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17 August 2016

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 2016

Further to the announcement today of our results for the half year ended 30 June 2016, please find attached a market release in relation to those results.

Yours faithfully

Carolyn Scobie
Company Secretary

Attachment

MARKET RELEASE

17 August 2016

QBE ANNOUNCES 2016 INTERIM RESULTS [1]

"In an environment where both insurance pricing and investment markets are increasingly challenging, QBE's strong and differentiated global franchise has delivered a solid half year result.

We have reported a 2016 interim profit and combined operating ratio of $265 million and 99.0% respectively, down from $455[2] million and 93.4% in the prior period, mainly due to a $283 million adverse discount rate adjustment as risk-free rates used to discount net outstanding claims decreased. This compares with a discount rate benefit of $45 million in the prior period.

Adjusted for discount rate movements, the 94.0% combined operating ratio compares with 94.1%[2] in the prior period and is in line with an unchanged FY2016 combined operating ratio target of 94% - 95%, albeit with a greater contribution from positive prior accident year claims development than originally envisaged. This performance is testament to QBE's strong foundations, including our diversification by product line and geography, strengthened claims reserving position and continued success in meeting expense reduction targets. In this regard, we are on track to achieve our FY16 targeted $150 million reduction in operating expenses, equivalent to a 1% improvement in our FY16 expense ratio.

It is particularly pleasing to report $218 million of positive prior accident year claims development – our fourth consecutive (and largest) half year of positive prior accident year development. European and Australian & New Zealand Operations recorded significant positive development with a small amount of net positive development across the rest of the Group.

Positive prior accident year development contributed to another outstanding result from our European Operations, recording a combined operating ratio of 88.3%, adjusted for discount rate movements and transactions to reinsure UK long tail liabilities[3]. Meanwhile, initiatives to improve profitability in our North American Operations remain on course and we are confident that the underlying combined operating ratio for FY16 will reflect a further step change over the already improved 2015 result. Our Emerging Markets division is growing sensibly and continues to generate underwriting profits.

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

(2) Excludes the impact of asset sales as presented in our interim 2015 report.

(3) Transactions to reinsure UK long tail liabilities were largely profit neutral with reinsurance expense of $176 million offset by recoveries of $178 million.

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While the interim result is broadly in line with our expectations, QBE's business is not immune to macro conditions that are challenging the returns of all insurance companies. This is particularly evident in our Australian & New Zealand Operations where cumulative pricing declines concurrent with heightened claims inflation have detracted from performance in several of our short tail classes, exacerbated by the well-publicised deterioration in the NSW compulsory third party (CTP) scheme. We are responding decisively with price increases, revised terms and conditions and other portfolio adjustments, and remain confident that these actions will benefit the claims ratio in 2017.

We have also changed the leadership of the Australian & New Zealand Operations. While retaining some of his existing Group CFO responsibilities, Pat Regan will take responsibility for the Australian & New Zealand business while we undertake a search for a permanent CEO for the division. Tim Plant will be leaving QBE effective immediately.

Cash generation remains strong and our balance sheet and expected retained earnings growth is more than capable of supporting our 3% per annum across the cycle premium growth target.

Accordingly, the Board has approved a 5% increase in the interim dividend to 21 Australian cents per share."

John Neal, QBE Group Chief Executive Officer

2016 INTERIM RESULT HIGHLIGHTS [1]

- Statutory net profit after tax down 46% to $265M
- Cash profit after tax down 39% to $287M
- Cash profit ROE of 5.6% (1H15 8.6%)
- Combined operating ratio of 99.0% (1H15 95.3%)
- Adjusted combined operating ratio of 94.0%[3] (1H15 94.1%[2,3])
- Underwriting profit down 5% to $337M[3] (1H15 $356M[2,3])
- Positive prior accident year claims development of $218M (1H15 $79M[2])
- Gross written premium flat on a constant currency basis and excluding M&LS
- Net earned premium up 3%[2] on a constant currency basis and excluding M&LS and reinsurance of UK long tail claims exposures
- Net investment return for the half of 1.65%
- Probability of adequacy of outstanding claims unchanged at 89.0% (FY15 89.0%)
- Debt to equity of 33.7% remains within our 25% - 35% benchmark range (FY15 33.6%)
- Indicative APRA PCA multiple of 1.69x (FY15 1.73x) with surplus above S&P 'AA' equivalent capital
- Cash remittances from operating divisions of $648M (1H15 $201M)
- Final dividend of 21 Australian cents per share, 50% franked (1H15 20 Australian cents, 100% franked)

