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18 December 2020

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

Dear Sir/Madam

**QBE UPDATE ON FY20 RESULT**

Please find attached an announcement for release to the market.

This release has been authorised by the QBE Board of Directors.

Yours faithfully,

A handwritten signature in blue ink that appears to read "Carolyn Scobie". It is written in a cursive style with a horizontal line underneath it.

**Carolyn Scobie  
Company Secretary**

Attachment



## MARKET RELEASE

18 December 2020

### QBE UPDATE ON FY20 RESULT<sup>1</sup>

QBE's FY20 result will be released to the market on 19 February, 2021.

Ahead of that result, QBE today provides an update on its FY20 result expectations, including the impact of COVID-19, catastrophe experience (which also adversely impacted our Crop insurance business), prior accident year claims development and investment income.

The 3Q20YTD combined operating ratio was ~102%<sup>2</sup>, reflecting a COVID-19 impact of ~4% and continued elevated catastrophe experience. The underlying 3Q20YTD combined operating ratio was broadly in-line with the 93.7%<sup>2,3</sup> reported in 1H20 inclusive of a deterioration in the performance of our Crop business during 3Q20.

The FY20 result will also be impacted by additional adverse prior accident year claims development and one-off, largely non-cash charges including a North America goodwill and deferred tax asset impairment, as well as IT and real estate related charges.

FY20 net investment income is expected to be ~\$140M. This is a material turnaround from the 1H20 loss of \$90M and largely reflects the strong recovery in credit spreads during 2H20 which more than offset the significant widening experienced in March/April 2020.

Having reported a 1H20 adjusted net cash loss after tax of \$666M, QBE now expects to report a FY20 adjusted net cash loss after tax of ~\$780M. This includes the following pre-tax impacts: ~\$470M of COVID-19 costs, ~\$130M of elevated catastrophe costs and ~\$360M of prior accident year claims development. The expected statutory net loss after tax of ~\$1.5BN also includes a \$520M non-cash writedown of North America goodwill and deferred tax assets, and ~\$100M of IT and real estate related writedowns.

The year end APRA PCA multiple is expected to be above the midpoint of the Group's 1.6-1.8x target PCA range. The pro forma debt to equity ratio is expected to be ~33%<sup>4</sup> and within the target range of 25-35%, the modest increase since 30 June 2020 largely reflecting the aforementioned goodwill and deferred tax asset write-downs.

QBE Interim Group CEO, Richard Pryce said: *"While I am very disappointed with the headline statutory loss, I am increasingly confident about the pricing cycle, particularly in the northern hemisphere, and the outlook for the underlying business. Premium rate momentum accelerated in North America and International during 3Q20 and the FY20 attritional claims ratio is expected to improve further from 45.5% reported in 1H20."*

1 All figures in US\$ unless otherwise stated and FY20 numbers are preliminary and subject to external audit

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

3 Excludes impact of COVID-19, movement in risk margins, prior accident year claims development and catastrophe claims relative to allowance

4 Pro forma allowing for scheduled and pre-funded repayment of \$197M of subordinated debt in 2021

*As we move into 2021, my focus remains on ensuring the Group takes full advantage of currently favourable market conditions by locking in margin expansion while driving targeted growth in portfolios and regions offering the most profitable new business opportunities.*

*Our balance sheet remains strong and able to fund expected growth.”*

#### Premium rate momentum, policy retention and growth remains encouraging

Premium pricing continues to strengthen in most regions and portfolios. Renewal rate increases for the nine months to 30 September 2020 averaged 9.0%<sup>1</sup> compared with 5.5%<sup>1,2</sup> in the prior corresponding period and 8.7%<sup>1</sup> in the six months to 30 June 2020. Premium rate momentum in North America and International remains strong (3Q20 increases were 10.8% and 13.9% respectively) contributing to an average 3Q20 Group-wide renewal rate increase of 9.8%<sup>1</sup>. Premium rate momentum in Australia Pacific slowed during 3Q20 as a result of the previously announced COVID-19 related relief measures – premium rate increases in impacted classes were reinstated on 1 October.

On a constant currency basis and adjusting for asset sales completed in 2019, gross written premium grew by ~10% during the nine months to 30 September 2020 reflecting the strong premium rate environment coupled with new business growth and improved retention.

FY20 gross written and net earned premium is expected to be ~\$14.5BN<sup>3</sup> and ~\$11.7BN<sup>3</sup> respectively.

#### COVID-19 – estimated ultimate net cost unchanged at \$600M

While the estimated ultimate net cost of COVID-19 is unchanged at \$600M, the net incurred cost in FY20 is now expected to be ~\$470M, up ~\$135M from \$335M reported in 1H20.

The increase in COVID-19 related costs is primarily due to recognition of ~\$100M of additional net claims costs across trade credit, lenders' mortgage insurance, casualty classes and business interruption.

The majority of the FY20 COVID-19 related claims costs represent IBNR and risk margin.

#### FY20 net catastrophe cost of ~\$680M – ~\$130M above \$550M allowance

Subject to catastrophe experience in December not exceeding plan, FY20 net catastrophe costs are expected to be ~\$680M which is ~\$130M above the Group's \$550M annual allowance and well into the Group's catastrophe aggregate reinsurance program.

