Group Chief Financial Officer's **report**

In a challenging backdrop characterised by heightened inflation and catastrophe activity, geopolitical tensions and significant investment market volatility, QBE achieved an improvement in profitability, further growth, and importantly demonstrated greater resilience in its financial performance.

Financial performance

QBE reported a statutory net profit after tax of $770 million compared with $750 million in the prior year.

Adjusted cash profit after tax increased to $847 million from $805 million in the prior year, and equates to an annualised return on equity of 10.5%.

Statutory gross written premium increased 13% as a result of continued favourable premium rate increases, stable retention and targeted new business growth. For a second year, growth in our Crop business was particularly strong, supported by commodity prices and organic momentum.

There was a remarkable recalibration of interest rates globally, resulting in higher risk-free rates across all currencies. This resulted in a $1,214 million favourable impact to the statutory underwriting result, which was more than offset by unrealised losses of $1,343 million in our fixed income portfolio.

The statutory combined operating ratio excluding the impact from risk-free rates deteriorated to 94.2% from 93.7% in the prior year. This largely reflected the adverse impact from the Australian pricing promise review, and the impact of the transaction to reinsure North America Excess and Surplus (E&S) lines prior accident year liabilities. These items impacted the underwriting result by $60 million and $45 million respectively.

To support comparability of year-on-year results, we have adjusted for these items. On this basis, the combined operating ratio improved to 93.7% from 95.0% in the prior year, representing underwriting profit of $933 million compared to $695 million in the prior period.

The total investment loss for the year was $(776) million or (2.7)%, compared with a return of $122 million or 0.4% in the prior year. Excluding the impact of risk-free rates, the investment return was $567 million or 2.0%, compared with $382 million or 1.3% in the prior year.

In fixed income, the portfolio running yield increased materially over the year, to an exit yield of 4.1%, from 0.7% in the prior year. This supported higher core yield income which was partially offset by adverse credit spread marks. In risk assets, unrealised losses on equities and fixed income were more than offset by favourable returns from infrastructure and unlisted property.

In May, QBE sold the Westwood Insurance Agency in North America for $374 million. The transaction had an $8 million positive impact in the period, after accounting for $328 million of goodwill which was allocated to Westwood, and $30 million in restructuring expenses.

This transaction alongside improved profitability and lower insurance and asset risk charges primarily due to higher risk-free rates, supported a meaningful improvement in QBE's capital position. The indicative APRA PCA multiple increased to 1.79x from the pro forma view of 1.75x at 31 December 2021, and is now at the top of our 1.6–1.8x target range.

QBE's effective statutory tax rate was 15.3% compared with 17.1% in the prior year, and reflects the mix of corporate tax rates in the countries where we operate, alongside the recognition of $95 million of previously unrecognised tax losses in the North American tax group.

Summary income statement and underwriting performance

FOR THE YEAR ENDED 31 DECEMBER	STATUTORY		ADJUSTMENTS				ADJUSTED BASIS	
	2022 US$M	2021 US$M	PRICING REVIEW 2022 US$M	E&S 2022 US$M	CTP 2021 US$M	COVID 2021 US$M	2022 US$M	2021 US$M
Gross written premium	**20,001**	18,457	**(53)**	**–**	–	4	**20,054**	**18,453**
Gross earned premium	**19,067**	17,035	**(53)**	**–**	–	4	**19,120**	**17,031**
Net earned premium	**14,327**	13,408	**(53)**	**(390)**	(365)	(6)	**14,770**	**13,779**
Net claims expense	**(8,330)**	(8,371)	**–**	**327**	349	141	**(8,657)**	**(8,861)**
Net commission	**(2,119)**	(2,070)	**–**	**–**	19	2	**(2,119)**	**(2,091)**
Underwriting and other expenses	**(1,836)**	(1,829)	**(7)**	**(2)**	–	2	**(1,827)**	**(1,831)**
Underwriting result	**2,042**	1,138	**(60)**	**(65)**	3	139	**2,167**	**996**
Net investment (loss) income on policyholders' funds	**(509)**	77	**–**	**–**	–	–	**(509)**	**77**
Insurance profit	**1,533**	1,215	**(60)**	**(65)**	3	139	**1,658**	**1,073**
Net investment (loss) income on shareholders' funds	**(267)**	45	**–**	**–**	–	–	**(267)**	45
Financing and other costs	**(245)**	(247)	**(15)**	**–**	–	–	**(230)**	(247)
Gain on sale of entities and businesses	**38**	–	**–**	**–**	–	–	**38**	–
Share of net loss of associates	**(7)**	(7)	**–**	**–**	–	–	**(7)**	(7)
Remediation	**–**	–	**75**	**–**	–	–	**(75)**	–
Restructuring and related expenses	**(106)**	(72)	**–**	**–**	–	–	**(106)**	(72)
Amortisation and impairment of intangibles	**(27)**	(21)	**–**	**–**	–	–	**(27)**	(21)
Profit before income tax	**919**	913	**–**	**(65)**	3	139	**984**	771
Income tax expense	**(141)**	(156)						
Profit after income tax	**778**	757						
Non-controlling interests	**(8)**	(7)						
Net profit after income tax	**770**	750						

