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8 August 2023

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

Dear Sir/Madam

Market Release – AASB 17 Transition update

Please find attached an announcement for release to the market.

This release has been authorised by the QBE Disclosure Committee.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Carolyn Scobie'.

Carolyn Scobie
Company Secretary

Encl.

AASB 17 transition update

AASB 17 prior period restatements

On 30 May 2023 QBE released unaudited prior period AASB 17 restatements as part of its transition to AASB 17.

Ahead of its half year 2023 result on 10 August, enclosed are updated AASB 17 restatements to reflect the following:

- The completion of internal and external reviews on the restated 1H22 result.
- An accounting change for the impact from changes in risk-free rates on the risk adjustment. Previously recorded within ex-cat claims, this impact will now be recorded within net insurance finance income/(expense), which is consistent with the treatment of the central estimate, and will allow QBE to incorporate the interest rate sensitivity of the risk adjustment into its broader asset liability management framework.

These changes have minimal impact on the 2022 restated Group combined operating ratio or net profit after tax relative to the 30 May 2023 release.

Contact details

For further information, please contact:

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AASB 17 Group restatements

Group management income statement (AASB 17)

FOR THE PERIOD ENDED	30 JUNE 2022 US\$M	31 DECEMBER 2022 US\$M
Insurance revenue	8,942	18,834
Insurance service expenses	(9,168)	(17,962)
Reinsurance expenses	(1,614)	(3,746)
Reinsurance income	2,276	3,640
Insurance service result	436	766
Other expenses	(119)	(225)
Other income	58	74
Insurance operating result	375	615
Analysed as		
Gross written premium	11,576	19,993
Insurance revenue	8,942	18,834
Reinsurance expenses	(1,614)	(3,746)
Net insurance revenue	7,328	15,088
Net claims expense	(4,799)	(9,964)
Net commission	(1,296)	(2,741)
Expenses and other income	(858)	(1,768)
Insurance operating result	375	615
Net insurance finance income	784	1,241
Fixed income losses from changes in risk-free rates	(854)	(1,343)
Net investment (loss) income on policyholders' funds	(13)	370
Insurance profit	292	883
Net investment (loss) income on shareholders' funds	(7)	200
Financing and other costs	(120)	(230)
Gain on sale of entities and businesses	36	38
Share of net loss of associates	(3)	(7)
Restructuring and related expenses	(54)	(106)
Amortisation and impairment of intangibles	(8)	(27)
Remediation	(75)	(75)
Profit before income tax	61	676
Income tax expense	(10)	(81)
Profit after income tax	51	595
Non-controlling interests	(3)	(8)
Net profit after income tax	48	587

Detailed reconciliations between the summary consolidated statutory income statement and the Group management income statement basis results are provided on page 4 (FY22) and page 7 (HY22) of this release.

FOR THE PERIOD ENDED		30 JUNE 2022	31 DECEMBER 2022
Net profit after tax	\$M	48	587
Amortisation and impairment of intangibles after tax	\$M	30	72
Write-off of deferred tax assets	\$M	–	–
Write-off of capitalised IT assets	\$M	–	–
Net cash profit after tax	\$M	78	659
Restructuring and related expenses after tax	\$M	49	93
Net gain on disposals after tax	\$M	(36)	(38)
Additional Tier 1 capital coupon accrual	\$M	(25)	(50)
Adjusted net profit after tax	\$M	66	664
Basic earnings per share – Statutory	US cents	1.6	36.3
Diluted earnings per share – Statutory	US cents	1.5	36.1
Basic earnings per share – Adjusted cash basis	US cents	4.5	44.8
Diluted earnings per share – Adjusted cash basis	US cents	4.4	44.6
Shareholders' equity – Closing	\$M	8,458	8,857
Shareholders' equity – Average	\$M	8,693	8,893
Adjusted shareholders' equity (for AT1) – Average	\$M	7,807	8,007
Return on average shareholders' equity – Statutory	%	1.2	6.6
Return on average shareholders' equity – Adjusted cash basis	%	1.7	8.3

