

FY20 results presentation

19 February 2021

Slide 2: Introduction – Richard Pryce

Good morning and thank you for joining us today for QBE's 2020 full year result presentation.

I'll start by briefly discussing the key features of the result, give you a feel for the current pricing environment and the implications for GWP growth and margin, then provide a quick update on COVID-19 before handing over to Inder to talk through the detail of the financials.

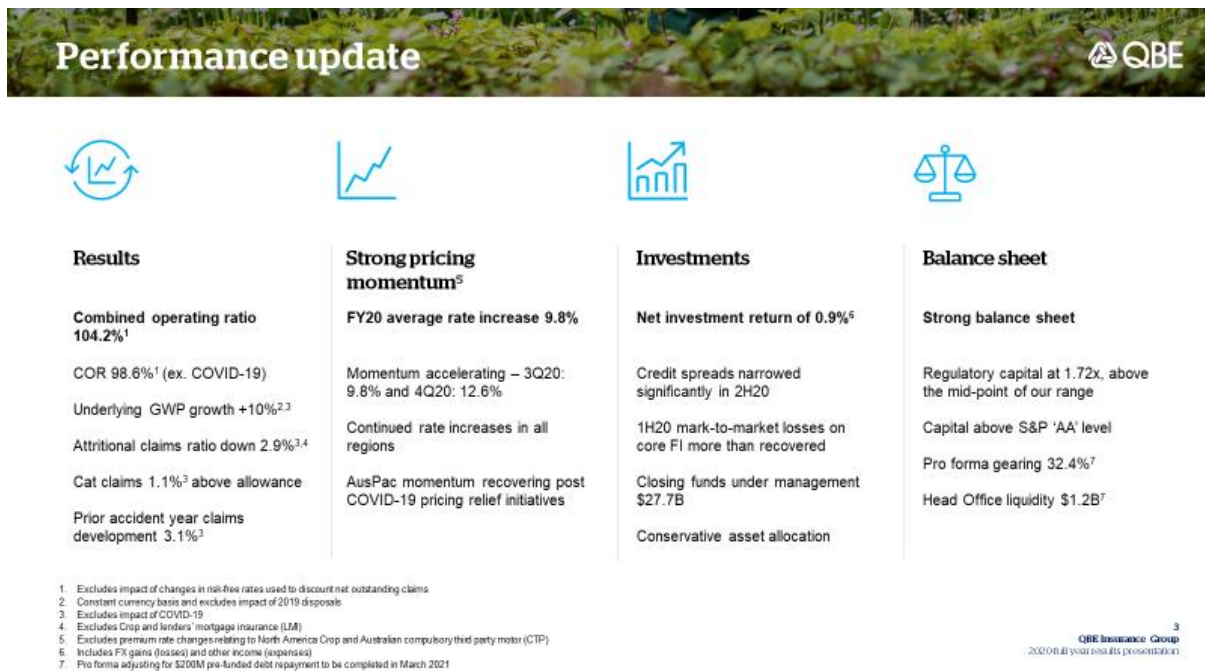
I will then close with our 2021 priorities before opening up to Q&A.

Firstly, I should open by stating that the Board and management of QBE recognise that last year's result was extremely disappointing and well below our expectations.

I should also say that today's results, both at a headline and underlying level, are very much in line with and hopefully in some instances, ahead of the expectations we established with our December announcement and our subsequent business interruption update in mid-January.

There is obviously plenty of detail to work through but there should be no negative surprises in today's release.

Slide 3: Performance update



Given that we have pre-announced much of the result headlines, I won't dwell on the performance update or result summary slides for too long.

Our headline combined operating ratio of 104.2% was obviously heavily impacted by \$655M of COVID-19 related costs as previously advised.

Excluding COVID-19, the combined operating ratio was 98.6%, up slightly from 97.5% in 2019, with a further material improvement in the attritional claims ratio and a modest improvement in the large individual risk claims ratio more than offset by elevated catastrophe claims and adverse prior accident year development.

In addition to the pandemic, 2020 also saw significantly heightened catastrophe activity including bushfires, hail and storm losses in Australia, a derecho and wildfires in the US and of course a record Atlantic hurricane season.

Although a number of major reinsurers described 2020 as the 5th worst year on record, it was a much tougher year for primary insurers because it was driven by frequency rather than severity. There were 28 insured

loss events over \$1bn in 2020, which is easily the highest ever and compares with only 18 in 2017, which is widely regarded as one of the costliest catastrophe years in history.

I think this context is important and helps explain why catastrophe costs finished 1.1% above our allowance in 2020.

I understand that one of the most disappointing aspects of our 2020 result is the adverse prior accident year development which amounted to \$366M or 3.1% relative to net earned premium.

I will comment briefly on prior accident year development in a moment while Inder will comment in more detail later.

Premium rates improved further in 2020 with the Group achieving an average renewal rate increase of nearly 10%, up from just over 6% in 2019. Momentum accelerated across 2020 and especially the second half with rate of 12.6% achieved in 4Q20.

In the northern hemisphere, this is the strongest premium rate environment that we have seen for at least a decade.

And to pre-empt the inevitable question: what is driving the pricing cycle and how long might it run for... I would point to the following factors:

1. Generally poor profitability following more than a decade long soft cycle;
2. Catastrophe losses have been elevated in recent years, including more significant unmodelled losses;
3. Favourable reserve development that subsidised results during most of the soft cycle is coming to an end;
4. Social inflation and the propensity for litigation remains a material industry cost and a source of significant lingering uncertainty;

5. Underwriting margins have to adjust to compensate for dramatically lower interest rates; and
6. COVID-19 – while we remain confident with our ultimate net cost of \$785M, the eventual cost and timing of emergence of COVID-19 losses remains a significant risk for the industry and is undoubtedly contributing to rate increases.

It is easier to point to the causes of the current hardening cycle than it is to predict its duration but rates are expected to keep increasing for at least the remainder of 2021.

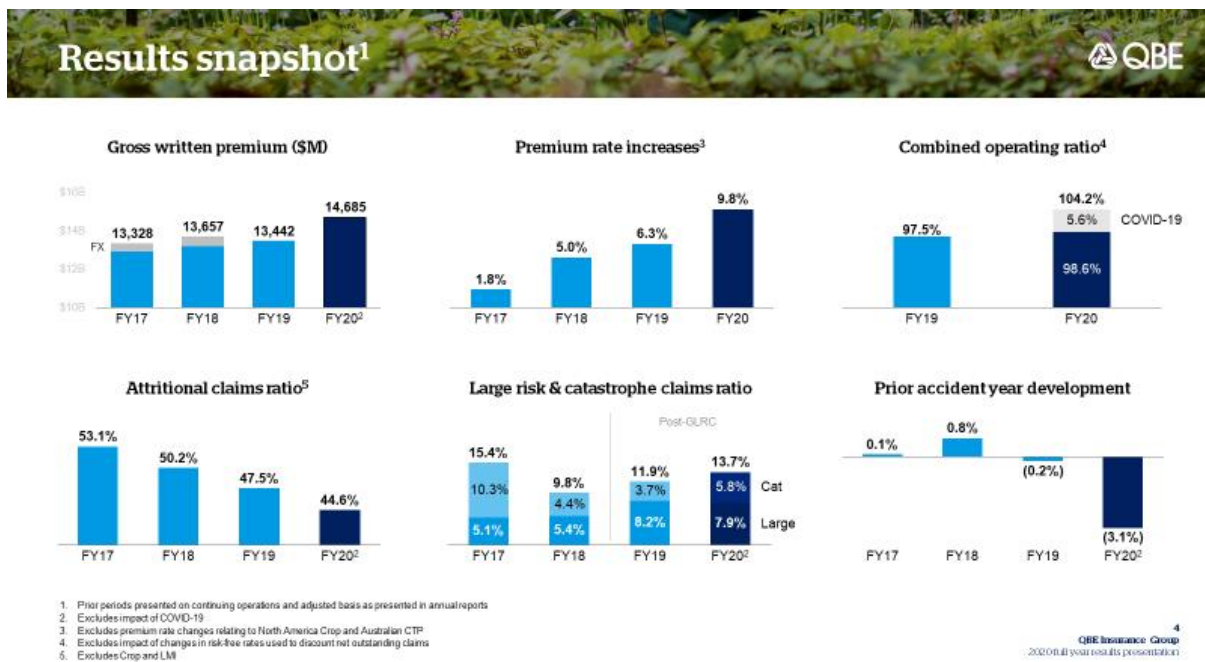
Many of the factors driving the current cycle are not quick fixes and some will likely take multiple years of rate to rectify before the industry returns to an appropriate risk-adjusted return on capital.

While investment returns were clearly well down on 2019 for obvious reasons, we enjoyed a strong rebound during the second half to finish 2020 with net investment income of \$226M equating to a 0.9% return.

Our asset allocation hasn't really changed since the interim result; we remain cautiously invested reflecting still significant global economic uncertainty but also frankly, with interest rates where they are, we currently see better opportunities for capital deployment across the Group's underwriting business.

Inder will speak to the balance sheet in more detail later but suffice it to say that we are in good shape; regulatory capital is above the midpoint of our target range, S&P capital in 'AA' territory and pro forma gearing has improved significantly to be comfortably within our target range.

