



TAX

TRANSPARENCY

REPORT

2017

QBE INSURANCE GROUP LIMITED

Contents

QBE Insurance Group Limited
ABN 28 008 485 014

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About QBE Insurance Group

QBE is one of the world's top 20 global insurance and reinsurance companies, with operations in all the major insurance markets. Formed in Australia in 1886, QBE employs over 14,100 people in 36 countries, with significant operations in Australia, Europe, North America and across the emerging markets of Latin America and Asia Pacific. QBE's captive reinsurer, Equator Re, provides reinsurance protection to our divisions in conjunction with the Group's external reinsurance programs.

QBE is listed on the Australian Securities Exchange and is a for-profit entity.

All amounts in this report are in USD unless otherwise stated.

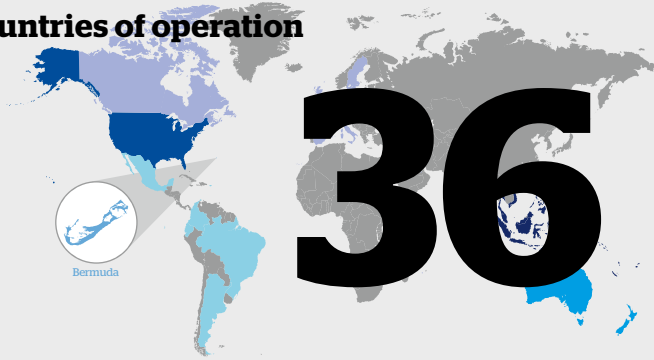
About this report

This report is prepared in accordance with the Australian voluntary Tax Transparency Code released by the Australian Treasurer on 3 May 2016 and UK tax authority guidance on publication of tax strategy by large businesses. QBE supports the principle behind multilateral moves towards greater transparency that increase understanding of tax systems and build public trust.

QBE strives to be a responsible corporate citizen and to make a positive contribution to the communities in which we operate. The taxes we pay and collect form a significant part of our economic contribution to the countries in which we operate. Our business activities generate a substantial amount and variety of taxes, including corporate income taxes, state income taxes, premium taxes, stamp duties, employment taxes and other taxes. In addition we collect and pay employee taxes as well as indirect taxes such as GST and VAT; however, these taxes are only included in the report where QBE is the ultimate payer of the tax and not simply acting as a collecting agent.

2017 snapshot

Countries of operation

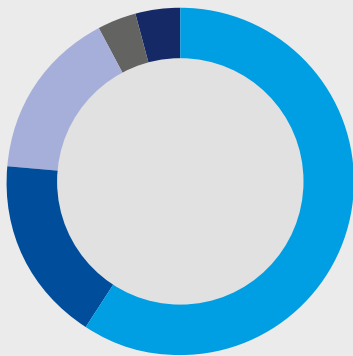


Overall workforce



14,140

Total tax contribution



● Premium	\$316M
● Corporate	\$92M
● Employer	\$84M
● Other	\$19M
● Unrecovered GST/VAT	\$22M

Total taxes paid

\$533M

Australian taxes paid



\$130M

Group income tax expense

\$428M

Australian effective income tax rate

35%

(Income tax expense divided by profit before income tax)

1. Consolidated Group income tax reconciliation from 2017 Annual Report

Income tax expense is the accounting tax charge for the period and is calculated as the tax payable on the current period taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The relationship between accounting profit and income tax expense is provided in the reconciliation of prima facie tax to income tax expense below. Income tax expense does not equate to the amount of tax actually paid to tax authorities around the world, as it is based upon the accrual accounting concept.

Reconciliation of Consolidated Group prima facie tax to income tax expense for year ended 31 December 2017

	AUSTRALIA US\$M	REST OF THE WORLD US\$M	TOTAL US\$M
Profit (loss) before income tax	202	(1,027)	(825)
Prima facie tax at 30%	61	(309)	(248)
Tax effect of non-temporary differences			
Untaxed dividends	(6)	(2)	(8)
Change in US tax rate	–	230	230
Differences in tax rates ¹	(8)	160	152
Other, including non-allowable expenses and non-taxable income	15	189	204
Prima facie tax adjusted for non-temporary differences	62	268	330
Deferred tax assets no longer recognised	1	94	95
Under (over) provision in prior years	8	(5)	3
Income tax expense	71	357	428

¹ Includes attribution for Australian income in Equator Re, the Group's captive reinsurer in Bermuda.

A detailed reconciliation of the Group's accounting profit to income tax expense is provided in the tax note in our Annual Report.

A reconciliation of the Australian companies' taxable income to tax payable is included on page 8 of this report.

1.1 Effective tax rate

The effective tax rate is calculated as income tax expense divided by profit before income tax. The effective tax rate is calculated with reference to accounting income rather than taxable income, with the main differences being:

- certain foreign exchange gains and losses are accounted for in the foreign currency translation reserve on consolidation but are taxable in the local jurisdiction where the gains and losses arise;
- attributable Australian income in Equator Re is taxable in Australia but is not included in the Australian accounting profit; and
- changes in the recognition of deferred tax assets are included in income tax expense but may not change taxable income.

