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QBE

27 February 2017

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

Dear Sir/Madam

Market Release – QBE announces 2016 results

Please find attached an announcement for release to the market.

Yours faithfully,

Carolyn Scobie
Company Secretary

Encl.

MARKET RELEASE

27 February 2017

QBE ANNOUNCES 2016 RESULTS [(1)]

"QBE recorded a strong 2016 result with a significant uplift in profitability that is testament to the strength and diversity of our global franchise underpinned by a strong underwriting culture and supported by a high quality balance sheet.

The Group's combined operating ratio improved to 93.2%[(2)] from 94.3%[(3)] in the prior year and compares favourably with our 94% - 95% target range. Our insurance profit margin improved to 9.7% from 9.0%[(3)] in 2015 and was towards the upper end of our 8.5% - 10.0% target range.

Corrective actions across underwriting and pricing, together with improved discipline in our claims management functions, contributed to a significant improvement in the Australian & New Zealand attritional claims ratio in the second half of 2016.

North American Operations reported a further improvement in performance with underwriting profit more than doubling and the combined operating ratio improving to 97.7%[(2)] from 99.8% in 2015. We are expecting a further improvement in profitability in 2017 and 2018.

European Operations again delivered a strong combined operating ratio of 90.2%[(2)] and our Emerging Markets division recorded a stable combined operating ratio and double digit gross written premium growth on a constant currency basis.

Net profit after tax increased 5%[(3)] to $844 million, with an increase in investment income partially offset by an adverse discount rate impact and the impact of the stronger US dollar. Net profit after tax increased by 16%[(3)] on a constant currency basis.

Return on equity increased to 8.1% from 7.5%[(3)] last year.

Cash profit after tax, which drives our dividend payments, was broadly stable at $898 million but up 12% on a constant currency basis.

The 2016 result includes $366 million of positive prior accident year claims development, up from $147 million[(3)] in 2015. The Group has now reported five consecutive halves of favourable claims development.

As at 31 December 2016, QBE's APRA PCA multiple was 1.79x and our probability of adequacy of outstanding claims was 89.5%, up from 1.73x and 89.0% respectively a year earlier.

Cash generation is strong, with cash remittances from divisions up 55% to $1,106 million. As a consequence, in addition to declaring a 10% increase in the final dividend to 33 Australian cents per share, the Board has announced a three year cumulative on-market share buyback of up to A$1 billion."

John Neal, QBE Group Chief Executive Officer

(1) All figures in US$ unless otherwise stated.

(2) Combined operating ratio excluding discount rate impact.

(3) 2015 comparable figures exclude Argentine workers' compensation, M&LS deferred acquisition cost write-down as well as agency and other asset sales.

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2016 RESULT HIGHLIGHTS [1]

- *Net profit after tax up 5%[2] to $844M (up 16%[2] on a constant currency basis)*
- *Cash profit after tax up 1% to $898M (up 12% on a constant currency basis)*
- *Return on equity of 8.1% (FY15 7.5%[2])*
- *Combined operating ratio of 93.2%[3] (FY15 94.3%[2])*
- *Insurance profit margin of 9.7% (FY15 9.0%[2])*
- *Gross written premium down 2%[4] to $14,088M (up 1%[4] on a constant currency basis)*
- *Net earned premium down 2%[5] to $11,636M (up 2%[5] on a constant currency basis)*
- *Positive prior accident year claims development of $366M (FY15 $147M – 1H16 $218M)*
- *Successfully reinsured potentially volatile claims liabilities in North America and Europe*
- *Probability of adequacy of outstanding claims increased to 89.5% (FY15 89.0%)*
- *Debt to equity broadly stable at 33.8% and within our benchmark range of 25% - 35%*
- *Indicative APRA PCA multiple of 1.79x (FY15 1.73x) with increased surplus above S&P AA equivalent capital*
- *Cash remittances from divisions up 55% to $1,106M (FY15 $715M)*
- *Final dividend up 10% to 33 Australian cents per share (2015 30 Australian cents)*

2016 FINAL DIVIDEND AND ON-MARKET SHARE BUYBACK FACILITY [1]

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.