Slide 4: Results snapshot



While I don't want to harp on about growth having just posted a \$1.5BN loss, after an extended period of remediation and disposals which has seen GWP shrink from over \$18BN in 2012, it is pleasing to report meaningful GWP growth which you can see increased sharply to \$14.7BN.

I will talk about where we are achieving growth in a later slide.

I mentioned rate momentum earlier and the premium rate chart in the middle of the slide speaks for itself.

The rate we achieved in 2017 was entirely driven by Australia Pacific with North America and International still in the throes of a soft cycle and reporting rate reductions. While pricing conditions improved in 2018 and 2019, momentum clearly accelerated in 2020, driven by the northern hemisphere. And as I will show you in a later chart, that momentum accelerated steadily across 2020, especially in 2H20.

While it is early days, rate increases have continued into 2021, albeit there are signs that the level of rate increases might not continue to accelerate like they did in 2020.

On claims inflation, we are currently allowing for around 3% in both Australia Pacific and International and 5% in North America or nearly 4% across the Group; the higher level in North America reflecting social inflation and more cautious current accident year loss picks.

We are now achieving quite meaningful rate that is comfortably ahead of loss cost inflation and, as we enter 2021, we will benefit from more rate on rate. While this is indicative of margin expansion, there is still much uncertainty for all insurers to navigate.

I mentioned the high-level drivers of the year-on-year movement in the combined ratio earlier so won't dwell on it here. The significant COVID-19 impact on the 2020 result is self-evident and I will talk more about COVID-19 in a later slide.

In 2020, we achieved a further 2.9% improvement in the attritional claims ratio which largely reflects the earning of past premium rate increases. Given the premium rate increases that we achieved in 2H20 and the early rate trajectory signs in 2021, I would expect to see further improvement in our attritional claims ratio in 2021.

I have already provided some context for the spike in our catastrophe costs during 2020 so will instead focus on the trend in our large risk claims ratio which is the bottom segment of the bars in the large risk & catastrophe claims ratio chart.

On a like-for-like reinsurance basis, the net cost of large risk claims has improved from 8.5% in 2017 to 7.9% in 2020, reflecting rate increases but also improved risk selection and de-risking initiatives; including, as an example, multiple actions taken to reduce the risk profile of the European financial lines portfolio over last 36 months as well as less significant de-risking in other classes such as international liability and property catastrophe exposed lines. I mention the European business in this context as this is where most of our large risk claims allowance is held.

Turning now to prior accident year claims development...

Adverse prior year development ended up being \$366M or 3.1% of net earned premium in 2020.

We had a small amount of net releases in Australia Pacific which was more than offset by around \$80M of adverse development in International and a just over \$300M in North America.

I won't dwell on Australia Pacific other than to say that we believe industry reserve redundancies are largely depleted and so pricing will arguably need to continue to adjust to also reflect current accident year loss ratios that are no longer being subsidised by significant prior accident year releases.

International experienced a modest amount of adverse development largely due to strengthening in financial lines, some loss creep on 2019 catastrophes and strengthening in some North America inwards reinsurance treaties.

North America accounted for the majority of the Group's adverse development and I probably don't need to remind you that 2020 is not the first year that North America has experienced adverse development.

I will let Inder discuss the specific issues that contributed to our North America claims development and will instead pre-empt the obvious question; have we got it all and can we guarantee that there won't be any further adverse development?

The short answer to that question is NO – I can't give any guarantees; but we have done the best job we can and I'm hopeful that in addition to strengthening in response to observed development, the \$100M explicit provision largely for social inflation coupled with improved new business quality and strengthened current accident year loss picks, has reduced the risk materially.

Inder will talk later to our current accident year loss picks in North America which have been materially strengthened.

Slide 5: Pricing momentum



Turning now to recent pricing momentum in a little more detail...

As I said earlier and as is even more evident from the charts on Slide 5, in 2020 we saw strong and accelerating rate momentum in most markets around the world but especially in the northern hemisphere.

Momentum across 2020 was strong with the Group achieving an average rate increase of 8.7% in the first half of the year rising to 11.3% in the second half, including a final quarter increase of 12.6%.

The notable exception was Australia Pacific, where rate increases slowed across the second and (especially) third quarters, as we temporarily suspended rate increases for SME, commercial motor and A&H renewals.

Rate momentum recovered to 6.4% in the fourth quarter as COVID-19 pricing relief initiatives rolled off and as we implemented further performance-based rate changes across a wide range of the commodity classes including business packages, farm and householders.

Although early days, the positive 4Q20 rating momentum has continued into 2021.

Key portfolios in Australia Pacific where we have seen strong rate include:

- Aviation +14%
- Commercial property +13%
- Householders & strata +8%

Premium rate increases in Australia Pacific are clearly above our 3% allowance for claims inflation. However, given recent catastrophe experience in Australia, I am pushing the team to achieve even stronger increases for catastrophe exposed business.

As I mentioned earlier, the northern hemisphere is experiencing the strongest premium rate environment in at least a decade, perhaps best evidenced by International's fourth quarter rate increase of 19%.

In North America, rate momentum improved in every quarter of 2020, with the business achieving an average rate increase of 9.5% in the first half of the year which increased to 10.8% in the second half, including a final quarter increase of 10.9%.

This compares with our allowance for claims inflation of around 5% (which allows for social inflation in impacted classes to continue at high single digits to low double digits over the medium term).

Some of our US peers report rate increases excluding workers' compensation because, up until quite recently, comp rates had been falling in the US. On that basis, North America achieved a 12.1% rate increase in the 3rd quarter which increased to 12.4% in the final quarter.

Key portfolios in North America where we have seen strong rate include:

- Professional and financial lines +19%
- Aviation +18%
- Property cat programs +17%
- Specialty & casualty programs +12%
- A&H +11%

January renewal rates in North America remain encouraging.

For International, the quarterly picture speaks volumes for market conditions, with rate momentum building strongly across the year.

The business achieved an average rate increase of 10.1% in the first half which increased to 16.6% in the second half, including a final quarter increase of 19.0% underpinned by International Markets which achieved a final quarter rate increase of 24.7%.

This compares with our allowance for claims inflation of around 3%.

Key portfolios in International where we have seen strong rate include:

- International Markets in total +19%; including
 - Financial lines +28%
 - Liability +24%
 - Property +17%
- UK financial lines +34%
- UK property +16%
- Canada +21%

Although they doubled, 2020 rate increases for QBE Re were still disappointing at only +5% and, although up appreciably in casualty and specialty at the recent 1 January renewals, rate was still below expectations for property catastrophe classes where we remain cautious.

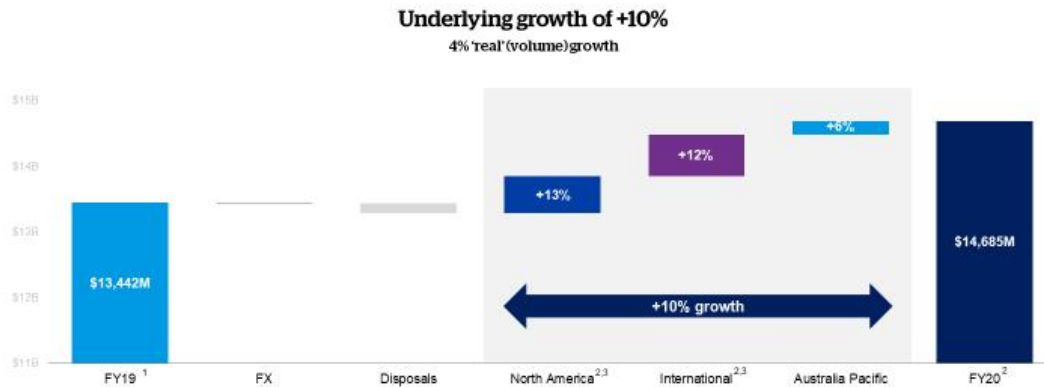
While Asia remains a laggard, rates have improved off a low base to now be +7% underpinned by rate of +12% in Singapore.

January renewal rates for European operations remained positive in all lines and geographies with increases at least in line with our planning assumptions.

Finally, I should point out that the Group has seen a steady improvement in premium retention across 2020 and indeed the past 18 months. This is partly due to completion of all the heavy remediation of recent years but also reflects our increased customer focus and improved service levels and bodes well for premium growth in future years.

Which is a good segue to the next slide.

Slide 6: Gross written premium



1. Continuing operations basis
2. Excludes impact of COVID-19
3. Restated for the transfer of North America's inland reinsurance business to International

6
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On a constant currency basis and adjusting for 2019 disposals, gross written premium grew 10%, reflecting the strong pricing environment, improved policy retention and targeted new business growth.

If you allow for portfolios such as Crop and CTP which are not included in our average renewal rate increase data and our premium retention ratio of around 82%, underlying “real” growth ie growth in excess of lapsed business and premium rate increases, was around 4%.

Although pricing has improved across most lines and across all regions, we remain disciplined and selective, only targeting new business that is appropriately priced and within our risk appetite. Our priority remains to use this period of re-pricing to drive technical pricing across all portfolios to ensure an appropriate risk-adjusted return allowing for currently low investment returns.