	AUSTRALIA	REST OF THE WORLD	TOTAL
Effective tax rate	35%	(35%)	(52%)

The Group's effective tax rate was materially distorted in 2017 due to:

- significant catastrophe claims in our North American Operations, where an already substantial deferred tax asset precluded recognition of further tax losses, and in Equator Re; and
- a \$230 million non-cash write down of the deferred tax asset in our North American Operations following the recently enacted reduction in the US corporate tax rate to 21% from 35%.

2. QBE tax strategy and governance



Compliance with tax legislation & regulations

We seek to comply with all applicable tax laws, regulations and disclosure requirements and to pay the amount of tax that is legally required to be paid in all of the jurisdictions in which we operate. Where compliance processes have been outsourced, we ensure that this principle is adhered to by the service provider.

All material positions taken in the tax compliance process must be supportable in terms of documentation and legal interpretation. Where a tax law or its interpretation is unclear, external advice may be sought in order to determine the appropriate tax treatment and, where practical, we will engage with tax authorities pro-actively to seek clarification.



Governance

The Board of QBE has oversight of global tax governance through the Group's tax risk framework, with local Boards having oversight of divisional tax governance. Operationally, the Group CFO owns tax risk management and is responsible for ensuring the implementation of the Group's tax risk framework with assistance from the Group Head of Tax and divisional CFOs to ensure that policies and procedures that support the framework are in place, maintained and applied consistently around the world, and that the global tax teams have the skills and experience to implement the approach appropriately.

The global and divisional tax risk frameworks set out how we identify tax risk, how we seek to mitigate tax risk and the manner in which tax risk is escalated to the CFO and the Board.

Tax provisioning, including material positions taken, are subject to external audit review on a bi-annual basis. Wherever practical, we will not use our external auditor for tax advice in order to prevent potential conflicts of interest.



Tax risk management

We maintain a robust tax risk management framework as part of our internal control processes. The framework identifies, assesses and manages tax risks and accounts for these appropriately. The risks are divided into six categories as follows: compliance, financial reporting, strategic, operational, reputational and external risks.

The key operational principles covering these risks are: regular review of risk appetite; risk analysis; confirmation that tax risk data remains fit for purpose; and appropriate controls. These are regularly reviewed and updated as appropriate. In addition to this, our Internal Audit team provides independent assurance to the Board that the design and operation of the tax risk controls across the Group are effective.

We follow QBE's risk management system as part of our internal control processes. We identify, assess and manage tax risks and account for them appropriately. We implement risk management measures including controls over compliance processes and monitor their effectiveness. We report on a periodic basis to the Group Audit Committee on how tax risks are managed, monitored and assured and on improvements that are being made. In this way the Group Audit Committee provides governance and oversight over tax risks.

2. QBE tax strategy and governance



Relationship with tax authorities

We seek to have open, honest and transparent relationships with tax authorities in all relevant jurisdictions.

We seek to build and sustain relationships with tax authorities that are constructive and based on mutual respect.

We work collaboratively wherever possible with tax authorities to achieve early agreement and certainty and to resolve any disputes which may arise.

We engage appropriately on the development of tax laws either directly or through trade associations and other similar bodies.



Attitude to tax planning

We engage in efficient tax planning that supports our business and reflects commercial and economic activity; no transaction will be entered into where obtaining a tax benefit is the primary purpose. We do not engage in artificial tax arrangements and we conduct transactions between Group companies on an arm's length basis in accordance with current OECD principles.

Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they may apply to QBE, we will seek to apply them in the manner intended.

We establish entities in jurisdictions suitable to hold our overseas investments, giving consideration to our business activities, the prevailing regulatory environment and, as appropriate, in line with joint venture requirements.



QBE attitude to risk

QBE is fully committed to ensuring that we apply a disciplined approach to risk management and that our risk management practices and systems are robust, independent and aligned with global best practice. QBE's Enterprise Risk Management (ERM) framework is outlined in QBE's Risk Management Statement and is supported by frameworks for each risk class, including strategic risk, with tax risk being a subset of this risk class.

QBE's risk appetite forms the basis of the ERM framework and represents the level of risk that the Board and management are prepared to accept in pursuit of the organisation's objectives. QBE's tax risk appetite is included in the QBE Group risk appetite and is aligned to all strategic and business planning decisions QBE makes and we monitor our exposure against the risk appetite on an ongoing basis.

The QBE Group has adopted a Code of Ethics and Conduct that applies to all employees of the QBE Group worldwide. The Code of Ethics and Conduct builds on our company values and is an essential resource and guide for our people. It outlines a range of business ethics and standards of conduct and requires our employees to be respectful, professional, considerate and to maintain high ethical standards, uphold QBE's reputation and report unethical or illegal behaviour. The Code covers matters such as a commitment to compliance with laws and regulations, the giving and receiving of bribes and gifts, conflict of interests, use of company resources and external activities.

