QBE Insurance Group Limited ABN 28 008 485 014
Level 27, 8 Chifley Square, SYDNEY NSW 2000 Australia
GPO Box 82, Sydney NSW 2001
telephone + 612 9375 4444 • facsimile + 612 9231 6104

www.qbe.com

25 February 2014

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

Dear Sir/Madam

Market Release – QBE announces 2013 results

Please find attached an announcement for release to the market.

Yours faithfully,

D Ramsay

Duncan Ramsay
Company Secretary

Encl.

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QBE ANNOUNCES 2013 RESULTS

"Today's results were foreshadowed in our announcement to the market in December. We have introduced changes to key management and have taken significant steps to reposition and right-size underperforming businesses in North America and are making excellent progress with our global transformation program.

"Key leading indicators in 2013, including an underlying insurance profit margin in excess of 10% and a current accident year central estimate combined operating ratio of 92.5%, enable us to target a markedly improved performance in 2014."

John Neal, QBE Group Chief Executive Officer

HIGHLIGHTS

QBE today announced its 2013 full year results, which are in line with the update provided to the market on 9 December 2013.

- Net loss after tax of US$254 million
- Cash profit of $761 million, differing from our December announcement due to the foreshadowed one-off FPS restructuring costs being deemed 'cash' rather than 'non-cash' items
- Insurance profit down 33% to US$841 million
- Significant strengthening of the provision for outstanding claims central estimate and risk margins, with probability of adequacy increased to 90.7%
- Attritional claims ratio broadly stable at 49.6%
- Final dividend for 2013 of 12 Australian cents per share, fully franked
- Operational transformation progressing to plan and set to deliver annual cost savings of at least US$250 million by the end of 2015
- Markedly improved financial performance targeted in 2014

Cash profit (net profit after tax but before non-cash charges for amortisation and impairment of intangibles) was US$761 million compared with US$1,042 million last year. In line with December guidance, an overall net loss after tax of US$254 million was reported due to large one-off costs primarily associated with QBE's North American Operations relating to prior year claims, write-off of goodwill and intangibles and restructuring costs.

Key attributes of the 2013 full year results include:

- Gross written premium income down 2% to US$18.0 billion
- Net earned premium income down 3% to US$15.4 billion
- Combined operating ratio of 97.8% compared with 97.1% in 2012
- Insurance profit margin of 5.5% compared with 8.0% in 2012
- Net investment income down 34% to US$801 million
- Net loss of US$254 million, which compares with a net profit of US$761 million in 2012
- Cash earnings per share of 62.9 US cents compared with 89.1 US cents in 2012

PREMIUM

Gross written premium was US$18.0 billion, down from US$18.4 billion in 2012. This was well below budget, largely due to a US$715 million year-on-year reduction in North American gross written premium, with growth in the other divisions partially offset by translation to the stronger US dollar. Premium rate increases on renewed business averaged 4% overall, reflecting relatively strong rate increases in Australia and North America. Pricing in Europe remains challenged where strong competition and surplus capital is precluding any substantive rate increases.

With the exception of the North American Operations, local currency premium growth was solid in each of the divisions:

- North American Operations down 11% to US$5,854 million
- Latin American Operations up 13% to US$1,380 million
- European Operations up 4% to £3,324 million
- Australian and New Zealand Operations up 4% to A$4,986 million
- Asia Pacific Operations up 26% to US$730 million

John Neal said “In local currency, we have seen growth of between 4% and 26% in four of our five divisions. We have taken robust action in North America, and elsewhere where appropriate, to forgo premium to ensure a sustainable improvement in underwriting profit.”

UNDERWRITING AND INSURANCE PROFIT

The combined operating ratio, which is the ratio of claims, commissions and expenses to net earned premium, was 97.8% representing a slight deterioration from 97.1% in 2012.

Unfortunately this fell well short of our original 92% combined operating ratio guidance, mainly due to adverse prior accident year claims development in our North American Operations which reported a US$482 million underwriting loss.

In contrast, the Australian & New Zealand and Asia Pacific Operations both produced outstanding technical results with combined operating ratios in the 80’s.

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The Group's net claims ratio improved to 64.5% compared with 66.0% last year. Benign catastrophe experience, favourable discount rate movements and the impact of premium rate increases and portfolio remediation initiatives were substantially offset by an increased frequency and severity of large individual risk claims, upgrades to prior accident year claims reserves and a significant charge to strengthen margins.

The Group's attritional claims ratio deteriorated slightly to 49.6% in 2013 compared with 49.4% in 2012. Normalising to exclude the unusual impact of the US crop and FPS businesses, the underlying attritional claims ratio improved to 48.2% in 2013 compared with 49.8% in 2012.

The combined commission and expense ratio increased to 33.3% compared with 31.1% last year due to changes in product mix, the impact of lower premium volumes and one-off FPS restructuring and other costs as well as our investment in the operational transformation program.

Insurance profit fell 33% to US$841 million compared with US$1,262 million in 2012, primarily due to materially lower investment returns on policyholders' funds, resulting in an insurance profit margin of 5.5%, well down on 8.0% last year.

John Neal said "Although we are disappointed with our 2013 underwriting result, we have taken the necessary steps to deal with underperforming portfolios, completed an extensive program of management change and succession across the Group and are well on the way to implementing transformation programs, all of which will provide a solid base for our business in 2014."