North America achieved GWP growth of 13% with growth centred on classes where we have strong market franchises and core competencies including A&H +20%, Crop +14% and property programs +23%.

International achieved GWP growth of 12%, underpinned by growth of +22% in International Markets where growth was strong across all lines but especially Canada, financial lines, liability and marine. Several competitors continue to adjust their risk appetites by reducing capacity and underwriting authority which is generating some quality new business opportunities, especially in London.

Growth in the UK regional business was more modest reflecting a significant reduction in commercial motor premiums associated with reduced activity due to COVID-19 related lockdowns.

QBE Re grew 11% reflecting new business associated with the recently opened Dubai office coupled with rate and new business in the specialty and casualty books.

Gross written premium in Asia fell by 9% reflecting the impact of COVID-19 on HK travel and cargo insurance as well as de-risking initiatives in trade credit taken at the beginning of the year.

Australia Pacific achieved underlying growth of 6% underpinned by strong growth in strata, householders, LMI and New Zealand, while the Pacific Islands business contracted due to the severe impact of COVID-19 on the region's economy.

In a hardening market, it is important to not only seek rate in those portfolios where risk adjusted returns are insufficient but also to optimise your portfolio by driving growth in higher margin books of business.

In this regard, in 2020 we achieved GWP growth of 10-20% and often in excess of that, in portfolios that are amongst the most profitable in each division including for example:

International

- IM - natural resources, liability and financial lines
- European liability
- QBE Re EO casualty
- Tracker facilities

North America

- A&H
- Crop

Australia Pacific

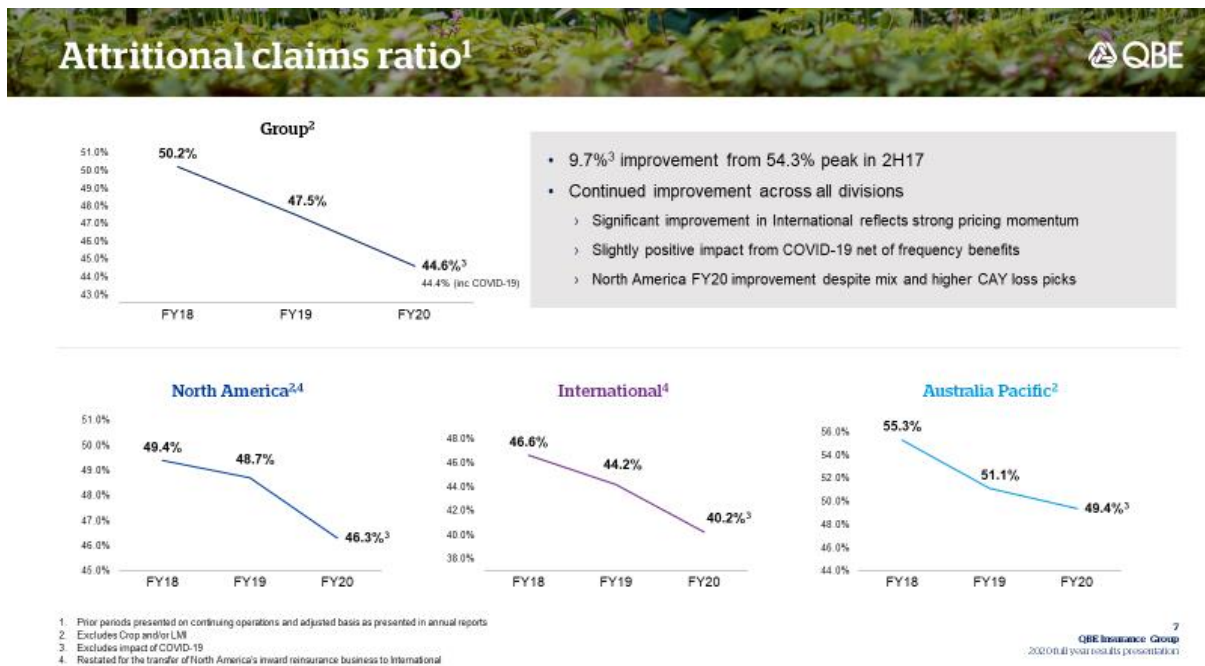
- NZ
- Farm
- Commercial property
- General aviation

Before I move on, I should add that growth in net earned premium was not as strong as gross written premium in 2020.

This was partly due to a large increase in reinsurance costs which included the de-risking (reinsurance) initiatives undertaken at the onset of COVID-19 but there is also a ~\$0.5BN lag in the earning of the significant rate driven growth in gross written premium.

Unless top-line growth accelerates again, our net earned premium trajectory should be closer to gross written premium in 2021, as the 2020 growth is fully earned.

Slide 7: Attritional claims ratio



Turning now to the Group's attritional claims ratio.

The benefit of improving premium rates is clearly evident in the trajectory of the Group's attritional claims ratio.

Having improved by 2.7% in 2019, the Group's attritional claims ratio improved a further 2.9% to 44.6%, with improvement seen across all divisions but especially International.

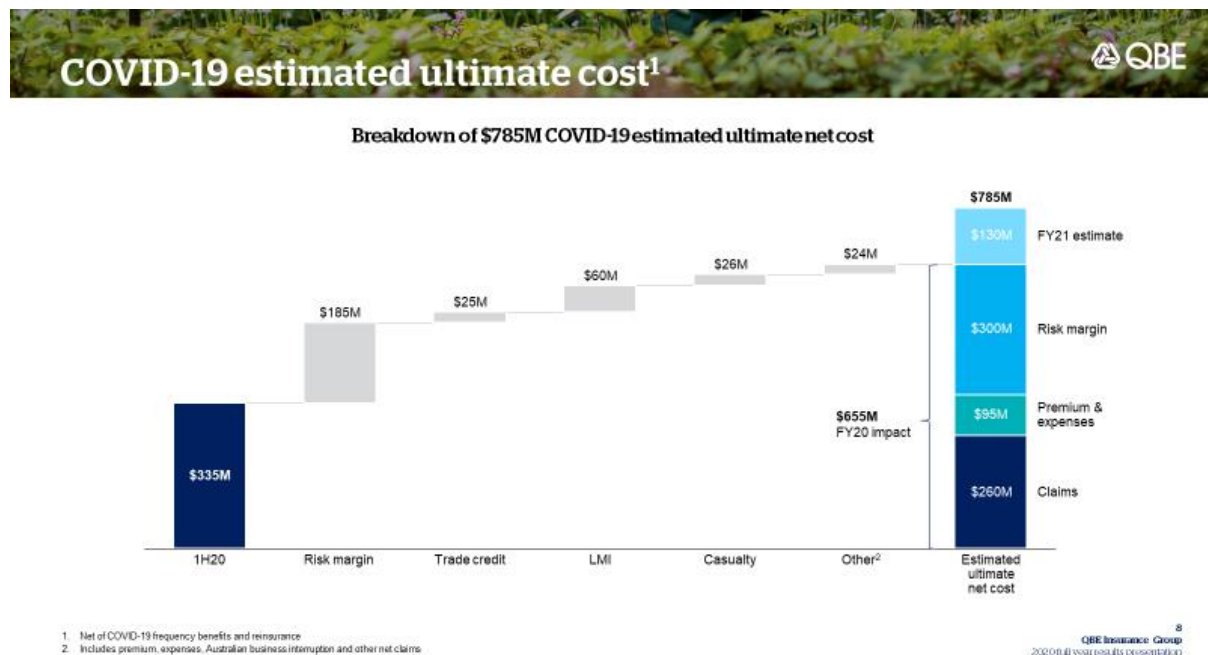
Despite the impact of de-risking (reinsurance) initiatives and more prudent current accident year actuarial assumptions, North America's attritional claims ratio improved 2.4% reflecting the improved pricing environment and the non-recurrence of attritional weather in 2019.

International's attritional claims ratio improved by 4.0% reflecting the increasingly favourable pricing landscape, supported by targeted underwriting actions in our European operations and Asia.

Australia Pacific's attritional claims ratio reduced by a further 1.7%. Improvement was observed across most portfolios but especially CTP, New Zealand and farm, partially offset by attritional weather which adversely impacted the household and commercial property books.

Given the earning of 2020 rate increases in 2021 and ongoing rate increases in 2021 itself, we expect further improvement in the Group's attritional claims ratio in 2021.

Slide 8: COVID-19



Finally, a brief update on the impact of COVID-19.

Firstly, let me just say that there is certainly no new news on the COVID-19 front today: our estimated ultimate net cost of COVID-19 is unchanged at \$785M and comprises the \$655M cost recognised in 2020 and a further \$130M of (largely) claims expense yet to be incurred.

The \$785M is net of reinsurance and includes claims benefit offsets as a result of reduced frequency associated with COVID-19 lockdowns, mainly in the UK and Australia Pacific motor portfolios.

As can be seen in the chart, the \$320M charge during the second half was dominated by the further \$185M risk margin charge we announced last month which brings total COVID-19 risk margins to \$300M.

While the UK Supreme Court ruling did not directly impact QBE's net claims position, the additional risk margin announced last month ensures that we have allowed for the net cost of Australian business interruption claims even in extreme scenarios.

