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19 February 2021

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

Dear Sir/Madam

Market Release – QBE announces 2020 results

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, appearing to read 'Carolyn Scobie'.

Carolyn Scobie
Company Secretary

Encl.



QBE

MARKET RELEASE

19 February 2021

QBE ANNOUNCES 2020 FULL YEAR RESULTS¹

As previously foreshadowed, QBE today announced a statutory net loss after tax of \$1,517M, compared with a net profit after tax of \$550M in 2019.

The headline result includes a disappointing underwriting result, a significant reduction in investment income, impairment of goodwill and deferred tax assets in North America and charges related to rationalisation of legacy IT platforms and our real estate footprint.

The adjusted net cash loss after tax was \$863M, which compares with an adjusted net cash profit after tax of \$733M in the prior year.

Premium rates continued to harden. Group-wide premium renewal rate increases averaged 9.8%² compared with 6.3%^{2,3} in 2019. Premium rate momentum accelerated through the year in International and North America, while momentum in Australia Pacific recovered in the fourth quarter as pandemic-related pricing relief initiatives ended. Group-wide renewal rate increases averaged 11.3%² during 2H20 and 12.6%² in 4Q20.

On a constant currency basis and adjusting for disposals, gross written premium grew by 10% to \$14,643M reflecting premium rate momentum, improved premium retention across all divisions and strong new business growth, particularly in North America and International.

The Group reported a FY20 combined operating ratio of 104.2%⁴ compared with 97.5%^{3,4,5} in 2019, reflecting COVID-19 impacts, adverse prior accident year claims development and elevated catastrophe claims. Excluding \$655M of COVID-19 impacts, the adjusted combined operating ratio was 98.6%⁴, up from 97.5%^{3,4,5} in 2019.

Normalised for above plan catastrophe experience and the increase in risk margins, the current accident year combined operating ratio improved to 94.0%⁶ from 98.4%³ in 2019.

This pleasing uplift in underlying profitability is primarily due to a further 2.9%^{6,7} improvement in the attritional claims ratio, a modest improvement in the large individual risk claims ratio and an improved (albeit still below average) Crop result.

Adjusting the normalised current accident year combined operating ratio of 94.0%⁶ for the increase in reinsurance costs and the Group's catastrophe allowance in 2021 and assuming a normal Crop result, indicates an "exit" combined operating ratio of ~95% from which QBE expects margin expansion in 2021.

1 All figures in US\$ unless otherwise stated

2 Excludes premium rate changes relating to North America Crop and Australian compulsory third party (CTP)

3 Continuing operations basis

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

5 Excludes the one-off impact of the Ogden decision in the UK

6 Excludes impact of COVID-19

7 Excludes Crop and lenders' mortgage insurance (LMI)

Catastrophe claims for the year were \$688M¹ or 5.8%¹ of net earned premium. This was up from \$426M² in the prior year and \$134M above our allowance, reflecting particularly adverse experience in Australia due to widespread bushfires and significant east coast hail and storm claims, coupled with US wildfires and a record number of Atlantic hurricanes.

The result also included adverse prior accident year claims development of \$366M¹ or 3.1%¹ of net earned premium, up significantly from \$22M² in 2019, primarily reflecting development in North America including a significant additional allowance to address systemic risks including social inflation and higher severity trends in casualty lines.

QBE's three-year operational efficiency program targeting a \$130M net reduction in costs and an expense ratio of "less than 14%" by the end of 2021 has progressed ahead of plan. Excluding elevated risk and regulatory costs and a NSW CTP profit normalisation charge, but adjusting for well below plan variable remuneration costs and other one-off cost savings, run-rate costs are estimated at \$1,690M¹ which equates to cumulative net cost savings of \$125M since 2018 and an underlying expense ratio of 14.3%¹.

We have commenced the next phase of our operational efficiency program focused on IT modernisation and are targeting an expense ratio of 13% by 2023. To support the program, we will incur a restructuring charge of \$150M to be expensed over three years.

Net investment income reduced to \$226M from \$1,036M² in 2019. Following a 1H20 loss of \$90M, investment returns rebounded sharply due to the continued decline in risk-free rates coupled with a strong recovery in credit spreads.

The Group's indicative regulatory capital PCA multiple is 1.72x, up slightly from 1.71x at 31 December 2019 and above the mid-point of the Group's 1.6-1.8x target range. This is inclusive of a \$100M allowance for prospective COVID-19 claims within premium liabilities.

Allowing for the pre-funded repayment of \$200M of (largely non-regulatory capital qualifying) subordinated debt in March 2021, pro forma gearing is 32.4%, down from 38.0% at 31 December 2019, and within the Group's internal 25-35% debt to equity target range.