The final dividend for 2016 will be 33 Australian cents per share, franked at 50%. Combined with the 2016 interim dividend of 21 Australian cents per share, the total dividend for 2016 will be 54 Australian cents per share, up 8% compared with the total 2015 dividend of 50 Australian cents per share. The dividend reinvestment plan and bonus share plan continue at a nil discount with any shares to be issued under the dividend reinvestment plan to be acquired on-market.

The payout ratio for 2016 is around 61%, calculated by converting cash profit to Australian dollars at the average rate of exchange during the period.

Shares will begin trading ex-dividend on 9 March 2017, the record date is 10 March 2017 and the dividend will be paid on 13 April 2017.

Ensuring our capital is managed efficiently is an ongoing priority for the Board. Recognising the strength of our balance sheet and expected retained earnings growth, we are today announcing the establishment of a three year cumulative on-market share buyback facility of up to A$1 billion, with a current target of not more than A$333 million in any one calendar year. Supplementing rising dividend payments and in recognition of the Group's limited franking position, the Board considers an on-market buyback to be the most appropriate application of QBE's emerging surplus capital, rewarding shareholders while maintaining capital efficiency.

(1) All figures in US$ unless otherwise stated.

(2) 2015 comparable figures exclude Argentine workers' compensation, M&LS deferred acquisition cost write-down as well as agency and other asset sales.

(3) Combined operating ratio excluding discount rate impact.

(4) 2015 result adjusted to exclude sold Argentine workers' compensation business and $383M of M&LS gross written premium.

(5) 2015 result adjusted to exclude sold Argentine workers' compensation business and $375M of M&LS net earned premium.

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OUTLOOK

The Group's targets for 2017 are as follows:

Gross written premium	Relatively stable(1)(2)
Combined operating ratio	93.5% - 95.0%(3)(4)(5)
Investment return	2.5% - 3.0%

We anticipate that the market backdrop will remain challenging in 2017, although indications of modest improvement are now emerging. The rate of decline in global pricing is easing and, while there is variation between markets, we anticipate that pricing in markets other than Australia will be broadly flat in 2017. We are also encouraged by the improved US macroeconomic outlook following the presidential election, while investment income should benefit from higher bond yields in all major markets.

The QBE franchise is positioned to support growth; however, in light of the still competitive premium pricing landscape and recent exchange rate volatility, gross written premium is expected to remain relatively stable during 2017.

Looking beyond the current year, the medium-term targets provided at the May 2016 Investor Update are unchanged. More specifically, we remain committed to our 2018 targeted combined operating ratio of around 93% as the full benefit of our operating expense reductions and claims savings are realised. This, together with the improving outlook for investment returns, supports our long-term return on tangible equity target of 13-15%.

(1) Premium target is based on assumed average foreign exchange rates relative to the US dollar as follows: AUD 0.73; GBP 1.25; and EUR 1.10.
(2) Net earned premium growth will likely exceed gross written premium growth due to in excess of $350 million of reinsurance cost savings achieved as a result of the restructure and refinement of the Group's 2017 reinsurance protections.
(3) Assumes risk-free rates as at 31 December 2016.
(4) Assumes favourable prior accident year claims development.
(5) Other than the 0.5% explicit increase in the probability of adequacy of the net central estimate for potential changes to the Ogden tables (refer page 24 of the 2016 Annual Report for further details), the target range does not allow for a potentially more extreme legislative outcome.

TELECONFERENCE

QBE Group CEO, John Neal and Group CFO, Pat Regan, will hold a teleconference today from 10.30am to 11.30am AEDST.

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
- 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

In order to ask a question during the live Q&A session: Press 01 on your telephone keypad to enter the queue

PARTICIPATION CODE: 208250#

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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.

For further information, please contact:

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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 37 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.

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