KEY RATIOS	%	%	%	%
Net claims ratio (ex risk-free rate)	**66.6**	**64.6**	**67.0**	**66.5**
Ex-cat claims	***60.1***	*59.4*	***58.2***	*57.4*
Prior accident year claims development	***(0.5)***	*(1.1)*	***1.0***	*1.4*
Risk margin (release) charge	***(0.4)***	*(0.6)*	***(0.2)***	*0.7*
Net commission ratio	**14.8**	**15.5**	**14.3**	**15.2**
Expense ratio	**12.8**	**13.6**	**12.4**	**13.3**
Combined operating ratio (ex risk-free rate)	**94.2**	**93.7**	**93.7**	**95.0**
Combined operating ratio	**85.7**	**91.5**	**85.3**	**92.8**
Insurance profit margin	**10.7**	**9.1**	**11.2**	**7.8**

Significant items impacting the underwriting result

The summary income statement above shows the statutory result excluding the following items to provide better year-on-year comparability of performance.

Australian pricing promise review

As part of a broader industry review, focused around the delivery of pricing promises for retail products, QBE has investigated pricing practices dating back several years across a range of retail products.

Following the review, QBE has identified instances where the policy pricing promise was not fully delivered.

$75 million (including $15 million in financing and other costs) before tax was recorded in the first half to account for expected customer remediation, interest payable and the costs associated with administering the program.

North America E&S reinsurance transaction

As reported at the first half result, the Group entered into a transaction to reinsure E&S prior accident year liabilities. The transaction had a material impact on the comparison of net earned premium and key underwriting ratios.

The loss portfolio transfer reduced net earned premium and net claims expense by $390 million and $327 million respectively, while impacting underwriting expenses by $2 million.

As a result, the transaction had a $65 million upfront net adverse impact (including a risk-free rate impact of around $20 million) on the underwriting result.

Unless otherwise stated, the Group and business commentary following excludes the impact of both items from the 2022 result, along with the previously disclosed CTP reinsurance transaction and COVID-19 impacts in the 2021 result.

Premium income and pricing

Gross written premium (US$M)

20,054

13% from 2021

Net earned premium (US$M)

14,770

13% from 2021

- North America
- International
- Australia Pacific

Average renewal premium rate increase

Group

+7.9%

North America	+9.2%
International	+6.5%
Australia Pacific	+9.5%

Group

Gross written premium increased 9% on a headline basis to $20,054 million, from $18,453 million in the prior year.

On a constant currency basis, gross written premium increased 13%, reflecting continued rate increases coupled with steady retention levels, organic growth, and another year of material growth in Crop.

Excluding Crop, gross written premium growth was 10% on the same basis.

The Group achieved an average renewal premium rate increase of 7.9% compared with 9.7% in the prior year. Rate increases moderated in lines that have seen the largest increases during the current cycle, particularly casualty classes.

Excluding premium rate increases and Crop, constant currency growth was 4% compared to 10% in the prior period.

North America

North America delivered 16% growth in gross written premium. Excluding Crop, premium increased by 4%, where premium rate increases of 9.2% were down marginally from 10.7% in prior year.