After significant catastrophe activity in the first half of 2020 which resulted in a net cost of \$308M relative to a planned allowance of \$250M, the US wildfire and hurricane season was particularly active, with a record number of named storm landfalls while storm activity in Australia has also been adverse to plan during 4Q20.

The Group's North American Crop result was also impacted by weather including late reported prevented planting claims in North and South Dakota, the derecho which devastated corn yields in Iowa and the Californian wildfires which materially impacted grape vines (fire and smoke damage) in the Napa Valley region.

As a result, Crop is now expected to report a combined operating ratio of around ~99% compared with the 1H20 result which was booked at the long term average of ~90% and the 3QYTD result which was booked at ~93%.

<sup>1</sup> Excludes premium rate changes relating to Australian compulsory third party motor (CTP) and North America Crop insurance

<sup>2</sup> Continuing operations basis

<sup>3</sup> Excludes impact of COVID-19

### **Adverse prior accident year claims development of ~\$360M**

The FY20 result is expected to include adverse prior accident year claims development of ~\$360M, up from \$120M at 30 June 2020.

Consistent with industry-wide trends, the Group experienced a further \$30M of adverse development on catastrophe claims during the half, with Hurricane Irma impacting North America, and Hurricane Dorian and Typhoons Hagibis and Faxai impacting International, primarily through QBE Re.

The remaining \$210M of adverse development includes a substantial charge in North America primarily in response to social inflation trends, a ~\$40M strengthening of discontinued E&S reserves and ~\$40M of adverse development in the general aviation portfolio. Further adverse development in financial lines and inwards reinsurance also contributed to the movement.

### **North America goodwill and deferred tax asset impairment of ~\$520M**

Premium rate increases currently being achieved in North America are expected to drive further improvement in the attritional claims ratio and, coupled with disciplined cost management, contribute to improved operating leverage and a lower expense ratio.

Nevertheless, significantly lower investment return expectations combined with a now higher 10-year average Crop combined operating ratio and elevated catastrophe experience during the current half give rise to a North America goodwill impairment charge of ~\$400M and deferred tax asset impairment charge of ~\$120M.

### **Legacy IT and real estate related writedowns of ~\$100M**

With significant programs underway to modernise our technology estate and migrate much of the Group's IT infrastructure to the cloud, the FY20 result will include a charge of ~\$60M reflecting the write-off of capitalised IT assets and the cost of decommissioning Australia Pacific's main data centre.

The result is also expected to include a pre-tax charge of ~\$40M for early lease exit costs, primarily in North America and Australia, as the Group rationalises its global office footprint in a post-COVID-19 landscape.

## **WEBINAR AND CONFERENCE CALL**

QBE Interim Group CEO, Richard Pryce, and Group CFO, Inder Singh, will host a briefing for analysts and institutional investors at 9.30am to 10.15am today.

### **Webinar and conference call:**

The briefing will be available for viewing as a live webinar and a listen only conference call (questions will not be accepted from participants who join via phone). Participants will need to register to access the webcast and conference call using the link below. Once registered, participants will be sent unique log in details.

The briefing will be recorded with a playback available following the event. Questions will be open to analysts and investors who join via the webinar. Questions will not be accepted from participants who join the briefing via telephone.

Register for this meeting:

[https://qbezoom.zoom.us/webinar/register/WN\\_SC8fZ\\_zaQu-Mea683TXHsg](https://qbezoom.zoom.us/webinar/register/WN_SC8fZ_zaQu-Mea683TXHsg)

- ENDS -

For further information, please contact:

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**IMPORTANT DISCLAIMER**

This document (the "Market Release") is dated 18 December 2020 and has been prepared and authorised by QBE Insurance Group Limited (ABN 28 008 485 014) (the **Company** or **QBE**). The information in this Market Release provides an unaudited update of results at 30 September 2020 and expectations for our results for the Financial Year ended 31 December 2020. This Market Release should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange ("ASX"). Copies of those lodgments are available from either the ASX website [www.asx.com.au](http://www.asx.com.au) or QBE's website [www.qbe.com](http://www.qbe.com).

The information is supplied in summary form and is therefore not necessarily complete. Prior to making a decision in relation to QBE's securities, products or services, investors, potential investors and customers must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

This Market Release contains certain "forward-looking information" and "forward-looking statements" within the meaning of applicable securities laws. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "outlook" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You should not place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19. Any such statements, opinions and estimates in this Market Release speak only as of the date hereof and are based on assumptions and contingencies subject to change without notice, as are statements about market and industry trends, projections, guidance and estimates. Forward-looking statements are provided as a general guide only and QBE assumes no obligation to update such information.

Further, such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of QBE that may cause actual results to differ materially from those either expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no reduction in premium rates in excess of our 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 unplanned 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.

This Market Release does not constitute an offer or invitation for the sale or purchase of securities. In particular, this Market Release does not constitute an offer of securities for sale in the United States, or to any person that is, or is acting for the account or benefit of, any U.S. Person, or in any other jurisdiction in which such an offer would be illegal. Securities of QBE may not be offered or sold in the United States or to, or for the account or benefit of, any U.S. Persons without registration under the Securities Act or an exemption from registration.