

QBE Insurance Group

2017 half year results presentation

John Neal • Group Chief Executive Officer

Pat Regan • Group Chief Financial Officer

Thursday 17 August 2017

All figures in US\$ unless otherwise stated



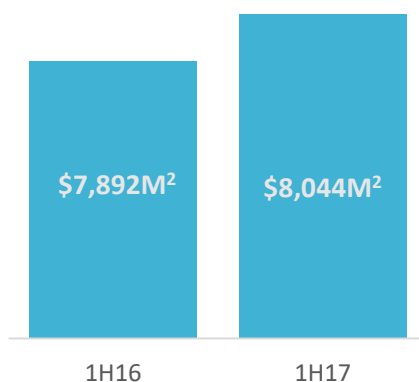
John Neal

Group Chief Executive Officer

1H17 RESULTS SNAPSHOT

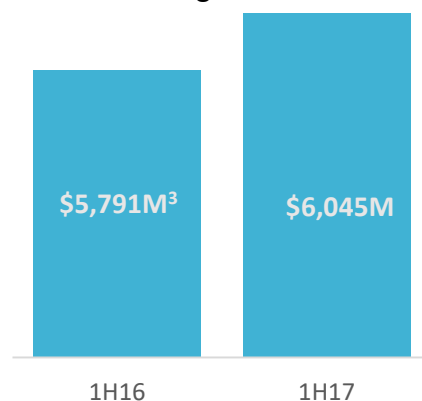
GWP

+3% growth¹

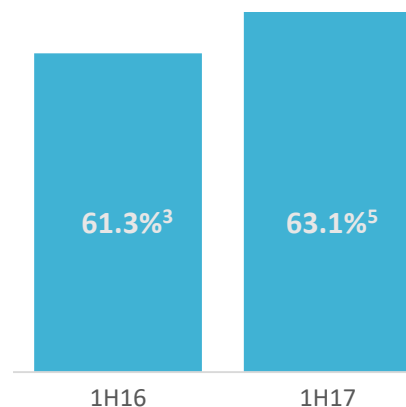


NEP

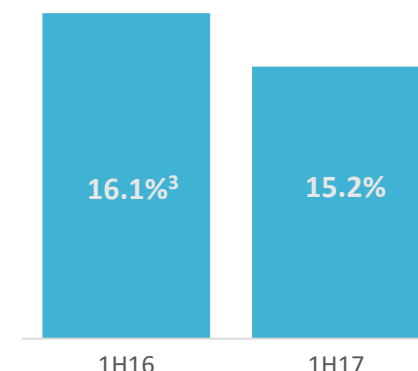
+6% growth¹



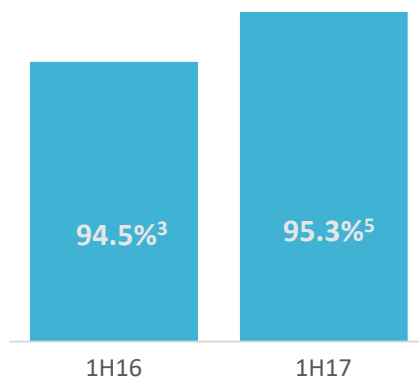
CLAIMS RATIO⁴



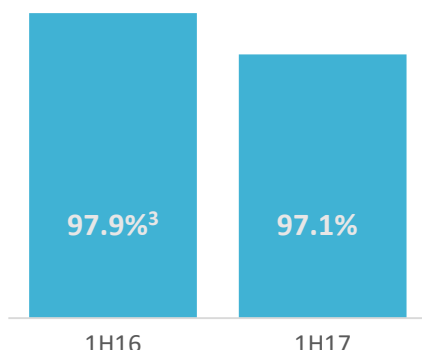
EXPENSE RATIO



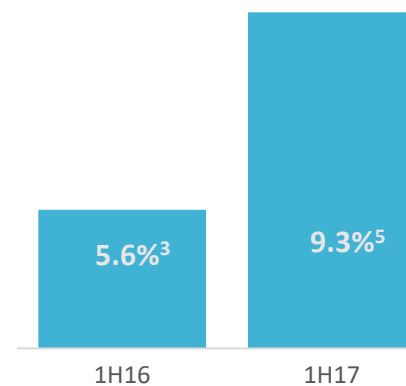
COR⁴



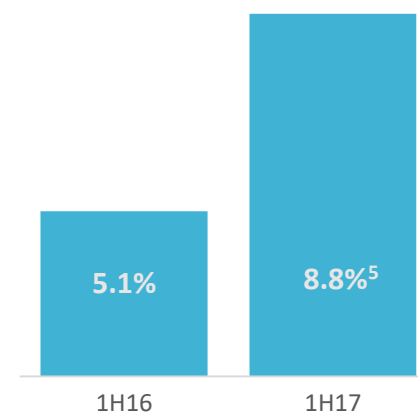
CAY COR⁶



INSURANCE MARGIN



ROE



1. Constant currency basis

2. Excludes M&LS fronting (refer page 11 of HY17 report for details)

3. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

4. Excludes the impact of changes in risk-free rates used to discount net outstanding claims

5. Excludes a \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

6. Excludes \$38M (1H16 \$22M) of favourable Crop prior accident year development that is offset by an additional reinsurance cession to the US Government under the Federal crop reinsurance arrangements

1H17 UPDATE

UNDERWRITING PERFORMANCE

- 95.3% combined operating ratio^{1,2} (1H16 94.5%)^{2,3}
- 9.3% insurance profit margin¹ (1H16 5.6%)³
- Sixth consecutive half of positive prior accident year development
- ROE 8.8%¹ (1H16 5.1%)³

OPERATIONAL PROGRESS

- Emerging Markets disappointed with COR of 110.8%² (1H16 99.5%)²
- ANZO 1H17 attritional claims ratio (ex LMI) improved by 420bps
- North America COR 98.2%² (1H16 100.5%)²
- Expense ratio improved to 15.2% (1H16 16.1%)³

