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26 February 2018

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

Dear Sir/Madam

Market Release – QBE announces 2017 results

Please find attached an announcement for release to the market.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Carolyn Scobie', written in a cursive style.

Carolyn Scobie
Company Secretary

Encl.



QBE

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QBE ANNOUNCES 2017 RESULTS ¹

Today's results are consistent with our ASX Release of 23 January 2018 and reflect the record cost of catastrophes in the second half of 2017 together with deterioration in our emerging markets businesses and two significant non-cash items. Notwithstanding our comprehensive reinsurance protections, the net cost of catastrophes for QBE (after reinsurance) was \$1,227 million in 2017 compared with \$439 million in 2016.

QBE reported a statutory 2017 net loss after tax of \$1,249 million, which compares with a net profit after tax of \$844 million in the prior year. This includes the significant non-cash impairment of goodwill (\$700 million) and write down of the deferred tax asset following the reduction in the US corporate tax rate (\$230 million) in our North American Operations.

Key result highlights include:

- Statutory net loss after tax \$1,249M (FY16 profit of \$844M)
- Statutory result includes the non-cash write down of \$700M of goodwill and \$230M of deferred tax asset in North American Operations
- After tax loss on a cash basis of \$258M (FY16 cash profit \$898M)
- Adjusted combined operating ratio of 104.1%^{2,3,4} (FY16 93.7%^{3,4,5}), consistent with the "around 104%" estimate included in our ASX Release of 23 January 2018
- Net earned premium up 7%^{4,5,6}, assisted by reinsurance cost savings
- Positive prior accident year claims development of \$37M^{2,4} (FY16 \$366M^{4,5})
- Successfully reinsured potentially volatile claims liabilities in North American Operations
- Probability of adequacy of outstanding claims strengthened to 90.0% (FY16 89.5%)
- Improved expense ratio of 15.7%⁴ (FY16 16.5%^{4,5})
- Net investment return for the year of 3.2% (FY16 2.9%)
- Debt to equity of 40.8% above our 25% - 35% benchmark range (FY16 33.8%), impacted by non-cash write down of North American Operations' goodwill and deferred tax asset
- Indicative APRA PCA multiple of 1.64x (FY16 1.76x)
- Cash remittances from operating divisions broadly stable at \$1,022M (FY16 \$1,106M)
- Final dividend of four Australian cents per share, 30% franked (FY16 33 Australian cents, 50% franked)

¹ All figures in US\$ unless otherwise stated

² Excludes a \$141M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK

³ Excludes the impact of changes in risk-free rates used to discount net outstanding claims

⁴ Excludes transactions to reinsure US liabilities

⁵ Excludes transactions to reinsure UK liabilities

⁶ Constant currency basis



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The Group's adjusted combined operating ratio of 104.1%^{2,3,4} compares with 93.7%^{3,4,5} in the prior year, the increase primarily reflecting extreme catastrophe experience and a significantly reduced level of positive prior accident year claims development. These factors more than offset an improved combined commission and expense ratio.

Excluding the net cost of large individual risk and catastrophe claims retained in excess of the Group's aggregate reinsurance protection, the adjusted combined operating ratio would have been 98.2%^{2,3,4}.

Australian & New Zealand Operations achieved further performance improvement due to premium rate increases, improved underwriting discipline and claims management initiatives. The division recorded a combined operating ratio of 92.0%³, down from 92.4%³ last year, including a 2.5% reduction in the attritional claims ratio (excluding LMI).

North American Operations' performance was heavily impacted by second half catastrophes including Hurricanes Harvey, Irma and Maria and the Californian wildfires, resulting in a combined operating ratio of 109.1%^{3,4}, up from 98.5%^{3,4} in the prior year. Large individual risk and catastrophe claims in excess of the division's aggregate reinsurance protection added 6.9% to North American Operations' combined operating ratio.