The remaining \$135M of net charges during the second half largely reflected additional claims in areas that should not surprise, including trade credit, casualty, LMI (driven by a \$60M provision to protect against a deterioration in unemployment to 8% concurrently with a 5% fall in house prices) and Australian business interruption.

The \$130M of (largely) claims costs expected to be incurred in 2021, are likely to be in areas such as LMI, trade credit and casualty lines.

Trade credit claims to date have been far less than the more extreme scenarios that we felt were possible at the onset of the pandemic. This reflects significant portfolio de-risking initiatives coupled with a more resilient economic backdrop in Australia and government reinsurance backstops implemented in the UK last year that has been extended until 30 June this year.

Nevertheless, we expect additional trade credit claims to emerge as fiscal stimulus around the world is eventually unwound.

Similarly, our LMI business has performed better than expected due to the management of the pandemic and the resilience of the Australian economy and housing market.

COVID-19 related hardships are down to around 1% of active policies from around 6% during the August 2020 peak, underlying arrears are broadly stable, unemployment is relatively stable at around 6.5% and the local housing market remains surprisingly firm, supported by a recovering economy and record low interest rates.

In light of this, I would hope that the \$60M LMI provision taken up at year end will prove unnecessary but we felt it prudent to do so given the long-tail nature of this business.

In addition to significant reinsurance protections, the \$300M of COVID-19 risk margins give us confidence that the \$785M net ultimate cost of COVID-19 will prove sufficient.

The majority of our claims expense to date comprises IBNR and it will take some time for claims to develop and even longer for claims to be finalised. In light of that (and even in more optimistic scenarios), I would caution you not to expect risk margin releases for the foreseeable future.

Slide 9: Business interruption



Business Interruption (BI)

North America	International	Australia Pacific
Exposure minimal	Exposure understood and protected	Exposure uncertain - downside protected
<ul style="list-style-type: none"> Requires physical damage AND all policies have explicit virus exclusions 	<ul style="list-style-type: none"> UK insurance BI claims capped at \$70M net 	<ul style="list-style-type: none"> Special leave sought to appeal Quarantine Act ruling, additional test cases on policy wordings to be heard in 2021
<ul style="list-style-type: none"> Protected by quota share and peak cat XOL reinsurance 	<ul style="list-style-type: none"> Protected by quota share, non-peak cat XOL and cat aggregate reinsurance 	<ul style="list-style-type: none"> Protected by quota share, non-peak cat XOL, cat aggregate reinsurance and substantial risk margins
	<ul style="list-style-type: none"> No event cancellation insurance 	

9
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The insurance industry’s potential exposure to COVID-19 related business interruption claims has been the topic of the greatest concern for investors and the source of the greatest uncertainty for the industry.

In North America, we are currently of the view that our exposure is minimal.

All our property policies require physical damage to trigger business interruption coverages AND the vast majority, more than 99% of policies, include the extra protection of a virus exclusion.

To date, the vast majority of US court rulings (something like 121 out of 131 at the federal level) on the subject of whether the virus causes physical damage to property have been in favour of the industry.

US business interruption wording is far less affirmative than the UK and, to a lesser degree Australia. So, while we cannot completely rule out the risk of widespread social justice-based Court rulings, as proved to be the case in the UK, we regard the possibility as remote.

But if you want to play devil's advocate, as is the case in the UK and Australia, non-damage business interruption claims are protected by our catastrophe reinsurance.

While the recent UK Supreme Court appeal ruling was surprising and overturned established case law precedent, it does bring more certainty to the UK business interruption landscape and the industry can now commence evaluating and settling valid claims.

As we said in our ASX Release last month, while our gross UK business interruption claims costs increased as a result of the ruling, our net claims cost remains \$70M as a result of our various reinsurance treaties.

The situation with respect to business interruption in Australia remains far more uncertain.

The ICA has applied to the High Court of Australia for special leave to appeal the judgement with respect to the initial test case surrounding the incorrect reference to the Quarantine Act.

Regardless of the outcome of that application and any ensuing appeal, there will be further test cases to resolve legal issues surrounding the interpretation of common business interruption policy wordings and those cases will take some time to be heard and even longer for rulings to be handed down.

So, it is difficult to see any clarity emerging with respect to Australian business interruption in the first half of 2021 and the timeframe could easily extend towards the end of 2021 and beyond.

QBE has set aside a material gross provision for potential Australian business interruption claims that is considered appropriate in the circumstances having regard to the Group's potential exposure and plausible claims scenarios.

In light of that gross provision, together with substantial risk margin and significant reinsurance protections, the Group considers that it has allowed for potentially extreme, albeit highly unlikely, Australian business interruption claims scenarios.

Again, to pre-empt the question, I thought it appropriate to make a few comments about the recoverability of non-damage business interruption claims under our various catastrophe reinsurance treaties.

We have been consistent all along on our position in this regard.

Since the onset of COVID-19 and especially since the UK Supreme Court judgement last month, we have spoken on many occasions with our reinsurers, the reinsurance brokers who placed the covers and specialist external reinsurance legal counsel (including again after the recent UK test case appeal ruling). Moreover, we have renewed our reinsurance treaties with the same reinsurers.

Although there can be no absolute 100% guarantees, our position is unchanged after all of those conversations and considerations.

I will now hand over to Inder to take you through the financials in more detail.

Slide 10: Introduction – Inder Singh

Inder Singh

Group Chief Financial Officer



Thank you, Richard...good morning all.

As Richard has highlighted, the headline result is very much in line with our December announcement and our subsequent business interruption update in mid-January.

Whilst we are disappointed with the headline result, the operating momentum in our business remains strong and I am confident that we can deliver significant further improvement in the underlying margin, beyond the trends that are evident in the 2020 result.

As Richard has updated you on the impacts of Covid-19, I will focus my remarks on performance excluding these impacts.

Slide 11: Financial results summary



Operating results

		FY19 ¹	FY20	FY20 (ex. COVID-19)
Gross written premium	\$M	13,442	14,643	14,685
Net earned premium	\$M	11,609	11,708	11,785
Net claims ratio (ex discount rate)	%	67.3	73.1	67.8
Net commission ratio	%	15.6	16.1	16.1
Expense ratio	%	14.6	15.0	14.6
COR (ex discount rate)	%	97.5	104.2	98.6
Net investment yield ²	%	4.4	0.9	
Net profit (loss) after income tax	\$M	622	(1,517)	
Adjusted cash profit (loss) after income tax³	\$M	733	(863)	

1. FY19 presented on a continuing operations and adjusted basis as presented in annual reports

2. Includes FX gains (losses) and other income (expenses)

3. FY20 adjusted for Additional Tier 1 capital (AT1) coupons and excludes material non-recurring items such as restructuring costs and losses on disposals

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I'll start with our overall Group P&L on slide 11.

Gross Written Premium increased by 10% on a constant currency basis and excluding the impact of 2019 disposals.

The combined operating ratio deteriorated by just over 1.0 point to 98.6, reflecting above average catastrophe activity, and adverse prior accident year claims development, primarily in North America.

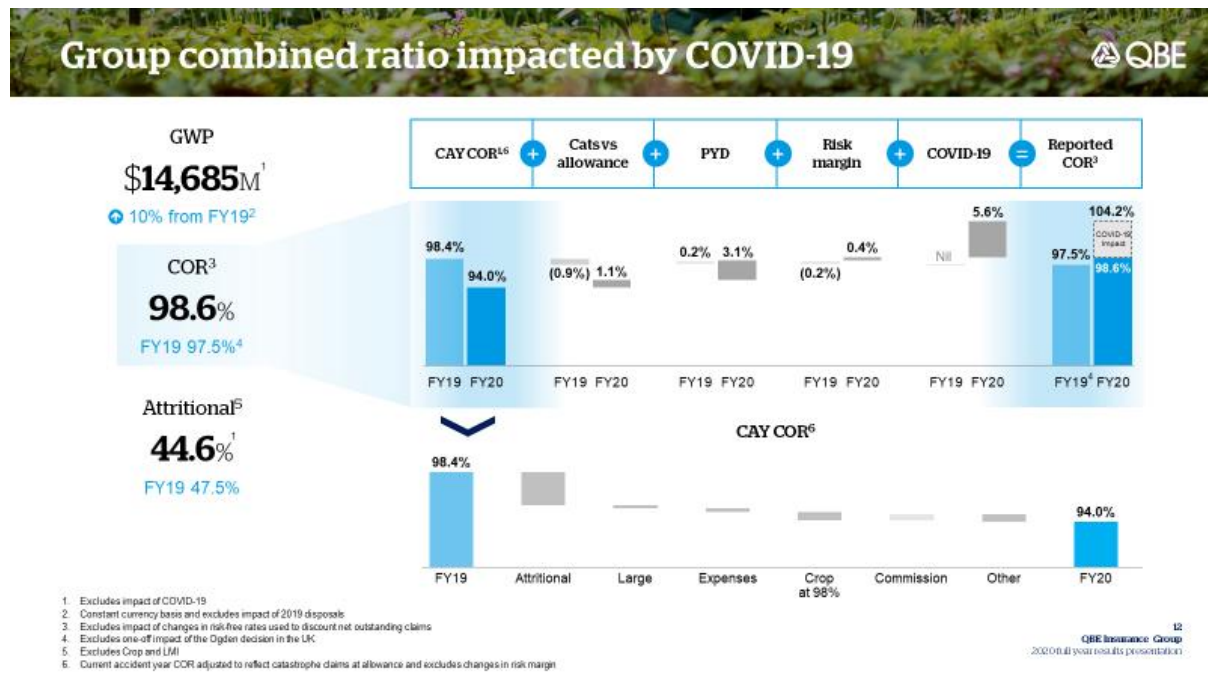
Net investment income was \$226M, compared with more than \$1BN in 2019. Our investment portfolio recovered strongly in the second half and the unrealised mark-to-market losses on our investment-grade credit book more than fully reversed, as markets rebounded and credit conditions stabilised.