FINANCIAL STRENGTH

- Cash remittances strong – on track to deliver >\$1Bn in FY17
- PCA stable at 1.7x
- Interim dividend up 5% to 22 Australian cents
- Share buyback – active in 2H17

1. Excludes a \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

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

3. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

1H17 DIVISIONAL RESULTS

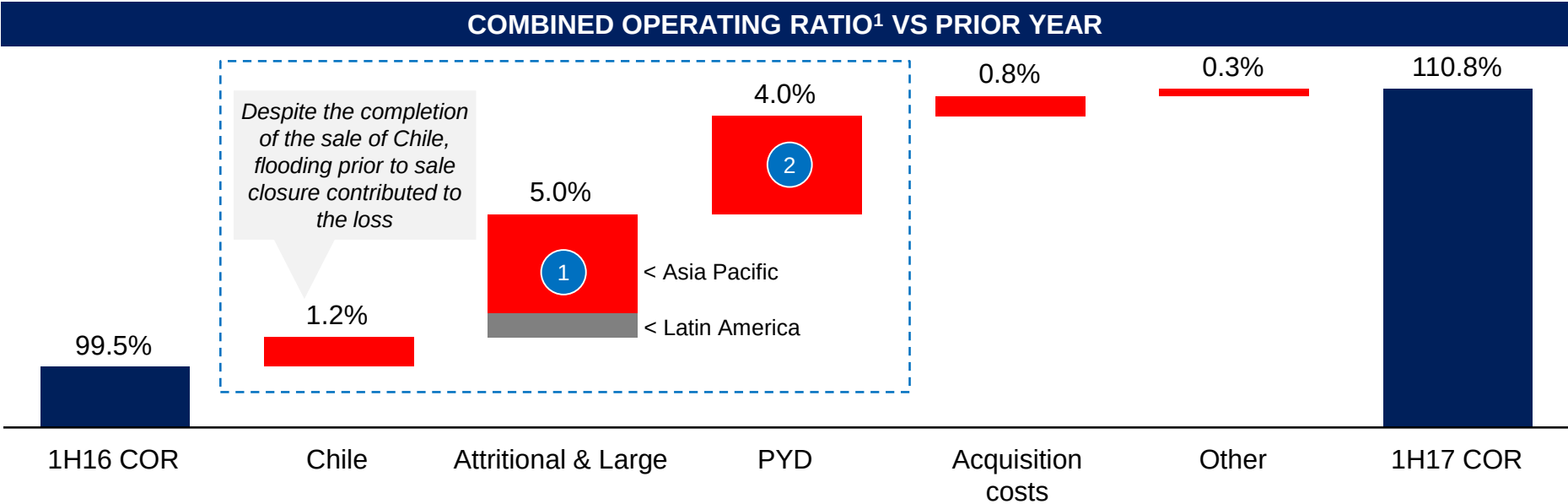
1H17	North America	Europe ¹	Australia & New Zealand	Emerging Markets	Equator Re	Group ^{1,2}
GWP (\$M)	2,803	2,393	2,007	857	1,375	8,044
GEP (\$M)	2,187	1,915	2,024	804	798	6,909
NEP (\$M)	1,712	1,532	1,705	679	419	6,045
Net claims ratio (%)	66.8	53.3	63.6	64.9	68.7	62.7
Net commission ratio (%)	15.5	19.3	15.0	23.9	9.8	17.0
Expense ratio (%)	16.0	16.1	13.9	22.1	2.1	15.2
COR (%)	98.3	88.7	92.5	110.9	80.6	94.9
COR (%) ex discount rate	98.2	91.3	92.2	110.8	79.9	95.3

1H16

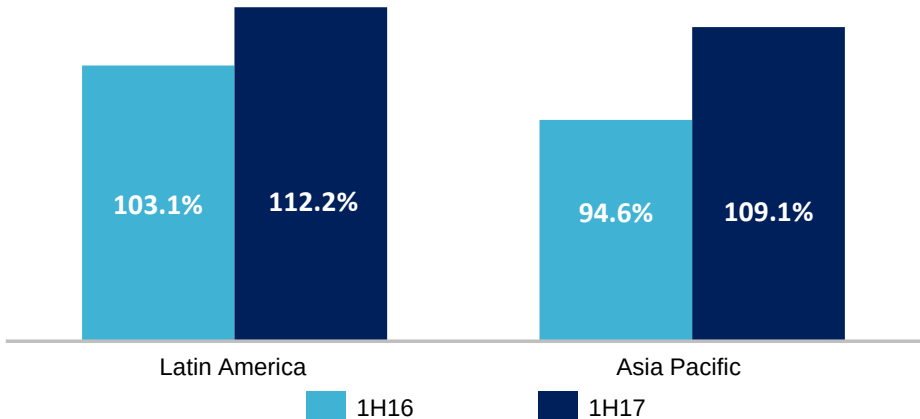
COR (%) ex discount rate	100.5	³ 88.3	93.9	99.5	63.5	³ 94.5
COR (%)	104.0	³ 98.6	95.9	99.5	70.1	³ 99.1

1. Excludes \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)
2. Excludes M&LS fronting (refer page 11 of HY17 report for details)
3. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

EMERGING MARKETS: IMPACTED BY HIGHER FREQUENCY OF MID-SIZED CLAIMS ACROSS SEVERAL PORTFOLIOS



COMBINED OPERATING RATIO¹ BY REGION



DETERIORATION IN 1H17 COMBINED OPERATING RATIO

- 1 Higher as a result of **property and marine** in Asia Pacific, along with **Brazil travel** and **large fire claims in Mexico**
- 2 Review of **Hong Kong workers' compensation** included a reserve strengthening; Colombian SOAT remains a drag

