Strong foundations for a sustainable future

Plans to reshape and simplify QBE's business progressed meaningfully in 2018, with management successfully executing against our strategic agenda. Improved market conditions combined with a forensic approach to performance management contributed to an improved financial performance and better returns for shareholders. We have laid strong foundations to build upon for a sustainable and profitable QBE of the future.

Overview

Our 2018 combined operating ratio of 95.7% [1,2,3] represents a significant improvement on our 2017 performance. It was also pleasing to see modest growth in both gross written and net earned premium in 2018.

The Group statutory net profit after tax was $390 million, reflecting more normal catastrophe incidence coupled with meaningful improvement in the attritional claims ratio, assisted by strong premium rate momentum. The improved result was achieved despite lower than anticipated investment returns which were impacted by significant market volatility, particularly in the final quarter of the year.

This result reflects the hard work of our people and the performance management discipline instilled throughout the year, together with an improvement in the quality and consistency of our underwriting. Indeed, our underwriting profit this year of $515 million [2] represents a very significant turnaround from the loss reported in 2017.

True to our plans, we exited portfolios, regions and countries where we lacked scale or were unable to achieve an acceptable rate of return. These transactions complete QBE's portfolio rationalisation and I congratulate Pat Regan and his team on this significant milestone, achieved in just 12 months. The simplification of QBE is outlined in the Group CEO's report on pages 6 and 7.

We saw a reduced incidence of natural catastrophes this year in contrast to the record losses that impacted the global insurance and reinsurance market in 2017. Nevertheless, catastrophe events were again elevated in 2018, including Hurricanes Florence and Michael in the United States, typhoons in Japan, a windstorm in Canada, the worsening drought in parts of Australia as well as localised storms, and the devastating wildfires that swept through parts of the United States, most recently in California. All had serious and often tragic consequences for local communities and caused heavy and widespread property and infrastructure damage.

Divisional Results

All of our divisions delivered improved underwriting results [1] in 2018.

Australian & New Zealand Operations recorded another strong underwriting result with the combined operating ratio improving slightly to 91.9% [1]. Result quality continues to improve with a reduced reliance on positive prior accident year claims development and lenders' mortgage insurance profits. Pricing conditions in Australia & New Zealand remain particularly strong.

I am pleased to report that the remediation of Asia Pacific Operations is now largely complete with the business generating an underwriting profit of $2 million [2] in the second half of 2018, following a $22 million [2] loss in the first half and a $100 million loss in 2017. Decisive action to restore underwriting margins naturally resulted in a reduction in premium income.

With remediation of Asia Pacific well progressed and our portfolio rationalisation program complete, we have consolidated the Group's divisional structure. Effective 1 January 2019, our Asian entities joined with European Operations to form our new International division. At the same time, the Pacific Islands and Indian entities were consolidated into Australian & New Zealand Operations to form our Australia Pacific division.

These changes will help drive efficiencies across the Group, with much of the administration of the former standalone Asia Pacific Operations absorbed by the larger and better resourced International and Australia Pacific divisions.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
3 Continuing operations basis.

In 2018, European Operations produced another strong underwriting result reporting a combined operating ratio of 94.8% [1] and solid premium growth. Declining industry margins coupled with the severe catastrophe experience of 2017 appear to have served as a catalyst for a long overdue recovery in pricing in many of the markets in which European Operations competes.

North American Operations reported a significantly improved combined operating ratio of 97.9% [1] compared with 109.1% [1,2] in the prior year, underpinned by a healthy improvement in the attritional claims ratio. While catastrophe costs reduced significantly relative to the extreme experience of 2017, they were nevertheless above expectations with the industry particularly hard hit by wildfire losses in the final quarter of the year.

Group reinsurance program

Stronger and more consistent underwriting results over the past 12 months has afforded us the opportunity to move to a simpler, more sustainable reinsurance structure.

While the previous program served us well over the last four years, it is no longer the right structure for QBE. With the Group's underwriting risk profile and consistency of performance improving, a more conventional reinsurance structure is appropriate.

This new structure, announced to the market in December 2018 and detailed on page 11 of this Annual Report, will see us purchase greater protection against catastrophe claims and lower large individual risk retention, tailored to complement the benefits our Brilliant Basics program will deliver over time.

Shareholder returns

Our dividend policy is intended to reward shareholders relative to cash profit, while maintaining sufficient capital for future investment and growth in the business.

Shareholders will recall that the Group's positive financial performance at the half year enabled the Board to declare an interim dividend of 22 Australian cents per share.

In light of the Group's full year performance, the Board has declared a final dividend of 28 Australian cents per share. This represents a full year dividend of 50 Australian cents per share and compares favourably with the 26 Australian cents per share paid out in 2017.

During 2018 we continued with our buyback program, purchasing A$333 million of QBE shares and we remain committed to our overall three-year program.

Leadership

Pat Regan formally commenced in the role of Group Chief Executive Officer on 1 January, 2018 and, under his leadership, the Group is now simpler, stronger and more efficient.

Pat has also completed the formation of his Group Executive Committee (GEC). In February 2018, Vivek Bhatia joined as Chief Executive Officer of our Australian & New Zealand operations. In April 2018, Inder Singh was promoted to Group Chief Financial Officer and in July 2018, we welcomed Peter Grewal to QBE as Group Chief Risk Officer. Group General Counsel and Group Company Secretary, Carolyn Scobie, and Group Head of Communications and Marketing, Vivienne Bower, also joined the GEC. Effective 1 January 2019, Jason Brown moved from the role of CEO Asia Pacific Operations to the new role of Group Chief Underwriting Officer.

Together with Margaret Murphy, Russ Johnston, David McMillan and Richard Pryce, this team provides QBE with the right mix of skills, industry experience and technical expertise to deliver for our shareholders in 2019 and beyond.

Board renewal also remains an ongoing focus of your Board, and so I was pleased to announce the appointment of Fred Eppinger as a non-executive director, effective 1 January 2019. Fred brings to QBE more than 13 years experience as a property and casualty CEO and over 35 years of experience in senior finance and strategic marketing roles and his appointment further complements the depth of insurance expertise on your Board.

Looking ahead

Our improved performance in 2018, coupled with a more simplified structure and focus on achieving cost reductions across the Group, positions QBE well.

In 2019, we will continue to drive further performance improvement, increase the use of data analytics and digital tools in our underwriting, strengthen earnings quality, target further improvements in our return on equity and, most importantly, continue to deliver value for our shareholders.

We will be guided in this work by a new set of strategic priorities, outlined on page 9. Consistent with our ongoing efforts to address current and emerging environmental, social and governance (ESG) risks for our business, these priorities include a specific focus on sustainability. Further information on our approach to sustainability and ESG risk can be found in our 2018 Sustainability Report published on our website.

I would like to take this opportunity to thank our people, led by Pat Regan and his executive team, for their ongoing commitment to our company. I would also like to particularly thank you, our shareholders, for your continued support as we build the QBE of the future.

W. Marston Becker
Chairman

Dividend per share (A¢)

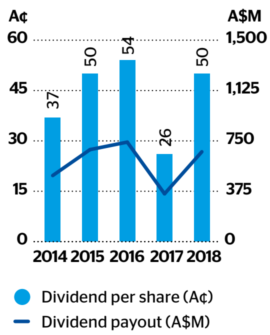
50¢

92% from 2017

Dividend payout (A$)

$669M

88% from 2017



1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes transactions to reinsure liabilities.