August 2018

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

Dear Sir/Madam

Market Release for the half year ended 30 June 2018

Further to the announcement today of our results for the half year ended 30 June 2018, please find attached a market release in relation to those results.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Carolyn Scobie', is written over a light blue circular stamp.

Carolyn Scobie
Company Secretary

Attachment



QBE

MARKET RELEASE

16 August 2018

QBE ANNOUNCES 2018 HALF YEAR RESULTS¹

QBE announces a 2018 half year statutory net profit after tax of \$358M, up 4% from the prior period.

The first half combined operating ratio of 95.8%^{2,3,4} is around the mid-point of the Group's previously announced FY18 target combined operating ratio range of 95.0%-97.5%². This represents a meaningful improvement on the FY17 combined ratio of 98.2%^{2,5,6} after adjusting for excess catastrophes and is underpinned by an improvement in the attritional claims ratio (excluding Crop and LMI) to 51.3%^{3,4} from 51.8%⁴ in the prior period.

The Group achieved an average premium rate increase of 4.6%^{4,7} during the half compared with only 1.0%^{4,7} in the prior period. Pricing conditions improved in all divisions but especially in European, North American and Asia Pacific Operations. Premium rate momentum accelerated in Australian & New Zealand Operations from an already strong level.

Following the extreme catastrophe experience in the preceding half, it is pleasing to see a strong recovery in our capital ratios: the Group's PCA multiple strengthened to 1.74x from 1.64x at 31 December 2017 and debt to equity improved to 36.9% from 40.8% at 31 December 2017.

Key result highlights include:

- Statutory net profit after tax up 4% to \$358M (HY17 \$345M)
- Statutory return on equity 8.2% (1H17 6.6%)
- Cash profit after tax up 3% to \$385M (HY17 \$372M)
- Adjusted net profit after tax down 18% to \$380M³ (HY17 \$464M⁵) reflecting a reduced level of positive prior accident year claims development and lower investment returns
- Average Group-wide premium rate increase of 4.6%^{4,7} (HY17 1.0%^{4,7})
- Gross written premium up 1%⁸ to \$7,887M⁴ (HY17 \$7,590M⁴)
- Adjusted combined operating ratio of 95.8%^{2,3,4} (HY17 94.5%^{2,4,5})
- Attritional claims ratio (excluding Crop and LMI) improved to 51.3%^{3,4} (HY17 51.8%⁴)
- Positive prior accident year claims development at \$51M^{3,4} (HY17 \$147M^{4,5})
- Adjusted commission and expense ratio broadly stable at 31.2%^{3,4} (1H17 31.3%⁴)
- Annualised net investment return of 2.1% (HY17 3.6%)
- Debt to equity ratio reduced to 36.9% (FY17 40.8%)
- Indicative APRA PCA multiple strengthened to 1.74x (FY17 1.64x)
- Probability of adequacy of net outstanding claims broadly stable at 90.2% (FY17 90.0%)
- Interim dividend of 22 Australian cents per share (HY17 22 Australian cents)
- Including share buyback, total shareholder payout up 31% to A\$397M (HY17 A\$302M)

1 All figures in US\$ unless otherwise stated

2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims

3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities

4 Continuing operations basis

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 premium rate changes relating to CTP

8 Constant currency basis



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During the half we mobilised an extensive Brilliant Basics program across the Group. Full implementation will take several years and will involve the transformation of QBE's culture and business practices to consistently deliver world-class underwriting and claims management.

Alongside Brilliant Basics, we have implemented an intensive, detailed and action oriented underwriting performance management process across QBE known as the "Cell Performance Review" process. During the half we completed over 300 cell reviews across the four divisions involving over 100 cells globally.

The successful rollout, embedding and refining of the Cell Performance Review process and the Brilliant Basics program is expected to drive significant performance improvement over time, improving earnings quality and resilience across the Group more broadly. This is evidenced by the improved performance of our Australian & New Zealand Operations since the introduction of cell reviews and the piloting of an early version of Brilliant Basics in the final quarter of 2016 which contributed to the 6.0% improvement in the division's attritional claims ratio (excluding LMI) since the first half of 2016.

Initiatives undertaken during the half that contribute to our simplification agenda included:

- Sale of our Latin American Operations (excluding Puerto Rico) to Zurich Insurance Group. Argentina and Brazil completed subsequent to 30 June 2018 while the sale of operations in Ecuador, Colombia and Mexico is expected to complete by year end
- In Asia Pacific we sold our operations in Thailand and entered into a reinsurance transaction to completely exit our Hong Kong construction workers' compensation exposure
- Sale of our Australian and New Zealand travel insurance business to nib
- Commenced the process to exit North American Personal lines operations – today we have announced an agreement with Liberty Mutual for the sale of the renewal rights of our independent agents' personal lines portfolio which comprises gross written premium of around \$230M

Together, these simplification initiatives will result in the exiting of businesses and portfolios that generated an underwriting loss of over \$200M in 2017.