Crop premium increased by 31% as a result of significantly higher commodity prices coupled with strong organic growth.

Premium rate increases and growth in Crop more than offset a planned reduction in property catastrophe exposed programs business. Excluding premium rate increases and Crop, gross written premium declined 1%.

International

International reported a 14% increase in gross written premium.

Premium rate increases remained supportive at 6.5%, albeit moderated through the year from 10.2% achieved in the prior year. Excluding premium rate increases, constant currency growth was 9%.

Premium growth was broad-based. Within Insurance, premium increased by 12%, with particularly strong contributions from the International Markets and UK segments. Within QBE Re, premium growth of 25% reflected strong growth across all segments and offices.

Australia Pacific

Australia Pacific reported a 9% increase in gross written premium. Premium rate increases built over the year to 9.5%, compared with 8.3% in the prior year.

Growth across many segments, particularly in commercial lines, was partially offset by lower volumes in LMI.

Reinsurance expense

Reinsurance expense increased 34% to $4,350 million from $3,252 million in the prior year. The majority of the increase can be attributed to Crop, where much of the premium growth was ceded to a new external quota share reinsurance contract, and the government reinsurance program.

Average renewal premium rate increases

FOR THE YEAR ENDED 31 DECEMBER	2022 %	2021 %	2020 %	2019 %
North America	**9.2**	10.7	10.2	5.7
International	**6.5**	10.2	12.8	6.0
Australia Pacific	**9.5**	8.3	5.4	7.3
Group	**7.9**	9.7	9.8	6.3

Foreign exchange rates

FOR THE YEAR ENDED 31 DECEMBER		2022		2021	
		PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
Australian dollar	A$	**0.693**	**0.678**	0.751	0.727
Sterling	£	**1.232**	**1.203**	1.375	1.353
Euro	€	**1.051**	**1.067**	1.182	1.138

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Segment underwriting performance

Combined operating ratio

93.7%

Underwriting result (US$M)

933

- North America
- International
- Australia Pacific

North America

North America reported a combined operating ratio of 98.9%, an improvement from 102.9% in the prior year, and an encouraging return to underwriting profitability.

While elevated inflation and higher claims in Crop had an adverse impact on the ex-cat claims ratio, this was more than offset by further improvement in total acquisition costs, a reduced level of adverse prior year development and lower catastrophe claims.

Catastrophe claims decreased 1.9% to 5.8% of net earned premium, and were slightly below allowance. This included the impact of Hurricane Ian, and a higher frequency of smaller events.

Crop recorded a combined operating ratio of 95.5% which deteriorated from 92.7% in the prior year, and reflected higher claims primarily as a result of drier conditions across a number of states. This offset lower total acquisition costs on account of improved scale, and new external quota share reinsurance.

International

International reported a combined operating ratio of 92.5% compared with 90.6% in the prior year.

The result reflected a challenging operating environment underpinned by heightened inflation, costs relating to the Russia/Ukraine conflict and elevated catastrophe costs including Hurricane Ian and the French storms.

The ex-cat claims ratio improved by 1.5% to 51.6%, where the benefit of significant rate increases partly offset increased allowances for inflation, and higher claims frequency in certain classes.

Adverse prior year development of $142 million or 2.4% compared with favourable development of $66 million or 1.2% in the prior year. This reflected additional, largely proactive strengthening for inflation across a number of classes, and an adverse COVID-19 business interruption court ruling.

Australia Pacific

Australia Pacific reported a combined operating ratio of 90.1%, which improved from 91.4% in the prior year.

The impact of severe weather was exacerbated by short-tail inflationary challenges, which resulted in deterioration in the catastrophe and ex-cat claims ratios.

This was more than offset by improved operating leverage from premium growth and efficiency initiatives, alongside favourable prior accident year development.

The LMI current accident year combined operating ratio improved to 15.4% from 35.4% in the prior year, where delinquency and claim payment trends remain supportive.