European Operations had another strong result in difficult trading conditions, with reduced performance in the second half partly due to exposure to North American catastrophes, as well as a reduced level of positive prior accident year claims development which has moderated from the levels seen in recent years. The division's combined operating ratio of 95.2%^{2,3}, up from 90.7%^{3,5} in the prior year, is a strong result in the current environment.

Asia Pacific Operations reported an unacceptable combined operating ratio of 115.5%³, up from 95.6%³ in the prior year. The division's newly formed executive team has implemented plans to improve performance through more robust risk selection, pricing and claims management while efficiency initiatives have also been implemented.

In Latin American Operations, a heightened incidence of large individual risk and catastrophe claims coupled with deterioration in legacy portfolios and adverse prior accident year claims development contributed to a 113.1%³ combined operating ratio. As part of a broader strategy to simplify our global footprint and enhance the quality and consistency of our results, we have decided to exit the region.

Notwithstanding the 2017 net loss, QBE's balance sheet remains strong. As at 31 December 2017, QBE's indicative APRA PCA multiple was 1.64x and our probability of adequacy of outstanding claims was 90.0%. This compares with 1.76x and 89.5% respectively as at 31 December 2016.

1 All figures in US\$ unless otherwise stated

2 Excludes a \$141M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK

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

4 Excludes transactions to reinsure US liabilities

5 Excludes transactions to reinsure UK liabilities



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2017 FINAL 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.

The final dividend for 2017 will be four Australian cents per share, franked at 30%, and compares with the 2016 final dividend of 33 Australian cents per share, franked at 50%. The reduced dividend reflects the very significant impact of catastrophe claims that contributed to a \$632 million after tax loss on a cash basis during the second half of the year.

Including A\$139 million of funds used to buy back and cancel QBE shares, the payout for the 2017 full year is A\$495 million, down 33% from A\$741 million in 2016.

Shares will begin trading ex-dividend on 8 March 2018, the record date is 9 March 2018 and the dividend will be paid on 20 April 2018.

The Board remains committed to the three-year share buyback of up to A\$1 billion; however, intends to take a considered approach in the near term.

2018 PRIORITIES

The Board and management are committed to an accelerated reshaping of the Group to create a stronger and simpler QBE, with seven priorities for 2018 aligned with these objectives:

1. **Simplify QBE:** Reduce complexity across the business and operate only in markets and products where we are profitable and have a distinct advantage.
2. **Brilliant Basics:** Underwriting, pricing and claims form the basics of what we do as a business and we will focus on doing each of these brilliantly.
3. **Deliver the 2018 plan:** Drive rigorous performance management through detailed cell reviews. Deliver a combined operating ratio within our target range and improve the attritional claims ratio through better risk selection, pricing and claims outcomes.
4. **Further reposition North American Operations:** We need our North American Operations to deliver improved underwriting results at a similar level to our European and Australian & New Zealand Operations, and we see significant opportunities to further transform and refocus this business.
5. **Remediate Asia:** Improve pricing and risk selection in a number of key portfolios and work towards a more acceptable performance in our Asia Pacific Operations.



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6. **Talent and culture:** Embed a culture that supports our objectives and drives the right behaviours. Introduce a new set of values that place greater emphasis on being fast-paced, accountable, technically excellent, decisive, diverse, customer-led and collaborative.
7. **Build for the future:** To build a successful company for the future we need to be innovative and customer focussed whilst delivering on a clear technology roadmap.

OUTLOOK FOR 2018

The Group's targets for 2018 are as follows:

Combined operating ratio	95.0% - 97.5% ^{1,2}
Investment return	2.5% - 3.0% ²

1 Assumes risk-free rates as at 31 December 2017

2 Includes the results of operations in Latin America which will be presented as discontinued operations in the 2018 statement of comprehensive income



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TELECONFERENCE

QBE Group CEO, Pat Regan and Group CFO, Michael Ford, 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

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

PARTICIPATION CODE: 21103970#

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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 36 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.