North American Operations' combined operating ratio improved to 97.8%¹ from 98.2%¹ in the prior period. Excluding Crop, it was pleasing to see net nil prior accident year claims development which indicates that the reserve strengthening and more conservative ultimate claims ratios adopted at 31 December 2017 were appropriate. Premium rate increases averaged 3.1% compared with 0.9% in the prior period.

European Operations recorded another strong result with a combined operating ratio of 94.5%¹. Although up from 91.3%^{1,2} in the prior period due to a reduced level of positive prior accident year claims development, current accident year profitability improved significantly underpinned by a 3.2% improvement in the attritional claims ratio. Premium rate increases averaged 4.8% compared with a 1.1% reduction in the prior period.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims

2 Excludes one-off impact on the Group's underwriting result due to the Ogden decision in the UK

Despite a reduced level of positive prior accident year claims development and further normalisation in LMI, Australian & New Zealand Operations combined operating ratio was broadly stable at 92.3%¹, reflecting a 1.4% improvement in the attritional claims ratio (1.9% excluding LMI). Earnings quality and resilience (as measured by the spread of underwriting profit contribution by cell) continues to improve. Premium rate increases averaged 6.6%² compared with 5.0%² in the prior period.

The improvement in Asia Pacific Operations' combined operating ratio to 108.5%^{1,3} from 109.1%¹ belies the extent of remediation undertaken and the level of underlying improvement achieved during the half and is better compared with the 2017 full year combined operating ratio of 115.5%¹. Excluding \$15M of adverse prior accident year claims development due to late claims notifications in short-tail classes during the first quarter of 2018, the combined operating ratio was 103.2%^{1,3}. Premium rate increases averaged 0.3% compared with a 3.9% reduction in the prior period.

2018 INTERIM DIVIDEND AND BUYBACK

The Group's dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business. As such, the Board has declared an interim 2018 dividend of 22 Australian cents per share, franked at 30%, in line with the 2017 interim dividend per share of 22 Australian cents per share, also franked at 30%.

Including A\$100M of QBE shares purchased and cancelled, the total shareholder payout for the 2018 half year is A\$397M, up 31% from A\$302M in the prior period.

Shares will begin trading ex-dividend on 23 August 2018, the record date is 24 August 2018 and the dividend will be paid on 5 October 2018.

The Board remains committed to the three-year share buyback of up to A\$1Bn including no more than A\$333M in any one calendar year.

OUTLOOK FOR 2018

Set out below are the Group's revised full year 2018 combined operating ratio and investment return target ranges which have been amended to exclude Latin American Operations held for sale at 30 June 2018:

Combined operating ratio	95.0% - 97.0% ^{4,5}
Investment return	2.25% - 2.75% ⁵

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims

2 Excludes premium rate changes relating to CTP

3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities

4 Assumes risk-free rates as at 31 December 2017

5 Full year 2018 combined operating ratio and investment return target ranges revised to exclude Latin American Operations held for sale at 30 June 2018



MARKET RELEASE

16 August 2018

TELECONFERENCE

QBE Group CEO, Pat Regan and Group CFO, Inder Singh, will hold a teleconference today from 10.30am to 11.30am AEST.

Q&A SESSION (VIA TELECONFERENCE)

- To participate in the teleconference, you will need a touchtone phone
- 10 minutes prior to the briefing, please dial your call-in number and follow the prompts
- To ask a question:
 - Press * then 1 on your phone to enter the Q&A queue
 - Press * then 2 on your phone to withdraw your question
- If you are disconnected for any reason during the teleconference, redial your call-in number
- Calls from mobile phones will be charged at the applicable mobile rate

PARTICIPATION CODE: 540229#

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ATTENDING IN PERSON:

QBE Group offices: Level 27, 8 Chifley Square, Sydney

WEBCAST

The results briefing will be available for viewing as a live video webcast. To access the webcast, please follow the link on the home page www.qbe.com. Testing of the webcast facility is available via this link.

- ENDS -

For further information, please contact:

Investor Relations

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QBE Insurance Group Limited is listed on the Australian Securities Exchange, is one of the top 20 global insurance and reinsurance companies as measured by net earned premium and has operations in 35 countries.

IMPORTANT DISCLAIMER

Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no overall reduction in premium rates in excess of business plans; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts; recoveries from our strong reinsurance panel; no significant asset sales and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this market release.