	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		UNDERWRITING RESULT	
FOR THE YEAR ENDED 31 DECEMBER	2022 US$M	2021 US$M	2022 US$M	2021 US$M	2022 %	2021 %	2022 US$M	2021 US$M
North America	**7,274**	6,289	**4,280**	3,965	**98.9**	102.9	**46**	(118)
International	**7,546**	6,958	**5,974**	5,545	**92.5**	90.6	**447**	522
Australia Pacific	**5,241**	5,215	**4,519**	4,265	**90.1**	91.4	**446**	370
Corporate & Other	**(7)**	(9)	**(3)**	4	**–**	–	**(6)**	(79)
Group adjusted basis	**20,054**	18,453	**14,770**	13,779	**93.7**	95.0	**933**	695
Risk-free rate impact	**–**	–	**–**	–	**(8.5)**	(2.2)	**1,214**	301
Australian pricing promise review	**(53)**	–	**(53)**	–	**0.4**	–	**(60)**	–
E&S reinsurance transaction	**–**	–	**(390)**	–	**0.1**	–	**(45)**	–
NSW CTP reinsurance transaction	**–**	–	**–**	(365)	**–**	(0.2)	**–**	3
COVID-19 impact	**–**	4	**–**	(6)	**–**	(1.1)	**–**	139
Group statutory	**20,001**	18,457	**14,327**	13,408	**85.7**	91.5	**2,042**	1,138

Claims

Net claims ratio

67.0%

Ex-cat claims ratio

58.2%

Catastrophe claims ratio

7.2%

- North America
- International
- Australia Pacific

Prior accident year claims development (US$M)

(141)

Incurred claims

Excluding the impact of changes in risk-free rates used to discount net outstanding claims, the net claims ratio increased to 67.0% from 66.5% in the prior year.

This increase was primarily driven by an increase in the ex-cat claims ratio alongside higher catastrophe claims.

Adverse prior year development of $141 million primarily reflected additional strengthening of inflation allowances. Consistent with normal practice the calculation of prior year movements excludes positive development relating to Crop insurance that is matched by additional premium cessions under the MPCI scheme ($14 million, 2021 $1 million), and adverse development which is more than offset by related adjustments in the current period underwriting result ($137 million, 2021 $55 million).

The net risk margin movement reflects the release of the COVID-19 risk margin, offset by new business strain.

Catastrophe claims

The net cost of catastrophe claims increased to $1,060 million or 7.2% of net earned premium, from $905 million or 6.6% in the prior period. This exceeded the Group's catastrophe allowance for the year of $962 million.

Elevated catastrophe activity continued, with industry insured losses expected to settle around $130 billion in 2022.

Catastrophe costs were underscored by Hurricane Ian, which is expected to be the second-costliest North American hurricane on record. On the east coast of Australia, the February-March floods have been declared the most costly natural disaster in Australian history.

French storms in June, South African flooding, plus storms Eunice and Elliot also proved significant events for the year.

Catastrophe costs include an allowance for the Russia/Ukraine conflict, which reflects exposure through political risk, political violence and aviation classes.

Ex-cat claims

The ex-cat claims ratio increased to 58.2% from 57.4% in the prior year.

The ex-cat claims ratio of our Crop business increased due to the impact of adverse weather. Excluding Crop, the Group ex-cat claims ratio increased by 0.2% to 54.6%.

Higher inflation was observed across all regions, though most concentrated in short-tail classes. While higher inflation assumptions were incorporated across the business, rate increases remained at or above inflation in most classes.

In North America, increased severity observed in certain property segments had an adverse impact.

In International, claims frequency increased in some portfolios as economic activity returned to more normal levels.

In Australia Pacific, an above normal frequency of non-catastrophe weather claims impacted many classes.

Prior accident year claims development

Prior accident year claims development was $141 million adverse or (1.0)% of net earned premium, which reduced from $192 million adverse or (1.4)% in the prior year.

North America reported $43 million of adverse development, largely reflecting strengthening in discontinued books.

International reported $142 million of adverse development, reflecting higher inflation allowances, and an adverse COVID-19 business interruption court ruling in the UK.

Australia Pacific reported positive development of $44 million.