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

COMPREHENSIVE PROGRAM OF REMEDIAL ACTIONS UNDERWAY IN ASIA PACIFIC & LATIN AMERICA

ASIA PACIFIC

- Revised pricing models for property, marine and workers' compensation
- Reserves strengthened and reducing Hong Kong workers' compensation exposure
- Exit Thailand

LATIN AMERICA

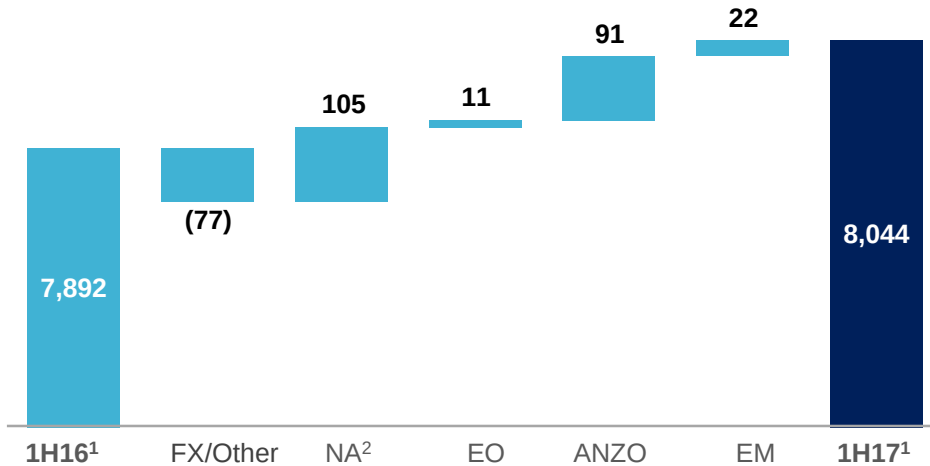
- Significant reduction in acquisition costs
- Remediation of Mexican property business
- Exit Colombian SOAT
- Strategic review of geographical footprint

PEOPLE & ORGANISATION

- Revert to two division structure to enhance regional focus
- Jason Brown appointed CEO, Asia Pacific
- Carola Fratini appointed CEO, Latin America
- Tightened governance: dedicated CUOs and CROs

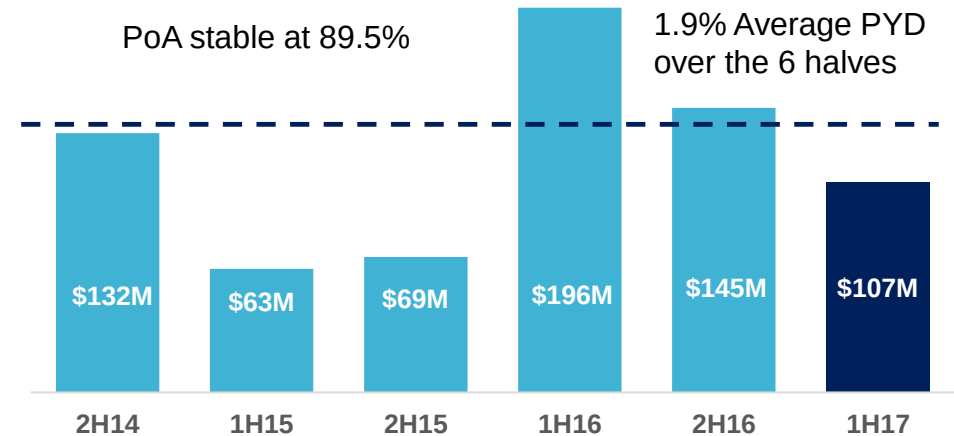
KEY PERFORMANCE DRIVERS

3% CONSTANT CURRENCY GWP GROWTH



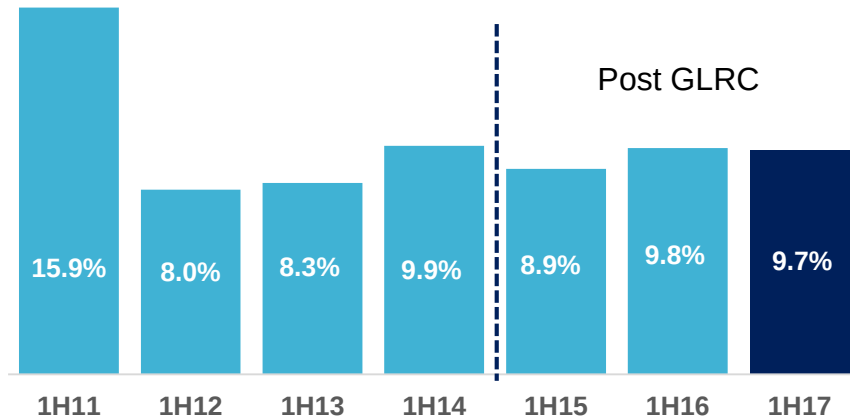
1. Excludes M&LS fronting (refer page 11 of HY17 report for details)
2. Excludes \$120M of Latin American business fronted on behalf of Equator Re (terminated on 1 Jan 2017)

POSITIVE PRIOR ACCIDENT YEAR DEVELOPMENT

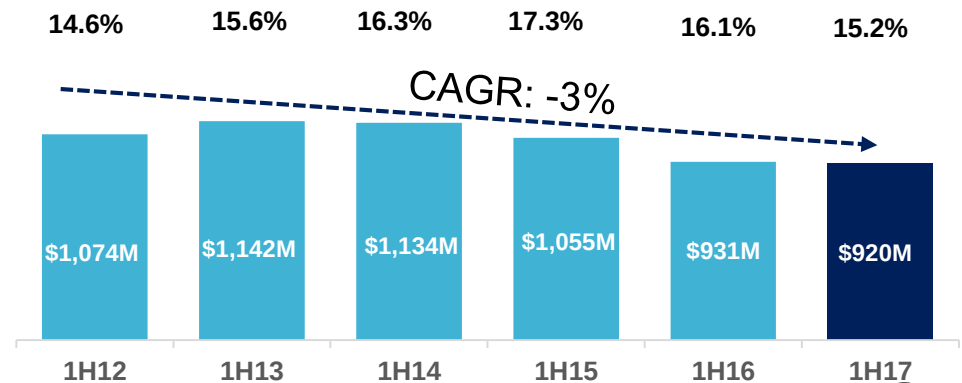


Note: Excludes of favourable Crop prior accident year development that is offset by an additional reinsurance cession to the US Government under the Federal crop reinsurance arrangements