The Adjusted Cash loss after tax for the year was \$863M, reflecting the combined impact of Covid-19, elevated cat activity, and adverse prior year development.

Our financial position remains strong, with the PCA multiple above the midpoint of our target range. Pro-forma gearing remains well within our target range, despite the \$600M in non-cash impairment and amortisation charges we took in the second half.

Given the statutory loss, the Board elected not to declare a final dividend for 2020. Subject to stable global economic conditions, we expect to resume dividend payments – up to 65% of cash profit – in conjunction with the 2021 interim result.

Slide 12: Group combined ratio impacted by Covid-19



I'll now step you through some of the key movements in our combined operating ratio on slide 12.

There is a fair amount of noise in the headline result, and what we're trying to do here is to isolate some of the non-recurring elements to better demonstrate the improving underlying trends that we are seeing.

On the right-hand side of the top chart, you can see the reported combined operating ratio of 104.2%.

As we work towards the left...Covid-19 had a 5.6-point impact on the combined operating ratio...we expensed \$655M in 2020, with the remaining \$130M of our estimated ultimate Covid-19 cost expected to be incurred in 2021.

The combined operating ratio was also impacted by 40 basis points due to a modest increase in Risk Margin (unrelated to Covid-19) – mainly reflecting FX and the impact of lower discount rates on the central

estimate. The Probability of Adequacy of net outstanding claims increased to 92.5% - which is right at the top end of our range.

The next block along represents the 3.1-point impact relating to adverse prior accident year claims development – and I will expand on this shortly.

As Richard referenced, the 2020 net cost of catastrophes was just over a point above our allowance for the year.

Normalising for these items, the underlying Current Accident Year Combined Ratio of 94% was more than 4 points better than the prior period.

And what's really encouraging is that this improvement was underpinned by sustainable, repeatable drivers that will continue to support a stronger, more resilient earnings profile going forward. The waterfall chart below sets out some of these drivers.

The attritional claims ratio improved further, by around 3 points, with each Division contributing to this positive trend.

We are pleased with the progress we are making on large individual risk claims. By their very nature, these claims are considerably more volatile than attritional claims, and so we expect some fluctuation from one period to the next – and especially from one half to the next.

Importantly, the large individual risk claims ratio improved further during 2020, despite absorbing some headwinds that particularly impacted the second half:

- Firstly, additional reinsurance, in response to COVID-19, reduced net earned premium by \$325M and adversely impacted the large risk claims ratio by 20 basis points

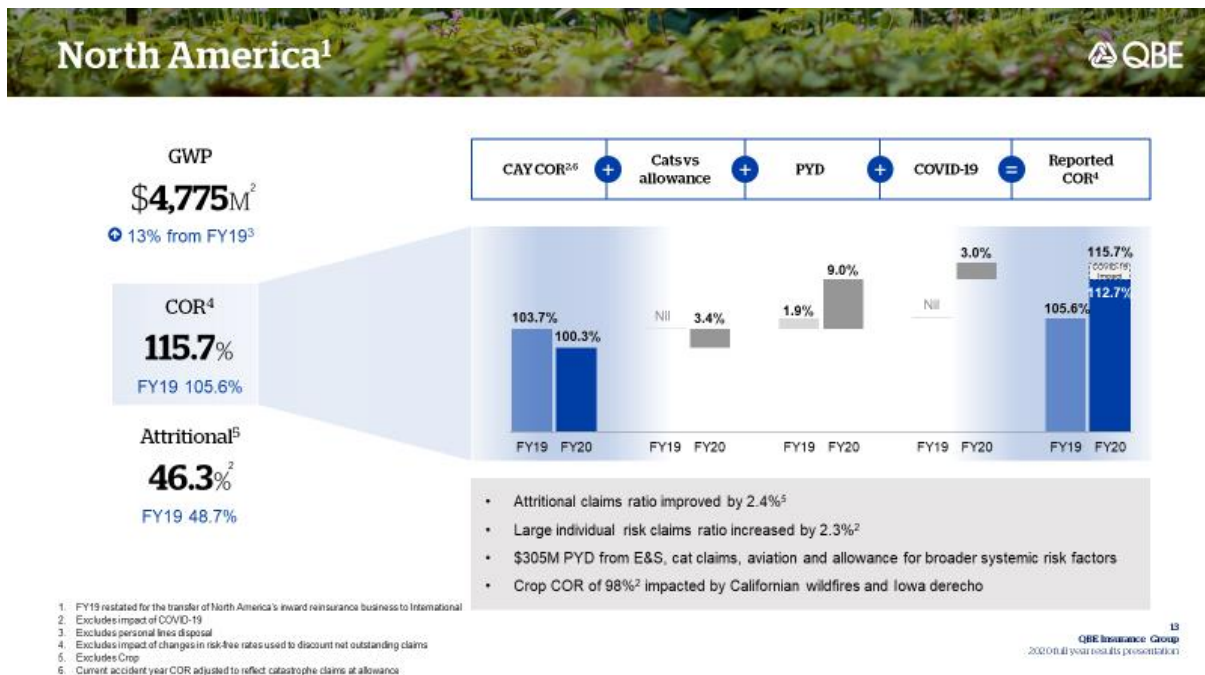
- Secondly, we booked more cautious current accident year loss picks, including IBNR, as we exited 2020, particularly in North America - I will discuss these a little later

On operating expenses, our efficiency program has delivered cost reductions ahead of schedule and, similarly, I will pick this up in more detail later.

Just worth noting on Crop, whilst we are showing a year on year improvement in this waterfall chart, we've had two very disappointing years in this business, with combined operating ratios of around 109% and 98% in 2019 & 2020 respectively. As flagged in December, and in view of recent performance, we have revised the assumed Crop combined ratio in our plans to 92% from 90% previously.

I'll now turn to Divisional performance in more detail.

Slide 13: North America



Starting with North America on slide 13.

Gross Written Premium of \$4.8bn was up 13%, adjusting for the sale of retail personal lines.

As you can see on the chart, the normalised current accident year combined ratio improved by around 3.5 points to 100.3%.

Within this, the attritional claims ratio improved by 2.4 points, driven primarily by the strong rate momentum across the business.

The cost of large risk claims increased by 2.3 points, reflecting increased severity in our general aviation book and materially stronger current accident year loss picks across the portfolio.

These strengthened CAY loss picks largely reflect additional IBNR, and to give you an indication of magnitude:

- large risk loss IBNR for the 2020 Accident Year is 40% higher than the IBNR we held against the 2019 Accident Year as we exited 2019 and up nearly 130% on 2017 on the same basis. These are very significant increases – even with the benefit of hindsight, the IBNR we would have held on these old years is not as much as we are now reserving for the 2020 Accident Year
- Similarly, excluding Covid-19 claims, the total IBNR we are holding against attritional, risk and CAT claims for the 2020 Accident Year is around 8% of NEP higher than the prior period

The main disappointment in North America was obviously the adverse prior accident year development – we booked an additional \$190M in the second half, bringing the full year number to \$305M, or 9% of earned premium.

On a full year basis, this adverse development related to four main areas:

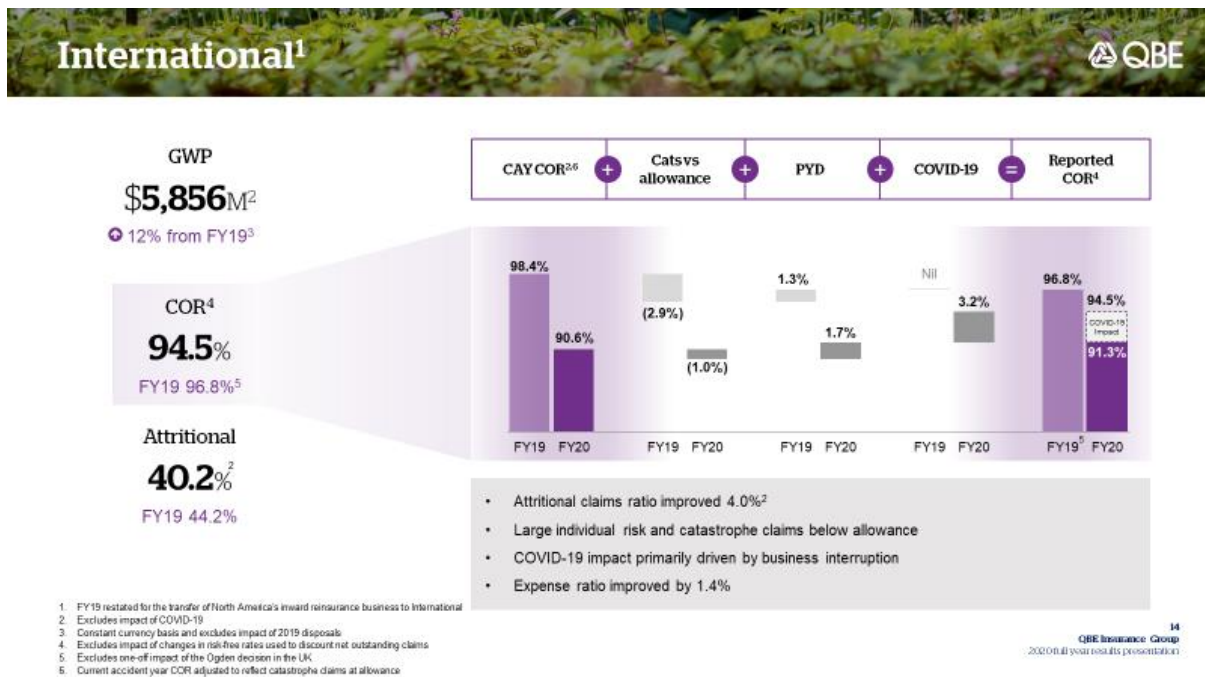
- Firstly, \$70M related to the discontinued E&S portfolio – this is a book of business from a couple of years ago, where with the benefit of hindsight, we didn't have the necessary expertise and ended up with a portfolio of (largely habitational) business that wasn't well underwritten or appropriately priced;
- Around \$60M of development related to general aviation – this largely reflects a single, very large claim involving a private jet that entailed significant loss of life and substantial property damage, where the Transport Bureau made a surprise finding of pilot error rather than engine failure;
- Around \$30M related to 2017 catastrophes, particularly Hurricane Irma. The entire industry has experienced adverse development on 2017 catastrophes, and especially in relation to Irma;

- And lastly, we have made an additional explicit provision of around \$100M, to address more systemic issues such as social inflation and the potential for higher severity loss trends in casualty lines.

Importantly, this \$100M explicit provision is more forward-looking and not just a direct response to the specific underlying development observed in 2020.

Separately we've made good progress on our operational efficiency program in North America, with around \$60M of net cost savings realised over the last 24 months. This has been driven by our exit from personal lines and the associated simplification and rationalisation of technology infrastructure, operating model and regional footprint. Moving forward, we continue to see opportunities to further improve our operating efficiency in North America.

Slide 14: International



Turning now to International on slide 14.

Gross Written Premium of \$5.9B was up 12% on a constant currency basis and excluding the impact of asset sales in Asia.

This growth was underpinned by the strong premium rate increases in International markets (around 20%), UK (around 15%) and Continental Europe (around 8%).

As you can see on the chart, the normalised current accident year combined ratio has improved by a remarkable 7.8 points to 90.6%, with meaningful improvements in both the attritional claims ratio (down around 4 points) and the large loss ratio (down around 3 points). This improvement clearly reflects the earn through of the significant premium rate increases, as well as our continued focus on underwriting discipline and risk management.

At a portfolio level, we have seen marked improvements in the profitability of many of our large books of business, including, within international markets our Natural resources, liability and financial lines

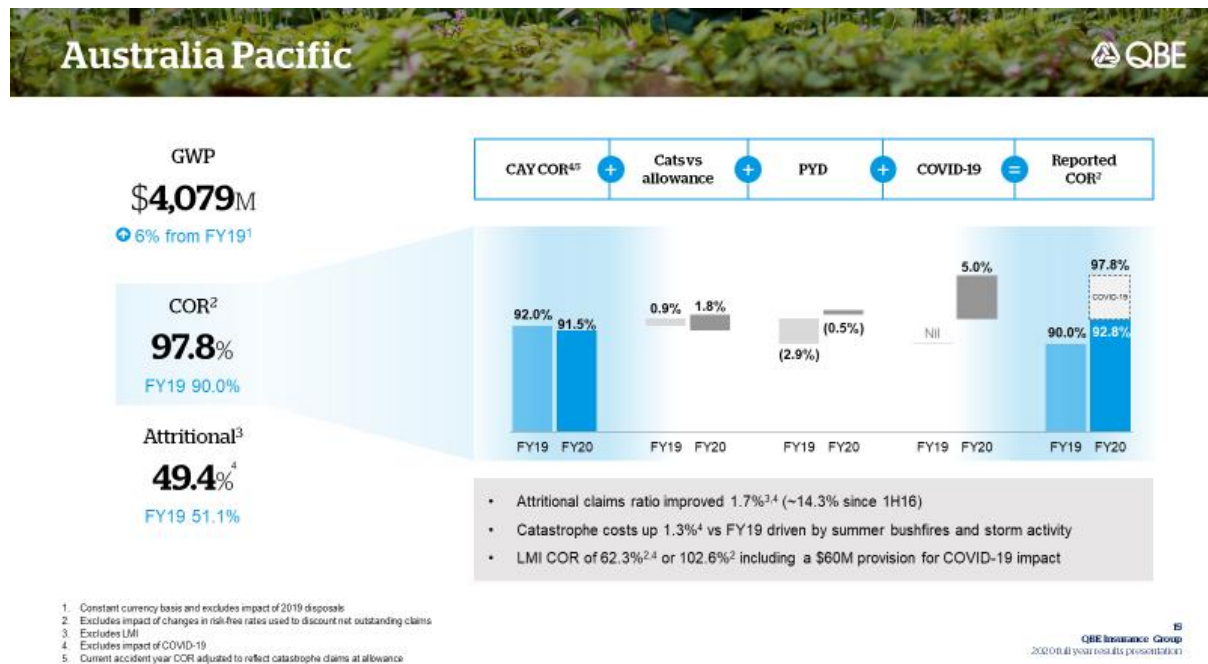
portfolios, our Commercial Motor and Liability books in the UK and the Commercial Property book in continental Europe.

On prior accident years, while there was positive development across much of International, the overall net adverse development of \$80M or 1.7 points was driven by three main areas:

- Firstly, Financial lines – predominantly UK professional indemnity and, to a lesser extent, UK management liability for 2017 and prior years;
- Second, reserve strengthening on some North American treaties within QBE Re – these treaties are now reported within International as we have consolidated all global inwards reinsurance business within QBE Re, and
- Lastly – loss creep on 2019 Japanese typhoons and Hurricane Dorian, this is not unique to QBE

On operating expenses, the expense ratio improved by 140 basis points, from 15.0% to 13.6%. This reflects continued improvement in operating efficiency in both Europe and Asia, with disciplined cost containment enabling us to benefit from operating leverage as the premium rate environment improves.

Slide 15: Australia Pacific



Lastly, our home market of Australia Pacific on slide 15.

Gross Written Premium of \$4.1B was up 6% on a constant currency basis and excluding the impact of asset sales. This is despite the suspension of rate increases on selected lines during Q2 and Q3, as we provided Covid-19 relief to customers.

The normalised current accident year combined ratio was strong at 91.5%, a 50-basis point improvement from the prior year.

The attritional claims ratio improved by a further 1.7 points, and in aggregate, has improved by more than 14 points since we commenced detailed cell level performance management in late 2016.

The large risk claims ratio improved by 20 basis points, supported by strong performance in commercial property, partly offset by some volatility in CTP and, to a lesser degree, in New Zealand.

A significant improvement in large losses since 2017, alongside the improvement in the attritional claims ratio, has put the Australia Pacific

business on a much stronger, more sustainable footing with a vastly improved quality of earnings.

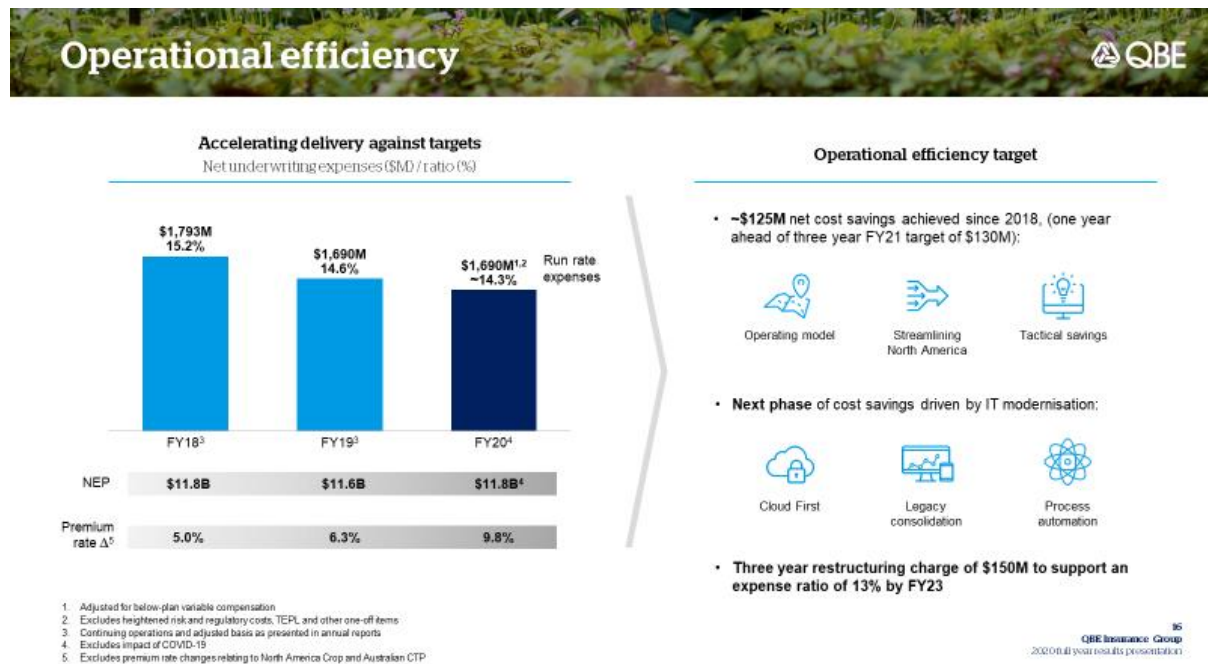
On prior accident year reserves, releases from CTP and Commercial Property were partly offset by minor strengthening in Public Liability and New Zealand Professional Indemnity – overall, we remain comfortable with reserving trends in liability lines.