NET PROFIT AFTER TAX

QBE reported a net loss after tax of US$254 million compared to a net profit after tax of US$761 million last year. The loss before income tax was impacted by the following significant items:

	2013 US$M	2012 US$M
Realised and unrealised gain on investments	86	504
Cost of large individual risk and catastrophe claims	(1,493)	(1,643)
Amortisation and impairment of intangibles	(1,245)	(407)
Prior accident year undiscounted central estimate claims development	(552)[(1)]	(464)
Risk margin strengthening	266	88

(1) Net of $69 million adjustment for discount on certain long tail portfolios.

The loss was primarily attributable to significant upgrades to prior accident year claims reserves and the write-down of intangibles and other assets in our North American Operations following the rapid and severe decline in lender-placed premium income which caused substantial expense strain and the consequential need to restructure and right-size the FPS business.

INVESTMENTS AND INVESTMENT INCOME

Our in-house managed investment portfolio declined slightly to US$30.6 billion from US$31.5 billion as the US dollar appreciated relative to the Australian dollar.

While global interest rates remained at historic lows, QBE's investment returns were slightly above expectations. Our short duration strategy insulated the portfolio from the negative returns experienced by most global fixed income indices, whilst significant allocations to high quality credit and modest exposure to equities bolstered the result.

The overall net yield was 2.6% resulting in net investment income of US$801 million, down materially from 4.1% and US$1,216 million respectively last year, due to the non-recurrence of substantial fair value gains reported in 2012 as a result of narrowing credit spreads.

We remain cautious in our approach to investments, and in 2013 began to diversify our investment portfolio to include additional asset classes such as infrastructure debt and property trusts. This resulted in enhanced investment returns for 2013 with further yield benefits anticipated in 2014 and beyond.

CAPITAL MANAGEMENT

During the year, we implemented a number of initiatives to improve the strength of our balance sheet and to ensure that all key measures remain within our benchmark range.

Major initiatives included:

- the issue of US$498 million of ordinary shares following the senior convertible securities tender process undertaken in June and December 2013
- the issue of US$500 million in subordinated convertible debt
- a reduction in the dividend and payout ratio policy from 70% of reported profit to up to 50% of cash profit

Despite recent challenges, the actions undertaken ensured that the financial strength ratings issued by our primary rating agencies have been maintained.

As at 31 December 2013, QBE's regulatory capital base was an estimated1.59x APRA's Prescribed Capital Amount, up from 1.57x last year. Core tier 1 equity as a percentage of APRA's Prescribed Capital Amount was 114%, up from 112% last year and well in excess of the 60% minimum requirement.

While QBE's debt to equity ratio increased during the year, the absolute level of debt reduced with our borrowings significantly weighted towards subordinated debt thereby supporting capital strength and flexibility.

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2013 FINAL DIVIDEND AND DIVIDEND POLICY

QBE's dividend policy is designed to ensure that we reward shareholders relative to profit while also maintaining sufficient capital for future investment and growth of the business. The final dividend for 2013 will be 12 Australian cents per share, which follows the 2013 interim dividend of 20 Australian cents per share and compares with a 2012 total dividend of 50 Australian cents per share.

The final dividend will be franked at 100%. Shares will begin trading ex-dividend on 6 March 2014, the record date is 13 March 2014 and the dividend will be paid on 31 March 2014. The dividend reinvestment programs continue at a discount of 1%.

The Group's policy is to maintain a dividend payout ratio of up to 50% of cash profit. The 2013 payout ratio is around 50%.

2014 OUTLOOK

We expect premium rates overall to firm by 2.5% on average in 2014, with rate increases to at least counter claims inflation in Australia, New Zealand and North America, however, pricing is expected to remain broadly flat in Europe.

We are only supporting business growth initiatives in those areas that are performing well at present, notably Australia & New Zealand and Asia Pacific Operations. Our North American business remains committed to resetting its business mix in 2014 to consolidate its position as a commercial specialty insurer. In Europe, premium income will be lower due to soft market conditions, competition and ongoing portfolio remediation.

We remain focused on improving our attritional claims ratio which is critical to achieving a sustainable improvement in underwriting profitability. Our large individual risk and catastrophe claims allowance is unchanged from last year at 10.5% of net earned premium, supported by changes in our global reinsurance arrangements designed to provide more effective protection against such losses.

Consistent with our December 2013 market announcement, we are targeting a 2014 combined operating ratio of 93%. Based on this financial target, we expect to achieve an underlying insurance profit margin of around 10%.

Our operational transformation program is on track to reduce our expense ratio by 1% in each of the next two years and therefore promote further improvement in our combined operating ratio in the near term.

Based on our planned asset allocation and in light of current investment market conditions, we are targeting a net investment yield on policyholders' funds of 2.25% giving rise to an investment contribution to the insurance profit margin approximately 3%.

- ENDS -

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For further information, please contact:

Investor Relations
Group Head of Investor Relations
Tony Jackson
Tel: +61 (2) 9375 4364
investor.relations@qbe.com

Media Enquiries
David Symons
Tel: +61 (2) 8306 4244
Cell: +61 (0) 410 559 184
Email: david@catocounsel.com.au

QBE Insurance Group Limited
ABN 28 008 485 014
8 Chifley Square
SYDNEY NSW 2000
Australia

www.qbe.com

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 43 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; 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; 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.