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13 August 2020

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

Dear Sir/Madam

Market Release for the half year ended 30 June 2020

Further to the announcement today of our results for the half year ended 30 June 2020, please find attached a market release in relation to those results.

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

Yours faithfully

Carolyn Scobie
Company Secretary

Attachment

MARKET RELEASE

13 August 2020

QBE ANNOUNCES 2020 INTERIM RESULT[1]

QBE announces its 2020 interim result noting that it is consistent with, or slightly better than, the estimates communicated to the market in our 22 July 2020 ASX release.

QBE today announced a 1H20 statutory net loss after tax of $712M, which compares with a net profit after tax of $463M in the prior period. This includes a pre-tax investment loss of $90M compared with a $755M gain in the prior period.

Premium rates continue to harden. Renewal rate increases averaged 8.7%[2] during the half compared with 4.7%[2,3] in 1H19. Premium rate momentum in North America and International accelerated through the half (2Q20 increases were 10.4% and 14.2% respectively), contributing to an average 2Q20 group-wide renewal rate increase of 10.2%[2] following an increase of 7.3%[2] in 1Q20. Although up 5.5%[2] for the half, pricing momentum in Australia Pacific was impacted by our decision to freeze premium rates for certain lines of business in response to COVID-19.

On a constant currency basis and adjusting for disposals completed in 2019, gross written premium grew by 10%, to $8,041M[4] from $7,637M[3] in the prior period.

The Group reported a 1H20 combined operating ratio (COR) of 103.4%[5]. Excluding $335M of COVID-19 impacts, the COR was 97.4%[5], up from 95.2%[3,5,6] in the prior period, primarily due to catastrophe claims exceeding our allowance and adverse prior accident year claims development.

Holding catastrophe claims at plan and excluding a $23M[4] risk margin strengthening, the current accident year COR improved 3.3% to 93.7%[4,5] from 97.0%[3,5,6] in the prior period. This primarily reflected a further 2.2%[4,7] improvement in the attritional claims ratio, a 0.7%[4] improvement in the large individual risk claims ratio and a 0.2%[4] improvement in the combined commission and expense ratio.

Catastrophe claims increased to $308M[4] from $180M[3] in 1H19. This exceeded our $252M allowance by $56M or 1.1% of net earned premium and reflected devastating and widespread bushfires in Australia coupled with significant Australian east coast hail and storm activity.

1 All figures in US$ unless otherwise stated
2 Excludes premium rate changes relating to Australian compulsory third party motor (CTP)
3 Continuing operations basis
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

The result included adverse prior accident year claims development of $120M[1,2] or 2.2%, primarily reflecting strengthening in North America, with around half of the development pertaining to closed portfolios (E&S and multi-line inwards reinsurance) while the remainder reflects a further impact from heightened social inflation and industry-wide claims development with respect to Hurricane Irma.

Lower risk-free rates used to discount net outstanding claims impacted the underwriting result by $335M or 6.1% compared with $231M[3] or 4.1% in the prior period.

The Group's expense ratio improved to 14.3%[1] from 14.8%[3] in the prior period. Excluding previously flagged elevated risk and regulatory costs, but adjusting for below-plan variable remuneration costs and the impact of the North American reinsurance de-risking initiatives on net earned premium, the run rate expense ratio is 14.4%. The Group remains on track to achieve FY21 expense targets ahead of schedule.

Successful execution of our capital plan increased QBE's regulatory capital PCA multiple to 1.80x[4], up from 1.71x at 31 December 2019 and at the top end of the Group's 1.6-1.8x target range. This is inclusive of a $175M allowance for prospective COVID-19 claims within premium liabilities.

Including a $138M risk margin strengthening, the probability of adequacy (PoA) of the Group's total net outstanding claims provision increased to 91.2% at 30 June 2020, up from 90.0% at 31 December 2019.

Following the successful consent solicitation to amend the terms of the $400M 2017 perpetual capital notes in July 2020, QBE's pro forma gearing is 30.2%[5], at the midpoint of the Group's internal 25-35% debt to equity target range and down from 38.0% at 31 December 2019. Group head office liquidity is $1.5BN, affording the Group considerable flexibility.

Subject to market conditions and to preserve flexibility, QBE may issue a new Tier 2 instrument before year end to take advantage of currently record low interest rates and to allow for upcoming potential subordinated debt redemptions over the next 12 months.