3. International related party dealings

QBE seeks to obtain synergistic benefits through collaboration across its global operations, the pooling of risks and resources and the leveraging of global centres of excellence. In determining the location for centralised operations, we consider a wide range of factors, including:

- stability and predictability of the political, regulatory and social environments;
- availability of relevant skills and the overall cost of operations; and
- connectivity with the Group's worldwide operations.

Our focus is on selecting locations that are commercially effective from an operational and strategic perspective. Whilst we take the local tax environment into account, we do not choose locations on the basis of tax incentives if that would lead to the location of activities in countries that may offer an attractive tax environment but would be impractical in other respects.

QBE seeks to ensure that transactions between related parties are undertaken on an arm's length basis in accordance with OECD principles and in compliance with the legislative and administrative guidelines of the relevant taxation authorities.

The key international related party dealings which arise as a result of the global nature of the QBE Group are summarised below.

Group Shared Services Centre	QBE operates a shared services centre in the Philippines as a centralised business processing centre for the purposes of achieving operational effectiveness and standardisation of processes across the Group.
Group head office and regional head office services	The QBE Group operates across a broad geographical base, with ongoing opportunities to benefit from global and regional synergies. Group and regional head office locations in Sydney, New York, London, Miami and Hong Kong operate on a collaborative basis to exploit global scale benefits and share knowledge and best practice for the benefit of all parts of the Group.
Reinsurance	QBE has comprehensive reinsurance arrangements to protect the Group's balance sheet and financial performance, underpinned by a global external reinsurance program in conjunction with reinsurance protection provided by our captive reinsurer, Equator Re, which is located in Bermuda. Equator Re is critical to the management of the Group's risk appetite and capital through its role in optimising divisional risk retentions and co-ordinating the Group's external global ceded reinsurance program.
Financing	Since 2016, financing and treasury activities in the Group have been managed by a global treasury function through the use of an Australian entity to manage relationships with the market.
Investment management	QBE's investment management activities are managed on a global basis by a Group investments team in accordance with investment mandates agreed with each operating entity.

4. Total tax contribution

QBE's total tax contribution for the year ended 31 December 2017 comprises the taxes paid to the numerous tax authorities in respect of taxes and levies on QBE, being:

- **Corporate income taxes** – taxes on the profits of QBE operations in the countries in which we operate, including state income taxes in the US.
- **Employer and payroll taxes** – taxes paid based on the wages of employees and statutory social security contributions made by QBE.
- **Unrecovered GST/VAT** – indirect taxes that QBE incurs but is not able to pass on to an end user, with these taxes being borne by QBE.
- **Premium taxes, levies and excise** – taxes imposed on premiums paid on insurance contracts written by QBE.
- **Other taxes** – taxes such as stamp duties and fringe benefits taxes. These do not include taxes QBE collects on behalf of tax authorities such as recoverable GST or VAT or employee salary withholding tax.

	CORPORATE INCOME TAX US\$M	EMPLOYER/ PAYROLL TAXES US\$M	UNRECOVERED GST/VAT US\$M	PREMIUM TAXES AND LEVIES US\$M	OTHER TAXES US\$M	TOTAL TAXES PAID US\$M
Australia	24	17	–	84	5	130
Europe	28	32	21	141	5	227
North America	–	24	–	71	–	95
Asia Pacific	9	–	–	1	–	10
Latin America	31	11	1	19	9	71
Total	92	84	22	316	19	533

5. ATO Australian tax group transparency disclosure

The Australian Taxation Office (ATO) publishes limited tax information in relation to large taxpayers, with the most recent QBE information released to date being for QBE's 2016 tax year (being the year ended 31 December 2015). The ATO publishes three amounts, being total income, taxable income and tax payable. The information disclosed is taken from the income tax return lodged by QBE Insurance Group Limited as the head company of the Australian tax consolidated group.

Total income includes all Australian income, including premium, investment return and dividends from foreign subsidiaries; however, it does not include any business expenses such as the cost of claims, salaries or other operating expenses.

Taxable income is the net profit that is subject to tax and takes into account allowable deductions for business expenses (such as the cost of claims, salaries and other operating expenses) and other tax concessions, including non-taxable dividends from foreign subsidiaries. There is no simple relationship between total income and taxable income.

Tax payable on taxable income is calculated with reference to the Australian corporate tax rate of 30%, adjusted for credits for foreign taxes, franking credits and other tax concessions.

The table below shows the adjustments between the 30% corporate rate and the actual tax payable for the 2016 and 2017 (being the year ended 31 December 2016) tax years. Items in bold are published by the ATO.

	2017 A\$M	2016 A\$M
Total income	8,198	7,115
Taxable income	515	436
Tax at 30% corporate rate	154	131
Foreign income tax offsets	(21)	(9)
Franking credit rebate	(8)	(3)
Research & Development credits	(10)	(13)
Tax payable	115	106
Effective tax rate	22%	24%

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