LARGE RISK & CATASTROPHE CLAIMS STABLE



REDUCTION IN EXPENSES



Pat Regan

Group Chief Financial Officer

1H17 FINANCIAL RESULTS SUMMARY

For the half year ended 30 June		1H16 ^{1,2}	1H17 ^{1,3}	Change
GWP	\$M	7,892	8,044	↑ 3% ⁴
NEP	\$M	5,791	6,045	↑ 6% ⁴
COR	%	99.1	94.9	↓ 4.2ppt
COR (ex discount rate)	%	94.5	95.3	↑ 0.8ppt
Insurance profit	\$M	324	562	↑ 73%
Insurance profit to NEP	%	5.6	9.3	↑ 3.7ppt
Net profit after income tax	\$M	263	464	↑ 76%
Cash profit after tax	\$M	287	374 ⁵	↑ 30%
ROE	%	5.1	8.8	↑ 3.7ppt
Dividend per share	AU cents	21.0	22.0	↑ 5%

1. Excludes M&LS fronting (refer page 11 of HY17 report for details)

2. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

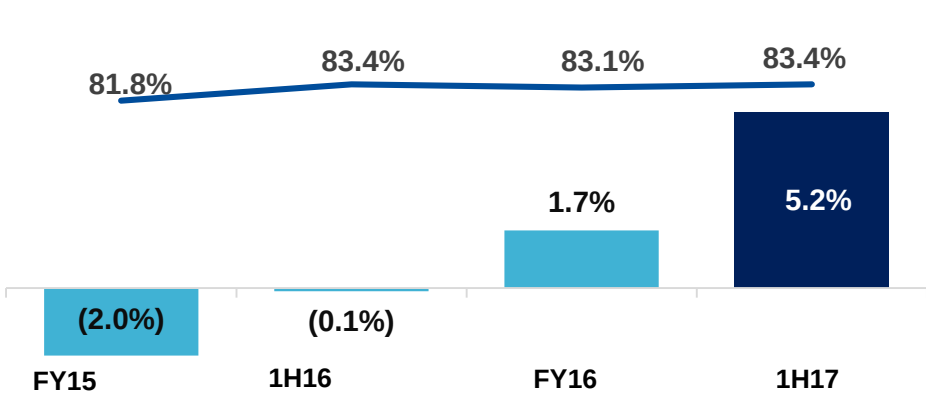
3. Excludes a \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

4. Constant currency basis

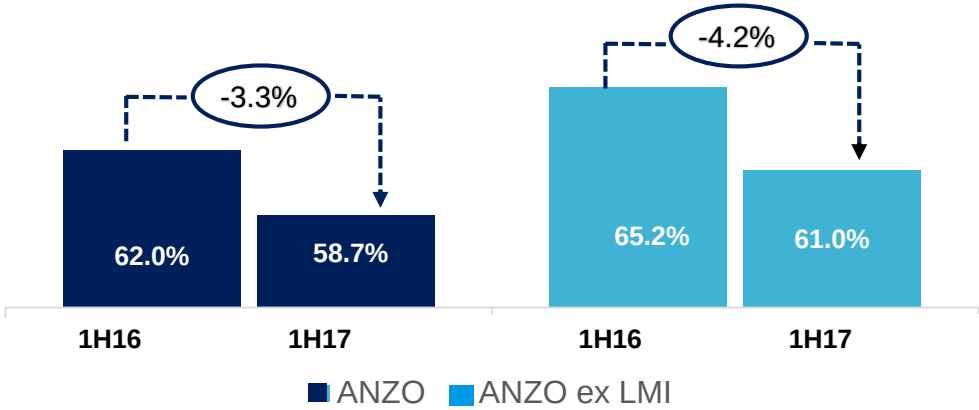
5. Includes the \$156M adverse impact on the Group's underwriting result due to the Ogden decision in the UK