Despite recording a statutory loss for the first half of 2020, the Board has declared an interim dividend of AUD4¢ps (1H19 AUD25¢ps) reflecting the Board's confidence in the strength and stability of QBE coupled with an increasingly promising outlook supported by improved industry pricing.

QBE Group CEO, Pat Regan, said: "I am encouraged by the strong underlying trends evident in the result. Notwithstanding uncertainty surrounding the enduring impact of the COVID-19 pandemic, our greatly strengthened capital base positions us well to capitalise on accelerating pricing momentum and emerging organic growth opportunities."

"The safety and wellbeing of customers and our people is a key priority and this is especially so during these challenging times. We continue to support customers through various initiatives including premium refunds, premium deferrals, extending credit and counselling services to vulnerable customers and accelerating claims payments."

"The improving industry landscape coupled with the fundamental disciplines we have instilled in the business underpin my confidence in our ability to drive sustained margin improvement."

1 Excludes impact of COVID-19

2 Excludes Crop development that is matched by premium cessions under the MPCI scheme (resulting in a nil profit impact)

3 Continuing operations basis

4 Indicative APRA PCA calculation at 30 June 2020

5 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity

1H20 result highlights include:

- Statutory net loss after tax of $712M (1H19 $463M profit)
- Average group-wide renewal premium rate increase of 8.7%[1] (1H19 4.7%[1,2] FY19 6.3%[1,2])
- Gross written premium up 10%[3] to $8,041M[4] (1H19 $7,637M[2])
- Net earned premium up 4%[3] to $5,556M[4] (1H19 $5,671M[2]), impacted by additional (de-risking) reinsurance purchases
- Including $115M of COVID-19 related risk margins, a COVID-19 underwriting impact of $335M pre-tax or 6.0%[4] of net earned premium with expected ultimate net cost unchanged at $600M
- Impact of lower risk-free rates used to discount net outstanding claims of $335M or 6.1% of net earmed premium compared with $231M and 4.1% in the prior period respectively
- COR of 103.4%[5] (1H19 95.2%[2,5,6])
- COR (excluding COVID-19) of 97.4%[5] (1H19 95.2%[2,5,6])
- Attritional claims ratio improved a further 2.2%[4] to 45.5%[4,7] (1H19 47.7%[2,6,7])
- Net catastrophe claims of $308M[4] (1H19 $180M[2]) relative to a 1H20 allowance of $252M
- Adverse prior accident year claims development of $120M[4,8] (1H19 $47M[2,8] favourable)
- Expense ratio improved to 14.3%[4] (1H19 14.8%[2])
- Net investment loss of $90M (1H19 $755M[2] gain)
- Financing and other costs of $125M (1H19 $129M)
- Amortisation and impairment of intangibles of $13M before tax (1H19 $32M)
- Effective tax rate of 9% (1H19 16%)
- The PoA of net outstanding claims liabilities increased to 91.2% as at 30 June 2020 (FY19 90.0%), inclusive of $138M risk margin strengthening
- APRA PCA multiple strengthened to 1.80x[9] (FY19 1.71x), the top of the Group's 1.6-1.8x internal benchmark range, inclusive of $175M allowance for prospective COVID-19 claims
- Pro forma debt to equity ratio 30.2%[10] (FY19 38.0%)
- Interim dividend of AUD4¢ps, franked at 10% (1H19 AUD25¢ps, franked at 60%)

1 Excludes premium rate changes relating to CTP
2 Continuing operations basis
3 Excludes impact of disposals completed in 2019
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 Excludes Crop development that is matched by premium cessions under the MPCI scheme (resulting in a nil profit impact)
9 Indicative APRA PCA calculation at 30 June 2020
10 Allows for the post balance date reclassification of 2017 perpetual capital notes out of borrowings and into equity

1H20 RESULTS PRESENTATION

QBE Group CEO, Pat Regan and Group CFO, Inder Singh, will present details of these results today from 9.30am to 10.30am AEST.

Webcast:
The results briefing will be available for viewing as a live webcast. To access the webcast, please follow the link on our home page www.qbe.com. Testing of the webcast facility is available via this link.

Conference call:
Participants will need to register to access the conference call. Registration can be undertaken here. Once registered, participants will be sent log in details.

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