Full year 2022 restatements

Segment results - AASB 17

FOR THE YEAR ENDED 31 DECEMBER 2022		GROUP	NORTH AMERICA	INTERNATIONAL	AUSTRALIA PACIFIC
Gross written premium	\$M	19,993	7,280	7,502	5,219
Insurance revenue	\$M	18,834	7,170	6,701	4,965
Net insurance revenue (ex Crop & LMI)	\$M	13,367	3,102	5,871	4,403
Net insurance revenue	\$M	15,088	4,641	5,871	4,585
Net claims expense	\$M	(9,964)	(3,196)	(3,822)	(2,943)
Net commission	\$M	(2,741)	(995)	(1,053)	(714)
Expenses and other income	\$M	(1,768)	(428)	(690)	(599)
Insurance operating result	\$M	615	22	306	329
Ex-cat claims ratio (ex Crop, LMI & RA)	%	54.9	56.8	52.5	56.8
Ex-cat claims ratio	%	60.5	65.9	57.3	59.3
Catastrophe claims	%	7.0	5.4	7.5	8.1
Prior accident year claims development	%	(1.5)	(2.4)	0.3	(3.2)
Net claims ratio	%	66.0	68.9	65.1	64.2
Net claims ratio	%	66.0	68.9	65.1	64.2
Commission ratio	%	18.2	21.4	17.9	15.5
Expense ratio	%	11.7	9.2	11.8	13.1
Combined operating ratio	%	95.9	99.5	94.8	92.8

Claims analysis - AASB 17

FOR THE YEAR ENDED 31 DECEMBER 2022		GROUP	NORTH AMERICA	INTERNATIONAL	AUSTRALIA PACIFIC
Ex-cat claims	\$M	(9,132)	(3,056)	(3,368)	(2,721)
– Current accident year risk adjustment movement	\$M	(591)	(128)	(284)	(180)
Catastrophe claims	\$M	(1,060)	(251)	(438)	(371)
– Catastrophe claims allowance	\$M	(962)	N/A	N/A	N/A
Prior accident year claims development	\$M	228	111	(16)	149
– Prior accident year reserve development	\$M	(141)	(42)	(142)	44
– Prior accident year risk adjustment movement	\$M	369	153	126	105
Net claims incurred	\$M	(9,964)	(3,196)	(3,822)	(2,943)
Ex-cat claims	%	60.5	65.9	57.3	59.3
– Current accident year risk adjustment movement	%	3.9	2.8	4.8	3.9
Catastrophe claims	%	7.0	5.4	7.5	8.1
– Catastrophe claims allowance	%	6.4	N/A	N/A	N/A
Prior accident year claims development	%	(1.5)	(2.4)	0.3	(3.2)
– Prior accident year reserve development	%	0.9	0.9	2.4	(1.0)
– Prior accident year risk adjustment movement	%	(2.4)	(3.3)	(2.1)	(2.3)
Net claims incurred	%	66.0	68.9	65.1	64.2

Statutory to management result reconciliation

FY22 Reconciliation

	STATUTORY	ADJUSTMENTS					MANAGEMENT
		DISCOUNT UNWIND	UNDERLYING PYD	LPT	INVESTMENT RFR	APPR	
FOR THE YEAR ENDED 31 DECEMBER 2022	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Insurance revenue	18,904	–	(70)	–	–	–	18,834
Insurance service expenses	(17,407)	(608)	53	–	–	–	(17,962)
Reinsurance expenses	(3,850)	–	17	87	–	–	(3,746)
Reinsurance income	3,324	403	–	(87)	–	–	3,640
Insurance service result	971	(205)	–	–	–	–	766
Other expenses	(285)	–	–	–	–	60	(225)
Other income	74	–	–	–	–	–	74
Insurance operating result	760	(205)	–	–	–	60	615
Net insurance finance income	1,036	205	–	–	–	–	1,241
Fixed income losses from changes in risk-free rates	–	–	–	–	(1,343)	–	(1,343)
Net investment (loss) income on policyholders' funds	(501)	–	–	–	871	–	370
Insurance profit (loss)	1,295	–	–	–	(472)	60	883
Net investment (loss) income on shareholders' funds	(272)	–	–	–	472	–	200
Financing and other costs	(245)	–	–	–	–	15	(230)
Gain on sale of entities and businesses	38	–	–	–	–	–	38
Share of net loss of associates	(7)	–	–	–	–	–	(7)
Remediation	–	–	–	–	–	(75)	(75)
Restructuring and related expenses	(106)	–	–	–	–	–	(106)
Amortisation and impairment of intangibles	(27)	–	–	–	–	–	(27)
Profit before income tax	676	–	–	–	–	–	676
Income tax expense	(81)	–	–	–	–	–	(81)
Profit after income tax	595	–	–	–	–	–	595
Non-controlling interests	(8)	–	–	–	–	–	(8)
Net profit after income tax	587	–	–	–	–	–	587

Adjustments

The statutory result has been adjusted for the following items to provide greater transparency over the underlying drivers of performance:

Discount unwind

The subsequent unwind of claims discount within net insurance finance income is analysed as part of the net claims expense component of the insurance operating result as these are associated with claims and directly relate to the impact of initial discounting of claims reported within insurance service expenses.

