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18 February 2022

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

Dear Sir/Madam

Market Release – QBE announces 2021 results

Please find attached an announcement for release to the market.

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

Yours faithfully,

Carolyn Scobie
Company Secretary

Encl.

MARKET RELEASE

18 February 2022

QBE ANNOUNCES FY21 RESULT

QBE today announced a FY21 statutory net profit after tax of $750M, compared with a net loss after tax of $1,517M in FY20, reflecting a material turnaround in underwriting profitability.

Adjusted net cash profit after tax was $805M equating to a return on equity of 10.3%.

Insurance trading conditions were favourable throughout 2021, supporting our focus on driving further improvement in profitability while also achieving targeted growth.

QBE Group CEO, Andrew Horton, said: "I am pleased with the strong premium growth and significant uplift in underwriting margin. The strong result was achieved despite the heightened level of catastrophes during the year which remain a major issue for the industry."

"In targeting ongoing premium growth, we will remain vigilant in pricing adequately for an appropriate risk-adjusted return on capital, with claims inflation, catastrophe costs and overall portfolio volatility key areas of ongoing focus."

The Board has declared a final dividend of 19 Australian cents per share bringing the FY21 dividend to 30 Australian cents per share, up from 4 Australian cents per share in 2020, and representing a payout of 41% of adjusted cash profit. While recognising QBE's improving profitability and earnings resilience, the Board has revised the Group's dividend policy to 40-60% of annual adjusted cash profit from "up to 65% of adjusted cash profit" previously to retain capital to support our growth ambitions and facilitate the gradual normalisation of our investment asset risk profile.

NEW PURPOSE, VISION AND STRATEGIC PRIORITIES

In January this year, we launched a new vision, purpose and set of strategic priorities. Our new purpose is centred around enabling a more resilient future, while our vision is to be the most consistent and innovative risk partner.

To achieve our purpose and vision, we have laid out six strategic priorities providing enterprise-wide clarity around our key areas of focus; portfolio optimisation, sustainable growth, bring the enterprise together, modernise our business, our people and our culture. More detail is provided in our 2021 Annual Report and FY21 investor presentation.

QBE Group CEO, Andrew Horton, added: "Upon joining QBE five months ago, I immediately recognised that I had joined an organisation with great potential. My overarching ambition is to establish QBE as a consistently high-performing enterprise that is both culturally and operationally united, with a clear strategic direction.

"Our new purpose, vision and strategic priorities will guide our strategic plan, building on the momentum evident in our FY21 financial result as we seek to further strengthen and grow our business for the future. In doing so, we will drive greater consistency and collaboration, support the integration of sustainability across all facets of our business and continually evolve the experience we provide our people, customers and partners.

“I look forward to working with the Group Executive Committee and our enterprise leadership network on embedding our strategic priorities and sustainability framework into their respective areas.”

FY21 RESULT OVERVIEW

Statutory gross written premium grew by 22% to $18,457M reflecting the strong premium rate environment as well as improved customer retention and new business growth across all regions. Growth in Crop was especially strong at 51% due to the significant increase in corn and soybean prices coupled with targeted organic growth.

Excluding Crop, gross written premium increased by 18%, or 10% in excess of premium rate increases, up from 7% in 1H21 and 4% in FY20. This included growth in excess of rate of 15%, 7% and 11% in North America, International and Australia Pacific respectively.

Premium rate increases are ongoing with Group-wide renewal rate increases averaging 9.7% during the year consistent with 1H21 and 9.8% in FY20. While premium rate momentum moderated slightly in International across the year, momentum accelerated in North America and Australia Pacific during 2H21.

The Group reported a statutory FY21 combined operating ratio of 93.7% compared with 104.2% in the prior year which was significantly impacted by COVID-19 claims and adverse prior accident year claims development.

Pleasingly, our North America Crop business reported a combined operating ratio of 92.7%, an improvement from 95.0% reported at 1H21 and 98.2% in FY20.