(1) All figures in US$ unless otherwise stated.
(2) Excludes the impact of asset sales as presented in our interim 2015 report.
(3) Excludes the impact of movements in risk-free rates used to discount net outstanding claims.

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2016 INTERIM DIVIDEND [1]

The Board has declared an interim 2016 dividend of 21 Australian cents per share, franked at 50%, representing a 5% increase on the 20 Australian cents declared at the same time last year.

The payout for the 2016 interim dividend is A$288 million or 74% of cash profit, above the Board's revised full year 65% payout policy. In arriving at the interim dividend, the Board gave consideration to the unusual market conditions that gave rise to the lower risk-free rates used to discount net outstanding claims, as well as the Group's overall capital position and profitability.

In order to maintain franking stability, the combination of a higher dividend payout ratio and increased profitability of non-Australian operations warrants a reduction in the target franking rate to 50% for the 2016 and 2017 dividends.

Shares will begin trading ex-dividend on 25 August 2016, the record date is 26 August 2016 and the dividend will be paid on 28 September 2016.

OUTLOOK [1]

The Group's targets for full year 2016 are as follows:

Gross written premium	$13.7Bn – $14.1Bn[2,3]
Net earned premium	$11.5Bn – $11.9Bn[2]
Combined operating ratio	94% - 95%[4,5]
Insurance profit margin	8.5% - 10%[4,5,6]

We anticipate that global pricing will remain under pressure in 2016, although we expect FY16 premium rate reductions will be broadly in line with 2015 experience.

We have adjusted our 2016 gross written premium and net earned premium targets for our current view on foreign exchange rates, market conditions and, in the case of net earned premium only, the $176 million charge to reinsure UK long tail liabilities incurred during the first half.

This has resulted in a minor reduction in our gross written premium[2,3] target range to $13.7 billion - $14.1 billion and our net earned premium[2] target range to $11.5 billion - $11.9 billion.

Our targeted combined operating ratio and insurance profit margin[6] remain unchanged at 94%-95% and 8.5%-10% respectively, excluding any impact from risk-free rates used to discount net outstanding claims but including allowance for further positive prior accident year claims development.

Accordingly our focus will be on maintaining underwriting discipline and exercising strict cost control, while continuing to invest in our strategic growth and operational initiatives, in particular building out our data analytics capabilities and deepening our customer understanding and relationships.

(1) All figures in US$ unless otherwise stated.
(2) Premium targets are based on assumed average foreign exchange rates relative to the US dollar as follows: AUD 0.72; GBP 1.36; and EUR 1.10.
(3) Excludes M&LS gross written premium that is 100% reinsured to National General. Nil impact on net earned premium.
(4) Includes allowance for positive prior accident year claims development in light of recent experience as well as our efforts in driving claims efficiencies through our claims excellence initiatives.
(5) Assumes risk-free rates as of 31 December 2015.
(6) Assumes a 2.7% full year net investment yield.

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TELECONFERENCE

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

Q&A SESSION (VIA TELECONFERENCE)

- 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
- If you are disconnected for any reason during the teleconference, redial your call-in number
- Calls from mobile phones will be charged at the applicable mobile rate

In order to ask a question during the live Q&A session: Press 01 on your keypad to enter the queue

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ATTENDING IN PERSON:

QBE Group offices Level 27, 8 Chifley Square, Sydney

WEBCAST

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

- 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 37 countries.