The reported expense ratio was 80 basis points higher than 2019. This included non-recurring risk and regulatory costs, and a NSW CTP profit normalisation charge of \$61M. This CTP charge is based on our estimated performance relative to industry profitability, and the scheme's benchmark margin, and is consistent with the favourable experience of lower claims frequency that has supported our reserve releases.

On Lenders' Mortgage Insurance, lead indicators and credit metrics have trended better than expected, with most bank customers having resumed mortgage repayments after brief Covid-19 related repayment holidays. Having said that, this is a long-tail business, and the economic outlook, while stabilising, remains uncertain and supported by significant stimulus programs that are yet to roll-off.

Given this backdrop, we are being cautious about the economic assumptions underpinning the LMI reserving model and accordingly have booked an incremental reserve of \$60M for Covid-19 related impacts. Including this additional reserve, the LMI business reported a combined operating ratio of 103% for FY 2020.

Slide 16: Operational efficiency



Turning now to slide 16...you'll recall that, in December 2018, we announced a three-year operational efficiency program targeting around \$200M of gross cost savings...\$130M of net savings...and an expense ratio of less than 14% by 2021.

Two years into the three-year schedule of work, the program has progressed ahead of plan.

As you can see on the chart on the left-hand side, our 2020 "exit" run-rate costs are estimated at around \$1.69Bn, which equates to an underlying expense ratio of 14.3%.

This exit run-rate excludes one-off items, both positive and negative, including the elevated risk and regulatory costs that we flagged at the end of 2019, restructuring charges, the CTP profit normalisation charge, significantly lower variable remuneration and other one-off net savings.

We are pleased with the meaningful progress we have made in rationalising our technology estate, retiring legacy applications, simplifying our operating model and reducing third party consulting,

travel and other discretionary costs. Additional savings were also realised from the disposal of the retail personal lines business in North America and the related reduction of our regional footprint.

As we transition into the next phase of our program, we see meaningful opportunities to improve operational leverage by minimising expense growth as we take advantage of the organic growth opportunities offered by the current trading environment.

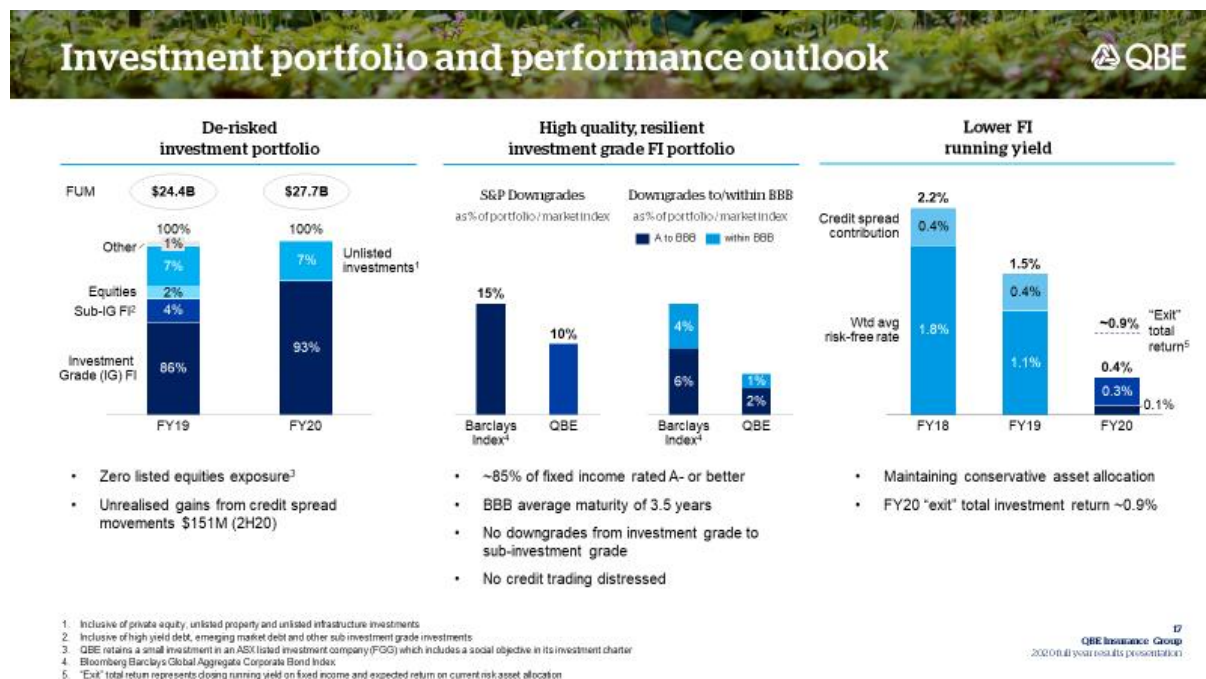
We recently commenced our IT modernisation program, which includes:

- Moving the majority of our IT estate to the cloud and exiting legacy Data Centres;
- Consolidating our technology infrastructure services under a common provider; and
- Automating our IT operations, driving further digitisation and process automation throughout the organisation

More broadly, we also see opportunities to continue to refine our operating model, ways of working including where & how work gets done, to drive year-on-year improvements in operating efficiency.

As part of the next phase of work, we will incur a \$150M restructuring charge, primarily related to the IT modernisation, to be expensed over the next three years. This will support a target expense ratio of 13% by 2023.

Slide 17: Investment portfolio and performance outlook



Turning now to investment performance on slide 17.

We have obviously seen extraordinary market conditions over the course of 2020, with severe dislocation and elevated volatility, especially immediately following the onset of the pandemic.

As we move into 2021, the outlook for the global economy and capital markets appears more stable.

Following our de-risking actions in the first half of 2020, we have maintained a conservatively positioned investment book with a high-quality investment grade credit portfolio:

- 85% of fixed income is rated A- or better
- We've had fewer corporate bond downgrades than the market
- The BBB portfolio is resilient with fewer exposures on negative outlook compared to the market
- We have no fallen angels and none of our credit is trading distressed

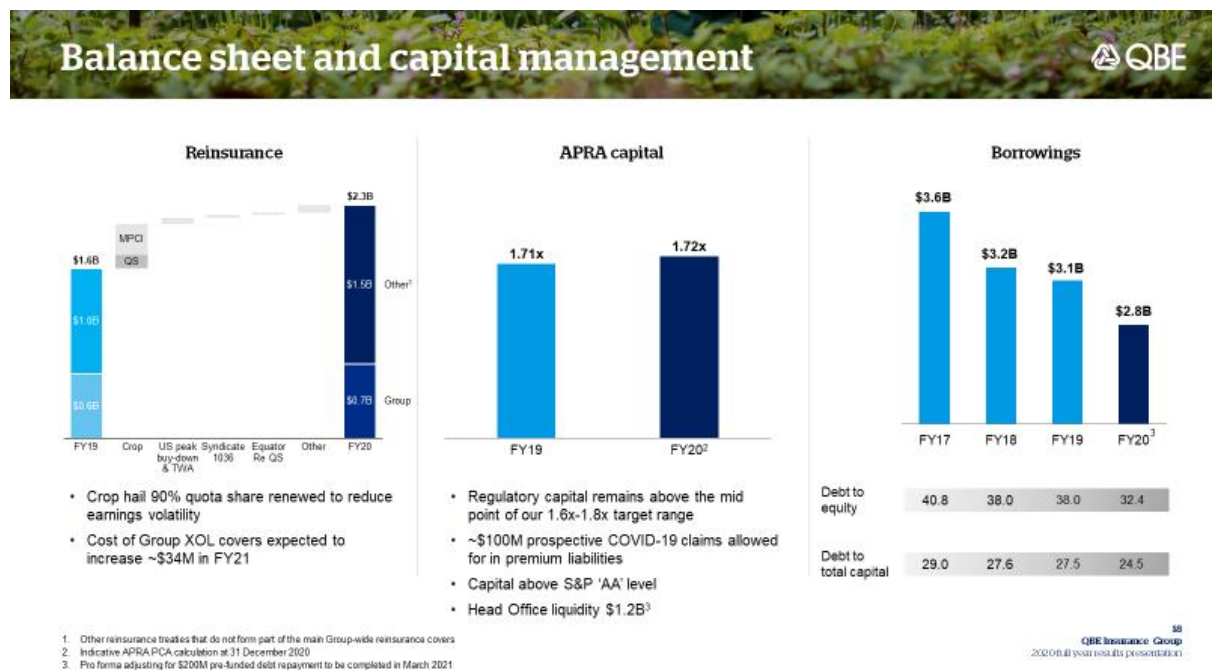
It is worth noting that the total balance of cash and investments at the end of 2020 was \$27.7BN, up significantly from the prior year.