Weighted average risk-free rates

CURRENCY		31 DECEMBER 2022	30 JUNE 2022	31 DECEMBER 2021
Australian dollar	%	**3.69**	**3.16**	1.12
US dollar	%	**4.21**	**3.09**	1.44
Sterling	%	**3.64**	**2.15**	0.86
Euro	%	**2.50**	**1.19**	(0.33)
Group weighted	%	**3.60**	**2.49**	0.87
Estimated risk-free rate benefit	US$M	**1,234**	**804**[1]	**301**

1 Estimated risk-free rate benefit for the six months to 30 June.

Underwriting expenses, commission and tax

Expense ratio

12.4%

2021 13.3%

Net commission ratio

14.3%

2021 15.2%

Tax rate

15.3%

2021 17.1%

Underwriting and other expenses

The Group's expense ratio improved to 12.4% from 13.3% in the prior year, reflecting disciplined cost management and efficiencies, favourable business mix, and ongoing benefit from operating leverage as a result of strong premium growth.

International and Australia Pacific achieved further improvement in their expense ratios, as a result of cost control coupled with positive operating leverage.

North America reported a minor deterioration in its expense ratio to 11.8% from 11.6% in the prior year, where the benefit of positive operating leverage and mix was offset by targeted reinvestment and the loss of fee income following the Westwood sale.

Net commission

The net commission ratio reduced to 14.3% from 15.2% in the prior year, primarily due to higher income from the increased Crop quota share and favourable business mix.

North America's commission expense ratio reduced following further growth in Crop, where outwards commissions are reimbursed by the US Government, alongside higher commission income from new quota share reinsurance.

International and Australia Pacific's commission ratio also improved on the prior year due to favourable business mix shift, and a continued focus on trading and distribution negotiations.

Income tax expense

QBE's effective statutory tax rate was 15.3% compared with 17.1% in the prior year, and reflects the mix of corporate tax rates in the countries where we operate, alongside the recognition of $95 million of previously unrecognised tax losses in the North American tax group.

This recognition of tax assets was supported by the improved outlook for North America profitability, primarily due to the higher running yield on investment assets.

During the year, QBE paid $74 million in corporate income tax globally, with no payments in Australia due to our tax loss position.

The balance of the franking account stood at A$54 million as at 31 December 2022. Having regard to QBE's franked AT1 distribution commitments and our tax loss position, the dividend franking percentage is expected to remain around 10% for the foreseeable future.

Operational efficiency

Underwriting and other expenses (US$M)

1,827

6% on 2021[1]

Expense ratio

12.4%

QBE has achieved considerable momentum against efficiency targets, calibrated to a Group expense ratio of 13% by 2023.

The expected $150 million restructuring charge related to the three-year program has now been fully incurred, with a $78 million expense recognised in the current period.

While our efficiency agenda has delivered material technology and operating cost savings, we have benefited from positive operating leverage supported by a stronger and longer premium rate cycle than was originally planned for.

This position now affords increased capacity to pursue additional initiatives to modernise the business and support growth.

Our modernisation agenda is primarily focused on improving connectivity and ease of doing business with our customers and partners, supporting the digitisation and efficiency of our core underwriting and claims processes, better leveraging data across our organisation and providing better tools for our employees to meet customer needs.

We have good alignment around the key target growth opportunities across the organisation. Our investment spend will be targeted towards this pipeline of opportunities across both our core franchises as well as related adjacencies.

To support the expanded investment slate, we continue to expect a Group expense ratio of around 13% in 2023.

1 Constant currency basis.

Investment performance and strategy

Total investment (loss) income (US$M)

(776)

898 from 2021

Total investment return

(2.7)%

2021 0.4%

Fixed income Vs **Risk assets**

(3.1)% | **1.2%**

2021 (0.4)% | 2021 13.5%

The total investment loss for the year was $(776) million or (2.7)%, compared with a return of $122 million or 0.4% in the prior year. The result was heavily impacted by unrealised losses associated with the significant increase in bond yields over the year.

Adjusting for the impact of changes in risk-free rates on fixed income securities, the total investment return was $567 million or 2.0% for the year, an increase from 1.3% in the prior year. In fixed income, higher core yield income was partially offset by adverse credit spread marks. In risk assets, unrealised losses on equities and enhanced fixed income were more than offset by favourable returns from infrastructure and unlisted property.

Fixed income

The significant recalibration in global interest rates supported meaningful improvement in the fixed income running yield, with the 31 December 2022 exit running yield of 4.1% many multiples higher than 0.7% at 31 December 2021.