For transparency and prior year comparability, our 2021 Annual Report and FY21 Investor Presentation includes analysis of the Group’s 2021 financial performance excluding the impact of COVID-19 and a 2021 transaction to reinsure Australian CTP liabilities which, although not materially impacting profit, impacts year-on-year comparison of underwriting ratios. The financial result commentary that follows is on this basis.

The Group’s improved underwriting performance reflects a 1.4% improvement in the ex-cat claims ratio and a 2.2% reduction in the combined commission and expense ratio which more than offset significantly increased catastrophe claims.

Catastrophe claims for the year were $905M or 6.6% of net earned premium, up materially from $688M or 5.8% in the prior year and 0.9% above the Group’s increased allowance. Catastrophe claims included Winter Storm Uri, Hurricane Ida, Storm Bernd, Cyclone Seroja and widespread flooding and storm damage in Australia.

The result included underlying adverse prior accident year claims development of $192M or 1.4% of net earned premium compared with $366M or 3.1% of adverse development in FY20.

The combined commission and expense ratio improved to 28.5% from 30.7% in the prior year, reflecting further benefits stemming from the Group’s operational efficiency program coupled with operating leverage associated with strong premium growth, particularly in Crop. Business mix changes, including growth in Crop, coupled with the purchasing of additional quota share reinsurance contributed to a reduction in the commission ratio.

Net investment income was $122M compared with $226M in FY20. A modestly short tactical duration stance coupled with healthy returns on growth assets more than offset the negative mark-to-market impact of higher risk-free rates on our fixed income portfolio.

QBE’s indicative regulatory capital PCA multiple was 1.75x, up marginally from 1.72x at 31 December 2020 and comfortably above the mid-point of the Group’s 1.6-1.8x target range. The benefit of strong organic capital generation on regulatory capital was largely offset by capital strain associated with strong new business growth.

OUTLOOK

QBE Group CEO, Andrew Horton, said: "Our new strategic priorities will support further optimisation and improvement in returns, alongside a focus on driving greater consistency in returns."

"Following another year of elevated natural catastrophe claims costs alongside rising inflationary signals and continued low interest rates, the industry operating environment remains highly uncertain. Because of this, the premium pricing environment is likely to remain positive in 2022."

"In light of this, we expect gross written premium growth to be in the high single digits in 2022. Moreover, delivery against our strategic priorities should result in an improved and more consistent return profile over time such that the Group is capable of consistently delivering a low to mid-90's combined operating ratio."

"In FY22, we expect the business will achieve further steady improvement on the FY21 'exit' combined operating ratio of ~94%."

BASIS OF PRESENTATION (unless otherwise stated)

- All amounts in this release are US dollars.
- Premium growth rates are quoted on a constant currency basis.
- Premium rate changes exclude North America Crop and/or Australian compulsory third party motor (CTP).
- Combined operating ratio and net claims ratio exclude the impact of changes in risk-free rates used to discount net outstanding claims.
- 2021 indicative regulatory capital PCA multiple is quoted on a pro forma basis excluding pre-funding of GBP327 million debt intended to be redeemed.
- Prior accident year claims development excludes various items for which there is a corresponding and offsetting impact elsewhere in the profit and loss. Refer to the Annual Report for further details.

FY21 RESULTS PRESENTATION

QBE Group CEO, Andrew Horton, and Group CFO, Inder Singh, will host a briefing for analysts and institutional investors at 9.30am (AEDT) today.

The briefing will be available for viewing as a live webcast and conference call. **All participants need to register** to access the webcast or conference call using the links below. Pre-registration is now open.

Webinar and conference call:

Webcast (listen only): https://webcast.openbriefing.com/8457/

Teleconference (Q&A participation): https://s1.c-conf.com/diamondpass/10019512-q3duk5.html

Questions will only be open to analysts and investors who join via the teleconference.

The briefing will be recorded with a playback available using the following link after the event https://www.qbe.com/investor-relations/reports-presentations.

- ENDS -

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