Including a \$344M risk margin increase, \$300M of which specifically related to heightened reserving uncertainty associated with COVID-19, the probability of adequacy (PoA) of the Group's total net outstanding claims provision increased to 92.5% from 90.0% at 31 December 2019. This is at the top end of QBE's internal PoA target range of 87.5% - 92.5%.

In light of the substantial 2020 statutory loss, the Board has elected not to declare a final dividend.

Subject to global economic conditions not deteriorating materially, the Board expects to resume dividend payments – of up to 65% of adjusted cash profits – in conjunction with the 2021 interim result.

Interim QBE Group CEO, Richard Pryce, said: *"While obviously very disappointed with the headline loss, premium momentum accelerated across 2020 and has continued into 2021. Coupled with the improved positioning of the underlying business, we enter this year with confidence and optimism."*

I look forward to leading the business in 2021; my primary focus remains performance improvement including that the Group takes full advantage of currently favourable market conditions by maximising premium rate increases while driving targeted growth in portfolios and regions offering the most profitable new business opportunities."

1 Excludes impact of COVID-19

2 Continuing operations basis

FY20 result highlights:

- Statutory net loss after tax of \$1,517M (FY19 \$550M profit)
- (Loss) return on average shareholders' equity of (18.2%) (FY19 6.7%¹)
- Adjusted cash loss after tax of \$863M (FY19 \$733M profit)
- Average group-wide renewal premium rate increase of 9.8%² (FY19 6.3%^{1,2})
- Gross written premium up 10%^{3,4} to \$14,685M⁴ (FY19 \$13,442M¹)
- Net earned premium up 4%^{3,4} to \$11,785M⁴ (FY19 \$11,609M¹), impacted by significant de-risking (reinsurance) initiatives
- Impact of lower risk-free rates used to discount net outstanding claims of \$381M or 3.2%⁴ of net earned premium (2019 \$231M or 2.0%¹ respectively)
- Combined operating ratio of 104.2%⁵ (FY19 97.5%^{1,5,6})
- Combined operating ratio (excluding COVID-19) of 98.6%⁵ (FY19 97.5%^{1,5,6})
- Attritional claims ratio improved a further 2.9%⁷ to 44.6%^{4,7} (FY19 47.5%^{1,7})
- Net catastrophe claims of \$688M⁴ (FY19 \$426M¹) relative to FY20 allowance of \$554M
- Adverse prior accident year claims development of \$366M⁴ (FY19 \$22M¹)
- Expense ratio stable at 14.6%⁴ (FY19 14.6%¹)
- Net investment income of \$226M (FY19 \$1,036M¹), reflecting falling bond yields and narrowing credit spreads largely offset by negative returns on growth assets overall
- Financing and other costs of \$252M (FY19 \$257M¹)
- Amortisation and impairment of intangibles of \$466M (FY19 \$51M¹) including \$390M non-cash North America goodwill impairment charge
- Effective tax rate of negative 3% (FY19 16%¹) distorted by \$120M North America deferred tax asset impairment
- Indicative APRA PCA multiple up slightly to 1.72x (FY19 1.71x), including \$100M allowance for prospective COVID-19 claims within premium liabilities
- Pro forma debt to equity ratio improved to 32.4%⁸ (FY19 38.0%)
- Probability of adequacy (PoA) of outstanding claims increased to 92.5% (FY19 90.0%), the top end of the Group's internal PoA target range of 87.5% - 92.5%, reflecting \$344M of risk margin strengthening in 2020, including \$300M related to COVID-19
- Funds under management increased to \$27.7BN (FY19 \$24.4BN)

FY20 results presentation

QBE Interim Group CEO, Richard Pryce, and Group CFO, Inder Singh, will host a briefing for analysts and institutional investors at 9.30am (AEDT) 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 the briefing via telephone**). **All participants will need to register** to access the webcast and conference call using the link below. Once registered, participants will be sent unique login 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.

Register for this meeting:

https://qbezoom.zoom.us/webinar/register/WN_lfExicnfTsuolnjb6vNIHg

- ENDS -

1 Continuing operations basis
2 Excludes premium rate changes relating to North America Crop and Australian CTP
3 Constant currency basis and excludes impact of 2019 disposals
4 Excludes impact of COVID-19
5 Excludes impact of changes in risk-free rates used to discount net outstanding claims
6 Excludes the one-off impact of the Ogden decision in the UK
7 Excludes Crop and LMI
8 Pro forma adjusting for \$200 million pre-funded debt repayment to be completed in March 2021

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IMPORTANT DISCLAIMER

This document (the "Market Release") is dated 19 February 2021 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 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 lodgements are available from either the ASX website www.asx.com.au or QBE's website 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.