AUSTRALIA & NEW ZEALAND – REMEDIATION MOMENTUM CONTINUES TO IMPROVE PROFITABILITY

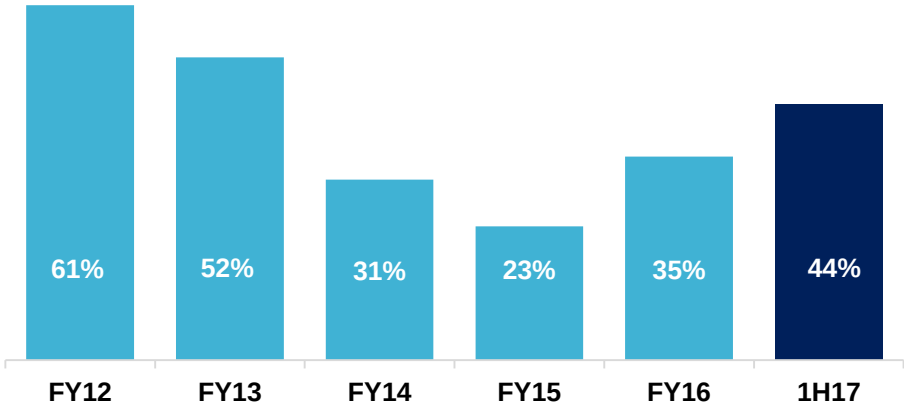
RATE MOMENTUM CONTINUES; RETENTION STABLE



IMPROVEMENT IN ATTRITIONAL CLAIMS RATIO

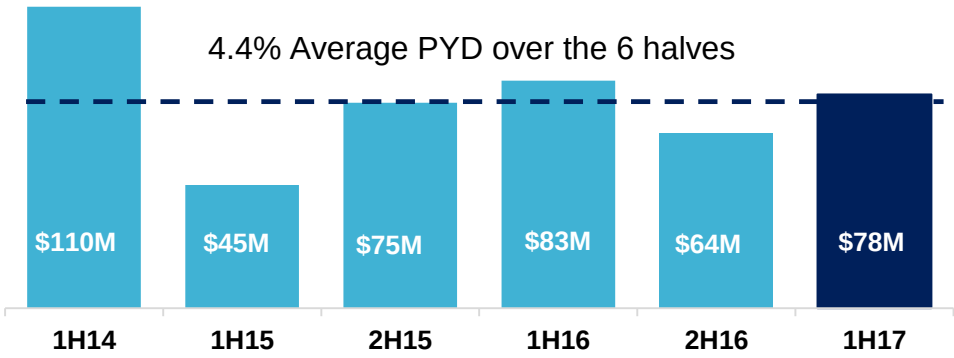


LMI COMBINED OPERATING RATIO MODERATING



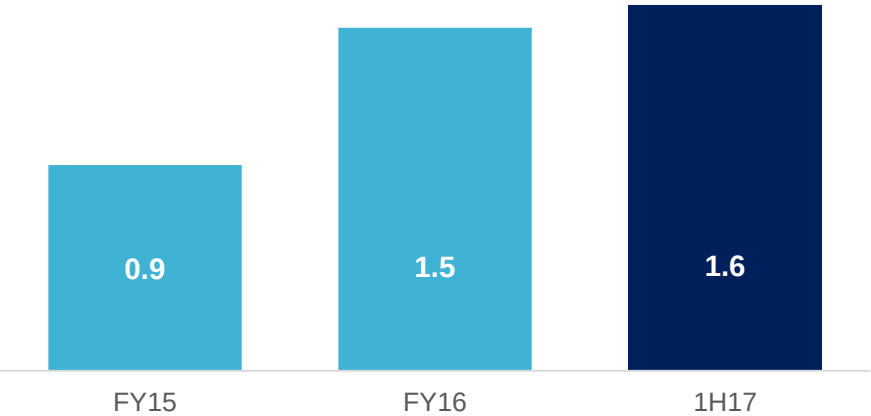
Note: 2014 and 2015 excludes the impact of earnings pattern change

CONSISTENTLY POSITIVE PRIOR YEAR DEVELOPMENT

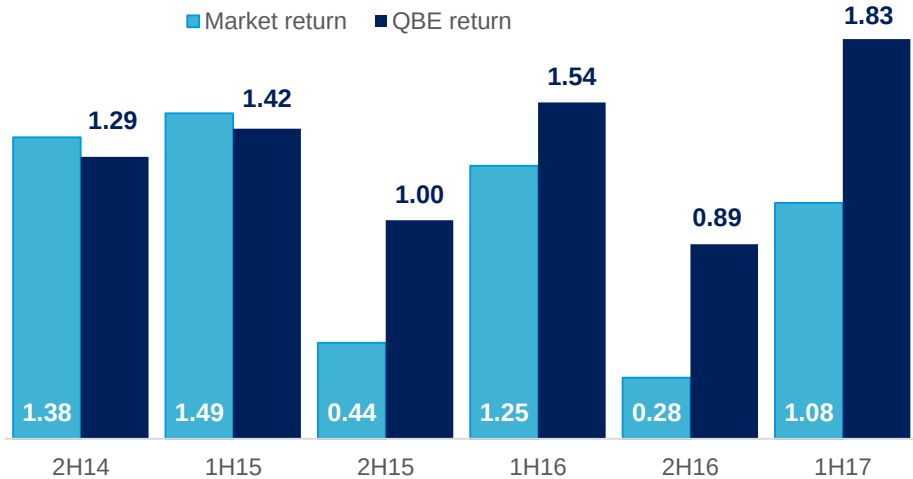


INVESTMENT PERFORMANCE

FIXED INCOME DURATION (YEARS)

