2017 AGM

CEO'S ADDRESS

Thank you Marty.

I'm very pleased to be speaking to you after a second successive year where QBE performed well against our targets, delivering our best underwriting result in six years.

Those of you who have attended these meetings in previous years will recall that my address typically includes a detailed discussion of the financial result and an update on the progress we have made to remediate and transform our business.

Today I will be taking a different approach. Remediation and transformation won't be a big part of my presentation as I believe QBE is well through this phase. We've done the hard yards to realign our activities around our core business – global commercial specialty insurance and reinsurance – and to embed the principles of operational excellence into our day to day operations.

Our success is reflected in a transformed balance sheet and underwriting account that has the respect of our peers, our business partners and our customers. With our restructuring complete, today I will be talking to you about a QBE which has a clear strategy that builds upon our position as one of only a handful of truly global property and casualty insurers.

0. **Agenda**

So there are three main topics that I would like to discuss today:

- I'll share with you some of the feedback we received following the full year 2016 result announcement;
- Then I will provide an overview of our medium-term targets and the strategies we intend to deploy to achieve these targets; and
- I will summarise our 2017 targets and comment briefly on our 2017 first quarter performance.

1. **Feedback**

Over the last nine weeks we have met with a range of key stakeholders in your business.

What these people think of QBE is important to all of us in this room. It doesn't matter how good I think QBE's strategy is – if key stakeholders, both large and small, aren't confident in what we are doing it's inevitably going to be much more difficult to deliver attractive returns for you, our shareholders.

But not only that – every stakeholder also brings a perspective on our strategy and performance, whether that's through personal experience as a policyholder making a claim, or well-researched views on the strategy and performance of both QBE and our major global competitors.

I'm pleased to report that – following three years of solid and consistent progress towards delivering predictable performance and consistent strategy execution - our 2016 performance and positioning for the future have both been well received.

While there will always be some variation in perspectives, I'll try to summarise these messages for you.

- After five consecutive halves of prior year reserve releases, you can be positive about the quality of QBE's claims reserves;
- Our commitment to operational efficiency is delivering cost reductions as well as setting the business up for scalability. Our credibility with all of our strategic partners increases as we continue to deliver on our targets;
- Many have viewed positively our success in reducing the cost of our reinsurance program by more than $350 million for 2017, without adding significant risk to the portfolio. Likewise, the strength and quality of our balance sheet and capital position and the resultant announced share buyback was positively received;

Our operating divisions have each contributed to this positive feedback:

- With respect to our operating divisions, we have been able to quickly show improvement in our Australian and New Zealand division and I have every confidence that, assisted by increases in price, 2017 will see further improvement to provide a meaningful contribution to the group's profit margins;
- In North American Operations, legacy issues have now largely been addressed, and our focus turns to our core Property & Casualty business and continued profitable growth in Specialty. Following our first underwriting profit in five years in 2015, we were pleased to report a further 2% improvement in the insurance margin for this division in 2016 and indeed we are forecasting further improvements in 2017 and 2018;
- European Operations has shown strong resilience in the most challenging of markets. The quality of this business is evidenced by this division producing the group's best underwriting result for a second year in succession.
- Our Emerging Markets business operates in 22 of the world's emerging economies in Asia and Latin America, and continues to contribute positively to the group.

As a result, you will have seen a marked improvement in the fundamentals of your company:

- The QBE global insurance and reinsurance franchise is attractive, operating in all of the major insurance hubs around the world and this coupled with our strong distribution and customer relationships in our Australia home market positions us well for future growth.
- We have demonstrated that we can improve our operating performance in areas such as underwriting and claims, driving greater efficiency in the way in which we do business.
- Our management and performance and cash flow is allowing us to increase our dividend payment.
- We have positioned our balance sheet, not only to be strong in absolute terms but also to be resilient to downside scenarios whether these come from insurance or market investment risk

2. Medium term targets and strategic themes

Now I want to talk a bit about our medium-term focus. Whilst it is pleasing that our strategy has resulted in improved performance in 2016, there is undoubtedly more we can do.

As the Chairman referenced, in May 2016 we gave the market direction on what we believed we could achieve by 2018.

Our goal is to grow GWP revenues at a compound annual growth rate of 3% across the pricing cycle. We also see the opportunity to consistently achieve a Combined Operating Ratio of 93% or better.

By achieving these, we believe we can generate a Return on Equity of greater than 10%, positioning us to further reward shareholders with continued increases in dividend payments as well as capital initiatives such as the share buyback we announced with the annual result.

While these objectives were described as “medium term” targets when they were first announced in May 2016, we are now talking about our goals for the next year and a half. Nonetheless, while the timeframe is getting closer, the targets remain as valid today as they were when first announced.

We have established QBE as a distinctive Top 20 global Property & Casualty insurer with operations in all the major insurance hubs, a focus on commercial and specialty lines and an integrated business that allows our global capabilities to be delivered locally.

Now, we believe we can deliver on our financial targets by focusing on six strategic themes that build on this differentiated market position:

- First, QBE is built on the strength of underwriting performance and **underwriting excellence** will always remain our overarching focus.

While tremendous progress has been made, we have more work to do. In the near term, we will continue to execute on remediation plans for ANZO, continue our improvement in our North American P&C lines, and be robust in the actions we take to reduce risk in our Emerging Markets business, particularly in Latin America.