Underlying prior year development (PYD)

Underlying prior accident year claims development within net claims expense amounting to \$75 million has been reclassified to net insurance revenue and net commission. In the current period, this principally related to Crop (North America) for additional premium cessions to the US government on prior years claims under the MPCl scheme, CTP within Australia Pacific for profit commission income arising from favourable development under the 2021 reinsurance loss portfolio transfer, periodic payment order (PPO) liabilities within International to reflect their annuity characteristics and additional IBNR resulting from updated premium estimates on International's prior year policies.

Reinsurance loss portfolio transfer transactions (LPT)

The subsequent impacts of in-force reinsurance loss portfolio transfer contracts within reinsurance expenses and reinsurance income are analysed on a net basis within net claims expense to provide a view of the underlying development on these contracts against the corresponding development of the subject gross reserves, consistent with the focus on net underwriting performance. 2022 adjustments include amounts related to the reinsurance of North American E&S reserves entered into in 2022 (\$52 million), and other reinsurance loss portfolio transfer contracts in North America entered into in prior periods (\$33 million).

Statutory to management result reconciliation (cont'd)

Australian pricing promise review (APPR)

In 2022, the Group recognised a \$75 million net cost (before tax) following a review of pricing promises across a range of retail products which identified instances where the policy pricing promise was not fully delivered. The net cost comprises amounts for customer remediation, interest payable and other costs associated with administering the program.

Investment risk-free rate (RFR) impacts

Net investment income (loss) is analysed separately between risk-free rate movement impacts on fixed income assets, and remaining income (loss). This enables analysis of these risk-free rate movement impacts alongside the corresponding offsetting impacts on net insurance liabilities within insurance finance income.

Analysis of the insurance operating result

The insurance operating result is further analysed as net insurance revenue, net claims, net commission and expenses and other income for the purposes of explaining the key drivers of the Group's operating result and calculating key metrics. Analysis of the nature of income and expenses within the insurance operating result provides useful additional information about underlying trends in relation to the different components of underwriting profitability.

FOR THE YEAR ENDED 31 DECEMBER 2022	NET INSURANCE REVENUE US\$M	NET CLAIMS EXPENSE US\$M	NET COMMISSION US\$M	EXPENSES AND OTHER INCOME US\$M	TOTAL US\$M
Statutory					
Insurance revenue	18,904	–	–	–	18,904
Insurance service expenses	–	(13,174)	(2,616)	(1,617)	(17,407)
Reinsurance expenses	(3,850)	–	–	–	(3,850)
Reinsurance income	–	3,531	(207)	–	3,324
Insurance service result	15,054	(9,643)	(2,823)	(1,617)	971
Other expenses	–	–	–	(285)	(285)
Other income	–	–	–	74	74
Insurance operating result	15,054	(9,643)	(2,823)	(1,828)	760
Adjustments					
Discount unwind	–	(205)	–	–	(205)
PYD	(53)	75	(22)	–	–
LPT	87	(191)	104	–	–
APPR	–	–	–	60	60
Management basis	15,088	(9,964)	(2,741)	(1,768)	615