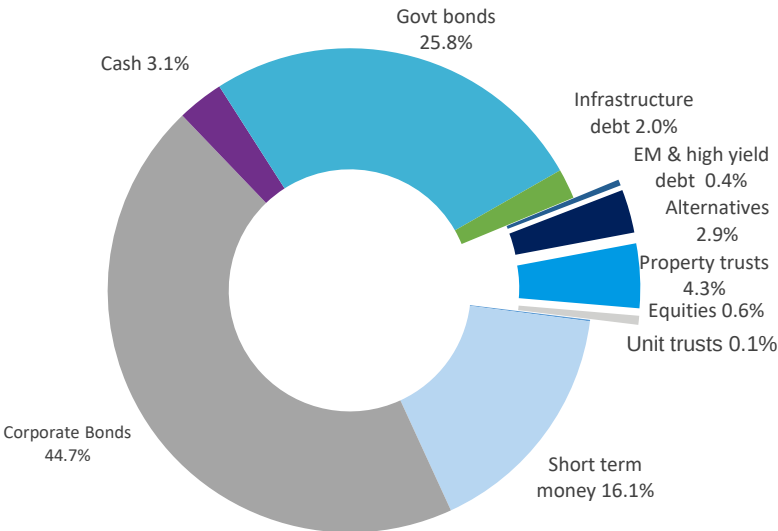


QBE PORTFOLIO RETURN VS MARKET¹

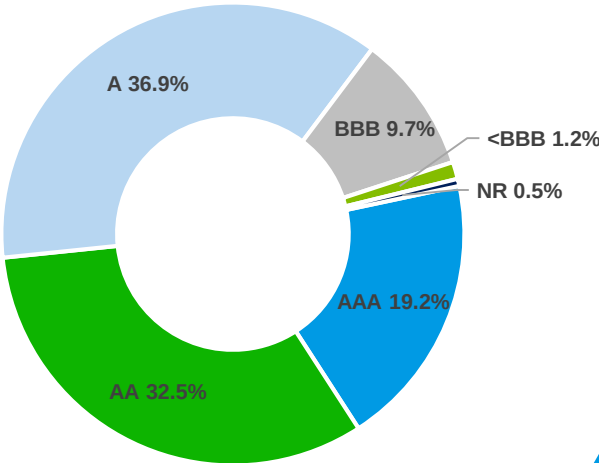


1. Asset weighted aggregation of all underlying asset classes and currencies

INVESTMENTS & CASH - \$25.7BN



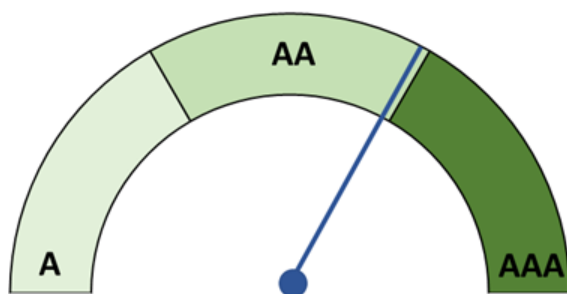
INTEREST BEARING FINANCIAL ASSETS²



2. S&P rating - pertains to cash & income assets only

FINANCIAL STRENGTH

S&P CAPITAL

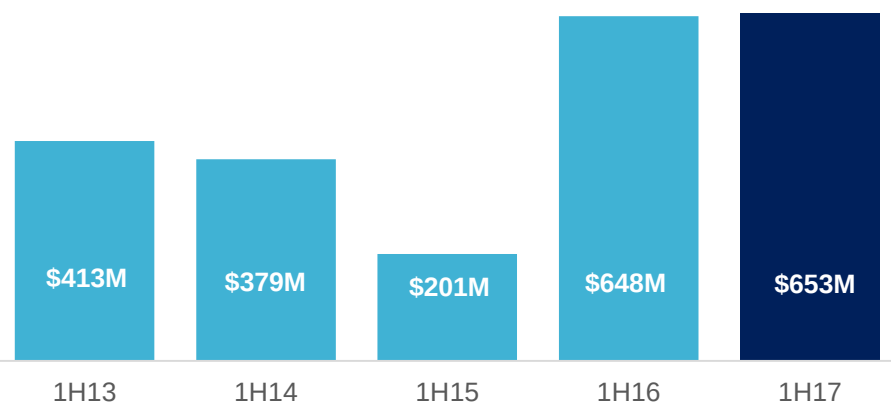


CAPITAL

1H17 APRA PCA: 1.7x

S&P maintain “positive” outlook

CASH REMITTANCES



DIVIDEND & SHARE BUYBACK

2017 interim dividend up 5% to 22 Australian cents per share

61% of cash profit, 30% franked

Share buyback active in 2H17

Outlook

John Neal
Group Chief Executive Officer

KEY PRIORITIES FOR 2H17

PERFORMANCE IMPROVEMENT

- Maintain underlying improvement in ANZO
- Execute on profit improvement plans in North America
- Maintain underwriting discipline in challenging European markets

ASIA PACIFIC & LATIN AMERICA

- Implement Asia Pacific underwriting remediation
- Strategic review of Latin America
- Instigate cost reduction plan for both divisions

FINANCIAL RETURNS

- Maintain high quality balance sheet
- Effective capital management; dividend growth and buyback

FY17 FINANCIAL TARGETS

- Modest premium growth^{1 2}
- Towards the upper end of 94.5% – 96.0%^{3,4} COR
- Investment return around 3.0%

1. Premium growth target is on a constant currency basis
2. Excludes M&LS fronting (refer page 11 of HY17 report for details)
3. Excludes the impact of changes in risk-free rates used to discount net outstanding claims

4. Excludes a \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

Questions & answers

DISCLAIMER

The information in this presentation provides an overview of the results for the half year ended 30 June 2017.

This presentation should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange ("ASX"). Copies of those lodgements are available from either the ASX website www.asx.com.au or QBE's website www.qbe.com.

Prior to making a decision in relation to QBE's securities, products or services, investors, potential investors and customers must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances.

This presentation contains certain "forward-looking statements" for the purposes of the U.S. Private Securities Litigation Reform Act of 1995. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "outlook" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of QBE that may cause actual results to differ materially from those either expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements only speak as of the date of this presentation and QBE assumes no obligation to update such information.

Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no reduction in premium rates in excess of our business plans; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts; recoveries from our strong reinsurance panel; no unplanned asset sales and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this presentation.

Appendices

1H17 ATTRITIONAL CLAIMS RATIO ANALYSIS

	1H16		1H17	
	NEP US\$M	Attritional %	NEP US\$M	Attritional %
Rest of world	5,484	51.1	5,672	51.5
Crop insurance	307	83.1	373	80.6
QBE Group adjusted	5,791	52.8	6,045	53.3

1H17 CLAIMS RATIO ANALYSIS

		30 June 2016		30 June 2017	
		Statutory	¹ Adjusted	Statutory	² Adjusted
NEP	\$M	5,615	5,791	6,043	6,045
Attritional claims	%	54.5	52.8	53.3	53.3
Large individual risk and catastrophes	%	9.8	9.5	9.7	9.7
Claims settlement costs	%	3.0	2.9	3.1	3.0
Claims discount	%	(1.3)	(1.3)	(1.8)	(1.8)
Accident year claims ratio	%	66.0	63.9	64.3	64.2
PY central estimate development	%	³ (7.1)	³ (3.9)	⁴ 0.1	⁴ (2.4)
Change in discount rates	%	5.0	4.6	(0.5)	(0.5)
Other (including unwind of discount)	%	0.9	1.3	1.4	1.4
Financial year claims ratio	%	64.8	65.9	65.3	62.7

1. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

2. Excludes a \$156 million one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

3. Net of discount movement (\$50 million cost) due to long tail classes including dust disease in Australia and motor third party bodily injury in Argentina, where the level of assumed claims inflation is directly linked to the discount rate.