Our corporate credit portfolio delivered strong relative performance. Credit quality remained sound with fewer rating downgrades compared to levels seen more broadly across fixed income markets.

Risk assets

The risk asset portfolio delivered a total return of 1.2%. This portfolio has meaningful exposure to asset classes with a positive correlation to inflation, partly in recognition of the corresponding sensitivity of our claims liabilities.

To this end, our unlisted property and infrastructure assets performed well, delivering a 7.7% return for the year. This helped to offset weaker performance across other risk asset classes including listed equities, high yield, and emerging market debt.

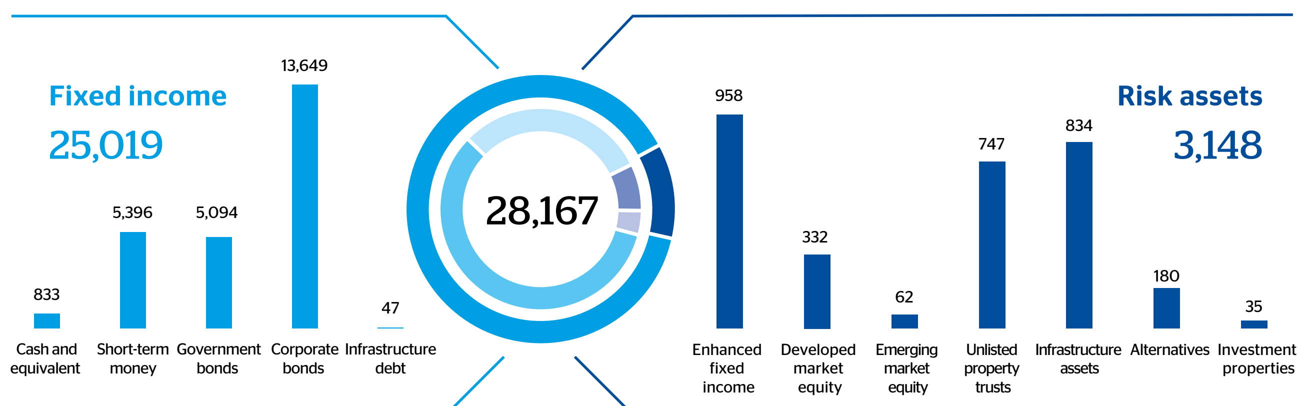
Funds under management

The overall investment book remains conservatively positioned, with around 89% invested in high quality fixed income securities and the remaining 11% invested in risk assets.

We continued to rebalance the portfolio toward our 15% target risk asset allocation, albeit we did slow the pace of re-risking in recent months to reassess opportunities and relative returns, given significant market volatility.

Funds under management declined by 3% compared to the prior period, however increased by 2% on a constant currency basis after accounting for a $1,514 million foreign exchange headwind. The balance was also impacted by adverse mark-to-market losses, the pre-funded redemption of a Tier 2 note and the E&S transaction.

Total cash and investments (US$M)



	POLICYHOLDERS' FUNDS	SHAREHOLDERS' FUNDS
Cash and cash equivalents	547	286
Short-term money	3,543	1,853
Government bonds	3,344	1,750
Corporate bonds	8,961	4,688
Infrastructure debt	31	16

Fixed income
- Policyholders' funds
- Shareholders' funds

Risk assets
- Policyholders' funds
- Shareholders' funds

	POLICYHOLDERS' FUNDS	SHAREHOLDERS' FUNDS
Enhanced fixed income	629	329
Developed market equity	218	114
Emerging market equity	41	21
Unlisted property trusts	490	257
Infrastructure assets	548	286
Alternatives	118	62
Investment properties	23	12

Balance sheet and capital management

Capital

QBE's indicative APRA PCA multiple improved to 1.79x from 1.75x[1] in the prior year. The sale of the Westwood Insurance Agency in North America added around 0.05x to the PCA multiple, which also benefited from improved profitability, plus lower insurance liabilities and asset risk charges reflecting the material increase in interest rates.

These factors more than offset capital absorbed through organic growth, investment portfolio rebalancing and an increase in the insurance concentration risk charge reflecting exposure growth and the 2023 reinsurance renewal.