Looking forward, the developments through 2020 have clearly re-set the outlook for investment returns as is clearly evident in the chart on the right-hand side of this page.

Our Fixed Income running yield is now around 40 basis points, and this was more than 5 times higher in 2018 at 2.2%. We have seen an incredible leg-down in global risk-free rates, while credit spreads are modestly tighter, supported by the extraordinary policy stimulus we've seen over the last few months.

Based on our asset allocation today, this translates to an FY20 "exit" annualised return of around 90 basis points or 10 basis points lower than we referenced at our December update, reflecting further spread compression.

Slide 18: Reinsurance, balance sheet, capital



I will conclude with some observations on our reinsurance profile, balance sheet and capital position on slide 18.

In early January, we announced the successful renewal of the Group's reinsurance program. This program was placed broadly in-line with our expectations, at terms slightly better than allowed for in our planning assumptions and strikes an appropriate balance between cost, capital and earnings volatility protection.

The chart on the left-hand side here sets out key movements in our reinsurance spend which increased from \$1.6BN in 2019 to \$2.3BN in 2020, mainly reflecting our Crop business.

In 2020, we purchased additional quota share reinsurance to cede 90% of Crop hail exposure and, combined with significantly reduced MPCI recoveries, our Crop reinsurance expense increased by \$438M. Crop reinsurance expense is highly variable and difficult to predict with quota share cessions impacted by variability in gross writings and MPCI recoveries impacted by scheme profitability in any particular year.

Reinsurance expense was also impacted by the additional CAT cover we purchased to reduce North American peak retention to \$150M from \$400M previously, as part of de-risking initiatives undertaken last April.

The PCA multiple is above the mid-point of our target range. This is despite a material Covid-19 impact, with the vast majority of our \$785M net ultimate cost of Covid-19 either incurred in the FY20 result, accounted for in risk margin, or reflected as a deduction from capital through premium liabilities.

Our capital position has also absorbed the risk charges associated with the expansion of our balance sheet over the course of 2020, with cash and investments up by 9% in constant currency terms, unearned premium up 10%, and gross outstanding claims up 16%, including the impact of greatly reduced risk-free rates.

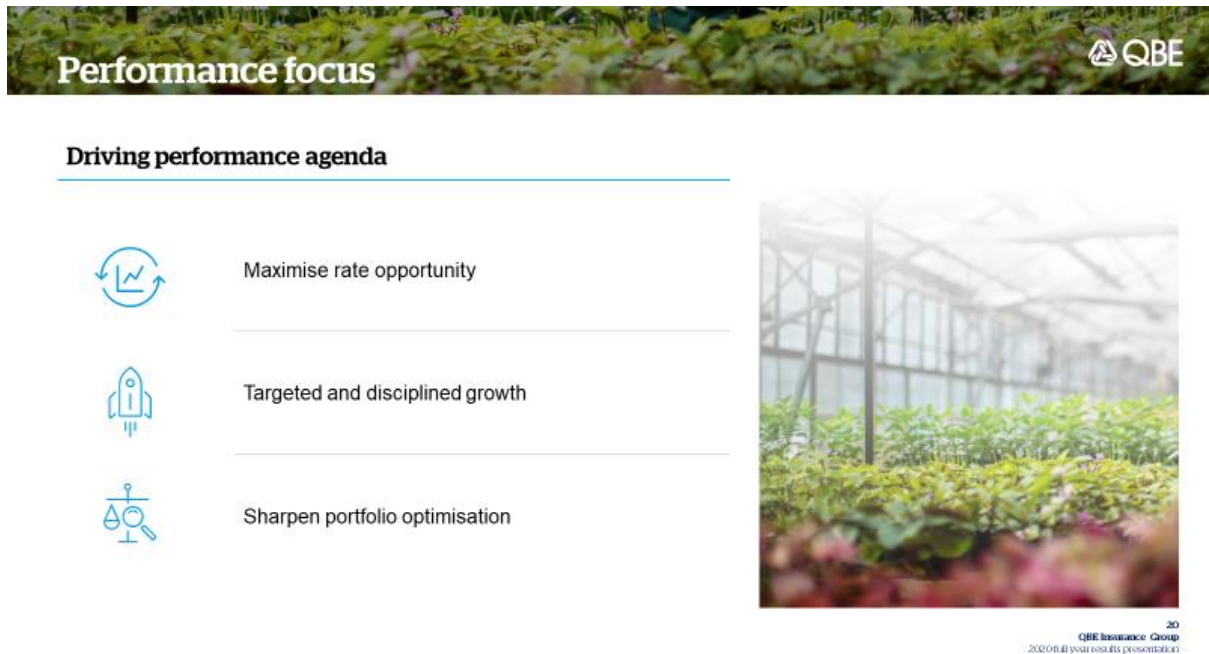
Similarly, our S&P capital position remains strong with a modest surplus to the 'AA' minimum capital requirement.


Allowing for the pre-funded subordinated debt repayment that will be completed in early March, our debt-to-equity ratio is around 32%, down from 38% a year ago and 41% in 2017, while Head Office Liquidity is around \$1.2Bn.

With the operating environment remaining uncertain, we are maintaining a rigorous focus on capital and risk management, with our decision-making informed by dynamic, forward looking stress & scenario analysis.




With that, I will hand back to Richard to discuss our priorities and outlook for 2021.

Slide 20: Performance Focus



Performance focus 

Driving performance agenda

-  Maximise rate opportunity
-  Targeted and disciplined growth
-  Sharpen portfolio optimisation

20
QBE Insurance Group
2020 full year results presentation

Thanks, Inder.

Before we move to Q&A, I would like to quickly mention my priorities for 2021.

Performance is and has to be my number one near term focus.

The market conditions we are currently experiencing are rare and so I am determined that we maximise the opportunity for both margin expansion and growth.

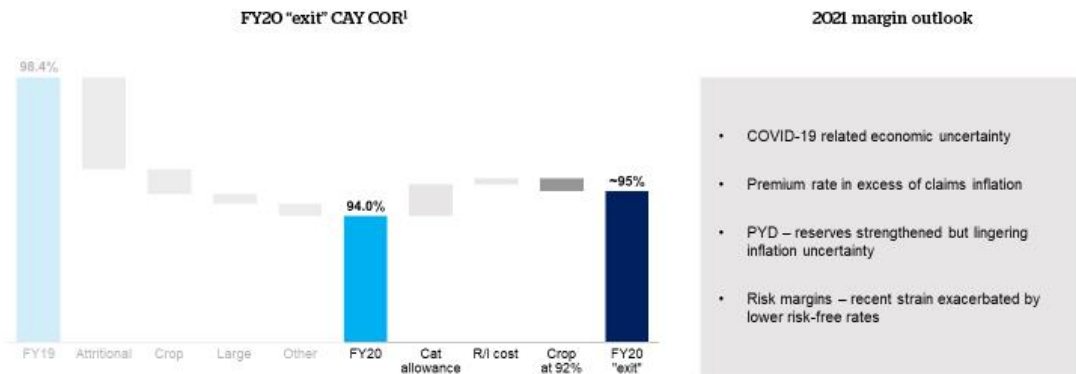
I am not envisaging any changes to the Group's strategic agenda – cell reviews and the Brilliant Basics program remain integral, however, I intend reinvigorating and evolving them, increasing the emphasis on capital allocation and targeting growth in portfolios generating the highest risk-adjusted returns.

We will challenge ourselves to raise the bar in all aspects of performance management from risk selection, to pricing, to claims

management. I will ensure that all our QBE colleagues realise the importance of these activities.

I will talk about my other priorities at the 2021 interim result including our modernisation journey which we are optimistic will facilitate material additional efficiency savings over the medium term.

Slide 21: Outlook



1. Refer to slide 12

21
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Given the considerable uncertainty as a result of the pandemic and its lingering impact on the global economy, we have decided not to provide any results targets for the 2021 financial year at this stage.

That said and as Inder discussed on Slide 12, we would regard our underlying 2020 current accident year combined ratio to be around 94%.

If you adjust that for the recently flagged increase in our Group XOL reinsurance costs and the increase in the catastrophe allowance to \$685M but also assume a normal Crop combined operating ratio, the 2020 "exit" combined operating ratio is around 95%.

That is a good base level from which to assess likely margin expansion in 2021. While premium rate increases are clearly well in excess of loss cost inflation in most of our portfolios, there is still lingering uncertainty around claims inflation and the ongoing level of catastrophe activity

With that I will open the call up to Q&A.