- While the competitive environment did not support significant growth in 2016, we believe that strong **customer and partner** relationships are key to success in achieving our premium growth target of 3% and an important focus for future business development.
- Thirdly, we see an enormous opportunity to think smartly about how we develop **world class talent.** This is an area where in the past the insurance industry has lagged the broader financial services sector, but we're thinking differently. It is four years now since we launched our Leadership Academy in partnership with Duke University, and since then over 2,350 of our leaders have participated in Academy programs and we continually refresh our Academy modules to support leadership development. Following pilot programs in 2016, this year will also see the full launch of our Underwriting Academy. Our aim is for every QBE underwriter to be accredited by our academy, resulting in a qualification that is recognised by many of the insurance bodies around the world;

- Achieving **operational efficiency** is essential if we are going to deliver improved profitability in a challenging underwriting environment. We met our target of $150 million in expense savings in 2016 and are on track to deliver a further $150 million in expense savings by the end of 2018, with some of these savings to be reinvested in technology.
- **Claims excellence** also has a big part to play in reducing costs across QBE. We've set a target of $200 million in claims run-rate savings for the end of 2018, and expect half of this goal to be met in 2017. Initiatives to combat claims fraud are an ongoing focus, as well as targeting improved efficiency in claims management through the sharing of global standards.
- Finally, **Data and Analytics** was established as a global function in 2016 and in 2017 our focus will be directed towards projects that support customer service and risk analysis, improving claims anti-fraud, and portfolio optimisation.

I'd also like to outline our plans to partner with early-stage Insurtech companies. The Chairman has already shared some thoughts on our positioning in this area, but let me say that it's a fascinating journey that we commenced in earnest a few months ago.

We screened over 200 companies with solutions that looked beneficial to our business. Our bias is towards analytics, digital and Internet of Things solutions, which we believe can add value to our underwriting and claims processes, providing efficiency and service benefits for QBE and for our customers.

Detailed discussions with our seven short-listed companies have been well received. This comes as no surprise - as the Chairman noted, many of these companies are not well placed to “disrupt” any element of the insurance industry on their own, requiring the knowledge, experience and expertise of established players to succeed.

Over the coming months, following due diligence I expect we will form initial partnerships with three or four Insurtech companies, and I look forward to sharing more detail of our progress at the Annual General Meeting next year.

3. 2017 Targets

Turning now to our 2017 targets, when you look at this slide you’d be excused for thinking we are paddling hard without making much forward progress.

Starting with the top line, while we are expecting to see modest growth in GWP, we also recognise that there are some currency headwinds, particularly with respect to a weaker Sterling. As a consequence, we are expecting 2017 gross written premium to be “relatively stable” in US dollar terms. In this challenging market environment, we will continue to focus on providing excellent service to our current clients to retain the business we have and will seek selective and carefully managed growth from Emerging Markets and targeted pockets within European Operations and North American Operations.

Whilst our target combined operating ratio target of 93.5 – 95.0% - which excludes the one time impact for Ogden discount rate changes in the UK - superficially implies no improvement on the 93.2% figure recorded in 2016, our business is now configured to deliver a higher quality result.

One further area of clear improvement is in our investment return, where our target range of 2.5 – 3.0% is higher than the 2.4% recorded in 2016.

Whilst we don't provide formal quarterly updates, our internal review of the first quarter performance continues to indicate our ability to execute against these targets for 2017.

Looking at each of our divisions, the good progress made in the latter part of 2016 in ANZO has continued into 2017, so we remain confident that by 2018 we will have completed the job of restoring profitability to the level that we would expect in our home market. The major contributor to this turnaround has been achieving rate increases of 6% or more across large parts of the portfolio, with customer retention broadly unchanged.

In North America we doubled underwriting profit in 2016 and are expecting a third consecutive year of improvement in underwriting performance in 2017. By 2018 we expect this business to be performing more in line with our other major divisions and contributing meaningfully to ongoing performance improvement at a Group level.

For the second year in succession EO produced our best underwriting performance in 2016, demonstrating the quality of our underwriting in one of the most challenging markets in the world. We believe this performance will continue in the near and medium term.

We believe there is value in being a participant in the high growth emerging economies of the world, and that we have struck the right balance of control while also pursuing carefully managed growth.

4. Final Remarks

In closing, we have executed effectively on our targets and plans since the second half of 2014. We are confident in our ability to meet the performance targets we have set out for 2017 and importantly, our ability to continue to improve our business through the medium term.

The 2016 result represented our best underwriting performance in six years and QBE's balance sheet stands comparison to any of our global peers.

We continue to buy reinsurance protections against the downside risks of running an insurance company, and our claims reserves have shown consistent improvement for five consecutive reporting periods.

Your company has made, and continues to make, a substantial investment in building, developing and maintaining the very best talent. Our people will continue to deliver the best outcomes for both our customers and for you, our shareholders.

The Board's confidence in our forward plans is now being reflected in both in a healthy increase in dividend payment in 2016 and the announcement of an on market share buyback facility.

I believe there is a great deal to look forward to as a shareholder in QBE and I'd like to echo Marty's thanks to all of our stakeholders, our customers, our people, our business partners and of course you our shareholders for your continued support and trust.