4. Net of discount movement (\$17 million cost) due to long tail classes including dust disease in Australia and motor third party bodily injury in Argentina, where the level of assumed claims inflation is directly linked to the discount rate.

CURRENCY MIX

Currency mix of interest bearing financial assets

	30 JUNE 2017		31 DECEMBER 2016	
	US\$M	%	US\$M	%
Australian dollar	7,043	27	7,993	32
US dollar	8,320	32	7,786	31
Sterling	4,819	19	4,473	17
Euro	2,473	10	2,104	8
Canadian dollar	1,025	4	941	4
Hong Kong dollar	484	2	497	2
New Zealand dollar	406	2	410	2
Argentinian peso	235	1	236	1
Singapore dollar	226	1	221	1
Other	634	2	574	2
Total	25,665	100	25,235	100

	30 JUNE 2017		30 JUNE 2016	
	US\$M	%	US\$M	%
GWP currency mix table				
US dollar	2,874	36	3,020	37
Sterling	1,940	24	2,111	26
Australian dollar	1,884	23	1,748	22
Argentinian peso	201	3	191	2
Euro	414	5	359	4
Hong Kong dollar	155	2	168	2
New Zealand dollar	138	2	118	2
Singapore dollar	100	1	86	1
Other	332	4	306	4
Total	8,038	100	8,107	100

1H17 MOVEMENT IN WEIGHTED AVERAGE DISCOUNT RATE

Weighted average risk-free discount rates on outstanding claims %

Currency	30 June 2016	31 Dec 2016	30 June 2017
Australian dollar	1.77	2.26	2.17
US dollar	1.20	2.04	2.05
Sterling	0.56	0.68	0.80
Euro	(0.16)	0.19	0.46
Group weighted average (ex Argentine peso)	0.92	1.33	1.41
Estimated impact of discount rate movement¹	\$M		
	²(267)	(80)	29

1. Excludes discount movement due to changes in yields for our Australian dust disease and Argentine peso denominated liabilities, where the level of assumed inflation is directly linked to the discount rate
2. Excludes \$16 million of discount associated with transaction to reinsure UK long-tail liabilities

FX RATES VERSUS US\$

	June 2016		December 2016		June 2017		2017 assumed
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate	Average rate
AUD	0.75	0.73	0.72	0.74	0.77	0.75	0.75
GBP	1.33	1.43	1.23	1.35	1.30	1.26	1.26
EUR	1.11	1.12	1.05	1.11	1.14	1.08	1.08
ARS	0.07	0.07	0.06	0.07	0.06	0.06	0.06

NORTH AMERICA

		1H16	1H17
Gross written premium	\$M	2,818	2,803
Gross earned premium	\$M	2,184	2,187
Net earned premium	\$M	1,710	1,712
Claims ratio	%	71.6	66.8
Commission ratio	%	16.8	15.5
Expense ratio	%	15.5	16.0
Combined operating ratio	%	104.0	98.3
Combined operating ratio (ex discount rate)	%	100.5	98.2
Insurance profit margin	%	(1.5)	4.1

- Premium rates up 1%
- Current accident year underwriting profitability stable
- Return to top-line growth with underlying GWP up 4%¹
- Continued growth trajectory in Specialty, with GWP up 27% on the prior year with the introduction of new products and programs, coupled with growth in liability and professional lines
- COR (ex discount) improved to 98.2% from 100.5% in the prior year
- Net claims ratio of 66.8%, reflecting small positive prior year release, largely from crop, as well as the exit of mono-line commercial auto business in 2H16
- Expense ratio increased slightly reflecting staff costs and technology spend
- Further cost efficiencies expected through a focused distribution model and partnership with Arrowhead
- Crop portfolio tracking in line with an average year

1. Excludes Latin American premium income fronted on behalf of Equator Re in 2016

EUROPE

		1H16 ¹	1H17 ²
Gross written premium	\$M	2,508	2,393
Gross earned premium	\$M	1,930	1,915
Net earned premium	\$M	1,561	1,532
Claims ratio	%	63.4	53.3
Commission ratio	%	17.9	19.3
Expense ratio	%	17.3	16.1
Combined operating ratio	%	98.6	88.7
Combined operating ratio (ex discount rate)	%	88.3	91.3
Insurance profit margin	%	5.2	15.1

- Overall premium rates down 1%, reflecting a slight improvement from 1H16
- Modest GWP growth on a constant currency basis
- Targeted growth achieved in Continental Europe insurance portfolio and QBE Re
- Positive prior year releases of \$131M across several portfolios and accident years
- Attritional claims ratio impacted by NEP suppression resulting from weaker sterling and additional reinsurance spend, coupled with increased claims activity, largely in property
- Expense ratio improved to 16.1% from 17.3%, reflecting ongoing expense management and FX
- COR (ex Ogden and discount rate) deteriorated to 91.3% from 88.3% in the prior year, due to an increase in the current accident year claims ratio due to the higher attritional claims ratio

1. Excludes transactions to reinsure UK long-tail liabilities (refer page 11 of HY17 report for details)

2. Excludes \$156M one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK (refer page 11 of HY17 report for details)

AUSTRALIA & NEW ZEALAND

		1H16	1H17
Gross written premium	\$M	1,861	2,007
Gross earned premium	\$M	1,871	2,024
Net earned premium	\$M	1,654	1,705
Claims ratio	%	67.7	63.6
Commission ratio	%	15.1	15.0
Expense ratio	%	13.1	13.9
Combined operating ratio	%	95.9	92.5
Combined operating ratio (ex discount rate)	%	93.9	92.2
Insurance profit margin	%	8.9	12.3