Half year 2022 restatements

Segment results - AASB 17

FOR THE HALF YEAR ENDED 30 JUNE 2022		GROUP	NORTH AMERICA	INTERNATIONAL	AUSTRALIA PACIFIC
Gross written premium	\$M	11,576	4,708	4,367	2,503
Insurance revenue	\$M	8,942	3,208	3,281	2,448
Net insurance revenue (ex Crop & LMI)	\$M	6,545	1,487	2,890	2,155
Net insurance revenue	\$M	7,328	2,170	2,890	2,255
Net claims expense	\$M	(4,799)	(1,420)	(1,916)	(1,453)
Net commission	\$M	(1,296)	(450)	(487)	(355)
Expenses and other income	\$M	(858)	(212)	(355)	(288)
Insurance operating result	\$M	375	88	132	159
Ex-cat claims ratio (ex Crop, LMI & RA)	%	55.2	55.7	54.3	56.3
Ex-cat claims ratio	%	61.6	66.2	59.5	60.0
Catastrophe claims	%	6.2	2.8	6.0	9.6
Prior accident year claims development	%	(2.3)	(3.6)	0.8	(5.2)
Net claims ratio	%	65.5	65.4	66.3	64.4
Net claims ratio	%	65.5	65.4	66.3	64.4
Commission ratio	%	17.7	20.7	16.8	15.7
Expense ratio	%	11.7	9.8	12.3	12.8
Combined operating ratio	%	94.9	95.9	95.4	92.9

Claims analysis - AASB 17

FOR THE HALF YEAR ENDED 30 JUNE 2022		GROUP	NORTH AMERICA	INTERNATIONAL	AUSTRALIA PACIFIC
Ex-cat claims	\$M	(4,514)	(1,436)	(1,719)	(1,353)
– Current accident year risk adjustment movement	\$M	(348)	(85)	(151)	(112)
Catastrophe claims	\$M	(454)	(61)	(175)	(218)
– Catastrophe claims allowance	\$M	(962)	N/A	N/A	N/A
Prior accident year claims development	\$M	169	77	(22)	118
– Prior accident year reserve development	\$M	(52)	(28)	(75)	52
– Prior accident year risk adjustment movement	\$M	221	105	53	66
Net claims incurred	\$M	(4,799)	(1,420)	(1,916)	(1,453)
Ex-cat claims	%	61.6	66.2	59.5	60.0
– Current accident year risk adjustment movement	%	4.7	3.9	5.2	5.0
Catastrophe claims	%	6.2	2.8	6.0	9.6
– Catastrophe claims allowance	%	13.1	N/A	N/A	N/A
Prior accident year claims development	%	(2.3)	(3.6)	0.8	(5.2)
– Prior accident year reserve development	%	0.7	1.2	2.6	(2.3)
– Prior accident year risk adjustment movement	%	(3.0)	(4.8)	(1.8)	(2.9)
Net claims incurred	%	65.5	65.4	66.3	64.4

Statutory to management result reconciliation

1H22 Reconciliation

	STATUTORY	ADJUSTMENTS					MANAGEMENT
		DISCOUNT UNWIND	UNDERLYING PYD	LPT	INVESTMENT RFR	APPR	
FOR THE HALF YEAR ENDED 30 JUNE 2022	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Insurance revenue	8,955	–	(13)	–	–	–	8,942
Insurance service expenses	(8,942)	(220)	(6)	–	–	–	(9,168)
Reinsurance expenses	(1,691)	–	19	58	–	–	(1,614)
Reinsurance income	2,185	149	–	(58)	–	–	2,276
Insurance service result	507	(71)	–	–	–	–	436
Other expenses	(179)	–	–	–	–	60	(119)
Other income	58	–	–	–	–	–	58
Insurance operating result	386	(71)	–	–	–	60	375
Net insurance finance income (expenses)	713	71	–	–	–	–	784
Fixed income losses from changes in risk-free rates	–	–	–	–	(854)	–	(854)
Net investment (loss) income on policyholders' funds	(581)	–	–	–	568	–	(13)
Insurance profit (loss)	518	–	–	–	(286)	60	292
Net investment (loss) income on shareholders' funds	(293)	–	–	–	286	–	(7)
Financing and other costs	(135)	–	–	–	–	15	(120)
Gain on sale of entities and businesses	36	–	–	–	–	–	36
Share of net loss of associates	(3)	–	–	–	–	–	(3)
Remediation	–	–	–	–	–	(75)	(75)
Restructuring and related expenses	(54)	–	–	–	–	–	(54)
Amortisation and impairment of intangibles	(8)	–	–	–	–	–	(8)
Profit before income tax	61	–	–	–	–	–	61
Income tax expense	(10)	–	–	–	–	–	(10)
Profit after income tax	51	–	–	–	–	–	51
Non-controlling interests	(3)	–	–	–	–	–	(3)
Net profit after income tax	48	–	–	–	–	–	48

Adjustments

The statutory result has been adjusted for the following items to provide greater transparency over the underlying drivers of performance:

Discount unwind

The subsequent unwind of claims discount within net insurance finance income is analysed as part of the net claims expense component of the insurance operating result as these are associated with claims and directly relate to the impact of initial discounting of claims reported within insurance service expenses.