In May 2022, QBE redeemed GBP327 million of subordinated Tier 2 notes. These notes were capital qualifying under APRA's capital adequacy framework. The redemption was pre-funded by the September 2021 issuance of GBP400 million of capital qualifying Tier 2.

QBE has $900 million of perpetual fixed rate resetting capital notes that are AT1 qualifying under APRA's capital adequacy framework. The notes are classified as equity, pay franked after-tax distributions and do not impact the weighted average number of shares for earnings per share calculations (since the notes are written off in whole or in part if APRA determines QBE is, or would become, non-viable).

The after-tax distribution on QBE's AT1 capital was $50 million.

Net outstanding claims

At 31 December 2022, the risk margin was $1,287 million or 8.0% of the net discounted central estimate of outstanding claims, compared with $1,418 million and 8.8% at 31 December 2021.

Excluding foreign exchange and the E&S reinsurance transaction, the risk margin decreased by $34 million.

The result included significant strain associated with ongoing momentum in new business and exposure growth.

This was more than offset by the impact of higher risk-free rates, which reduced the net discounted central estimate, and the release of remaining COVID-19 related risk margin of $160 million. This release reflects reduced COVID-19 related uncertainty, particularly regarding residual COVID-19 business interruption risk following favourable court rulings in Australia and the UK.

The probability of adequacy (PoA) of net outstanding claims reduced to 90.0%, at the midpoint of the Group's 87.5–92.5% target range.

Borrowings

At 31 December 2022, total borrowings were $2,744 million, a reduction of $524 million from $3,268 million at 31 December 2021.

The decrease in borrowings primarily reflects the redemption of GBP327 million subordinated Tier 2 notes in May 2022.

Debt to total capital was 23.4% at 31 December 2022, a minor decrease from 24.1%[1] at 31 December 2021.

Gross interest expense on borrowings for the year was $166 million, down from $177 million in the prior year, due to the redemption of the 6.115% GBP327 million Tier 2 notes in May 2022, which were pre-funded with 2.50% GBP400 million Tier 2 notes in September 2021, representing an interest saving of approximately GBP10 million per annum.

The average annualised cash cost of borrowings at 31 December 2022 was 6.0%, an increase from 5.4% at 31 December 2021 due the pre-funding of the Tier 2 notes redemption in May. Adjusting for the pre-funding, the average annualised cost of borrowings was 5.8%.

At 31 December 2022, all but $6 million of the Group's borrowings continued to count towards regulatory capital.

Key balance sheet and capitalisation metrics

AS AT			31 DECEMBER 2022	31 DECEMBER 2021	
		BENCHMARK	STATUTORY	STATUTORY	PRO FORMA[1]
Net discounted central estimate	US$M		**16,141**	16,107	16,107
Risk margin	US$M		**1,287**	1,418	1,418
Net outstanding claims	US$M		**17,428**	17,525	17,525
Net assets	US$M		**8,992**	8,882	8,882
Less: intangible assets	US$M		**(2,018)**	(2,449)	(2,449)
Net tangible assets	US$M		**6,974**	6,433	6,433
Add: borrowings	US$M		**2,744**	3,268	2,826
Total tangible capitalisation	US$M		**9,718**	9,701	9,259
Probability of adequacy	%		**90.0**	91.7	91.7
Risk margin to central estimate	%		**8.0**	8.8	8.8
Debt to total capital	%	15–30	**23.4**	26.9	24.1
Debt to equity	%		**30.5**	36.8	31.8
Debt to tangible equity	%		**39.3**	50.8	43.9
Premium solvency[2]	%		**47.2**	46.7	46.7
QBE's regulatory capital base	US$M		**10,373**	10,389	9,947
APRA's PCA	US$M		**5,797**	5,732	5,699
PCA multiple		1.6–1.8x	**1.79x**	1.81x	1.75x

1 Pro forma adjusting for GBP327 million pre-funded debt repaid in May 2022.
2 The ratio of net tangible assets to management net earned premium.

