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29 July 2014

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

Dear Sir/Madam

**Market update on 2014 interim result**

Please find attached an announcement for release to the market.

Yours faithfully

A handwritten signature in blue ink that reads "Peter Smiles".

Peter Smiles  
**Deputy Company Secretary**

Encl.



# QBE

## MARKET RELEASE

29 July 2014

### Market update on 2014 interim result

QBE is scheduled to report its 2014 interim result on 19 August 2014. While the process to finalise the result is still underway, we expect QBE's result to differ from consensus expectations and as such are providing an update to the market today.

The first half result has been impacted by a claims reserve strengthening of around \$170 million in Latin America, the majority of which relates to our Argentine workers' compensation business, higher than expected large individual risk claims which contributed to a large individual risk and catastrophe claims charge of around 10% of net earned premium and an adverse discount rate impact of around \$120 million excluding Argentina<sup>1</sup>.

As a consequence, the Group's combined operating ratio for the first half is now expected to be 96 - 97% compared with consensus expectations of around 93% and the Group's insurance profit margin for the first half is now likely to be 7 - 8% compared with consensus expectations of around 10%.

QBE's global portfolio is otherwise performing broadly in line with internal plans.

Adjusting for major non-recurring items, the combined operating ratio and insurance profit margin for the first half is expected to be around 93% and 10% respectively.

Net profit after tax for the first half is now expected to be around \$390 million.

### **Argentina workers' compensation claims**

The majority of the prior accident year claims development in Argentina relates to the workers' compensation portfolio and follows a thorough review of our claims reserves. The review was instigated in response to an observed increase in litigated workers' compensation claims costs following legislative changes in 2012 and 2013, and partly in response to recently deteriorating economic conditions in Argentina.

In Argentina we have adopted new and more sophisticated actuarial models that utilise explicit and significantly upgraded claims inflation factors as well as upgrading our frequency and severity assumptions.



## MARKET RELEASE

### Divisional update

Outside of Latin America, QBE has experienced favourable net central estimate claims development of around \$40 million, with positive development in our European, Australia & New Zealand and Asia Pacific Operations partly offset by modest adverse development in North America, in a large part due to industry wide late 2013 claims notifications impacting our crop business.

We expect our Australian & New Zealand Operations to report a strong underwriting result, comfortably ahead of the prior corresponding period, our European Operations to report a result in line with plan and the prior period in challenging market conditions, Asia Pacific Operations to continue to deliver profitable growth while investing for future expansion and Equator Re will report an underwriting margin ahead of plan and the prior corresponding period, augmented by the improved profitability of the North American quota share.

On a management basis, our North American Operations generated an underwriting profit and the combined operating ratio improved relative to the prior corresponding period. However, the statutory result worsened relative to the prior corresponding period, in part due to the aforementioned quota share which adversely impacted the North American combined operating ratio by 3.5% during the first half. Significant activity is underway in 2014 to both right-size the expense base of our North American Operations as well as improve our loss making lender placed insurer. We are encouraged by the progress we are making in North America.

Large individual risk and catastrophe claims are expected to total around 10% of net earned premium during the half. Significant and unusual risk claims stemming from the UK floods, as well as North American winter storms and tornado activity, and European storms in June were partly offset by benign catastrophe claims experience in Australia.

Gross written premium is expected to be around \$8.5 billion and below our budget of \$8.9 billion for the half. Market conditions globally are proving to be more competitive than previously anticipated. QBE remains committed to disciplined and technical underwriting and we have not hesitated to walk away from pricing that does not meet our minimum risk based return hurdles.

Notwithstanding below budget premium income, the Group's expense ratio is marginally ahead of budget for the half, reflecting strict cost discipline and accelerating benefits from the operational transformation program which is nearing completion in Australia, fully underway in North America and recently launched in Europe.

A full market update will be provided when QBE's interim result is released on 19 August 2014.



## MARKET RELEASE

### KEY MESSAGES REGARDING EXPECTED 1H14 RESULT

- Net profit after tax of around \$390 million (1H13: \$477 million)
- Cash profit of around \$415 million (1H13: \$590 million)
- Gross written and net earned premium of around \$8.5 billion (1H13: \$9.4 billion) and \$6.9 billion (1H13: \$7.3 billion) respectively. Approximately one third of the reduction in gross written premium and the majority of the reduction in net earned premium relative to the prior period was due to the impact of foreign exchange
- Adverse prior accident year central estimate claims development of around \$130 million (1H13: \$178 million), including around \$170 million relating to QBE's Latin American Operations
- Adverse discount rate impact of around \$120 million excluding Argentina<sup>1</sup> (1H13: \$177 million benefit)
- Large individual risk and catastrophe claims of around 10% of net earned premium (1H13: 8.3%)
- Net risk margin release of around \$55m (1H13: \$63 million charge) with the claims liability probability of adequacy (PoA) estimated at around 89.4% (FY13: 90.7%)
- Combined operating ratio of 96-97% (1H13: 92.8%)
- Insurance profit margin of 7-8% (1H13: 10.8%)
- Annualised net investment yield of around 2.7% (1H13: 2.6%)
- Debt to equity ratio of around 38% (FY13: 44.1%)

<sup>1</sup> The benefit of higher discount rates in Argentina is now explicitly offset by a higher claims inflation assumption

Note: All numbers are subject to the completion of QBE's half year processes and review by our external auditors.

### **TELECONFERENCE**

QBE Group CEO, John Neal and Group CFO, Pat Regan, will hold a teleconference today from 10.30am to 11.30am AEST.

The teleconference with analysts and investors will be limited to discussion on matters covered in the announcement. The operator will give instructions on how to ask a question at the commencement of the Q&A session.

#### **DIAL IN DETAILS:**

Australia Access: 1800 268 560  
International Access: +61 2 8047 9300  
Participant PIN Code: 101541#

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



## MARKET RELEASE

To participate in the teleconference, you will need a touchtone phone - 10 minutes prior to the briefing, please dial your call-in number and follow the prompts - Calls from mobile phones will be charged at the applicable mobile rate

For further information, please contact:

### **Investor Relations**

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QBE Insurance Group Limited is listed on the Australian Securities Exchange, is recognised as 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. All figures are in US\$ unless stated otherwise.

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