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QBE

23 January 2018

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

Dear Sir/Madam

QBE UPDATES THE MARKET ON FY17 RESULTS EXPECTATIONS

Please find attached an announcement for release to the market.

Yours faithfully,

Carolyn Scobie
Company Secretary

Encl.

MARKET RELEASE

23 January 2018

QBE UPDATES THE MARKET ON FY17 RESULTS EXPECTATIONS[1,2]

QBE will report its FY17 result on 26 February 2018.

The Group now expects to report a FY17 combined operating ratio (COR) of around 104%[3,4,5], above the target COR range of 100 - 102%[3,4] outlined in our ASX Release of 3 October 2017.

- Significant 4Q17 catastrophe activity, including Californian wildfires and December storms in Australia, coupled with some adverse development of Hurricane Maria, added around $130M to the net cost of catastrophes, increasing the FY17 COR by just over 1% relative to previous expectations.
- After a detailed review of year end claims reserves, we have strengthened claims provisions by around $110M, primarily in North America and Asia Pacific (largely Hong Kong workers' compensation). This compares with previous expectations of a "modest 2H17 release" and added around 1% to the FY17 COR.

  We have increased the Group's reserving probability of adequacy (PoA) to 90.0% at 31 December 2017, from 89.5% previously.
- Other smaller items, including weather-related attritional claims in North America, further second half deterioration in Asia Pacific and a slightly higher expense ratio, contributed approximately 0.5% to the COR relative to previous expectations.

In addition to the above, two significant one-off, non-cash items have contributed to an expected FY17 after tax loss of around $1.2BN:

- We have revised assumptions used to support the carrying value of North American goodwill resulting in an impairment charge of around $700M. This primarily reflects an increase in the long term combined ratio assumption for North America in our updated business plans.

- The reduction in the US corporate tax rate to 21% has given rise to a $230M write down of the carrying value of deferred tax assets in our North American Operations.

The significant catastrophe claims in Equator Re and our North American Operations (where already significant deferred tax assets preclude recognition of further tax losses), have distorted the Group's effective tax rate such that the Group will recognise a material tax expense despite incurring a pre-tax loss.

Other details

Indicative FY17 divisional CORs[3,4,5] are as follows:

- North American Operations – 109%.
- European Operations – 95%.
- Australian & New Zealand Operations – 92%.
- Asia Pacific Operations – 115%.
- Latin American Operations – 114%.
- Equator Re – 141%.

The underwriting results of North America, Equator Re and, to a lesser degree, European Operations, were significantly impacted by the catastrophe activity.

The Group's FY17 combined commission and expense ratio is expected to be around 32.5%[5].

FY17 net investment return is estimated to be around 3.2% or $800M.

A preliminary assessment of our regulatory capital position at 31 December 2017 indicates a PCA multiple of around 1.6x.

The Board will consider the quantum of the final dividend and buy-back expectations in conjunction with the finalisation of the FY17 results on 26 February 2018.

Outlook

The outlook for 2018 includes a target COR range of 95.0-97.5%[3] and a target net investment return of around 2.5-3.0%.

QBE's Group CEO, Mr Pat Regan, stated: "This has been a challenging year for QBE, reflecting an unprecedented cost of catastrophes as well as the particularly disappointing deterioration in our emerging markets businesses. Over the last few months, I have been conducting a detailed review of our operations. We have some businesses with strong market positions that are performing well but we also have businesses that are underperforming. We have commenced a comprehensive program of work to improve both the level and consistency of performance. At the same time, we are conducting a strategic review of our Latin American Operations as we look to simplify the Group and reduce risk. I will give you more detail on these plans in conjunction with the release of our FY17 result detail on 26 February 2018".

(1) Preliminary only – all FY17 numbers are subject to audit.

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

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

(4) Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of the HY17 report for details).

(5) Excludes transactions to reinsure North American claims liabilities.

TELECONFERENCE

QBE Group CEO, Pat Regan and Group CFO, Michael Ford, will hold a teleconference today, commencing at 9.00am AEDST.

The teleconference with analysts and investors will be limited to discussion on matters covered in the announcement.

To ask a question Press * then 1 on your telephone keypad to enter the Q&A queue.

To withdraw your question, Press * then 2 on your telephone keypad.

DIAL IN DETAILS:

Australia Toll free: 1800 908 299

Australia Local: +61 2 9007 8048

New Zealand: 0800 452 795

USA / Canada: 1855 624 0077

UK: 0800 051 1453

Hong Kong: 800 968 273

Singapore: 800 101 2702

Japan: 0066 3386 8000

Conference ID code: 228001

Participants may also pre-register for this conference via https://services.choruscall.com.au/diamondpass/qbe-228001-invite.html

An audio replay of the teleconference and Q&A will be available on our website later today.

- ENDS –

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 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; 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 or tax rates. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this market release.