Cash profit and dividends

Reconciliation of cash profit

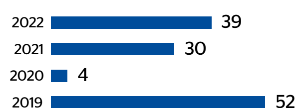
FOR THE YEAR ENDED 31 DECEMBER	2022 US$M	2021 US$M
Net profit after tax	**770**	750
Amortisation and impairment of intangibles after tax [1]	**72**	53
Write-off of deferred tax assets	**–**	–
Write-off of capitalised tax assets	**–**	–
Net cash profit after tax	**842**	803
Restructuring and related expenses after tax	**93**	52
Net gain on disposals after tax	**(38)**	–
Additional Tier 1 capital coupon	**(50)**	(50)
Adjusted net cash profit after tax	**847**	805
Return on average shareholders' equity – adjusted cash basis (%)	**10.5**	10.3
Basic earnings per share – adjusted cash basis (US cents)	**57.2**	54.6
Dividend payout ratio (percentage of adjusted cash profit) [2]	**48%**	41%

1 $63 million of pre-tax amortisation expense is included in underwriting expenses (2021 $50 million).

2 Dividend payout ratio is calculated as the total A$ dividend divided by adjusted cash profit converted to A$ at the period average rate of exchange.

Dividends per share (A¢)

39



Dividend payout (A$M)

578

Dividends

The Group's dividend policy is calibrated to pay out 40%–60% of adjusted cash profit annually. This approach provides a balance between supporting the Group's growth ambitions and providing flexibility to effectively navigate through phases of the global insurance cycle.

The final dividend for 2022 is 30 Australian cents per share, compared with the 2021 final dividend of 19 Australian cents per share.

The final dividend will be 10% franked and is payable on 14 April 2023. The Dividend Reinvestment Plan and Bonus Share Plan will be satisfied by the issue of shares at a nil discount.

The combined 2022 interim and final dividend of 39 Australian cents per share is up from 30 Australian cents per share in 2021, and equates to a total payout of A$578 million or 48% of adjusted cash profit.

QBE enters the new year with conservative balance sheet settings and a strong solvency position. The payout for the current period reflects the strength of the Group's capital position, as well as what remains a positive outlook for premium growth.

Closing remarks

In an ultimately challenging year for the insurance industry, the strength and resilience of QBE's financial performance are a testament to the ongoing work to de-risk, simplify and modernise our business. We enter 2023 with a broader and more diversified earnings base and strong growth momentum across our key markets.

Outlook focus

Maximise market opportunity

Drive targeted growth and enhance returns

Reduce volatility

Mitigate volatility through evolving portfolio optimisation framework

Build greater consistency

In our operations and financial results

Sustainability

Make a positive contribution to the economies and communities in which we operate

Although the macroeconomic backdrop remains uncertain, we remain confident in our outlook for the year ahead, entering 2023 with strong business momentum, a broader and more diversified earnings base, significant support from earned rate, and a capital position at the top end of our target range.

Our portfolio optimisation strategy remains focused on reducing volatility and improving risk-adjusted returns across our business. The progress in reducing property catastrophe exposure proved critical in navigating a challenging reinsurance renewal. Initiatives focused on reassessing reserve risk helped inform the scope of the reserve transaction announced recently, which will significantly reduce reserve volatility, enhance returns and provide greater capital flexibility to support growth.

The benefit of expense discipline alongside positive operating leverage has been meaningful in recent periods, and now affords increased capacity to pursue further modernisation and growth of our business. In 2023, we will be executing against a targeted set of growth opportunities, as well as initiatives to develop deeper connectivity and improve the ease of doing business with our customers, digitise our underwriting and claims processes, and provide better tools for our people.

We are progressing with integrating environmental and social considerations into our business planning and financial reporting processes. Material work is underway to lift capability around underwriting emission measurement, as we work towards setting an emission reduction target. We see great opportunity as we work more closely with our customers to ensure a successful transition, and will continue actively exploring transition opportunities that will arise associated with new industries, products and technologies.

Insurance market conditions remain supportive and we expect rate increases and premium growth to continue through 2023 and support further improvement in the underwriting account. The reset in interest rates is translating into substantially higher investment returns supporting a better balance in our earnings profile, and we remain confident of achieving a stronger, more consistent level of financial performance over the medium term.

Inder Singh
Group Chief Financial Officer