- GWP grew 5% on a constant currency basis reflecting 5% premium rate increases on the back of further rate increases in short-tail personal and commercial lines, coupled with improved risk selection and tighter claims management
- GWP grew 5% on a constant currency basis with significant premium rate increases achieved
- Despite the premium rate increases, policy retention remained broadly stable
- Net claims ratio decreased to 63.6%, largely due to improvement in attritional ratio through ongoing remediation activities and premium rate increases
- Attritional claims ratio improved 4.2% (ex LMI) on the back of continued remediation progress
- COR (ex-discount rate) improved to 92.2% from 93.9% in the prior period due to the reduction in the attritional claims ratio, partially offset by a lower level of positive prior year development

EMERGING MARKETS

		1H16	1H17
Gross written premium	\$M	850	857
Gross earned premium	\$M	793	804
Net earned premium	\$M	655	679
Claims ratio	%	54.8	64.9
Commission ratio	%	23.2	23.9
Expense ratio	%	21.5	22.1
Combined operating ratio	%	99.5	110.9
Combined operating ratio (ex discount rate)	%	99.5	110.8
Insurance profit margin	%	5.5	(7.1)

- The result significantly impacted by adverse claims experience across a number of portfolios in Latin America and Asia Pacific
- Deterioration in COR to 110.8% from 99.5% due to increased frequency of mid-sized claims, coupled with adverse prior accident year claims development in HK workers' compensation portfolio
- GWP up 3% on a constant currency basis, significantly lower than 10% growth in the prior period, reflecting 6% growth in Latin America, whilst Asia Pacific GWP declined 1%
- NEP up 6% on the same basis due to GWP growth, coupled with reduced reinsurance spend
- Claims ratio increased to 64.9% from 54.8% impacted by:
 - increased frequency of mid-sized claims in property & marine in Asia Pacific
 - adverse experience in Brazilian Affinity and Colombian SOAT, coupled with large fire claims in Mexico
 - reserve strengthening in HK workers' compensation

EQUATOR RE

		1H16	1H17
Gross written premium	\$M	1,125	1,375
Gross earned premium	\$M	583	798
Net earned premium	\$M	197	419
Claims ratio	%	58.9	68.7
Commission ratio	%	9.1	9.8
Expense ratio	%	2.0	2.1
Combined operating ratio	%	70.1	80.6
Combined operating ratio (ex discount rate)	%	63.5	79.9
Insurance profit margin	%	37.6	21.7

- GWP up 22% driven by an increase in proportional business underwritten to the divisions
- NEP up 113% from the prior period, largely from growth in the proportional book and new bespoke treaties
- Net claims ratio deteriorated to 68.7%:
 - \$49M adverse prior accident year development
 - growth in proportional business
- Increase in commission ratio due to growth in proportional business which incurs higher commissions relative to excess of loss portfolio
- COR (ex discount rate) deteriorated to 79.9% compared with 63.5% in the prior period reflecting the aforementioned growth in the proportional book, coupled with adverse prior accident year claims experience

FINANCIAL STRENGTH & FLEXIBILITY

As at	31 Dec 2016	30 June 2017
Summary balance sheet	\$M	\$M
Investments and cash	25,235	25,665
Trade and other receivables	4,831	6,926
Intangibles	3,627	3,737
Other assets	1,385	1,390
Assets	35,078	37,718
Insurance liabilities, net	18,579	19,932
Borrowings	3,474	3,498
Other liabilities	2,691	3,572
Liabilities	24,744	27,002
Net assets	10,334	10,716
Non-controlling interests	50	48
Shareholders' funds	10,284	10,668

Reserving

- Favourable PYD of \$107M¹
- \$29M favourable discount rate impact
- PoA of 89.5% (FY16 89.5%)

1. Excludes \$38M (1H16 \$22M) of favourable Crop prior accident year development that is offset by an additional reinsurance cession to the US Government under the Federal crop reinsurance arrangements

Borrowings

- Broadly unchanged from FY16
- Debt to equity 32.8% (FY16 33.8%)
- Debt to tangible equity 50.5% (FY16 52.2%)

APRA PCA CALCULATION

	FY16 ¹ \$M	1H17 ² \$M
Ordinary share capital and reserves	10,334	10,716
Net surplus relating to insurance liabilities	674	726
Regulatory adjustments to Common Equity Tier 1 Capital	(4,441)	(4,571)
Common Equity Tier 1 Capital	6,567	6,871
Additional Tier 1 Capital - Capital securities	180	-
Total Tier 1 Capital	6,747	6,871
Tier 2 Capital - Subordinated debt and hybrid securities	2,530	2,513
Total capital base	9,277	9,384
Insurance risk charge	2,779	2,973
Insurance concentration risk charge	1,219	1,298
Asset risk charge	1,962	1,908
Operational risk charge	479	531
Less: Aggregation benefit	(1,158)	(1,155)
APRA's Prescribed Capital Amount (PCA)	5,281	5,556
PCA multiple	1.76	1.69
CET1 ratio (APRA requirement >60%)	124%	124%

1. Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end
2. Indicative APRA PCA calculation at 30 June 2017

BORROWINGS

Borrowings profile (%)

- Subordinated debt
- Senior debt
- Capital securities



FY16 1H17

74 74
17 26
9 -

Borrowings

- \$3,498M at 30 June 2017
- Weighted average cost of borrowings 5.52%

Repayment profile (%)

- Less than 1 year
- 1 – 5 years
- More than 5 years
- Debt to equity ratio

FY16 1H17

9 17
27 21
64 62
33.8 32.8

Debt to equity

- Ratio within 25% - 35% benchmark range
- Debt to tangible equity down to 50.5%

QBE'S 2017 GLOBAL REINSURANCE PROGRAM