Underlying prior year development (PYD)

Underlying prior accident year claims development within net claims expense amounting to \$8 million has been reclassified to net insurance revenue and net commission. In the current period, this principally related to Crop (North America) for additional premium cessions to the US government on prior year claims under the MPC1 scheme, CTP within Australia Pacific for profit commission income arising from favourable development under the 2021 reinsurance loss portfolio transfer, and additional IBNR resulting from updated premium estimates on International's prior year policies.

Reinsurance loss portfolio transfer transactions (LPT)

The subsequent impacts of in-force reinsurance loss portfolio transfer contracts within reinsurance expenses and reinsurance income are analysed on a net basis within net claims expense to provide a view of the underlying development on these contracts against the corresponding development of the subject gross reserves, consistent with the focus on net underwriting performance. 2022 adjustments include amounts related to the reinsurance of North American E&S reserves entered into in 2022 (\$36 million), and other reinsurance loss portfolio transfer contracts in North America entered into in prior periods (\$19 million).

Statutory to management result reconciliation (cont'd)

Australian pricing promise review (APPR)

In 2022, the Group recognised a \$75 million net cost (before tax) following a review of pricing promises across a range of retail products which identified instances where the policy pricing promise was not fully delivered. The net cost comprises amounts for customer remediation, interest payable and other costs associated with administering the program.

Investment risk-free rate (RFR) impacts

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FOR THE HALF YEAR ENDED 30 JUNE 2022	NET INSURANCE REVENUE US\$M	NET CLAIMS EXPENSE US\$M	NET COMMISSION US\$M	EXPENSES AND OTHER INCOME US\$M	TOTAL US\$M
Statutory					
Insurance revenue	8,955	–	–	–	8,955
Insurance service expenses	–	(6,920)	(1,225)	(797)	(8,942)
Reinsurance expenses	(1,691)	–	–	–	(1,691)
Reinsurance income	–	2,300	(115)	–	2,185
Insurance service result	7,264	(4,620)	(1,340)	(797)	507
Other expenses	–	–	–	(179)	(179)
Other income	–	–	–	58	58
Insurance operating result	7,264	(4,620)	(1,340)	(918)	386
Adjustments					
Discount unwind	–	(71)	–	–	(71)
PYD	6	8	(14)	–	–
LPT	58	(116)	58	–	–
APPR	–	–	–	60	60
Management basis	7,328	(4,799)	(1,296)	(858)	375

Basis of presentation (unless otherwise stated)

1. All figures are in US\$.

Disclaimer

The information in this release provides an unaudited overview of historic performance. Any restatement of prior period results to AASB 17 continues to be subject to external review and is subject to change following the finalisation of a review by QBE's external auditor. There remains a level of uncertainty surrounding the interaction between tax laws and the implementation of AASB 17. The information provided herein may be subject to change as tax laws are legislated and new regulations are issued. QBE has made assumptions in the context of tax law precedents in jurisdictions such as the UK and NZ, as well as the 10 July 2023 Australian Government exposure draft legislation dealing with tax law interactions with AASB 17. As legislation in Australia has not yet been enacted, final tax positions remain subject to change.

This release should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange (ASX). Copies of those lodgements are available from either the ASX website www.asx.com.au or QBE's website www.qbe.com.

The information is supplied in summary form and is therefore not necessarily complete. Prior to making a decision in relation to QBE's securities, products or services, investors, potential investors and customers must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

This release contains certain 'forward-looking information' and 'forward-looking statements' within the meaning of applicable securities laws. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'outlook' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of QBE that may cause actual results to differ materially from those either expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements only speak as of the date of this release and QBE assumes no obligation to update such information.

Any forward-looking statements assume no material variation in catastrophe claims or premium rates relative to our business plans; no significant change 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 reinsurance panel; no unplanned 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 release.

This release does not constitute an offer or invitation for the sale or purchase of securities. In particular, this release does not constitute an offer of securities for sale in the United States, or to any person that is, or is acting for the account or benefit of, any U.S. person, or in any other jurisdiction in which such an offer would be illegal. Securities of QBE may not be offered or sold in the United States or to, or for the account or benefit of, any U.S. persons without registration under the Securities Act or an exemption from registration.